

***OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM
&
WATER WORKS SYSTEM
FINANCIAL STATEMENTS
& SUPPLEMENTARY INFORMATION
Years Ended May 31, 2023 and 2022***

(With Independent Auditor's Report Thereon)

CONTENTS

	<u>Pages</u>
Electric Light and Power System:	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Financial Statements:	
Statements of Net Position	7-8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10-11
Notes to Financial Statements	12-29
Required Supplementary Information:	
Pension and Other Postemployment Benefits (OPEB) Schedules:	
Schedule of Proportionate Share of the Net Pension Liability	30
Schedule of Pension Contributions	31
Schedule of Proportionate Share of the Net OPEB Liability	32
Schedule of OPEB Contributions	33
Notes to Required Supplementary Information	34
Supplementary Information:	
Schedule of Revenues and Expenses	35-36
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37-38
Water Works System:	
Independent Auditor's Report	39-40
Management's Discussion and Analysis	41-44
Financial Statements:	
Statements of Net Position	45-46
Statements of Revenues, Expenses and Changes in Net Position	47
Statements of Cash Flows	48-49
Notes to Financial Statements	50-68
Required Supplementary Information:	
Pension and Other Postemployment Benefits (OPEB) Schedules:	
Schedule of Proportionate Share of the Net Pension Liability	69
Schedule of Pension Contributions	70
Schedule of Proportionate Share of the Net OPEB Liability	71
Schedule of OPEB Contributions	72
Notes to Required Supplementary Information	73
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	74-75



Riney Hancock CPAs
PSC

INDEPENDENT AUDITOR'S REPORT

City Utility Commission
City of Owensboro, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Owensboro Municipal Utilities Electric Light and Power System (Electric System), a component unit of the City of Owensboro, Kentucky, as of and for the years ended May 31, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Owensboro Municipal Utilities Electric Light and Power System of the City of Owensboro, Kentucky, as of May 31, 2023 and 2022, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Electric System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Electric System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

www.rineyhancock.com - info@rineyhancock.com

2900 Veach Road, Suite 2 - Owensboro, Kentucky 42303 - 270-926-4540 - Fax: 270-926-1494

313 Southeast First Street - Evansville, Indiana 47713 - 812-423-0300 - Fax: 812-423-6282

A member of Allinial Global - An association of legally independent firms

Auditor's Responsibilities for the Audit of the Financial Statements, Continued

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Electric System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Electric System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 and the Pension and Other Postemployment Benefits (OPEB) Schedules on pages 30 through 34, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Revenues and Expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues and expenses is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2023, on our consideration of the Electric System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Electric System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Electric System's internal control over financial reporting and compliance.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Owensboro Municipal Utilities Electric Light and Power System (Electric System) financial performance provides an overview of the Electric System's financial activities for the fiscal year ended May 31, 2023. Please read it in conjunction with the Electric System's financial statements, which begin on page 7.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis, Financial Statements, and Supplementary Information.

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Electric System's financial condition and performance.

The financial statements report information using accounting methods similar to those used by private sector companies. The financial statements include a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Fund Net Position; a Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position presents the financial position of the Electric System and thus provides information about the nature and amount of resources and obligations at year-end.

The Statement of Revenues, Expenses, and Changes in Net Position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow.

The Statement of Cash Flows presents changes in cash and cash equivalents resulting from operational, financing and investing activities. This statement presents cash receipts and cash disbursements information, without consideration of the earnings event or when an obligation arises.

The Notes to the Financial Statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Electric System's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Financial Summary

The following table summarizes the financial condition and operations of the Electric System for 2023 and 2022.

Assets and Deferred Outflows of Resources	<u>2023</u>	<u>2022</u>
Utility plant, net	\$ 116,139,251	\$ 126,524,626
Restricted assets	35,374,566	40,692,078
Current assets	72,057,852	69,778,767
Other noncurrent assets	7,824,180	14,228,661
Deferred outflows of resources	<u>64,065,689</u>	<u>68,630,769</u>
	<u>\$ 295,461,538</u>	<u>\$ 319,854,901</u>
 Liabilities, Deferred Inflows of Resources, and Net Position		
Net position		
Net investment in capital assets	\$ 46,620,306	\$ 43,394,868
Restricted	29,939,925	37,879,441
Unrestricted	<u>70,107,720</u>	<u>64,995,050</u>
Total net position	146,667,951	146,269,359
Long-term debt	61,150,073	78,415,713
Current liabilities	34,176,849	35,241,475
Other noncurrent liabilities	37,723,128	41,431,055
Deferred revenues	4,277,194	3,808,499
Deferred inflows of resources	<u>11,466,343</u>	<u>14,688,800</u>
	<u>\$ 295,461,538</u>	<u>\$ 319,854,901</u>
 Revenues, Expenses and Changes in Net Position		
Operating revenues	\$ 84,879,082	\$ 90,980,968
Operating expenses	<u>75,221,223</u>	<u>77,539,510</u>
Operating income	<u>9,657,859</u>	<u>13,441,458</u>
Interest, debt expense and defeasance	(2,049,748)	(2,788,754)
Interest and other income	<u>3,293,206</u>	<u>1,149,215</u>
Net non-operating expenses	<u>1,243,458</u>	<u>(1,639,539)</u>
Income before transfers	10,901,317	11,801,919
Transfers out - dividends to City of Owensboro	<u>(10,502,725)</u>	<u>(10,293,670)</u>
Change in net position	<u>\$ 398,592</u>	<u>\$ 1,508,249</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

FINANCIAL HIGHLIGHTS

- Total net position increased \$0.4 million in 2023, or 0.3%, versus an increase of \$1.5 million in 2022 as the result of changes in operating revenues, operating expenses, non-operating revenues/expenses and transfers as discussed below.
- Operating revenues decreased \$6.1 million, or 6.7%, in 2023 when compared to 2022. The decrease in 2023 is primarily related to a decrease in industrial revenue of \$4.0 million or 8.7%, residential revenue of \$1.3 million or 4.2%, commercial revenue of \$0.4 million or 5.0%, the City of Owensboro and schools revenue of \$0.1 million or 4.0%, and other revenue of \$0.2 million or 16.0%. The decrease in revenue is primarily due to lower Energy Cost Adjustment (ECA) revenue and lower Environmental Cost Control Adjustment (ECCA) revenue resulting from lower recoverable cost.
- Operating expenses in 2023 decreased \$2.3 million, or 3.0%, versus 2022, largely the result of decreased transmission and distribution costs of \$2.4 million or 22.2% and decreased power supply of \$1.4 million or 3.6%; primarily recoverable through ECA and/or ECA cost recovery mechanisms.
- Non-operating revenue increased by \$2.9 million in 2023 when compared to 2022. Interest income increased by \$1.5 million or 148.4% due to the Federal Reserve raising interest rates. Interest expense decreased by \$0.7 million, or 26.5%, primarily the result of the paying down the principal on the debt balance. Other revenues increased \$0.7 million from equipment sold in the city auction and from the power plant surplus equipment.
- Dividend transfers to the City of Owensboro increased by \$0.2 million in 2023, or 2.0%, due primarily to an increase in actual cash transfers to the City.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2023, the Electric System had \$116.1 million invested in a broad range of assets, including substation facilities and equipment, transformers, poles, wiring, street lighting, traffic signal equipment, communication equipment, fiber optic cable and equipment, buildings and other equipment. This represents a decrease of \$10.4 million over 2022 due to depreciation that exceeded capital asset additions. The Electric system capital asset additions include \$1.1 million on routine distribution and transmission pole replacements, \$0.9 million storm restoration, \$0.6 million on system improvements, and \$0.2 million on City Pilot projects. In addition, \$3.5 million was incurred on the Telecommunications projects primarily associated with the build-out of the Fiber to the Home system to deliver high-speed internet service to residential and commercial customers. The following table summarizes capital assets, net of accumulated depreciation, at the end of 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Production plant	\$ 27,457,663	\$ 40,265,004
Transmission plant	11,971,686	12,045,172
Distribution plant	54,672,590	54,960,335
General plant	9,005,133	8,665,846
Unclassified plant and construction in progress	<u>13,032,179</u>	<u>10,588,269</u>
	<u>\$ 116,139,251</u>	<u>\$ 126,524,626</u>

Debt

At the end of 2023, the Electric System had \$70.9 million in bonds outstanding versus \$85.9 million in 2022, for a decrease of \$15.0 million, or 17.4%. Scheduled debt repayments resulted in the overall decline in outstanding debt. The Electric System bonds carry ratings of "BBB+" (stable outlook) and "A3" (stable outlook) as assigned by S&P Global Ratings and Moody's Investors Services, Inc., respectively.

Outlook

We expect the 2024 net operating results to increase from 2023 results, associated with higher anticipated revenues as a result of an increase in the electric base rates effective in June 2023. Interest expense should continue to decline with the scheduled repayment of debt interest rates on investments should remain at higher rates. Finally, Telecom residential revenue is expected to continue growing with the ongoing expansion of the Fiber-to-the-Home system.

(This page intentionally left blank.)

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

STATEMENTS OF NET POSITION

May 31, 2023 and 2022

**ASSETS AND DEFERRED OUTFLOWS OF
RESOURCES**

	<u>2023</u>	<u>2022</u>
Utility plant, net	\$ 116,139,251	\$ 126,524,626
Restricted assets	<u>35,374,566</u>	<u>40,692,078</u>
Current assets:		
Cash and cash equivalents	24,068,280	21,717,343
Investments	25,379,691	26,474,285
Receivables:		
Retail accounts receivable, less allowance for doubtful accounts of \$55,797 for 2023 and \$41,000 for 2022	9,297,342	9,811,250
City of Owensboro	269,975	249,614
Other	4,608,404	3,935,482
Materials and supplies inventories	8,292,465	7,439,448
Prepayments	<u>141,695</u>	<u>151,345</u>
Total current assets	<u>72,057,852</u>	<u>69,778,767</u>
Other noncurrent assets:		
Unamortized debt expense	389,298	504,624
Energy cost to be recovered	7,434,882	13,453,717
Other noncurrent assets	<u>-</u>	<u>270,320</u>
Total other noncurrent assets	<u>7,824,180</u>	<u>14,228,661</u>
Total assets	<u>231,395,849</u>	<u>251,224,132</u>
Deferred outflows of resources:		
Deferred outflow regulatory asset - decommissioning	7,254,476	6,356,155
Deferred pension outflows	3,000,473	2,789,286
Deferred other postemployment benefit outflows	2,756,771	4,625,425
Deferred pension obligation	32,635,608	37,834,894
Deferred postemployment benefit obligation	10,649,274	10,848,812
Unamortized loss on debt refunding	725,221	927,608
Net unrealized loss on investments	<u>7,043,866</u>	<u>5,248,589</u>
Total deferred outflows of resources	<u>64,065,689</u>	<u>68,630,769</u>
Total assets and deferred outflows of resources	\$ <u>295,461,538</u>	\$ <u>319,854,901</u>

See Notes to Financial Statements

**LIABILITIES, DEFERRED INFLOWS OF
RESOURCES, AND NET POSITION**

	<u>2023</u>	<u>2022</u>
Net position:		
Net investment in capital assets	\$ 46,620,306	\$ 43,394,868
Restricted for capital projects, net of related debt	9,153,126	8,496,356
Restricted for debt service	9,628,136	6,483,439
Restricted for other purposes	11,158,663	22,899,646
Unrestricted	<u>70,107,720</u>	<u>64,995,050</u>
Total net position	<u>146,667,951</u>	<u>146,269,359</u>
Long-term debt	<u>61,150,073</u>	<u>78,415,713</u>
Current liabilities (payable from restricted assets):		
Current maturities of long-term debt	15,525,000	14,930,000
Accrued interest payable	1,389,567	1,631,689
Accounts payable	60,211	338,506
	<u>16,974,778</u>	<u>16,900,195</u>
Current liabilities (payable from current assets):		
Accounts payable	9,702,743	10,650,059
Other	7,499,328	7,691,221
	<u>17,202,071</u>	<u>18,341,280</u>
Total current liabilities	<u>34,176,849</u>	<u>35,241,475</u>
Other noncurrent liabilities:		
Net pension liability	29,518,265	31,848,682
Net other postemployment benefit liability	8,057,519	9,560,935
Asset retirement obligation	-	21,438
Other noncurrent liabilities	147,344	-
	<u>37,723,128</u>	<u>41,431,055</u>
Total other noncurrent liabilities	<u>37,723,128</u>	<u>41,431,055</u>
Commitments and contingencies (Note 9)		
Deferred revenues	<u>4,277,194</u>	<u>3,808,499</u>
Total liabilities	<u>137,327,244</u>	<u>158,896,742</u>
Deferred inflows of resources:		
Deferred pension inflows	6,117,816	8,775,497
Deferred other postemployment benefit inflows	5,348,527	5,913,303
	<u>11,466,343</u>	<u>14,688,800</u>
Total deferred inflows of resources	<u>11,466,343</u>	<u>14,688,800</u>
Total liabilities, deferred inflows of resources, and net position	\$ <u>295,461,538</u>	\$ <u>319,854,901</u>

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended May 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating revenues:		
Charges for services:		
Residential	\$ 29,682,382	\$ 30,990,881
Commercial	7,983,810	8,406,969
Industrial	42,093,880	46,093,185
Water Works System	980,048	1,010,368
City of Owensboro and Schools	3,015,009	3,141,137
Other	1,123,953	1,338,428
	84,879,082	90,980,968
Operating expenses:		
Power costs:		
Purchased power	36,019,851	37,960,626
Other	1,690,841	1,178,070
Transmission and distribution	8,331,146	10,714,238
Customer service and information	2,365,248	2,379,672
General and administrative	6,889,283	6,487,123
Telecommunications	1,403,231	1,275,660
Depreciation	18,521,623	17,544,121
	75,221,223	77,539,510
Total operating expenses		
	9,657,859	13,441,458
Operating income		
	9,657,859	13,441,458
Nonoperating revenues (expenses):		
Interest and debt expense	(2,049,748)	(2,788,754)
Interest income on investments	2,466,847	993,146
Gain from sale of utility plant	817,042	151,269
Other, net	9,317	4,800
Net increase (decrease) in fair value of investments	(1,795,236)	(4,713,145)
Deferred net change in fair value of investments	1,795,236	4,713,145
	1,243,458	(1,639,539)
Total nonoperating revenues (expenses)		
	10,901,317	11,801,919
Income before transfers		
	10,901,317	11,801,919
Transfers out - dividends to City of Owensboro	(10,502,725)	(10,293,670)
	398,592	1,508,249
Change in net position		
	398,592	1,508,249
Net position, beginning of year	146,269,359	144,761,110
	146,269,359	144,761,110
Net position, end of year	\$ 146,667,951	\$ 146,269,359
	146,667,951	146,269,359

See Notes to Financial Statements

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

STATEMENTS OF CASH FLOWS

Years Ended May 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Receipts from customers, including collections as agent for third parties	\$ 121,547,538	\$ 123,791,720
Customer remittances to third parties	(29,018,531)	(29,304,086)
Payments to suppliers	(48,072,825)	(50,178,560)
Payments to employees	(8,255,973)	(8,547,046)
	<u>36,200,209</u>	<u>35,762,028</u>
Net cash provided by operating activities		
Cash flows from noncapital financing activities:		
Transfers out - dividends to City of Owensboro	(10,502,725)	(10,293,670)
	<u>(10,502,725)</u>	<u>(10,293,670)</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(12,599,052)	(15,128,383)
Proceeds from sale of utility plant	817,042	151,269
Payments on long-term debt	(14,930,000)	(14,255,000)
Interest paid on long-term debt	(3,714,797)	(4,400,843)
	<u>(30,426,807)</u>	<u>(33,632,957)</u>
Net cash used in capital and related financing activities		
Cash flows from investing activities:		
Purchase of investments	(250,000)	(13,419,500)
Proceeds from sale and maturities of investments	-	6,762,000
Interest on investments	2,462,929	975,885
	<u>2,212,929</u>	<u>(5,681,615)</u>
Net cash used in investing activities		
Net decrease in cash and cash equivalents	(2,516,394)	(13,846,214)
Cash and cash equivalents, beginning of year	51,573,061	65,419,275
Cash and cash equivalents, end of year	<u>\$ 49,056,667</u>	<u>\$ 51,573,061</u>
Included in the following Statements of Net Position captions:		
Restricted assets	\$ 24,988,387	\$ 29,855,718
Cash and cash equivalents	24,068,280	21,717,343
	<u>\$ 49,056,667</u>	<u>\$ 51,573,061</u>

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

STATEMENTS OF CASH FLOWS, Concluded

Years Ended May 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 9,657,859	\$ 13,441,458
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	18,799,243	17,821,728
Amortization	1,856,681	1,237,763
Gain from sale of utility plant	817,042	151,269
Other revenues	9,317	4,800
Change in assets and liabilities:		
Decrease (increase) in assets:		
Restricted assets:		
Fuel inventory	-	19,498
Receivables	186,720	(2,383,921)
Materials and supplies	(853,017)	(1,870,643)
Prepayments	9,650	231,084
Other noncurrent assets	6,435,746	3,339,251
Increase (decrease) in liabilities:		
Accounts payable	(995,829)	2,281,579
Other current liabilities	(191,893)	(1,267,857)
Deferred revenues	468,690	2,756,019
Net cash provided by operating activities	<u>\$ 36,200,209</u>	<u>\$ 35,762,028</u>
Noncash investing, capital and financing activities:		
Amortization of debt premium and expense and deferred loss on debt defeasance	<u>\$ (1,422,926)</u>	<u>\$ (1,422,926)</u>
Unrealized loss on investments	<u>\$ (1,795,236)</u>	<u>\$ (4,713,264)</u>

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

1. Organization and Summary of Significant Accounting Policies

General Information

In 1940, the City of Owensboro, Kentucky (City), established the City Utility Commission to manage, control and operate Owensboro Municipal Utilities (OMU). City officials appoint the five individuals who comprise the City Utility Commission. OMU consists of the Electric Light and Power System (Electric System) and the Water Works System (Water System), which are component units of the City. Accordingly, the Electric System and the Water System are part of the financial reporting entity of the City. The accompanying financial statements present only the Electric System and are not intended to present fairly the financial position of the City and the changes in its financial position or, where applicable, its cash flows, in conformity with accounting principles generally accepted in the United States of America. The Electric System is subject to regulation by the City, including approval of rates charged for utility services, as set forth in applicable City ordinances.

The Electric System provides electric power to approximately 26,000 residential, commercial and industrial customers in Owensboro, Kentucky.

System of Accounts and Basis of Accounting

The Electric System's accounts are maintained substantially in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission and in conformity with accounting principles generally accepted in the United States of America using the economic resources measurement focus and the accrual basis of accounting.

The financial statements are prepared in accordance with generally accepted accounting principles and follow accounting guidance provided by the Governmental Accounting Standards Board (GASB) in the regulated operations provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which permit certain entities with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in future rates charged to its customers. Regulatory assets are the deferral of costs expected to be recovered in future customer rates and regulatory liabilities represent current recovery of expected future costs.

The Electric System considers electric and telecommunications revenues and costs that are directly related to purchase, transmission, and distribution of electricity and telecommunications services to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

1. Organization and Summary of Significant Accounting Policies, Continued

System of Accounts and Basis of Accounting, Continued

The Electric System accrues revenues as services are rendered to utility customers. In addition, the Electric System's present electric rate ordinance provides for an energy cost adjustment and environmental control cost adjustment to be made to customer bills, except bills rendered to the City, to reflect changes in the price of fuel and maintenance costs and environmental compliance costs to generate electricity. The Electric System estimates and records amounts to be billed or refunded under the energy cost adjustment on a monthly basis.

Utility Plant and Depreciation

Utility plant is stated at original cost, which includes the cost of contracted services, materials, labor, and labor-related expenditures, administrative and general costs, and an allowance for borrowed funds used during construction.

Replacements of depreciable property units, except minor replacements, are charged to utility plant. Property units replaced or retired, including cost of removal net of any salvage value received, are charged to accumulated depreciation. Routine maintenance, repairs and minor replacement costs are charged to expense as incurred.

Depreciation of utility plant and unclassified plant in service is provided using the straight-line composite rate method over the estimated service lives of the depreciable assets of the Electric System, excluding the Electric System Generating System (ESGS), and on the sinking fund method for ESGS depreciable assets. Estimated service lives of assets depreciated using the composite method range from 5 to 60 years. The sinking fund method was adopted for ESGS as a result of the terms of a power sale contract. Depreciation expense during 2023 and 2022 was approximately 3.1% and 3.7%, respectively, of the average original cost of depreciable utility plant in service.

Restricted Assets

The City ordinances that authorized the Electric Light and Power Revenue Bonds require that certain amounts from bond proceeds and payments by customers for services provided be deposited into designated funds and be used only for the specified purposes of the funds. The Electric System's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

1. Organization and Summary of Significant Accounting Policies, Continued

Cash and Investments

Cash deposits are reported at carrying amounts. The Electric System categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. Agency securities are stated at fair values based upon externally developed models that use rates and prices of similar securities.

The Electric System considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Unrestricted investments with initial maturities exceeding three months consisting of U.S. agency securities are classified as temporary investments.

Inventories

Inventories consisting of materials and supplies are valued at the lower of weighted average cost or net realizable value.

Bond Issuance Costs

Premiums and discounts arising from various bond issues are deferred and amortized using the straight-line method over the lives of the bond issues.

The Electric System's rate making methodology allows for future recovery of debt costs, including bond issuance costs, in its rate making process. Accordingly, under GASBS No. 62, debt issuance costs are deferred and amortized using the straight-line method over the lives of the bond issues.

The difference between the reacquisition price and the net carrying amount of defeased bond issues has been deferred and is being amortized using the straight-line method over the lives of the refunding bond issues.

Pension and Other Postemployment Benefits

For purposes of measuring the net liabilities, the deferred outflows of resources and deferred inflows of resources and expense related to pensions and other postemployment benefits (OPEB), information about the fiduciary net position of the pension/OPEB plans, and additions to/deductions from the pension/OPEB plans' fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plans. For this purpose, revenues are recognized when earned. Contributions are recognized when due, pursuant to legal (or statutory) requirements. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

1. Organization and Summary of Significant Accounting Policies, Continued

Pension and Other Postemployment Benefits, Continued

The Electric System's rate making methodology allows for future recovery of certain pension and other postemployment benefit costs in its rate making process. Accordingly, under GASBS No. 62, pension and other postemployment benefit costs in excess of required contributions are deferred.

Income Taxes

The Electric System is exempt from federal and state income taxes and, accordingly, the financial statements include no provision for such taxes.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Utility Plant

Electric utility plant activity for the year ended May 31, 2023, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Utility plant:				
Production plant	\$ 324,212,376	\$ -	\$ (1,757,921)	\$ 322,454,455
Transmission plant	35,789,201	1,425,278	(61,334)	37,153,145
Distribution plant	114,422,792	4,222,277	(916,059)	117,729,010
General plant	27,227,465	343,266	(1,194,192)	26,376,539
Unclassified plant in service	<u>3,183,271</u>	<u>495,419</u>	<u>-</u>	<u>3,678,690</u>
Total, at original cost	<u>504,835,105</u>	<u>6,486,240</u>	<u>(3,929,506)</u>	<u>507,391,839</u>
Accumulated depreciation:				
Production plant	(283,947,372)	(11,049,420)	-	(294,996,792)
Transmission plant	(23,744,029)	(1,471,344)	33,914	(25,181,459)
Distribution plant	(59,462,457)	(4,510,022)	916,059	(63,056,420)
General plant	<u>(18,561,619)</u>	<u>(1,768,457)</u>	<u>2,958,670</u>	<u>(17,371,406)</u>
Total accumulated depreciation	<u>(385,715,477)</u>	<u>(18,799,243)</u>	<u>3,908,643</u>	<u>(400,606,077)</u>
Construction in progress	<u>7,404,998</u>	<u>1,948,491</u>	<u>-</u>	<u>9,353,489</u>
Utility plant, net	<u>\$ 126,524,626</u>	<u>\$ (10,364,512)</u>	<u>\$ (20,863)</u>	<u>\$ 116,139,251</u>

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

2. Utility Plant, Continued

Depreciation expense for the years ended May 31 was as follows:

	2023	2022
Electric utility plant	\$ 17,304,749	\$ 16,515,321
Telecommunications	1,216,874	1,028,800
	18,521,623	17,544,121
Transportation and stores depreciation charged to construction activities or other operating expenses	277,606	277,607
	\$ 18,799,229	\$ 17,821,728

3. Restricted Assets

Restricted assets at May 31 consists of the following:

	2023	2022
Cash and cash equivalents	\$ 24,988,387	\$ 29,855,718
Investments	10,343,254	10,793,435
Accrued interest receivable	42,925	42,925
	\$ 35,374,566	\$ 40,692,078

The above balances are contained in the following funds:

	2023	2022
Operation and Maintenance Fund	\$ 3,091,033	\$ 5,321,747
Construction Fund	2,545,991	1,836,094
Depreciation Fund	6,392,288	6,445,415
Sinking Funds	15,820,430	15,987,402
Reserve and Contingency Fund	7,524,824	11,101,420
	\$ 35,374,566	\$ 40,692,078

The terms of the City ordinances authorizing the Electric System's Electric Light and Power Revenue Bonds require all investment income to be credited to the various restricted asset funds.

OMU follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools* (GASBS No. 31), which requires certain investments to be carried at fair value in the statements of net position and changes in the fair

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

3. Restricted Assets, Continued

value of investments to be reported in the statements of revenues, expenses and changes in net position. In accordance with GASBS No. 31, OMU recorded unrealized gain(loss) of (\$1,795,236) and (\$4,713,264) for the years ended May 31, 2023 and 2022, respectively. OMU's rate making methodology does not consider unrealized gains or losses on marketable securities in its rate making process. Accordingly, the unrealized gains for the years ended May 31, 2023 and 2022, have been deferred.

The net increase (decrease) in the fair value of investments as of May 31 was:

	2023	2022
Net unrealized gain (loss) on investments	<u>\$ (7,043,866)</u>	<u>\$ (5,248,589)</u>

The calculation of realized gains or losses on sales of investments is independent of the calculation of the net change in the fair value of investments. Realized gains or losses on investments that were held in more than one fiscal year and sold in the current year were included as a net change in the fair value of investments reported in prior years and the current year.

4. Cash Deposits and Investments

At May 31, the carrying amounts of the Electric System's deposits held in financial institutions and investments other than deposits were:

	2023	2022
Deposits in financial institutions	\$ 49,056,668	\$ 51,573,060
Investments other than deposits	<u>35,722,944</u>	<u>37,267,721</u>
	<u>\$ 84,779,612</u>	<u>\$ 88,840,781</u>

These amounts are reflected in the statements of net position as:

	2023	2022
Cash and cash equivalents	\$ 24,068,280	\$ 21,717,343
Temporary investments	25,379,691	26,474,285
Restricted assets:		
Cash and cash equivalents	24,988,387	29,855,718
Investments	<u>10,343,254</u>	<u>10,793,435</u>
	<u>\$ 84,779,612</u>	<u>\$ 88,840,781</u>

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

4. Cash Deposits and Investments, Continued

Deposit and Investment Policy. The Electric System's deposit and investment policy prescribes to the prudent-person rule: Investments shall be made with applicable law and under prevailing circumstances which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a bank failure, the Electric System's deposits may not be returned to it. The Electric System's deposit and investment policy permits uncollateralized deposits only if issued by institutions ranked in one of the three highest categories by a nationally recognized rating agency. As of May 31, 2023, \$48,610,028 of the Electric System's bank balance of \$48,817,585 was exposed to custodial credit risk as follows:

Uninsured with collateral held by pledging bank's agent	\$ <u>48,610,028</u>
---	----------------------

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Electric System's investments include agency securities and negotiable certificates of deposit, which utilize Level 2 inputs for fair value measurements. Fair value is based upon externally developed models that use rates and prices of similar securities, due to the limited market activity of the securities.

As of May 31, 2023, the Electric System had the following investments:

<u>Investments</u>	<u>Maturities</u>	
Federal Farm Credit Bank – Callable	12/16/2026 thru 10/14/2031	\$ 17,136,321
Federal Home Loan Bank – Callable	09/25/2024 thru 04/26/2032	14,526,810
Federal Home Loan Mtg Corp - Callable	06/24/2030	2,437,449
Federal National Mtg Assn - Callable	07/27/2028	<u>1,622,364</u>
		<u>\$ 35,722,944</u>

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

4. Cash Deposits and Investments, Continued

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Electric System's deposit and investment policy limits investment maturities based upon provisions of bond ordinances. The bond ordinances limit investments contained in the Operation and Maintenance Fund to five years and limit investments in the Depreciation Fund, Sinking Funds, and Facility Charge Fund to ten years.

Credit Risk. The Electric System's deposit and investment policy authorizes the investment of funds in any manner permitted by bond ordinances and the Kentucky Revised Statutes and does not further limit its investment choices.

Concentration of Credit Risk. Other than the prudent-person rule, the Electric System's deposit and investment policy places no limit on the amount the Electric System may invest in any one issuer. The Electric System's investments, other than deposits, consist of U.S. government agencies at May 31, 2023.

5. Long-Term Debt

Long-term debt activity for the year ended May 31, 2023, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds payable:					
Series of 2017	\$ 42,165,000	\$ -	\$ (6,525,000)	\$ 35,640,000	\$ 6,850,000
Series of 2019	43,690,000	-	(8,405,000)	35,285,000	8,675,000
	85,855,000	-	(14,930,000)	70,925,000	15,525,000
Add unamortized debt premium	7,490,713	-	(1,740,640)	5,750,073	-
Total long-term debt	\$ 93,345,713	\$ -	\$ (16,670,640)	\$ 76,675,073	\$ 15,525,000

Long-term debt at May 31 consists of the following Electric Light and Power Revenue Bonds:

	2023	2022
Series of 2017:		
Current interest bonds, 4.00%, due from 2023 to 2037	\$35,640,000	\$ 42,165,000
Series of 2019:		
Current interest bonds, 4.00% to 5.00%, due from 2023 to 2027	35,285,000	43,690,000
Total long-term debt	70,925,000	85,855,000
Less current maturities	(15,525,000)	(14,930,000)
Add unamortized debt premium	5,750,073	7,490,713
	<u>\$ 61,150,073</u>	<u>\$78,415,713</u>

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

5. Long-Term Debt, Continued

Sinking fund requirements and scheduled aggregate maturities of long-term debt are as follows:

<u>Year Ending May 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 15,525,000	\$ 3,099,550	\$ 18,624,550
2025	16,235,000	2,391,800	18,626,800
2026	16,880,000	1,742,400	18,622,400
2027	17,615,000	1,011,850	18,626,850
2028	345,000	186,800	531,800
2029 – 2033	2,095,000	708,400	2,803,400
2034 – 2037	2,230,000	230,000	2,460,000
	<u>\$ 70,925,000</u>	<u>\$ 9,370,800</u>	<u>\$ 80,295,800</u>

The Electric System is subject to certain debt covenants, compliance with which is required by the ordinances authorizing its bond issues. Such ordinances require revenue to be first applied to the Sinking Funds, second to the Operations and Maintenance Fund, third to the Additions and Replacements Fund, fourth to the Depreciation Fund, fifth to the Reserve and Contingency Fund, and lastly to the Facility Charge Fund.

On August 9, 2017, the City issued \$49,685,000 of Electric Light and Power System Revenue Bonds, 2017 Series, each dated August 9, 2017. The 2017 Bonds were issued to fund construction of a residential fiber optic distribution network with the ability to provide ultrahigh speed internet access to approximately 6,500 dwellings and to refund the 2010-C series bonds and certain 2013-B series bonds. The in-substance defeasance of the 2010-C and 2013-B bonds was accomplished by placing \$48,325,931 in proceeds from the 2017 Bonds and \$456,210 in funds from the 2010-C and 2013-B Bond Sinking Funds in an irrevocable escrow fund to be used solely for satisfying scheduled debt service payments of the 2010-C and 2013-B Bonds. Accordingly, the 2010-C Bonds in the amount of \$8,935,000, and certain 2013-B Bonds in the amount of \$36,160,000, as well as accrued interest payable of \$347,104 and unamortized discount and issuance costs of \$1,152,596, were extinguished resulting in the accounting recognition of a loss from defeasance of \$2,187,441, reported in the accompanying financial statements as a deferred outflow of resources. The City advance refunded the 2010-C and 2013-B bonds to reduce the effective rate on the debt. The advance refunding resulted in an economic savings (difference between the present value of the debt service payment on the old and new debt) of \$3,128,648.

The 2017 series bonds maturing on or after January 1, 2028, are subject to redemption prior to maturity in whole or in part on any date on or after January 1, 2027, at the redemption price (expressed as a percentage of principal amount to be redeemed) of 100%, plus accrued interest to the redemption date.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

5. Long-Term Debt, Continued

On December 4, 2019, the City issued \$64,155,000 of Electric Light and Power System Refunding Revenue Bonds, 2019 Series, each dated December 4, 2019. The 2019 Bonds were issued for the purpose of refunding certain outstanding revenue bonds which include the 2010-A Series, 2010-B Series, 2013-A Series and 2013-B Series. The in-substance defeasance of the 2010 and 2013 Series bonds was accomplished by placing \$71,178,711 in proceeds from the 2019 Bonds, \$3,895,548 of sinking funds and \$15,231,495 of other restricted funds in an irrevocable escrow fund to be used solely for satisfying scheduled debt service payments of the 2010 and 2013 Series Bonds. Accordingly, the 2010 Series Bonds in the amount of \$38,495,000, the 2013 Series Bonds in the amount of \$49,815,000, as well as accrued interest payable of \$1,772,444 and unamortized discount and issuance costs of \$449,846, were extinguished resulting in the accounting recognition of a gain from defeasance of \$226,536, reported in the accompanying financial statements as a deferred outflow of resources. The City advance refunded these bonds to reduce its total outstanding debt and reduce the effective rate on the debt. The advance refunding resulted in an economic savings (difference between the present value of the debt service payment on the old and new debt) of \$7,441,846.

All bonds are secured by a pledge of, and are payable from, the gross revenues derived from the operation of the Electric System and are secured by a statutory mortgage lien as provided and authorized by the Kentucky Revised Statutes.

For all bonds, in the event of default, any Bondholder may proceed to protect and enforce its rights and the rights of the holders of the Bonds under the Ordinance forthwith by a suit or suits in equity or at law.

6. Dividends - City of Owensboro

Under the terms of City ordinances authorizing the Electric System bonds, whenever all specified or required transfers and payments have been set aside and paid into the restricted asset funds and there is a balance in excess of the amount to be set aside and paid into the restricted asset funds during the next succeeding two months (approximately \$15,115,000 at May 31, 2023), the City Utility Commission may withdraw and transfer from such excess to the general fund of the City in any fiscal year an amount not to exceed 10% of the value of the City's ownership (net assets) exclusive of interest accumulated on deposits in the Reserve and Contingency Fund (\$3,112,325 at May 31, 2023). The Ordinance also allows for the transfer to the City of a sum equal to the dollar value of services purchased by the City from the Electric System in the fiscal year. not to exceed, however, \$700,000 for the fiscal year ended June 30, 1985, and thereafter increasing at a compound rate of 5% per annum. Transfers to the City under this ordinance and agreement were \$10,502,726 and \$10,293,670 for 2023 and 2022, respectively.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

7. Pension and Other Postemployment Benefits – CERS

Plan Description

The Electric System contributes to the Kentucky County Employees Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit pension/OPEB plan administered by the Kentucky Public Pensions Authority (KPPA) that covers members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. KPPA issues a publicly available financial report that can be obtained at www.kyret.ky.gov.

Benefits Provided

CERS provides for retirement, disability, and death benefits to system members through its Pension Fund, as well as other postemployment benefits (OPEB) for hospital and medical insurance through its Insurance Fund.

Retirement benefits may be extended to beneficiaries of members under certain circumstances. Retirement benefits are determined using a formula which considers the member's final compensation; benefit factors set by statute which vary depending upon the type/amount of service, participation date, and retirement date; and years of service as fully described in the plan documents.

Other postemployment benefits provided by CERS consist of prescribed contributions for whole or partial payments of required premiums to purchase hospital and medical insurance.

Contributions

State statute requires active members to contribute 5% of creditable compensation. For members participating on or after September 1, 2008, an additional 1% of creditable compensation is required. This amount is credited to the Insurance Fund and is non-refundable to the member. Employers contribute at the rate determined by the KPPA Board to be necessary for the actuarial soundness of the systems, as required by KRS 61.565 and KRS 61.752.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

7. Pension and Other Postemployment Benefits – CERS, Continued

Contributions, Continued

The Electric System's actuarially determined contribution rates and contribution amounts applicable to fiscal year 2023, based on annual creditable compensation for the year ended May 31, 2023, were as follows:

	Contribution Rates	Contributions
Pension	23.40%	\$ 2,403,026
OPEB	3.39%	348,131
Total	26.79%	\$ 2,751,157

Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions and OPEB

The net pension and OPEB liabilities reported as of May 31, 2023, were measured as of June 30, 2022, and the total pension and OPEB liabilities used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021. The Electric System's proportion of the liabilities was based on a projection of the Electric System's long-term share of contributions to the plan relative to the projected contributions of all participating entities, actuarially determined. Changes in the Electric System's pension and OPEB proportions as of the measurement dates were as follows:

	Pension	OPEB
June 30, 2021	0.499526%	0.499409%
Decrease	(0.091196)	(0.091126)
June 30, 2022	0.408330%	0.408283%

The Electric System's pension and OPEB liabilities and expense as of and for the year ended May 31, 2023, were as follows:

	Net Pension Liability	Net OPEB Liability
Proportionate Share	\$ 29,518,265	\$ 8,057,519
Pension/OPEB Expense	\$ 2,403,026	\$ 348,131

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

7. Pension and Other Postemployment Benefits – CERS, Continued

Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions and OPEB, Continued

At May 31, 2023, the Electric System reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 31,558	\$ 262,873	\$ 811,056	\$ 1,847,776
Changes of assumptions	-	-	1,274,353	1,050,059
Net difference between projected and actual earnings on plan investments	756,742	-	327,035	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	5,854,943	23,845	2,450,692
Contributions subsequent to the measurement date	2,212,173	-	320,482	-
Total	\$ 3,000,473	\$ 6,117,816	\$ 2,756,771	\$ 5,348,527

The \$2,212,173 and \$320,482 of deferred outflows of resources resulting from the Electric System's pension and OPEB contributions subsequent to the measurement date will be recognized as a reduction of the net pension and OPEB liabilities in the year ending May 31, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension and OPEB expense as follows:

	Pension	OPEB
Year ending May 31,		
2024	\$ (3,970,357)	\$ (749,593)
2025	(1,949,654)	(778,640)
2026	(248,055)	(1,136,536)
2027	838,550	(247,469)
	\$ (5,329,516)	\$ (2,912,238)

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

7. Pension and Other Postemployment Benefits – CERS, Continued

Actuarial Assumptions

The total pension/OPEB liabilities in the June 30, 2021, actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Healthcare payroll growth rate	2.00%
Salary increases	3.30% to 10.30%, varies by service
Net investment rate of return	6.25%
Healthcare cost trend rates (OPEB)	Pre-65: Initial trend starting at 6.20% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. Post-65: Initial trend starting at 9.00% at January 1, 2024, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

Pension and OPEB: The mortality table used for active members was a Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

7. Pension and Other Postemployment Benefits – CERS, Continued

Actuarial Assumptions, Continued

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth		
Public equity	50.00%	4.45%
Private equity	10.00	10.15%
	<u>60.00</u>	
Fixed income		
Core fixed income	10.00	0.28%
Specialty credit	10.00	2.28%
Cash	0.00	(0.91)%
	<u>20.00</u>	
Inflation protected		
Real estate	7.00	3.67%
Real return	13.00	4.07%
	<u>20.00</u>	
Total	<u>100.00%</u>	

Discount Rate

The discount rates used to measure the total pension/OPEB liabilities at the measurement dates and changes since the prior year were as follows:

	<u>Pension</u>	<u>OPEB</u>
Discount rate, June 30, 2021	6.25%	5.20%
Increase (decrease)	-	0.50
Discount rate, June 30, 2022	<u>6.25%</u>	<u>5.70%</u>

The discount rate of 6.25% used to measure the total pension liability was based on the expected rate of return on pension plan investments. The discount rate of 5.70% used to measure the total OPEB liability was based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.69% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2022.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

7. Pension and Other Postemployment Benefits – CERS, Continued

Discount Rate, Continued

The projection of cash flows used to determine the pension discount rate assumed that the funds would receive the required employer contributions in each future year, as determined by the current funding policy established in Statute last amended by House Bill 362 (passed in 2018). The projection of cash flows used to determine the OPEB discount rate assumed that employers would contribute the actuarially determined contribution rate of projected compensation in accordance with the current funding policy.

Sensitivity of the Electric System’s Proportionate Share of the Liabilities to Changes in the Discount Rate

The following presents the Electric System’s proportionate share of the net pension/OPEB liabilities, as well as what the Electric System’s proportionate share of the net pension/OPEB liabilities would be if they were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Electric System’s Proportionate Share			
	Discount Rate	Net pension Liability	Discount Rate	Net OPEB Liability
1% decrease	5.25%	\$ 36,894,168	4.70%	\$ 10,771,618
Current discount rate	6.25%	\$ 29,518,265	5.70%	\$ 8,057,519
1% increase	7.25%	\$ 23,417,780	6.70%	\$ 5,813.863

Sensitivity of the Electric System’s Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Electric System’s proportionate share of the net OPEB liability, as well as what the Electric System’s proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Healthcare Cost Trend Rates	Electric System’s Proportionate Share of Net OPEB Liability
	1% decrease	5.20% Pre-65 or 8.00% Post-65
Current healthcare cost trend rates	6.20% Pre-65 or 9.00% Post-65	\$ 8,057,519
1% increase	7.20% Pre-65 or 10.00% Post-65	\$ 10,539,515

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

7. Pension and Other Postemployment Benefits – CERS, Continued

Plan Fiduciary Net Position

Detailed information about the CERS fiduciary net position is available in the separately issued KPPA Comprehensive Annual Financial Report.

Payables to the Pension/OPEB Plans

The Electric System reported the following payables for the outstanding amount of pension/OPEB contributions due to CERS for the year ended May 31, 2023.

<u>Pension</u>	<u>OPEB</u>
\$ <u>190,573</u>	\$ <u>27,609</u>

8. Commitments and Contingencies

OMU is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. OMU manages its risks through coverages provided by private insurance carriers for various risks of losses to which it is exposed, including directors and officers, employee dishonesty, workers' compensation, and other property risks. The property and casualty insurance policy contains a deductible of \$250,000 and excludes acts of terrorism from its coverage. For the last three years, settled claims have not exceeded private insurance coverage, nor has there been any reduction in insurance coverage.

OMU is self-insured for group health and limits its risks of loss by purchasing reinsurance coverage. A third-party administrator administers claims. The estimated liability for unpaid health claims at May 31, 2023, has been included in other current liabilities. The following reconciles health claims payable for the three years ended May 31:

Fiscal Year Ended May 31,	Claims Payable June 1	Claims and Changes in Estimates	Claims Paid	Claims Payable May 31
2023	\$ 516,695	\$ 2,856,245	\$ 3,086,257	\$ 286,683
2022	\$ 384,466	\$ 3,359,863	\$ 3,227,634	\$ 516,695
2021	\$ 404,076	\$ 2,885,394	\$ 2,905,004	\$ 384,466

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

8. Commitments and Contingencies, Continued

OMU has been identified by the United States Environmental Protection Agency as one of numerous parties that may be liable for damages under federal law with respect to a superfund hazardous waste site. Based upon the opinion of its outside legal counsel, management does not anticipate additional costs to be material; however, the ultimate resolution of this matter and the related financial impact on OMU, if any, cannot be determined at this time.

There are a number of other pending legal actions involving OMU. Management believes that the outcome of such legal actions and claims will not have a material effect on OMU's financial position or results of operations.

9. Asset Retirement Obligation and Deferred Asset Retirement Outflow

The Electric System accounts for certain costs associated with the dismantling and removal of the Elmer Smith Generating System (ESGS) in accordance with GASB Statement No. 83, Certain Asset Retirement Obligations. Under Statement No. 83, the Electric System adjusted liability was \$6,242,635 and \$6,164,810 as of May 31, 2023 and 2022, respectively, which equals the estimated cost of activities that are legally required by the Environmental Protection Agency to perform retirement of the ash ponds. As of May 31, 2023 and 2022, the Electric System had expended \$6,242,635 and \$6,143,372, respectively, in costs for retirement leaving an obligation of \$0 and \$21,438, respectively.

The Electric System accounts for other not legally enforceable costs associated with the dismantling and removal of the ESGS in accordance with GASB statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB AICPA Pronouncements. These costs are for removal of the coal stockpile, removal of the smoke stacks, removal of asbestos, other environmental maintenance expenses, and for other structures, such as fencing. At May 31, 2023 and 2022, total costs expended were \$10,850,839 and \$8,095,837, respectively. OMU is amortizing these costs over five years and has recorded total amortization expense of \$3,596,363 and \$1,739,682 as of May 31, 2023 and 2022, respectively, for a net deferred decommissioning asset of \$7,254,476 and \$6,356,155 at May 31, 2023 and 2022, respectively.

10. Concentrations

The Electric System discontinued generating its own power with the shutdown of the Elmer Smith Generating Station on May 31, 2020. As a result, the Electric System now purchases its power from third-party providers. The Electric System purchased approximately 95% of its power from one third-party provider for the year ended May 31, 2023.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Last 10 Fiscal Years *

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Electric System's proportion of the net pension liability	0.408330%	0.499526%	0.592499%	0.615885%	0.620000%	0.611400%	0.626738%	0.610636%	0.632508%
Electric System's proportionate share of the net pension liability	\$ 29,518,265	\$ 31,848,682	\$ 45,444,200	\$ 43,315,494	\$ 37,759,911	\$ 35,787,099	\$ 30,858,179	\$ 26,254,442	\$ 20,520,943
Electric System's covered payroll	\$ 9,423,106	\$ 11,944,891	\$ 15,150,724	\$ 15,475,990	\$ 14,991,261	\$ 14,942,435	\$ 15,035,975	\$ 14,221,628	\$ 14,612,052
Electric System's proportionate share of the net pension liability as a percentage of its covered payroll	313.25%	266.63%	299.95%	279.89%	251.88%	239.50%	205.23%	184.61%	140.44%
Plan fiduciary net position as a percentage of the total pension liability	52.42%	57.33%	47.81%	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%

* Presented for those years for which the information is available.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

**SCHEDULE OF PENSION CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Last 10 Fiscal Years

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 2,403,026	\$ 2,141,605	\$ 2,373,172	\$ 2,913,660	\$ 2,497,758	\$ 2,148,899	\$ 2,062,855	\$ 1,908,105	\$ 1,820,510
Contributions in relation to the contractually required contributions	<u>(2,403,026)</u>	<u>(2,141,605)</u>	<u>(2,373,172)</u>	<u>(2,913,660)</u>	<u>(2,497,758)</u>	<u>(2,148,899)</u>	<u>(2,062,855)</u>	<u>(1,908,105)</u>	<u>(1,820,510)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Electric System's covered payroll	10,264,665	10,123,205	12,300,680	15,221,323	\$ 15,527,315	\$ 14,873,999	\$ 14,889,969	\$ 15,097,888	\$ 14,199,426
Contributions as a percentage of covered payroll	23.41%	21.16%	19.29%	19.14%	16.09%	14.45%	13.85%	12.64%	12.82%

* Presented for those years for which the information is available.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Last 10 Fiscal Years *

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Electric System's proportion of the net OPEB liability	0.408283%	0.499409%	0.592328%	0.615885%	0.620000%	0.611400%	0.626738%
Electric System's proportionate share of the net OPEB liability	\$ 8,057,519	\$ 9,560,935	\$ 14,302,909	\$ 10,356,480	\$ 11,007,791	\$ 12,291,225	\$ 9,663,041
Electric System's covered payroll	\$ 9,423,106	\$ 11,944,891	\$ 15,150,724	\$ 15,475,990	\$ 14,991,261	\$ 14,942,435	\$ 15,035,975
Electric System's proportionate share of the net OPEB liability as a percentage of its covered payroll	85.51%	80.04%	94.40%	66.92%	73.43%	82.26%	64.27%
Plan fiduciary net position as a percentage of the total OPEB liability	60.95%	62.91%	51.67%	60.44%	57.62%	52.39%	55.24%

* Presented for those years for which the information is available.

OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM
SCHEDULE OF OPEB CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM

Last 10 Fiscal Years

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 348,131	\$ 584,718	\$ 585,300	\$ 718,602	\$ 810,001	\$ 697,502	\$ 699,448	\$ 712,851	\$ 698,185
Contributions in relation to the contractually required contributions	(348,131)	(584,718)	(585,300)	(718,602)	(810,001)	(697,502)	(699,448)	(712,851)	(698,185)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Electric System's covered payroll	\$ 10,264,665	\$ 10,123,205	\$ 12,300,680	\$ 15,221,323	\$ 15,527,315	\$ 14,873,999	\$ 14,889,969	\$ 15,097,888	\$ 14,199,426
Contributions as a percentage of covered payroll	3.39%	5.78%	4.76%	4.72%	5.22%	4.69%	4.70%	4.72%	4.92%

* Presented for those years for which the information is available.

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
COUNTY EMPLOYEES RETIREMENT SYSTEM

Year Ended May 31, 2023

Changes of Benefit Terms

2023	None
2022	None
2021	None
2020	None
2019	None
2018	None
2017	None
2016	None

Changes of Assumptions

<u>2023</u>	OPEB:	The single discount rate changed from 5.20% to 5.70%.
<u>2022</u>	OPEB:	The single discount rate changed from 5.34% to 5.20%.
<u>2021</u>	OPEB:	The single discount rate changed from 5.68% to 5.34%.
<u>2020</u>	Pension and OPEB:	The salary increases assumption was changed from 3.05% to 3.30%-10.30%.
	OPEB:	The single discount rate changed from 5.85% to 5.68%.
<u>2019</u>	Pension and OPEB:	The salary increases assumption was changed from 2.00% to 3.05%.
	OPEB:	The single discount rate changed from 5.84% to 5.85%.
<u>2018</u>	Pension and OPEB:	The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.
	OPEB:	The single discount rate changed from 6.89% to 5.84%.
<u>2017</u>	None	
<u>2016</u>	Pension:	The assumed investment rate of return was decreased from 7.75% to 7.50%. The assumed rate of inflation was reduced from 3.50% to 3.25%. The assumed rate of wage inflation was reduced from 1.00% to 0.75%. Payroll growth assumption was reduced from 4.50% to 4.00%. The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

(This page intentionally left blank.)

**OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM**

SCHEDULE OF REVENUES AND EXPENSES

Year Ended May 31, 2023 (with comparative totals for 2022)

	<u>Retail Electric System</u>	<u>Wholesale Power Marketing</u>
Operating revenues:		
Charges for services:		
Residential	\$ 27,142,811	\$ -
Commercial	6,450,341	-
Industrial	42,093,880	-
Water Works System	959,481	-
City of Owensboro and Schools	2,936,014	-
Electric Light and Power System	-	-
Other	1,145,365	-
	<u>80,727,892</u>	<u>-</u>
Operating expenses:		
Power costs:		
Purchased power	51,206,521	85
Other	-	-
Transmission and distribution	7,261,255	958,044
Customer service and information	2,228,149	-
General and administrative	6,315,610	-
Telecommunications	-	-
Depreciation	5,016,267	-
	<u>72,027,802</u>	<u>958,129</u>
Total operating expenses		
	<u>72,027,802</u>	<u>958,129</u>
Operating income (loss)	<u>8,700,090</u>	<u>(958,129)</u>
Nonoperating revenues (expenses):		
Interest and debt expense	(492,647)	-
Interest income on investments	1,957,713	3,279
Interest income on Elmer Smith Station investments allocated to:		
Electric System	378,709	-
Other, net	817,042	-
Net increase (decrease) in fair value of investments	(1,467,803)	-
Deferred net change in fair value of investments	1,467,803	-
	<u>2,660,817</u>	<u>3,279</u>
Total nonoperating revenues (expenses)		
	<u>2,660,817</u>	<u>3,279</u>
Income before transfers	11,360,907	(954,850)
Transfers out - dividends to City of Owensboro	(10,423,730)	-
Change in net position	<u>\$ 937,177</u>	<u>\$ (954,850)</u>

Elmer Smith Station	Telecommunications	Eliminations	Total	2022 Total
\$ -	\$ 2,539,571	\$ -	\$ 29,682,382	\$ 30,990,881
-	1,533,469	-	7,983,810	8,406,969
-	-	-	42,093,880	46,093,185
-	20,567	-	980,048	1,010,368
-	78,995	-	3,015,009	3,141,137
15,417,833	124,420	(15,542,253)	-	-
-	-	(21,412)	1,123,953	1,338,428
<u>15,417,833</u>	<u>4,297,022</u>	<u>(15,563,665)</u>	<u>84,879,082</u>	<u>90,980,968</u>
231,078	-	(15,417,833)	36,019,851	37,960,626
1,690,841	-	-	1,690,841	1,178,070
-	-	111,847	8,331,146	10,714,238
-	137,099	-	2,365,248	2,379,672
18,615	586,771	(31,713)	6,889,283	6,487,123
-	1,629,197	(225,966)	1,403,231	1,275,660
12,288,482	1,216,874	-	18,521,623	17,544,121
<u>14,229,016</u>	<u>3,569,941</u>	<u>(15,563,665)</u>	<u>75,221,223</u>	<u>77,539,510</u>
<u>1,188,817</u>	<u>727,081</u>	<u>-</u>	<u>9,657,859</u>	<u>13,441,458</u>
(1,340,324)	(368,454)	151,677	(2,049,748)	(2,788,754)
520,899	136,633	(151,677)	2,466,847	993,146
(378,709)	-	-	-	-
-	-	-	817,042	151,269
9,317	-	-	9,317	4,800
(327,433)	-	-	(1,795,236)	(4,713,145)
327,433	-	-	1,795,236	4,713,145
<u>(1,188,817)</u>	<u>(231,821)</u>	<u>-</u>	<u>1,243,458</u>	<u>(1,639,539)</u>
-	495,260	-	10,901,317	11,801,919
-	(78,995)	-	(10,502,725)	(10,293,670)
<u>\$ -</u>	<u>\$ 416,265</u>	<u>\$ -</u>	<u>\$ 398,592</u>	<u>\$ 1,508,249</u>



INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

City Utility Commission
City of Owensboro, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Owensboro Municipal Utilities Electric Light and Power System (Electric System) of the City of Owensboro, Kentucky as of and for the year ended May 31, 2023, and the related notes to the financial statements, and have issued our report thereon dated August 31, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Electric System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Electric System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Electric System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Electric System’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Owensboro, Kentucky
September 14, 2023

A handwritten signature in black ink that reads "Ringham CPAs PC". The signature is written in a cursive style.



Riney Hancock CPAs
PSC
INDEPENDENT AUDITOR'S REPORT

City Utility Commission
City of Owensboro, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Owensboro Municipal Utilities Water Works System (Water System), a component unit of the City of Owensboro, Kentucky, as of and for the years ended May 31, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Owensboro Municipal Utilities Water Works System of the City of Owensboro, Kentucky, as of May 31, 2023 and 2022, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Water System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Water System’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements, Continued

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Water System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 41 through 44 and the Pension and Other Postemployment Benefits (OPEB) Schedules on pages 69 through 73, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2023, on our consideration of Water System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Water System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Water System's internal control over financial reporting and compliance.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Owensboro Municipal Utilities Water Works System (Water System) financial performance provides an overview of the Water System's financial activities for the fiscal year ended May 31, 2023. Please read it in conjunction with the Water System's financial statements, which begin on page 45.

Overview of the Financial Statements

This annual report consists of two parts: Management's Discussion and Analysis and the Financial Statements.

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements. The MD&A represents management's examination and analysis of the Water System's financial condition and performance.

The financial statements report information using accounting methods similar to those used by private sector companies. The financial statements include a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Fund Net Position; a Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position presents the financial position of the Water System and thus provides information about the nature and amount of resources and obligations at year-end.

The Statement of Revenues, Expenses, and Changes in Net Position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow.

The Statement of Cash Flows presents changes in cash and cash equivalents resulting from operational, financing and investing activities. This statement presents cash receipts and cash disbursements information, without consideration of the earnings event or when an obligation arises.

The Notes to the Financial Statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Water System's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Financial Summary

The following table summarizes the financial condition and operations of the Water System for 2023 and 2022.

Assets and Deferred Outflows of Resources	<u>2023</u>	<u>2022</u>
Utility plant, net	\$ 89,495,928	\$ 91,218,889
Restricted assets	9,666,835	11,089,035
Current assets	8,991,004	9,110,066
Other noncurrent assets	1,061,499	1,185,108
Deferred outflow of resources	<u>14,391,106</u>	<u>14,872,713</u>
	<u>\$ 123,606,372</u>	<u>\$ 127,475,811</u>
Liabilities, Deferred Inflows of Resources, and Net Position		
Net position		
Net investment in capital assets	\$ 18,614,388	\$ 20,052,748
Restricted	5,243,740	4,371,609
Unrestricted	<u>8,664,571</u>	<u>8,478,658</u>
Total net position	32,522,699	32,903,015
Long-term debt	75,330,913	77,146,489
Current liabilities	2,928,612	3,838,487
Other noncurrent liabilities	9,828,252	10,039,745
Deferred inflows of resources	<u>2,995,896</u>	<u>3,548,075</u>
	<u>\$ 123,606,372</u>	<u>\$ 127,475,811</u>
Revenues, Expenses and Changes in Net Position		
Operating revenues	\$ 15,608,257	\$ 15,495,549
Operating expenses	<u>13,274,020</u>	<u>12,718,408</u>
Operating income	<u>2,334,237</u>	<u>2,777,141</u>
Interest expense	(2,956,492)	(3,018,779)
Interest and other income	<u>537,644</u>	<u>277,023</u>
Net nonoperating expenses	<u>(2,418,848)</u>	<u>(2,741,756)</u>
Income (loss) before contributions and transfers	(84,611)	35,385
Capital contributions	-	23,010
Transfers out - dividends to City of Owensboro	<u>(295,705)</u>	<u>(277,042)</u>
Change in net position	<u>\$ (380,316)</u>	<u>\$ (218,647)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

FINANCIAL HIGHLIGHTS

- Net position decreased \$380,316 in 2023, and the income before contributions and transfers was (\$84,611) in 2023 versus \$35,385 in 2022, as a result of changes in operating revenues, operating expenses and interest as discussed below.
- Operating revenues increased by \$112,708 or 0.7% in 2023 when compared to 2022. The increase in revenues in 2023 is primarily attributable to an increase in Wholesale revenues of \$180,512 or 4.7% and retail commercial revenue of \$69,182 or 1.4%.
- Operating expenses increased \$555,612 or 4.4% in 2023 when compared to 2022. Production and purification expenses increased \$103,372 or 2.1% due to increased water treatment chemicals for disinfection and softening expenses to meet the increased demand in production. Transmission and distribution expenses increased \$61,906 or 3.7% due to increased maintenance costs. Depreciation increased \$213,059 or 5.2% due to additions described below. General and administrative expenses increased \$163,346 or 11.2% due to increased costs in outside services, maintenance and various other costs.
- Interest expense decreased by \$62,287 in 2023, or 2.1%, due primarily to a decrease in the principal balance of bonds outstanding that were issued for expansion of the Cavin Plant. Interest income increased \$282,340, or 174.1%, primarily due to the Federal Reserve increasing interest rates.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2023, the Water System had \$89.5 million invested in a broad range of assets, including wells, treatment facilities and equipment, storage tanks, buildings and water mains. This amount represents a decrease of \$1.7 million from 2022 due to an increase in depreciation from the capitalization of the Cavin Plant. The following table summarizes capital assets, net of accumulated depreciation, at the end of 2023 and 2022.

	<u>2023</u>	<u>2022</u>
Source of supply plant	\$ 3,044,681	\$ 2,166,086
Pumping plant	1,264,538	1,315,064
Water treatment plant	56,433,514	54,868,384
Transmission and distribution plant	22,672,819	23,087,187
General plant	2,074,121	1,834,544
Unclassified plant and construction in progress	<u>4,006,255</u>	<u>7,947,624</u>
	<u>\$ 89,495,928</u>	<u>\$ 91,218,889</u>

The Water system capital asset additions are primarily related to routine additions and replacement of distribution and treatment plants.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Debt

At the end of 2023, the Water System had \$75.8 million in bonds outstanding versus \$77.5 million in 2022, for a decrease of \$1.7 million, or 2.2%. As there was no new debt issued during 2023, this decrease is due to scheduled bond payments. The Water System bonds carry a rating of "A1" (upper medium grade) as assigned by Moody's Investors Services, Inc.

Outlook

We expect the 2024 results to be comparable to 2023. The Water System was awarded grants that will be used for projects in 2024. The Water System is expected to receive \$2.5 million from the Cleaner Water Program funded by the American Rescue Act and administered by the Kentucky Infrastructure Authority. These monies will be used to address issues with the Hillcrest water tower. The Water System is also expected to receive \$297,000 from the Kentucky Infrastructure Authority for the replacement of four water mains as well as \$590,000 from Daviess County for well construction and water main replacements.

(This page intentionally left blank.)

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

STATEMENT OF NET POSITION

May 31, 2023 and 2022

**ASSETS AND DEFERRED OUTFLOWS OF
RESOURCES**

	<u>2023</u>	<u>2022</u>
Utility plant, net	\$ <u>89,495,928</u>	\$ <u>91,218,889</u>
Restricted assets	<u>9,666,835</u>	<u>11,089,035</u>
Current assets:		
Cash and cash equivalents	4,513,203	4,606,214
Accounts receivable, less allowance for doubtful accounts of \$5,830 for 2023 and \$3,600 for 2022	2,946,535	3,258,123
Materials and supplies inventories	1,531,266	1,242,612
Prepayments	<u>-</u>	<u>3,117</u>
Total current assets	<u>8,991,004</u>	<u>9,110,066</u>
Other noncurrent assets	<u>1,061,499</u>	<u>1,185,108</u>
Total assets	<u>109,215,266</u>	<u>112,603,098</u>
Deferred outflows of resources:		
Deferred outflow regulatory asset - decommissioning	277,332	133,097
Deferred pension outflow	1,109,458	973,102
Deferred other postemployment benefit outflows	767,438	1,199,001
Deferred pension obligation	8,201,444	8,839,657
Deferred postemployment benefit obligation	2,735,259	2,538,796
Unamortized loss on debt refunding	624,646	680,951
Net unrealized loss on investments	<u>675,529</u>	<u>508,109</u>
Total deferred outflows of resources	<u>14,391,106</u>	<u>14,872,713</u>
Total assets and deferred outflows of resources	\$ <u>123,606,372</u>	\$ <u>127,475,811</u>

See Notes to Financial Statements

**LIABILITIES, DEFERRED INFLOWS OF
RESOURCES, AND NET POSITION**

	<u>2023</u>	<u>2022</u>
Net position:		
Net investment in capital assets	\$ 18,614,388	\$ 20,052,748
Restricted for capital projects, net of related debt	3,357,183	2,387,217
Restricted for debt service	1,886,557	1,984,392
Unrestricted	<u>8,664,571</u>	<u>8,478,658</u>
Total net position	<u>32,522,699</u>	<u>32,903,015</u>
Long-term debt	<u>75,330,913</u>	<u>77,146,489</u>
Current liabilities (payable from restricted assets):		
Current maturities of long-term debt	1,760,000	1,690,000
Accrued interest payable	599,036	610,672
Accounts payable	<u>54,570</u>	<u>821,743</u>
	<u>2,413,606</u>	<u>3,122,415</u>
Current liabilities (payable from current assets):		
Accounts payable	<u>515,006</u>	<u>716,072</u>
Total current liabilities	<u>2,928,612</u>	<u>3,838,487</u>
Other noncurrent liabilities:		
Net pension liability	7,712,455	7,693,040
Net other postemployment benefit liability	2,105,247	2,309,441
Customers' advances for construction	-	1,041
Accrued Tier 1 and 2 Retiree Sick Leave	<u>10,550</u>	<u>36,223</u>
Total other noncurrent liabilities	<u>9,828,252</u>	<u>10,039,745</u>
Total liabilities	<u>88,087,777</u>	<u>91,024,721</u>
Deferred inflows of resources:		
Deferred pension inflows	1,598,447	2,119,719
Deferred other postemployment benefit inflows	<u>1,397,449</u>	<u>1,428,356</u>
	<u>2,995,896</u>	<u>3,548,075</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 123,606,372</u>	<u>\$ 127,475,811</u>

See Notes to Financial Statements

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended May 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating revenues:		
Charges for services:		
Residential	\$ 5,529,064	\$ 5,577,279
Commercial	5,033,250	4,964,068
Water districts	4,040,150	3,859,638
Fire protection	367,775	367,068
City of Owensboro	299,959	277,036
Electric Light and Power System	25,261	45,304
Service revenues	<u>312,798</u>	<u>405,156</u>
Total operating revenues	<u>15,608,257</u>	<u>15,495,549</u>
Operating expenses:		
Production and purification	4,950,130	4,846,758
Transmission and distribution	1,749,683	1,687,777
Customer service and information	651,341	637,412
General and administrative	1,622,887	1,459,541
Depreciation	<u>4,299,979</u>	<u>4,086,920</u>
Total operating expenses	<u>13,274,020</u>	<u>12,718,408</u>
Operating income	<u>2,334,237</u>	<u>2,777,141</u>
Nonoperating revenues (expenses):		
Interest and debt expense	(2,956,492)	(3,018,779)
Interest income on investments	444,485	162,145
Gain on sale of utility plant	93,159	114,878
Net increase (decrease) in fair value of investments	(167,420)	(446,575)
Deferred net change in fair value of investments	<u>167,420</u>	<u>446,575</u>
Total nonoperating revenues (expenses)	<u>(2,418,848)</u>	<u>(2,741,756)</u>
Income before contributions and transfers	(84,611)	35,385
Capital contributions	-	23,010
Transfers out - dividends to City of Owensboro	<u>(295,705)</u>	<u>(277,042)</u>
Change in net position	<u>(380,316)</u>	<u>(218,647)</u>
Net position, beginning of year	<u>32,903,015</u>	<u>33,121,662</u>
Net position, end of year	<u>\$ 32,522,699</u>	<u>\$ 32,903,015</u>

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

STATEMENTS OF CASH FLOWS

Years Ended May 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Receipts from customers	\$ 15,902,251	\$ 15,348,216
Payments to suppliers	(5,916,846)	(5,555,449)
Payments to employees	<u>(3,498,916)</u>	<u>(3,504,674)</u>
Net cash provided by operating activities	<u>6,486,489</u>	<u>6,288,093</u>
Cash flows from noncapital financing activities:		
Transfers out - dividends to City of Owensboro	<u>(290,679)</u>	<u>(277,452)</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(3,480,417)	(3,769,460)
Payments on long-term debt	(1,690,000)	(1,620,000)
Interest paid on long-term debt	(2,909,787)	(2,976,672)
Reimbursements of customers' advances	<u>(1,041)</u>	<u>(1,981)</u>
Net cash used in capital and related financing activities	<u>(8,081,245)</u>	<u>(8,368,113)</u>
Cash flows from investing activities:		
Purchase of investments	(250,000)	(1,200,000)
Proceeds from sale and maturities of investments	-	1,528,000
Interest on investments	<u>532,618</u>	<u>281,992</u>
Net cash provided by investing activities	<u>282,618</u>	<u>609,992</u>
Net decrease in cash and cash equivalents	(1,602,817)	(1,747,480)
Cash and cash equivalents, beginning of year	<u>11,584,976</u>	<u>13,332,456</u>
Cash and cash equivalents, end of year	<u>\$ 9,982,159</u>	<u>\$ 11,584,976</u>
Included in the following Statements of Net Position captions:		
Cash and cash equivalents, unrestricted	\$ 4,513,203	\$ 4,606,214
Cash and cash equivalents, restricted	<u>5,468,956</u>	<u>6,978,762</u>
	<u>\$ 9,982,159</u>	<u>\$ 11,584,976</u>

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

STATEMENTS OF CASH FLOWS, Concluded

Years Ended May 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,334,237	2,777,141
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,399,979	4,186,920
Change in assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	311,588	(128,960)
Materials and supplies	(288,654)	(571,565)
Prepayments	3,117	48,933
Other noncurrent assets	(78,235)	(127,725)
Increase (decrease) in liabilities:		
Accounts payable	<u>(195,543)</u>	<u>103,349</u>
Net cash provided by operating activities	<u>\$ 6,486,489</u>	<u>\$ 6,288,093</u>
Noncash investing, capital and financing activities:		
Unrefunded customers' advances credited to contributions in aid of construction	<u>\$ -</u>	<u>\$ 23,010</u>
Amortization of debt discount and expense and deferred loss on debt defeasance	<u>\$ 58,339</u>	<u>\$ 58,339</u>

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

1. Organization and Summary of Significant Accounting Policies

General Information

In 1940, the City of Owensboro, Kentucky (the City), established the City Utility Commission to manage, control, and operate Owensboro Municipal Utilities (OMU). City officials appoint the five individuals who comprise the City Utility Commission. OMU consists of the Electric Light and Power System (Electric System) and the Water Works System (Water System), which are component units of the City. Accordingly, the Electric System and the Water System are part of the financial reporting entity of the City. The accompanying financial statements present only the Water System and are not intended to present fairly the financial position of the City and changes in its financial position or, where applicable, its cash flows, in conformity with accounting principles generally accepted in the United States of America. The Water System is subject to regulation, including approval of rates charged for utility services, by the City, as set forth in the applicable city ordinances.

The Water System provides water to approximately 24,000 residential, commercial and industrial customers in Owensboro, Kentucky. The Water System also furnishes water to three rural water districts in Daviess County, Kentucky, under wholesale supply agreements.

System of Accounts and Basis of Accounting

The Water System's accounts are maintained substantially in accordance with the Uniform System of Accounts for water companies developed by the National Association of Regulatory Utility Commissioners and in conformity with accounting principles generally accepted in the United States of America using the economic resources measurement focus and the accrual basis of accounting.

The financial statements are prepared in accordance with generally accepted accounting principles and follow accounting guidance provided by the Governmental Accounting Standards Board (GASB) in the regulated operations provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which permit certain entities with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in future rates charged to its customers. Regulatory assets are the deferral of costs expected to be recovered in future customer rates and regulatory liabilities represent current recovery of expected future costs.

The Water System considers water revenues and costs that are directly related to production, purification, transmission, and distribution of water to be operating revenues and expenses.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

1. Organization and Summary of Significant Accounting Policies, Continued

System of Accounts and Basis of Accounting, Continued

Revenues and expenses related to financing and other activities are reflected as nonoperating. The Water System accrues revenues as services are rendered to utility customers.

Utility Plant and Depreciation

Utility plant is stated at original cost, which includes the cost of contracted services, materials, labor, labor-related expenditures, general and administrative costs and an allowance for borrowed funds used during construction.

Replacements of depreciable property units, except minor replacements, are charged to utility plant. In addition, the costs of refurbishments of water tanks are charged to utility plant. Property units replaced or retired, including cost of removal net of any salvage, are charged to accumulated depreciation. Routine maintenance, repairs and minor replacement costs are charged to expense as incurred.

Allowance for borrowed funds used during construction includes capitalized interest during the construction period less any interest income on construction fund investments from bond proceeds during such period. Capitalization of interest is discontinued when the project is completed and the related utility plant is placed in service.

Depreciation of utility plant and unclassified plant in service is provided using the straight-line composite rate method over the estimated service lives of the depreciable assets. Estimated service lives of assets range from 5 to 80 years. Depreciation expense during 2023 and 2022 was approximately 3.1% and 3.6%, respectively, of the average original cost of depreciable utility plant in service.

Restricted Assets

The City ordinances that authorized the Water Revenue Bonds require that certain amounts from bond proceeds and payments by customers for services provided be deposited into designated funds and be used only for the specified purposes of the funds. The Water System's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Cash and Investments

Cash deposits are reported at carrying amounts. The Water System categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. U.S. agency securities are stated at fair values based upon externally developed models that use rates and prices of similar securities.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

1. Organization and Summary of Significant Accounting Policies, Continued

Cash and Investments, Continued

The Water System considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Unrestricted investments with initial maturities exceeding three months, consisting of U.S. agency securities, are classified as temporary investments.

Inventories

Inventories consisting of materials and supplies are valued at the lower of weighted average cost or net realizable value.

Bond Issuance Costs

Premiums and discounts arising from various bond issues are deferred and amortized using the straight-line method over the lives of the bond issues.

The Water System's rate making methodology allows for future recovery of debt costs, including bond issuance costs, in its rate making process. Accordingly, under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, debt issuance costs are deferred and amortized using the straight-line method over the lives of the bond issues.

The difference between the reacquisition price and the net carrying amount of defeased bond issues has been deferred and is being amortized using the straight-line method over the lives of the refunding bond issues.

Pension and Other Postemployment Benefits

For purposes of measuring the net liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits (OPEB), information about the fiduciary net position of the pension/OPEB plans, and additions to/deductions from the pension/OPEB plans' fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plans. For this purpose, revenues are recognized when earned. Contributions are recognized when due, pursuant to legal (or statutory) requirements. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

1. Organization and Summary of Significant Accounting Policies, Continued

Pension and Other Postemployment Benefits, Continued

The Water System's rate making methodology allows for future recovery of certain pension and other postemployment benefit costs in its rate making process. Accordingly, under GASBS No. 62, pension and other postemployment benefit costs in excess of required contributions are deferred.

Customers' Advances for Construction

Customers' advances for construction are refundable to depositors over a 10-year period. Refund amounts under the contracts are based on annual revenues from the extensions. Unrefunded balances at the end of the contract period are credited to contributions in aid of construction and are no longer refundable.

Contributed Property and Equipment

The donor cost or appraised value of contributed property and equipment is included in contributions.

Income Taxes

The Water System is exempt from federal and state income taxes and, accordingly, the financial statements include no provision for such taxes.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

1. Organization and Summary of Significant Accounting Policies, Continued

Change in Accounting Principles

In 2022, the Water System adopted the provisions of GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB AICPA Pronouncements, (GASB 62) as it relates to decommissioning expenses of Plant A. These expenses are not legally enforceable by the EPA or required by the City of Owensboro and there are no contracts that have been awarded and signed for the decommissioning. Therefore, OMU is applying the provisions of GASB Statement No. 62 to defer these expenses and recognize them over a ten-year period. Accordingly, \$25,388 and \$11,277 was included in maintenance expense in 2023 and 2022, respectively.

2. Utility Plant

Water utility plant activity for the year ended May 31, 2023, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Utility plant:				
Source of supply plant	\$ 5,552,153	\$ 1,086,805	\$ -	\$ 6,638,958
Pumping plant	2,015,652	-	-	2,015,652
Water treatment plant	75,676,426	3,258,335	-	78,934,761
Transmission and distribution plant	48,847,720	1,741,439	(161,060)	50,428,099
General plant	5,982,563	558,903	(182,982)	6,358,484
Unclassified plant in service	124,555	745,336	-	869,891
Total, at original cost	<u>138,199,069</u>	<u>7,390,818</u>	<u>(344,042)</u>	<u>145,245,845</u>
Accumulated depreciation:				
Source of supply plant	(3,386,067)	(208,210)	-	(3,594,277)
Pumping plant	(700,588)	(50,526)	-	(751,114)
Water treatment plant	(20,808,042)	(1,693,205)	-	(22,501,247)
Transmission and distribution plant	(25,760,533)	(2,155,807)	161,060	(27,755,280)
General plant	(4,148,020)	(292,231)	155,888	(4,284,363)
Total accumulated depreciation	<u>(54,803,250)</u>	<u>(4,399,979)</u>	<u>316,948</u>	<u>(58,886,281)</u>
Construction in progress	<u>7,823,070</u>	<u>(4,686,706)</u>	<u>-</u>	<u>3,136,364</u>
Utility plant, net	<u>\$ 91,218,889</u>	<u>\$ (1,695,867)</u>	<u>\$ (27,094)</u>	<u>\$ 89,495,928</u>

Depreciation expense for the years ended May 31 was as follows:

	<u>2023</u>	<u>2022</u>
Water utility plant	\$ 4,299,979	\$ 4,086,920
Transportation depreciation charged to construction activities or other operating expenses	<u>100,000</u>	<u>100,000</u>
	<u>\$ 4,399,979</u>	<u>\$ 4,186,920</u>

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

3. Restricted Assets

Restricted assets at May 31 consists of the following:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 5,468,956	\$ 6,978,762
Investments	4,174,471	4,091,891
Accrued interest receivable	<u>23,408</u>	<u>18,382</u>
	<u>\$ 9,666,835</u>	<u>\$ 11,089,035</u>

The above balances are contained in the following funds:

	<u>2023</u>	<u>2022</u>
Sinking Fund	\$ 6,360,573	\$ 6,370,282
Renewal and Replacement Fund	524,120	178,800
Construction Fund	<u>2,782,142</u>	<u>4,539,953</u>
	<u>\$ 9,666,835</u>	<u>\$ 11,089,035</u>

Under the terms of the Water Revenue Bond ordinances, interest income from the temporary investment of the Water System's restricted assets must be credited to the various restricted asset funds. In addition, whenever all specified and required payments and transfers into the restricted asset funds have been made as provided in the Water Revenue Bond ordinances and there is a balance in excess of the estimated amounts required to pay current month operation and maintenance costs (approximately \$932,378 at May 31, 2023), all or any part of such excess may be used for any lawful purpose related to the Water System.

The Water System follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools* (GASBS No. 31), which requires certain investments to be carried at fair value in the statements of net position and changes in the fair value of investments to be reported in the statements of revenues, expenses and changes in net assets. In accordance with GASBS No. 31, the Water System recorded unrealized gains (losses) of (\$167,420) and (\$446,575) for the years ended May 31, 2023 and 2022, respectively. The Water System's rate making methodology does not consider unrealized gains or losses on marketable securities in its rate making process. Accordingly, under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, as it relates to rate-regulated entities, the unrealized gains (losses) for the years ended May 31, 2023 and 2022, have been deferred.

The net increase (decrease) in the fair value of investments as of May 31 was:

	<u>2023</u>	<u>2022</u>
Net unrealized gain (loss) on investments	\$ <u>(675,529)</u>	\$ <u>(508,109)</u>

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

3. Restricted Assets, Continued

The calculation of realized gains or losses on sales of investments is independent of the calculation of the net change in the fair value of investments. Realized gains or losses on investments that were held in more than one fiscal year and sold in the current year were included as a net change in the fair value of investments reported in prior years and the current year.

4. Cash Deposits and Investments

At May 31, the carrying amounts of the Water System's deposits in financial institutions and investments other than deposits were:

	<u>2023</u>	<u>2022</u>
Deposits in financial institutions	\$ 9,982,159	\$ 11,584,976
Investments other than deposits	<u>4,174,471</u>	<u>4,091,891</u>
	<u>\$ 14,156,630</u>	<u>\$ 15,676,867</u>

These amounts are reflected in the statements of net position as:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 4,513,203	\$ 4,606,214
Investments	-	-
Restricted assets:		
Cash and cash equivalents	5,468,956	6,978,762
Investments	<u>4,174,471</u>	<u>4,091,891</u>
	<u>\$ 14,156,630</u>	<u>\$ 15,676,867</u>

Deposit and Investment Policy. The Water System's deposit and investment policy prescribes to the prudent-person rule: Investments shall be made with applicable law and under prevailing circumstances which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a bank failure, the Water System's deposits may not be returned to it. The Water System's deposit and investment policy permits uncollateralized deposits only if issued by institutions ranked in one of the three highest categories by a nationally recognized rating agency. As of May 31, 2023, \$9,940,116 of the Water System's bank balance of \$9,982,559 was exposed to custodial credit risk as follows:

Uninsured with collateral held by pledging bank's agent	\$ <u>9,940,116</u>
---	---------------------

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

4. Cash Deposits and Investments, Continued

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Water System's Investments consist of U.S. treasury and agency securities and negotiable certificates of deposit, which utilize Level 2 inputs for fair value measurements. Fair value is based upon externally developed models that use rates and prices of similar securities, due to the limited market activity of the securities.

As of May 31, 2023, the Water System had the following investments:

<u>Investments</u>	<u>Maturities</u>		
Federal Home Loan Bank – Callable	07/28/2025		
	thru		
	02/25/2031	\$	3,360,419
Federal Farm Credit Bank - Callable	06/03/2030		<u>814,052</u>
		\$	<u>4,174,471</u>

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Water Works System's deposit and investment policy limits investment maturities based upon provisions of bond ordinances.

Credit Risk. The Water System's deposit and investment policy authorizes the investment of funds in any manner permitted by bond ordinances and the Kentucky Revised Statutes and does not further limit its investment choices.

Concentration of Credit Risk. Other than the prudent-person rule, the Water System's deposit and investment policy places no limit on the amount the Water System may invest in any one issuer. The Water System's investments, other than deposits, consist of U.S. government agencies at May 31, 2023.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

5. Long-Term Debt

Long-term debt activity for the year ended May 31, 2023, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds payable:					
Series of 2014	\$ 6,305,000	\$ -	\$ (325,000)	\$ 5,980,000	\$ 335,000
Series of 2015	5,185,000	-	(35,000)	5,150,000	40,000
Series of 2016	5,685,000	-	(255,000)	5,430,000	260,000
Series of 2018	<u>60,270,000</u>	-	<u>(1,075,000)</u>	<u>59,195,000</u>	<u>1,125,000</u>
	77,445,000	-	(1,690,000)	75,755,000	1,760,000
Add unamortized debt premium	<u>1,391,489</u>	-	<u>(55,576)</u>	<u>1,335,913</u>	-
Total bonds payable	<u>\$ 78,836,489</u>	<u>\$ -</u>	<u>\$ (1,745,576)</u>	<u>\$ 77,090,913</u>	<u>\$ 1,760,000</u>

Long-term debt at May 31 consists of the following Water Revenue Bonds:

	<u>2023</u>	<u>2022</u>
Series of 2014: 1.75% to 3.9%, due serially September 15, 2023 to 2038	\$ 5,980,000	\$ 6,305,000
Series of 2015: 3.0% to 4.0%, due serially September 15, 2023 to 2041	5,150,000	5,185,000
Series of 2016: 2.0% to 3.0%, due serially September 15, 2023 to 2035	5,430,000	5,685,000
Series of 2018: 3.0% to 5.0%, due serially September 15, 2023 to 2048	<u>59,195,000</u>	<u>60,270,000</u>
Total long-term debt	75,755,000	77,445,000
Less current maturities	(1,760,000)	(1,690,000)
Add unamortized debt premium	<u>1,335,913</u>	<u>1,391,489</u>
	<u>\$ 75,330,913</u>	<u>\$ 77,146,489</u>

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

5. Long-Term Debt, Continued

Sinking fund requirements and scheduled aggregate maturities of long-term debt are as follows:

<u>Year Ending May 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	1,760,000	2,839,020	4,599,020
2025	1,840,000	2,760,820	4,600,820
2026	1,920,000	2,676,954	4,596,954
2027	2,010,000	2,590,599	4,600,599
2028	2,080,000	2,516,540	4,596,540
2029 – 2033	11,440,000	11,550,510	22,990,510
2034 – 2038	13,640,000	9,345,365	22,985,365
2039 – 2043	16,515,000	6,466,991	22,981,991
2044 – 2048	20,040,000	2,964,375	23,004,375
2049	4,510,000	90,200	4,600,200
	<u>\$ 75,755,000</u>	<u>\$ 43,801,374</u>	<u>\$ 119,556,374</u>

The Water System is subject to certain debt covenants, compliance with which is required by the ordinances authorizing its bond issues. Such ordinances require revenue to be first applied to the Sinking Fund, next to the Operations and Maintenance Fund, and, finally, to the Renewal and Replacement Fund.

On June 12, 2014, the City issued \$9,730,000 of Water Revenue Refunding and Improvement Bonds, Series 2014, dated July 31, 2014. The 2014 Bonds were issued to refund all 1999 and 2003 series bonds due after September 15, 2014, and to fund various capital improvement expenditures for the Water System. The in-substance defeasance of the 1999 and 2003 Bonds was accomplished by placing \$3,835,802 in proceeds from the 2014 Bonds and \$40,700 in funds from the 1999 and 2003 Bond Sinking Funds in an irrevocable escrow fund to be used solely for satisfying scheduled debt service payments of the 1999 and 2003 Bonds. Accordingly, 1999 and 2003 Bonds in the amount of \$1,305,000 and \$2,510,000, respectively, net of unamortized discount and issuance costs of \$60,176 and accrued interest payable of \$47,483, were extinguished resulting in the accounting recognition of a loss from defeasance of \$74,195, reported in the accompanying financial statements as a deferred outflow of resources. The City advance refunded the 1999 and 2003 bonds to reduce the effective rate on the debt. The advance refunding resulted in an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$252,617.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

5. Long-Term Debt, Continued

The Series 2014 Bonds maturing on and after September 15, 2023, are subject to redemption prior to maturity in whole or in part on September 15, 2022, and on any date thereafter, at the redemption price of 100% of the principal amount redeemed, plus accrued interest to the redemption date.

On December 16, 2015, the City issued \$5,385,000 of Water Revenue Improvement Bonds, Series 2015, dated December 1, 2015. The 2015 Bonds were issued to provide funds for the various capital improvement expenditures for the Water System and to fully fund the Bond Reserve Account. The Series 2015 Bonds maturing on and after September 15, 2024, are subject to redemption in whole or in part on September 15, 2023, and on any date thereafter, at the redemption price of 100% of the principal amount redeemed, plus accrued interest to the redemption date.

On June 8, 2016, the City issued \$6,590,000 of Water Revenue Refunding Bonds, Series 2016, dated June 8, 2016. The 2016 Bonds were issued to refund a portion of the outstanding Series 2009 Bonds. The in-substance defeasance of the 2009 Bonds was accomplished by placing \$6,417,071 in proceeds from the 2014 Bonds and \$104,023 in funds from the 2009 Bond Sinking Fund in an irrevocable escrow fund to be used solely for satisfying scheduled debt service payments of the 2009 Bonds. Accordingly, 2009 Bonds in the amount of \$5,895,000, net of unamortized discount and issuance costs of \$129,024 and accrued interest payable of \$69,133, were extinguished resulting in the accounting recognition of a loss from defeasance of \$685,985, reported in the accompanying financial statements as a deferred outflow of resources. The City advance refunded the 2009 bonds to reduce the effective rate on the debt. The advance refunding resulted in an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$771,709.

The Series 2016 Bonds maturing on and after September 15, 2025, are subject to redemption in whole or in part on September 15, 2024, and on any date thereafter, at the redemption price of 100% of the principal amount redeemed, plus accrued interest to the redemption date.

On September 27, 2018, the City issued \$63,190,000 of Water Revenue Refunding and Improvement Bonds, Series 2018, dated September 27, 2018. The 2018 Bonds were issued to refund all outstanding 2009 series bonds due after September 15, 2018, and to fund various capital improvement expenditures for the Water System, including expansion of the Cavin Water Treatment Plant to treat an additional 20 million gallons of water per day. The refunding of the 2009 Bonds was accomplished by placing \$12,811,686 in proceeds from the 2018 Bonds with a paying agent to be used solely for refunding the outstanding 2009 Bonds. Accordingly, 2009 Bonds in the amount of \$12,790,000, net of unamortized discount and issuance costs of \$255,218 and accrued interest payable of \$21,686, were extinguished resulting in the accounting recognition of a loss from defeasance of \$255,218, reported in the

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

5. Long-Term Debt, Continued

accompanying financial statements as a deferred outflow of resources. The City refunded the 2009 bonds to reduce the effective rate on the debt. The refunding resulted in an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$1,777,076.

The Series 2018 Bonds maturing on and after September 15, 2028, are subject to redemption prior to maturity in whole or in part on September 15, 2027, and on any date thereafter, at the redemption price of 100% of the principal amount redeemed, plus accrued interest to the redemption date.

All bonds are secured by a pledge of, and are payable from, the gross revenues derived from the operation of the Water System and are secured by the statutory mortgage lien as provided and authorized by the Kentucky Revised Statutes.

For all bonds, in the event of default, any Bondholder may proceed to protect and enforce its rights and the rights of the holders of the Bonds under the Ordinance forthwith by a suit or suits in equity or at law.

The difference between the reacquisition price and the net carrying amount of defeased bond issues has been deferred and is being amortized using the straight-line method over the lives of the defeased bond issues.

6. Pension and Other Postemployment Benefits – CERS

Plan Description

The Water System contributes to the Kentucky County Employees Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit pension/OPEB plan administered by the Kentucky Public Pensions Authority (KPPA) that covers members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. KPPA issues a publicly available financial report that can be obtained at www.kyret.ky.gov.

Benefits Provided

CERS provides for retirement, disability, and death benefits to system members through its Pension Fund, as well as other postemployment benefits (OPEB) for hospital and medical insurance through its Insurance Fund.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

6. Pension and Other Postemployment Benefits – CERS, Continued

Benefits Provided, Continued

Retirement benefits may be extended to beneficiaries of members under certain circumstances. Retirement benefits are determined using a formula which considers the member’s final compensation; benefit factors set by statute which vary depending upon the type/amount of service, participation date, and retirement date; and years of service as fully described in the plan documents.

Other postemployment benefits provided by CERS consist of prescribed contributions for whole or partial payments of required premiums to purchase hospital and medical insurance.

Contributions

State statute requires active members to contribute 5% of creditable compensation. For members participating on or after September 1, 2008, an additional 1% of creditable compensation is required. This amount is credited to the Insurance Fund and is non-refundable to the member. Employers contribute at the rate determined by the KPPA Board to be necessary for the actuarial soundness of the systems, as required by KRS 61.565 and KRS 61.752.

The Water System’s actuarially determined contribution rates and contribution amounts applicable to fiscal year 2023 were based on annual creditable compensation for the year ended May 31, 2022, were as follows:

	Contribution Rates	Contributions
Pension	23.40%	\$ 981,441
OPEB	3.39%	142,183
Total	26.79%	\$ 1,123,624

Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions and OPEB

The net pension and OPEB liabilities reported as of May 31, 2023, were measured as of June 30, 2022, and the total pension and OPEB liabilities used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021. The Water System’s proportion of the liabilities was based on a projection of the Water System’s long-term share of contributions to the plan relative to the projected contributions of all participating entities, actuarially determined. Changes in the Water System’s pension and OPEB proportions as of the measurement dates were as follows:

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

6. Pension and Other Postemployment Benefits – CERS, Continued

Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions and OPEB, Continued

	Pension	OPEB
June 30, 2021	0.120660%	0.120632%
Decrease	(0.013973)	(0.013957)
June 30, 2022	0.106687%	0.106675%

The Water System’s pension and OPEB liabilities and expense as of and for the year ended May 31, 2023, were as follows:

	Net Pension Liability	Net OPEB Liability
Proportionate Share	\$ <u>7,712,455</u>	\$ <u>2,105,247</u>
Pension/OPEB Expense	\$ <u>981,441</u>	\$ <u>142,183</u>

At May 31, 2023, the Water System reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,246	\$ 68,683	\$ 211,910	\$ 482,782
Changes of assumptions	-	-	332,960	274,357
Net difference between projected and actual earnings on plan investments	197,719	-	85,447	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	1,529,764	6,230	640,310
Contributions subsequent to the measurement date	903,493	-	130,891	-
Total	\$ 1,109,458	\$ 1,598,447	\$ 767,438	\$ 1,397,449

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

6. Pension and Other Postemployment Benefits – CERS, Continued

Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions and OPEB, Continued

The \$903,493 and \$130,891 of deferred outflows of resources resulting from the Water System’s pension and OPEB contributions subsequent to the measurement date will be recognized as a reduction of the net pension and OPEB liabilities in the year ending May 31, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension and OPEB expense as follows:

Year ending May 31,	Pension	OPEB
2024	\$ (1,037,364)	\$ (195,852)
2025	(509,400)	(203,441)
2026	(64,811)	(296,951)
2027	219,093	(64,658)
	\$ (1,392,482)	\$ (760,902)

Actuarial Assumptions

The total pension/OPEB liabilities in the June 30, 2021, actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Healthcare payroll growth rate	2.00%
Salary increases	3.30% to 10.30%, varies by service
Net investment rate of return	6.25%
Healthcare cost trend rates (OPEB)	Pre-65: Initial trend starting at 6.20% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. Post-65: Initial trend starting at 9.00% at January 1, 2024, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

Pension and OPEB: The mortality table used for active members was a Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

6. Pension and Other Postemployment Benefits – CERS, Continued

Actuarial Assumptions, Continued

system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth		
Public equity	50.00%	4.45%
Private equity	10.00	10.15%
	<u>60.00</u>	
Liquidity		
Core fixed income	10.00	0.28%
Specialty credit	10.00	2.28%
Cash	0.00	(0.91)%
	<u>20.00</u>	
Inflation protected		
Real estate	7.00	3.67%
Real return	13.00	4.07%
	<u>20.00</u>	
Total	<u>100.00%</u>	

Discount Rate

The discount rates used to measure the total pension/OPEB liabilities at the measurement dates and changes since the prior year were as follows:

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

6. Pension and Other Postemployment Benefits – CERS, Continued

Discount Rate, Continued

	Pension	OPEB
Discount rate, June 30, 2021	6.25%	5.20%
Increase (decrease)	-	.50
Discount rate, June 30, 2022	6.25%	5.70%

The discount rate of 6.25% used to measure the total pension liability was based on the expected rate of return on pension plan investments. The discount rate of 5.70% used to measure the total OPEB liability was based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.69% as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2022.

The projection of cash flows used to determine the pension discount rate assumed that the funds would receive the required employer contributions in each future year, as determined by the current funding policy established in Statute last amended by House Bill 362 (passed in 2018). The projection of cash flows used to determine the OPEB discount rate assumed that employers would contribute the actuarially determined contribution rate of projected compensation in accordance with the current funding policy.

Sensitivity of the Water System’s Proportionate Share of the Liabilities to Changes in the Discount Rate

The following presents the Water System’s proportionate share of the net pension/OPEB liabilities, as well as what the Water System’s proportionate share of the net pension/OPEB liabilities would be if they were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Water System’s Proportionate Share			
	Discount Rate	Net pension Liability	Discount Rate	Net OPEB Liability
1% decrease	5.25%	\$ 9,639,612	4.70%	\$ 2,814,380
Current discount rate	6.25%	\$ 7,712,455	5.70%	\$ 2,105,247
1% increase	7.25%	\$ 6,118,537	6.70%	\$ 1,519,031

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

6. Pension and Other Postemployment Benefits – CERS, Continued

Sensitivity of the Water System’s Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Water System’s proportionate share of the net OPEB liability, as well as what the Water System’s proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Healthcare Cost Trend Rates		Water System’s Proportionate Share of Net OPEB Liability
1% decrease	5.20% Pre-65 or 8.00% Post-65	\$	1,565,205
Current healthcare cost trend rates	6.20% Pre-65 or 9.00% Post-65	\$	2,105,247
1% increase	7.20% Pre-65 or 10.00% Post-65	\$	2,753,737

Plan Fiduciary Net Position

Detailed information about the CERS fiduciary net position is available in the separately issued KPPA Comprehensive Annual Financial Report.

Payables to the Pension/OPEB Plans

The Water System reported the following payables for the outstanding amount of pension/OPEB contributions due to CERS for the year ended May 31, 2023.

	Pension		OPEB
\$	77,833	\$	11,276

7. Dividends - City of Owensboro

The Water System transfers to the City each year a sum equal to the dollar value of services purchased by the City from the Water System.

8. Major Customers

Water revenues from three rural water district customers in Daviess County, Kentucky, under wholesale supply agreements totaled approximately \$4,040,000 and \$3,860,000 for 2023 and 2022, respectively.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2023 and 2022

9. Risk Management

OMU is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. OMU manages its risks through coverages provided by private insurance carriers for various risks of losses to which it is exposed, including directors and officers, employee dishonesty, workers' compensation, and other property risks. OMU is self-insured for group health and limits its risks of loss by purchasing reinsurance coverage.

**OWENSBORO MUNICIPAL UTILITIES
WATER SYSTEM**

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Last 10 Fiscal Years *

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Water System's proportion of the net pension liability	0.106688%	0.120660%	0.132245%	0.128660%	0.126208%	0.122463%	0.123810%	0.120923%	0.126427%
Water System's proportionate share of the net pension liability	\$ 7,712,455	\$ 7,693,040	\$ 10,143,064	\$ 9,048,688	\$ 7,686,431	\$ 7,168,159	\$ 6,095,910	\$ 5,199,116	\$ 4,101,776
Water System's covered payroll	\$ 4,500,545	\$ 4,127,221	\$ 3,721,734	\$ 3,491,495	\$ 3,316,556	\$ 2,923,793	\$ 2,869,077	\$ 2,803,919	\$ 2,920,692
Water System's proportionate share of the net pension liability as a percentage of its covered payroll	171.37%	186.40%	272.54%	259.16%	231.76%	245.17%	212.47%	185.42%	140.44%
Plan fiduciary net position as a percentage of the total pension liability	52.42%	57.33%	47.81%	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%

* Presented for those years for which the information is available.

OWENSBORO MUNICIPAL UTILITIES
WATER SYSTEM

SCHEDULE OF PENSION CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM

Last 10 Fiscal Years *

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 981,441	\$ 838,869	\$ 800,674	\$ 703,199	\$ 564,166	\$ 484,778	\$ 407,575	\$ 355,884	\$ 363,125
Contributions in relation to the contractually required contributions	(981,441)	(838,869)	(800,674)	(703,199)	(564,166)	(484,778)	(407,575)	(355,884)	(363,125)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Water System's covered payroll	\$ 4,192,281	\$ 3,965,269	\$ 4,150,073	\$ 3,673,597	\$ 3,507,140	\$ 3,355,482	\$ 2,941,934	\$ 2,815,932	\$ 2,838,215
Contributions as a percentage of covered payroll	23.41%	21.16%	19.29%	19.14%	16.09%	14.45%	13.85%	12.64%	12.79%

* Presented for those years for which the information is available.

**OWENSBORO MUNICIPAL UTILITIES
WATER SYSTEM**

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Last 10 Fiscal Years *

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Water System's proportion of the net OPEB liability	0.106675%	0.120632%	0.132206%	0.128660%	0.126208%	0.122463%	0.123810%
Water System's proportionate share of the net OPEB liability	\$ 2,105,247	\$ 2,309,441	\$ 3,192,384	\$ 2,163,488	\$ 2,240,753	\$ 2,461,933	\$ 1,908,895
Water System's covered payroll	\$ 4,500,545	\$ 4,127,221	\$ 3,721,734	\$ 3,491,495	\$ 3,316,556	\$ 2,923,793	\$ 2,869,077
Water System's proportionate share of the net OPEB liability as a percentage of its covered payroll	46.78%	55.96%	85.78%	61.96%	67.56%	84.20%	66.53%
Plan fiduciary net position as a percentage of the total OPEB liability	60.95%	62.91%	51.67%	60.44%	57.62%	52.39%	55.24%

* Presented for those years for which the information is available.

**OWENSBORO MUNICIPAL UTILITIES
WATER SYSTEM**

**SCHEDULE OF OPEB CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Last 10 Fiscal Years *

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 142,183	\$ 229,035	\$ 197,472	\$ 173,431	\$ 182,954	\$ 157,352	\$ 138,196	\$ 132,955	\$ 139,262
Contributions in relation to the contractually required contributions	(142,183)	(229,035)	(197,472)	(173,431)	(182,954)	(157,352)	(138,196)	(132,955)	(139,262)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Water System's covered payroll	\$ 4,192,281	\$ 3,965,269	\$ 4,150,073	\$ 3,673,597	\$ 3,507,140	\$ 3,355,482	\$ 2,941,934	\$ 2,815,932	\$ 2,838,215
Contributions as a percentage of covered payroll	3.39%	5.78%	4.76%	4.72%	5.22%	4.69%	4.70%	4.72%	4.91%

* Presented for those years for which the information is available

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
COUNTY EMPLOYEES RETIREMENT SYSTEM

Year Ended May 31, 2023

Changes of Benefit Terms

2023	None
2022	None
2021	None
2020	None
2019	None
2018	None
2017	None
2016	None

Changes of Assumptions

<u>2023</u>	OPEB:	The single discount rate changed from 5.20% to 5.70%.
<u>2022</u>	OPEB:	The single discount rate changed from 5.34% to 5.20%.
<u>2021</u>	OPEB:	The single discount rate changed from 5.68% to 5.34%.
<u>2020</u>	Pension and OPEB:	The salary increases assumption was changed from 3.05% to 3.30%-10.30%.
	OPEB:	The single discount rate changed from 5.85% to 5.68%.
<u>2019</u>	Pension and OPEB:	The salary increases assumption was changed from 2.00% to 3.05%.
	OPEB:	The single discount rate changed from 5.84% to 5.85%.
<u>2018</u>	Pension and OPEB:	The assumed investment return was changed from 7.50% to 6.25%.
		The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service.
		The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.
	OPEB:	The single discount rate changed from 6.89% to 5.84%.
<u>2017</u>	None	
<u>2016</u>	Pension:	The assumed investment rate of return was decreased from 7.75% to 7.50%.
		The assumed rate of inflation was reduced from 3.50% to 3.25%.
		The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
		Payroll growth assumption was reduced from 4.50% to 4.00%.
		The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.



**INDEPENDENT AUDITOR’S REPORT
ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

City Utility Commission
City of Owensboro, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Owensboro Municipal Utilities Water Works System (Water System) of the City of Owensboro, Kentucky as of and for the year ended May 31, 2023, and the related notes to the financial statements, and have issued our report thereon dated August 31, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Water System’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water System’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Water System’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Owensboro, Kentucky
September 14, 2023

Ring Daniel CPA PSC