

***OWENSBORO MUNICIPAL UTILITIES
ELECTRIC LIGHT AND POWER SYSTEM
&
WATER WORKS SYSTEM
FINANCIAL STATEMENTS
& SUPPLEMENTARY INFORMATION
Years Ended May 31, 2025 and 2024***

(With Independent Auditor's Report Thereon)

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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, 2025 and 2024, 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, 2025 and 2024, 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.

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

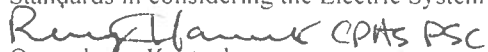
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 and the Pension and Other Postemployment Benefits (OPEB) Schedules on pages 30 through 34, be presented to supplement the financial statements. Such information 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 5, 2025, 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.


Owensboro, Kentucky
September 5, 2025

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, 2025. 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 on information using accounting methods like those used by private sector companies. The financial statements include a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in 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 the 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 2025 and 2024.

Assets and Deferred Outflows of Resources	<u>2025</u>	<u>2024</u>
Utility plant, net	\$ 99,875,379	\$ 109,189,104
Restricted assets	30,823,143	30,200,967
Current assets	75,638,160	74,975,326
Other noncurrent assets	3,076,879	5,013,262
Deferred outflows of resources	<u>42,023,954</u>	<u>54,915,639</u>
	<u>\$ 251,437,515</u>	<u>\$ 274,294,298</u>
Liabilities, Deferred Inflows of Resources, and Net Position		
Net position		
Net investment in capital assets	\$ 66,380,791	\$ 56,913,918
Restricted	24,416,293	24,597,155
Unrestricted	<u>65,479,784</u>	<u>70,386,938</u>
Total net position	156,276,868	151,898,011
Long-term debt	24,553,795	43,174,434
Current liabilities	34,861,009	34,280,940
Other noncurrent liabilities	22,061,716	25,611,281
Deferred revenues	2,686,918	4,001,760
Deferred inflows of resources	<u>10,997,209</u>	<u>15,327,872</u>
	<u>\$ 251,437,515</u>	<u>\$ 274,294,298</u>
Revenues, Expenses and Changes in Net Position		
Operating revenues	\$ 91,980,485	\$ 89,732,789
Operating expenses	<u>79,254,762</u>	<u>76,606,082</u>
Operating income	<u>12,725,723</u>	<u>13,126,707</u>
Interest, debt expense and defeasance	(766,369)	(1,435,355)
Interest and other income	<u>3,568,940</u>	<u>4,358,586</u>
Net nonoperating revenues	<u>2,802,571</u>	<u>2,923,231</u>
Income before transfers	15,528,294	16,049,938
Transfers out - dividends to City of Owensboro	<u>(11,149,437)</u>	<u>(10,819,878)</u>
Change in net position	<u>\$ 4,378,857</u>	<u>\$ 5,230,060</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

FINANCIAL HIGHLIGHTS

- Total net position increased \$4.4 million in 2025, or 2.9%, versus an increase of \$5.2 million in 2024 as the result of changes in operating revenues, operating expenses, nonoperating revenues/expenses and transfers as discussed below.
- Operating revenues increased \$2.2 million, or 2.5%, in 2025 when compared to 2024. The increase in 2025 is primarily related to an increase in residential revenue of \$1.5 million or 5.0%, commercial revenue of \$.4 million or 5.3%, and City of Owensboro and schools revenue of \$0.3 million or 8.0%. The increase in revenues is primarily due to a base rate increase that took effect on June 1, 2024, partially offset by lower Environmental Cost Control Adjustment (ECCA) revenue resulting from lower recoverable costs.
- Operating expenses in 2025 increased \$2.6 million, or 3.5%, versus 2024, largely the result of increased power supply of \$1.3 million, or 3.2%, increased transmission and distribution costs of \$0.3 million or 4.1%, decreased customer service costs of \$0.1 million or 3.9%, increased general and administrative costs of \$0.3 million or 3.8% and increased depreciation of \$0.9 million or 4.5%.
- Net nonoperating revenues decreased by \$0.1 million, or 4.1%, in 2025 when compared to 2024. Interest income decreased by \$0.5 million, or 14.6%, due to the decrease in the federal funds rate. Interest expense decreased by \$0.7 million, primarily the result of the paying down the principal on the debt balance. Other revenues decreased \$0.3 million or 29.5% from contributed capital.
- Dividend transfers to the City of Owensboro increased by \$0.3 million in 2025, or 3.0%, 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 2025, the Electric System had \$99.9 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 \$9.30 million from 2024 due to depreciation that exceeded capital asset additions. The Electric system capital asset additions include \$3.0 million on routine distribution and transmission pole replacements, \$1.3 million on system improvements, and \$0.3 million on City Pilot projects. In addition, \$3.3 million was incurred on the Telecommunications projects primarily associated with the completion of the build-out of the fiber 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 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Production plant	\$ 5,922,124	\$ 16,888,876
Transmission plant	9,260,175	10,686,327
Distribution plant	57,983,188	56,680,432
General plant	4,646,901	6,680,844
Unclassified plant and construction in progress	<u>22,062,991</u>	<u>18,252,625</u>
	<u>\$ 99,875,379</u>	<u>\$ 109,189,104</u>

The final payment on ESS debt will occur in January 2027. At that time all the ESS assets will be fully depreciated and will be retired from property, plant, and equipment.

Debt

At the end of 2025, the Electric System had \$39.2 million in bonds outstanding versus \$55.4 million in 2024, for a decrease of \$16.2 million, or 29.2%. 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 2026 net operating results to remain stable compared to 2025 results. Interest expense should continue to decline with the scheduled repayment of debt. Interest rates on investments are expected to decrease in the next fiscal year. Finally, Telecom revenue is expected to continue growing with the completion of the fiber system making it available to all of the Electric System's footprint.

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

STATEMENTS OF NET POSITION

May 31, 2025 and 2024

**ASSETS AND DEFERRED OUTFLOWS OF
RESOURCES**

	<u>2025</u>	<u>2024</u>
Utility plant, net	\$ 99,875,379	\$ 109,189,104
Restricted assets	<u>30,823,143</u>	<u>30,200,967</u>
Current assets:		
Cash and cash equivalents	23,680,601	24,458,958
Investments	26,990,406	25,499,009
Receivables:		
Retail accounts receivable, less allowance for doubtful accounts of \$40,885 for 2025 and \$62,981 for 2024	12,266,679	12,262,916
City of Owensboro	347,675	327,207
Other	2,688,601	3,690,013
Materials and supplies inventories	9,431,625	8,560,220
Prepayments	<u>232,573</u>	<u>177,003</u>
 Total current assets	 <u>75,638,160</u>	 <u>74,975,326</u>
Other noncurrent assets:		
Unamortized debt expense	158,646	273,972
Energy cost to be recovered	2,024,190	4,112,186
Net other post employment benefits asset	638,750	551,068
Other noncurrent assets	<u>255,293</u>	<u>76,036</u>
 Total other noncurrent assets	 <u>3,076,879</u>	 <u>5,013,262</u>
 Total assets	 <u>209,413,561</u>	 <u>219,378,659</u>
Deferred outflows of resources:		
Deferred outflow regulatory asset - decommissioning	4,517,777	7,145,998
Deferred pension outflows	3,048,563	3,645,106
Deferred other postemployment benefit outflows	933,155	1,474,062
Deferred pension obligation	22,630,400	26,841,189
Deferred postemployment benefit obligation	5,808,057	8,427,726
Unamortized loss on debt refunding	320,447	522,834
Net unrealized loss on investments	<u>4,765,555</u>	<u>6,858,724</u>
 Total deferred outflows of resources	 <u>42,023,954</u>	 <u>54,915,639</u>
 Total assets and deferred outflows of resources	 <u>\$ 251,437,515</u>	 <u>\$ 274,294,298</u>

See Notes to Financial Statements

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

	<u>2025</u>	<u>2024</u>
Net position:		
Net investment in capital assets	\$ 66,380,791	\$ 56,913,918
Restricted for capital projects, net of related debt	7,347,199	8,602,904
Restricted for debt service	9,562,066	9,500,268
Restricted for other purposes	7,507,028	7,045,051
Unrestricted	<u>65,479,784</u>	<u>69,835,870</u>
Total net position	<u>156,276,868</u>	<u>151,898,011</u>
Long-term debt	<u>24,553,795</u>	<u>43,174,434</u>
Current liabilities (payable from restricted assets):		
Current maturities of long-term debt	16,880,000	16,235,000
Accrued interest payable	884,893	1,118,786
Accounts payable	<u>88,741</u>	<u>138,006</u>
	<u>17,853,634</u>	<u>17,491,792</u>
Current liabilities (payable from current assets):		
Accounts payable	9,722,990	9,262,053
Other	<u>7,284,385</u>	<u>7,527,095</u>
	<u>17,007,375</u>	<u>16,789,148</u>
Total current liabilities	<u>34,861,009</u>	<u>34,280,940</u>
Other noncurrent liabilities:		
Net pension liability	<u>22,061,716</u>	<u>25,611,281</u>
Total other noncurrent liabilities	<u>22,061,716</u>	<u>25,611,281</u>
Commitments and contingencies (Note 9)		
Deferred revenues	<u>2,686,918</u>	<u>4,001,760</u>
Total liabilities	<u>84,163,438</u>	<u>107,068,415</u>
Deferred inflows of resources:		
Deferred pension inflows	3,617,247	4,875,015
Deferred other postemployment benefit inflows	<u>7,379,962</u>	<u>10,452,857</u>
Total deferred inflows of resources	<u>10,997,209</u>	<u>15,327,872</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 251,437,515</u>	<u>\$ 274,294,298</u>

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended May 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Operating revenues:		
Charges for services:		
Residential	\$ 32,949,764	\$ 31,391,125
Commercial	8,634,739	8,195,958
Industrial	44,468,819	44,421,506
Water Works System	985,312	1,034,150
City of Owensboro and Schools	3,416,668	3,164,410
Other	1,525,183	1,525,640
	<hr/>	<hr/>
Total operating revenues	91,980,485	89,732,789
	<hr/>	<hr/>
Operating expenses:		
Power costs:		
Purchased power	37,601,446	36,635,413
Other	2,557,955	2,263,035
Transmission and distribution	7,705,803	7,399,511
Customer service and information	2,436,041	2,536,071
General and administrative	7,030,987	6,773,458
Telecommunications	1,552,903	1,503,888
Depreciation	20,369,627	19,494,706
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Total operating expenses	79,254,762	76,606,082
	<hr/>	<hr/>
Operating income	12,725,723	13,126,707
	<hr/>	<hr/>
Nonoperating revenues (expenses):		
Interest and debt expense	(766,369)	(1,435,355)
Interest income on investments	2,839,460	3,324,161
Other revenue	729,480	1,034,425
Net increase in fair value of investments	2,093,128	185,142
Deferred net change in fair value of investments	(2,093,128)	(185,142)
	<hr/>	<hr/>
Total nonoperating revenues (expenses)	2,802,571	2,923,231
	<hr/>	<hr/>
Income before transfers	15,528,294	16,049,938
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Transfers out - dividends to City of Owensboro	(11,149,437)	(10,819,878)
	<hr/>	<hr/>
Change in net position	4,378,857	5,230,060
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Net position, beginning of year	151,898,011	146,667,951
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Net position, end of year	\$ <u><u>156,276,868</u></u>	\$ <u><u>151,898,011</u></u>

See Notes to Financial Statements

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

STATEMENTS OF CASH FLOWS

Years Ended May 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash flows from operating activities:		
Receipts from customers, including collections as agent for third parties	\$ 129,050,855	\$ 122,485,497
Customer remittances to third parties	(34,929,823)	(31,897,193)
Payments to suppliers	(47,293,117)	(47,300,428)
Payments to employees	(8,997,429)	(8,597,334)
	<u>37,830,486</u>	<u>34,690,542</u>
Net cash provided by operating activities		
	<u>37,830,486</u>	<u>34,690,542</u>
Cash flows from noncapital financing activities:		
Transfers out - dividends to City of Owensboro	(11,149,438)	(10,819,877)
	<u>(11,149,438)</u>	<u>(10,819,877)</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(12,324,361)	(14,414,496)
Proceeds from sale of utility plant	(12,695)	56,844
Proceeds from contributed capital	716,784	977,581
Payments on long-term debt	(16,235,000)	(15,525,000)
Interest paid on long-term debt	(2,423,188)	(3,129,062)
	<u>(30,278,460)</u>	<u>(32,034,133)</u>
Net cash used in capital and related financing activities		
	<u>(30,278,460)</u>	<u>(32,034,133)</u>
Cash flows from investing activities:		
Proceeds from maturities of investments	1,000,000	-
Interest on investments	2,842,625	3,314,222
	<u>3,842,625</u>	<u>3,314,222</u>
Net cash used in investing activities		
	<u>3,842,625</u>	<u>3,314,222</u>
Net increase (decrease) in cash and cash equivalents	245,213	(4,849,246)
Cash and cash equivalents, beginning of year	44,207,421	49,056,667
Cash and cash equivalents, end of year	\$ <u>44,452,634</u>	\$ <u>44,207,421</u>
Included in the following Statements of Net Position captions:		
Restricted assets	\$ 20,772,033	\$ 19,748,463
Cash and cash equivalents	23,680,601	24,458,958
	<u>\$ 44,452,634</u>	<u>\$ 44,207,421</u>

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

STATEMENTS OF CASH FLOWS, Concluded

Years Ended May 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 12,725,723	\$ 13,126,707
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	20,662,011	19,790,268
Amortization	2,728,519	2,301,971
Gain from sale of utility plant	12,695	56,844
Change in assets and liabilities:		
Decrease (increase) in assets:		
Receivables	1,065,947	(2,474,848)
Materials and supplies	(871,405)	(267,755)
Prepayments	(55,570)	(35,308)
Other noncurrent assets	1,908,739	3,099,314
Increase (decrease) in liabilities:		
Accounts payable	1,211,378	(658,983)
Other current liabilities	(242,709)	27,766
Deferred revenues	(1,314,842)	(275,434)
Net cash provided by operating activities	\$ <u>37,830,486</u>	\$ <u>34,690,542</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 gain (loss) on investments	\$ <u>2,093,169</u>	\$ <u>185,142</u>

OWENSBORO MUNICIPAL UTILITIES ELECTRIC LIGHT AND POWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

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 27,000 residential, commercial and industrial metered accounts 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, 2025 and 2024

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 2025 and 2024 was approximately 3.0% and 3.1%, 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, 2025 and 2024

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 perpetual 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, 2025 and 2024

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, 2025, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Utility plant:				
Production plant	\$ 322,419,525	\$ -	\$ -	\$ 322,419,525
Transmission plant	37,230,427	87,672	(24,954)	37,293,145
Distribution plant	124,243,769	6,629,448	(380,131)	130,493,086
General plant	26,710,160	839,720	(168,382)	27,381,498
Unclassified plant in service	8,050,550	2,948,834	-	10,999,384
Total, at original cost	518,654,431	10,505,674	(573,467)	528,586,638
Accumulated depreciation:				
Production plant	(305,530,650)	(10,966,751)	-	(316,497,401)
Transmission plant	(26,544,099)	(1,513,825)	24,954	(28,032,970)
Distribution plant	(67,563,337)	(5,326,461)	379,900	(72,509,898)
General plant	(20,029,316)	(2,854,974)	149,693	(22,734,597)
Total accumulated depreciation	(419,667,402)	(20,662,011)	554,547	(439,774,866)
Construction in progress	10,202,075	861,532	-	11,063,607
Utility plant, net	\$ 109,189,104	\$ (9,294,805)	\$ (18,920)	\$ 99,875,379

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

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

2. Utility Plant, Continued

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

	2025	2024
Electric utility plant	\$ 18,624,581	\$ 17,885,251
Telecommunications	<u>1,745,046</u>	<u>1,609,455</u>
	20,369,627	19,494,706
Transportation and stores depreciation charged to construction activities or other operating expenses	<u>292,384</u>	<u>295,561</u>
	<u>\$ 20,662,011</u>	<u>\$ 19,790,267</u>

3. Restricted Assets

Restricted assets at May 31 consists of the following:

	2025	2024
Cash and cash equivalents	\$ 20,772,033	\$ 19,748,463
Investments	10,011,852	10,409,579
Accrued interest receivable	<u>39,258</u>	<u>42,925</u>
	<u>\$ 30,823,143</u>	<u>\$ 30,200,967</u>

The above balances are contained in the following funds:

	2025	2024
Operation and Maintenance Fund	\$ 706,855	\$ 951,025
Construction Fund	635,627	1,796,380
Depreciation Fund	6,926,059	6,591,677
Sinking Funds	16,354,324	15,764,236
Reserve and Contingency Fund	<u>6,200,278</u>	<u>5,097,649</u>
	<u>\$ 30,823,143</u>	<u>\$ 30,200,967</u>

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. 72, *Fair Value Measurement and Application* (GASBS No. 72), 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

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

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

3. Restricted Assets, Continued

revenues, expenses and changes in net position. In accordance with GASBS No. 72, OMU recorded unrealized gain (loss) of \$602,274 and \$185,142 for the years ended May 31, 2025 and 2024, 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, 2025 and 2024, have been deferred.

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

	<u>2025</u>	<u>2024</u>
Net unrealized gain (loss) on investments	\$ <u>(1,388,148)</u>	\$ <u>(1,990,422)</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:

	<u>2025</u>	<u>2024</u>
Deposits in financial institutions	\$ 44,452,634	\$ 44,207,421
Investments other than deposits	<u>37,002,258</u>	<u>35,908,588</u>
	\$ <u>81,454,892</u>	\$ <u>80,116,009</u>

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

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 23,680,601	\$ 24,458,958
Temporary investments	26,990,406	25,499,009
Restricted assets:		
Cash and cash equivalents	20,772,033	19,748,463
Investments	<u>10,011,852</u>	<u>10,409,579</u>
	\$ <u>81,454,892</u>	\$ <u>80,116,009</u>

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

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

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, 2025, \$44,165,050 of the Electric System's bank balance of \$44,368,732 was exposed to custodial credit risk as follows:

Uninsured with collateral held by pledging bank's agent	\$ <u>44,165,050</u>
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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 consist of agency securities, 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, 2025, 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	\$ 18,288,110
Federal Home Loan Bank – Callable	07/28/2025 thru 04/26/2032	14,368,221
Federal Home Loan Mtg Corp - Callable	06/24/2030	2,613,450
Federal National Mtg Assn - Callable	07/27/2028	<u>1,732,477</u>
		\$ <u>37,002,258</u>

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

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

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, 2025.

5. Long-Term Debt

Long-term debt activity for the year ended May 31, 2025, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds payable:					
Series of 2017	\$ 28,790,000	\$ -	\$ (7,205,000)	\$ 21,585,000	\$ 11,345,000
Series of 2019	26,610,000	-	(9,030,000)	17,580,000	5,535,000
	55,400,000	-	(16,235,000)	39,165,000	16,880,000
Add unamortized debt premium	4,009,434	-	(1,740,639)	2,268,795	-
Total long-term debt	\$ 59,409,434	\$ -	\$ (17,975,639)	\$ 41,433,795	\$ 16,880,000

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

	<u>2025</u>	<u>2024</u>
Series of 2017:		
Current interest bonds, 4.00%, due from 2025 to 2037	\$ 21,585,000	\$ 28,790,000
Series of 2019:		
Current interest bonds, 4.00% to 5.00%, due from 2025 to 2027	<u>17,580,000</u>	<u>26,610,000</u>
Total long-term debt	39,165,000	55,400,000
Less current maturities	(16,880,000)	(16,235,000)
Add unamortized debt premium	<u>2,268,795</u>	<u>4,009,434</u>
	<u>\$ 24,553,795</u>	<u>\$ 43,174,434</u>

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

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

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>
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	365,000	173,000	538,000
2030	390,000	158,400	548,400
2031 - 2035	2,385,000	535,200	2,920,200
2036 - 2038	1,185,000	71,800	1,256,800
	<u>\$ 39,165,000</u>	<u>\$ 3,879,450</u>	<u>\$ 43,044,450</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, 2025 and 2024

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 \$16,116,000 at May 31, 2025), 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 (\$2,885,782 at May 31, 2025). 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 \$11,149,438 and \$10,819,878 for 2025 and 2024, respectively.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

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 78.635.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

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 2025, based on annual creditable compensation for the year ended May 31, 2024, were as follows:

	<u>Contribution Rates</u>	<u>Contributions</u>
Pension	19.71%	\$ 2,180,816
OPEB	0.00%	-
Total	<u>19.71%</u>	<u>\$ 2,180,816</u>

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

The net pension liability and OPEB asset reported as of May 31, 2025, were measured as of June 30, 2024, and the total pension and OPEB liabilities used to calculate the net pension liability and OPEB asset was determined by an actuarial valuation as of June 30, 2023. The Electric System's proportion of the asset and liability 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:

	<u>Pension</u>	<u>OPEB</u>
June 30, 2023	0.399147%	0.399132%
Decrease	<u>(0.030248)</u>	<u>(0.029870)</u>
June 30, 2024	<u>0.368899%</u>	<u>0.369262%</u>

The Electric System's pension liability and OPEB asset and expense as of and for the year ended May 31, 2025, were as follows:

	<u>Net Pension Liability</u>	<u>Net OPEB Asset</u>
Proportionate Share	\$ <u>22,061,716</u>	\$ <u>(638,750)</u>
Pension/OPEB Expense	\$ <u>2,180,816</u>	\$ <u>-</u>

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

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

7. Pension and Other Postemployment Benefits – CERS, Continued

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

At May 31, 2025, 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	\$ 1,067,828	\$ -	\$ 354,371	\$ 5,025,701
Changes of assumptions	-	996,757	578,784	450,705
Net difference between projected and actual earnings on plan investments	-	1,418,449	-	582,896
Changes in proportion and differences between contributions and proportionate share of contributions	-	1,202,041	-	1,320,660
Contributions subsequent to the measurement date	<u>1,980,735</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,048,563</u>	<u>\$ 3,617,247</u>	<u>\$ 933,155</u>	<u>\$ 7,379,962</u>

The \$1,980,735 of deferred outflows of resources resulting from the Electric System's pension contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending May 31, 2026. 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
2026	\$ (1,664,562)	\$ (2,821,919)
2027	(23,472)	(1,992,898)
2028	(545,268)	(1,516,890)
2029	<u>(316,117)</u>	<u>(115,100)</u>
	<u>\$ (2,549,419)</u>	<u>\$ (6,446,807)</u>

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

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

7. Pension and Other Postemployment Benefits – CERS, Continued

Actuarial Assumptions

The total pension/OPEB liabilities in the June 30, 2023, actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Payroll growth rate	2.00%
Salary increases	3.30% to 10.30%, varies by service
Net investment rate of return	6.50%
Healthcare trend Rates (OPEB)	Pre-65: Initial trend starting at 7.10% at January 1, 2026, and gradually decreasing to an ultimate trend rate of 4.25% over a period of 14 years. Post-65: Initial trend starting at 8.0% in 2026, then gradually decreasing to an ultimate trend rate of 4.25% over a period of 9 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-2020 mortality improvement scale using a base year of 2010. The mortality table used for nondisabled retired members was a system-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for the disabled retired members was PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 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, 2025 and 2024

7. Pension and Other Postemployment Benefits – CERS, Continued

Actuarial Assumptions, Continued

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity		
Public equity	50.00%	4.15%
Private equity	10.00	9.10%
	<u>60.00</u>	
Fixed income		
Core fixed income	10.00	2.85%
Specialty credit	10.00	3.82%
Cash	-	1.70%
	<u>20.00</u>	
Inflation protected		
Real estate	7.00	4.90%
Real return	13.00	5.35%
	<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:

	Pension	OPEB
Discount rate, June 30, 2023	6.50%	5.93%
Increase (decrease)	-	0.06%
Discount rate, June 30, 2024	<u>6.50%</u>	<u>5.99%</u>

The discount rate of 6.50% used to measure the total pension liability was based on the expected rate of return on pension plan investments. The discount rate of 5.99% used to measure the total OPEB liability was based on the expected rate of return on OPEB plan investments of 6.50% and a municipal bond rate of 3.97% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2024.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

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 employer contribution each future year calculated in accordance with the current funding policy.

Sensitivity of the Electric System's Proportionate Share of the Pension Liability and OPEB Asset to Changes in the Discount Rate

The following presents the Electric System's proportionate share of the net pension liability and OPEB asset, as well as what the Electric System's proportionate share of the net pension liability and OPEB liability (asset) 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 (Asset) Liability
1% decrease	5.50%	\$ 28,441,157	4.99%	\$ 863,661
Current discount rate	6.50%	\$ 22,061,716	5.99%	\$ (638,750)
1% increase	7.50%	\$ 16,768,462	6.99%	\$ (1,901,980)

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

The following presents the Electric System's proportionate share of the net OPEB asset, as well as what the Electric System's proportionate share of the net OPEB liability (asset) 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 (Asset)	
1% decrease	6.10% Pre-65 or 7.00% Post-65	\$	(1,536,754)
Current healthcare cost trend rates	7.10% Pre-65 or 8.00% Post-65	\$	(638,750)
1% increase	8.10% Pre-65 or 9.00% Post-65	\$	407,362

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

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

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, 2025.

<u>Pension</u>	<u>OPEB</u>
\$ <u>248,764</u>	\$ <u>-</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, 2025, has been included in other current liabilities. The following reconciles health claims payable for the three years ended May 31:

<u>Fiscal Year Ended May 31,</u>	<u>Claims Payable June 1</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>Claims Payable May 31</u>
2025	\$ 263,313	\$ 3,172,584	\$ 3,155,982	\$ 279,915
2024	\$ 286,683	\$ 2,705,952	\$ 2,729,322	\$ 263,313
2023	\$ 516,685	\$ 2,856,245	\$ 3,086,257	\$ 286,683

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

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

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 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, 2025 and 2024, total costs expended were \$13,144,633 and \$13,044,332, respectively. OMU is amortizing these costs over five years and has recorded total amortization expense of \$8,626,856 and \$5,898,334 as of May 31, 2025 and 2024, respectively, for a net deferred decommissioning asset of \$4,517,777 and \$7,145,998 at May 31, 2025 and 2024, respectively.

10. 401(a) Qualified Retirement Plan

At the beginning of 2025, OMU adopted a defined contribution 401(a) plan available to all employees who meet the eligibility requirements of the plan. Under the plan, OMU will match 100% of the employee's contribution up to 2% of the employee's gross wages. Employees will be fully vested after five complete years of service.

11. 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 over 94% of its power from one third-party provider for the years ended May 31, 2025 and 2024, respectively.

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>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Electric System's proportion of the net pension liability	0.368899%	0.399147%	0.400833%	0.499526%	0.592499%	0.615885%	0.620000%	0.611400%	0.626738%	0.610636%
Electric System's proportionate share of the net pension liability	\$ 22,061,716	\$ 25,611,281	\$ 29,518,265	\$ 31,848,682	\$ 45,444,200	\$ 43,315,494	\$ 37,759,911	\$ 35,787,099	\$ 30,858,179	\$ 26,254,442
Electric System's covered payroll	\$ 11,141,635	\$ 10,264,890	\$ 9,423,106	\$ 11,944,891	\$ 15,150,724	\$ 15,475,990	\$ 14,991,261	\$ 14,942,435	\$ 15,035,975	\$ 14,221,628
Electric System's proportionate share of the net pension liability as a percentage of its covered payroll	198.01%	249.50%	313.23%	266.63%	299.95%	279.89%	251.88%	239.50%	205.23%	184.61%
Plan fiduciary net position as a percentage of the total pension liability	61.61%	57.48%	52.42%	57.33%	47.81%	50.45%	53.54%	53.32%	55.50%	59.97%

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

Last 10 Fiscal Years

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contributions	\$ 2,180,816	\$ 2,613,707	\$ 2,403,026	\$ 2,141,605	\$ 2,373,172	\$ 2,913,660	\$ 2,497,758	\$ 2,148,899	\$ 2,062,855	\$ 1,908,105
Contributions in relation to the contractually required contributions	(2,180,816)	(2,613,707)	(2,403,026)	(2,141,605)	(2,373,172)	(2,913,660)	(2,497,758)	(2,148,899)	(2,062,855)	(1,908,105)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Electric System's covered payroll	11,141,635	11,328,037	10,264,665	10,123,205	12,300,680	15,221,323	15,527,315	14,873,999	14,889,969	15,097,888
Contributions as a percentage of covered payroll	19.57%	23.07%	23.41%	21.16%	19.29%	19.14%	16.09%	14.45%	13.85%	12.64%

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

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

Last 10 Fiscal Years *

	<u>2025</u>	<u>2024</u>	<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 (asset)	0.369262%	0.399132%	0.408283%	0.499409%	0.592328%	0.615885%	0.620000%	0.611400%	0.626738%
Electric System's proportionate share of the net OPEB liability (asset)	\$ (638.750)	\$ (551.068)	\$ 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	\$ 11,141.635	\$ 10,264.890	\$ 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 (asset) as a percentage of its covered payroll	5.73%	5.37%	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	104.89%	104.23%	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

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contributions	\$ -	\$ -	\$ 348,131	\$ 584,718	\$ 585,300	\$ 718,602	\$ 810,001	\$ 697,502	\$ 699,448	\$ 712,851
Contributions in relation to the contractually required contributions	-	-	(348,131)	(584,718)	(585,300)	(718,602)	(810,001)	(697,502)	(699,448)	(712,851)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Electric System's covered payroll	\$ 11,118,895	\$ 11,328,037	\$ 10,264,665	\$ 10,123,205	\$ 12,300,680	\$ 15,221,323	\$ 15,527,315	\$ 14,873,999	\$ 14,889,969	\$ 15,097,888
Contributions as a percentage of covered payroll	0.00%	0.00%	3.39%	5.78%	4.76%	4.72%	5.22%	4.69%	4.70%	4.72%

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Year Ended May 31, 2025

Changes of Benefit Terms

2016 thru 2025 None

Changes of Assumptions

<u>2025</u>	OPEB: The single discount rate changed from 5.93% to 5.99%.
<u>2024</u>	Pension and OPEB: The single discount rate changed from 6.25% to 6.50% for Pension. The single discount rate changed from 5.70% to 5.93% for OPEB.
<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.

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

SCHEDULE OF REVENUES AND EXPENSES

Year Ended May 31, 2025 (with comparative totals for 2024)

	Retail Electric System	Elmer Smith Station
Operating revenues:		
Charges for services:		
Residential	\$ 29,372,290	\$ -
Commercial	6,993,317	-
Industrial	44,468,819	-
Water Works System	942,971	-
City of Owensboro and Schools	3,294,127	-
Electric Light and Power System	-	16,125,286
Other	1,560,321	-
Total operating revenues	<u>86,631,845</u>	<u>16,125,286</u>
Operating expenses:		
Power costs:		
Purchased power	53,569,519	157,213
Other	-	2,557,955
Transmission and distribution	7,655,066	-
Customer service and information	2,267,748	-
General and administrative	6,352,754	76,881
Telecommunications	-	-
Depreciation	5,353,986	13,270,595
Total operating expenses	<u>75,199,073</u>	<u>16,062,644</u>
Operating income (loss)	<u>11,432,772</u>	<u>62,642</u>
Nonoperating revenues (expenses):		
Interest and debt expense	(468,913)	(101,057)
Interest income on investments	2,431,004	547,967
Interest income on Elmer Smith Station		
investments allocated to:		
Electric System	509,552	(509,552)
Other revenue	714,186	
Net increase (decrease) in fair value of investments	1,599,694	493,434
Deferred net change in fair value of investments	(1,599,694)	(493,434)
Total nonoperating revenues (expenses)	<u>3,185,829</u>	<u>(62,642)</u>
Income before transfers	14,618,601	-
Transfers out - dividends to City of Owensboro	(11,026,897)	-
Change in net position	<u><u>\$ 3,591,704</u></u>	<u><u>\$ -</u></u>

<u>Telecommunications</u>	<u>Eliminations</u>	<u>Total</u>	<u>2024 Total</u>
\$ 3,577,474	\$	\$ 32,949,764	\$ 31,391,125
1,641,422		8,634,739	8,195,958
-		44,468,819	44,421,506
42,341		985,312	1,034,150
122,541		3,416,668	3,164,410
159,934	(16,285,220)	-	-
	(35,138)	1,525,183	1,525,640
<u>5,543,712</u>	<u>(16,320,358)</u>	<u>91,980,485</u>	<u>89,732,789</u>
-	(16,125,286)	37,601,446	36,635,413
-		2,557,955	2,263,035
-	50,737	7,705,803	7,399,511
168,293		2,436,041	2,536,071
647,745	(46,393)	7,030,987	6,773,458
1,752,319	(199,416)	1,552,903	1,503,888
1,745,046		20,369,627	19,494,706
<u>4,313,403</u>	<u>(16,320,358)</u>	<u>79,254,762</u>	<u>76,606,082</u>
<u>1,230,309</u>	<u>-</u>	<u>12,725,723</u>	<u>13,126,707</u>
(477,613)	281,214	(766,369)	(1,435,355)
141,703	(281,214)	2,839,460	3,324,161
-		-	-
15,294		729,480	1,034,425
-	-	2,093,128	185,142
-	-	(2,093,128)	(185,142)
<u>(320,616)</u>	<u>-</u>	<u>2,802,571</u>	<u>2,923,231</u>
909,693	-	15,528,294	16,049,938
<u>(122,540)</u>	<u>-</u>	<u>(11,149,437)</u>	<u>(10,819,878)</u>
<u>\$ 787,153</u>	<u>\$ -</u>	<u>\$ 4,378,857</u>	<u>\$ 5,230,060</u>



Riney Hancock CPAs
PSC

**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, 2025, and the related notes to the financial statements, and have issued our report thereon dated September 5, 2025.

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.

 Ringblum CPAs PC

Owensboro, Kentucky
September 5, 2025



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, 2025 and 2024, 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, 2025 and 2024, 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 5, 2025, 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.

 CPAs PS

Owensboro, Kentucky
September 5, 2025

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, 2025. 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 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 2025 and 2024.

Assets and Deferred Outflows of Resources	<u>2025</u>	<u>2024</u>
Utility plant, net	\$ 88,385,628	\$ 87,916,271
Restricted assets	10,548,482	9,872,281
Current assets	9,755,744	9,491,541
Other noncurrent assets	1,349,346	1,220,124
Deferred outflow of resources	<u>11,032,201</u>	<u>12,985,619</u>
	<u>\$ 121,071,401</u>	<u>\$ 121,485,836</u>
 Liabilities, Deferred Inflows of Resources, and Net Position		
Net position		
Net investment in capital assets	\$ 19,074,217	\$ 18,444,558
Restricted	8,669,517	5,919,607
Unrestricted	<u>8,753,255</u>	<u>8,557,843</u>
Total net position	36,496,989	32,922,008
Long-term debt	71,459,762	73,435,338
Current liabilities	3,146,732	3,632,990
Other noncurrent liabilities	6,573,389	7,191,287
Deferred inflows of resources	<u>3,394,529</u>	<u>4,304,213</u>
	<u>\$ 121,071,401</u>	<u>\$ 121,485,836</u>
 Revenues, Expenses and Changes in Net Position		
Operating revenues	\$ 17,413,933	\$ 16,163,269
Operating expenses	<u>13,801,334</u>	<u>13,842,225</u>
Operating income	<u>3,612,599</u>	<u>2,321,044</u>
Interest expense	(2,796,102)	(2,878,232)
Interest and other income	<u>1,582,553</u>	<u>1,175,872</u>
Net nonoperating expenses	<u>(1,213,549)</u>	<u>(1,702,360)</u>
Income (loss) before contributions and transfers	2,399,050	618,684
Capital contributions	1,545,311	127,631
Transfers out - dividends to City of Owensboro	<u>(369,380)</u>	<u>(347,006)</u>
Change in net position	<u>\$ 3,574,981</u>	<u>\$ 399,309</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

FINANCIAL HIGHLIGHTS

- Net position increased \$3,574,981 in 2025, and the income before contributions and transfers was \$2,399,050 in 2025 versus \$618,684 in 2024, as a result of changes in operating revenues, operating expenses, interest and other income as discussed below.
- Operating revenues increased by \$1,250,664 or 7.7% in 2025 when compared to 2024. The increase in revenues in 2025 is primarily attributable to an increase in commercial revenues of \$611,909 or 12.4%, residential revenue of \$426,123 or 7.4%, and an overall increase in all other revenues of \$212,632 or 3.9%.
- Operating expenses decreased \$40,891 or 0.3% in 2025 when compared to 2024. Production and purification expenses increased \$22,807 or 0.4% due to higher cost of water treatment chemicals for softening. Transmission and distribution expenses decreased \$177,409 or 9.7% due to reduction in meter and miscellaneous costs. General and administrative expenses increased \$127,906 or 7.6% due to increased costs in property and casualty insurance premiums and safety expenses.
- Interest expense decreased by \$82,130 in 2025, or 2.9%, due primarily to paying down the principal on the debt balance. Interest income decreased \$72,381, or 11.5%, primarily due to the decrease in the federal funds rate. Capital contributions have increased by \$1,417,678 as the monies from the grants noted in the Outlook below are received. Monies are received as the projects progress and reimbursement is made by the granting agency.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2025, the Water System had \$88.4 million invested in a broad range of assets, including wells, treatment facilities and equipment, storage tanks, buildings and water mains. This amount represents an increase of \$0.5 million from 2024 due capital asset additions which exceeded current depreciation expense. The following table summarizes capital assets, net of accumulated depreciation, at the end of 2025 and 2024.

	<u>2025</u>	<u>2024</u>
Source of supply plant	\$ 2,711,224	\$ 2,814,440
Pumping plant	1,178,138	1,218,863
Water treatment plant	53,259,537	54,838,866
Transmission and distribution plant	21,561,141	22,474,000
General plant	2,469,399	2,091,665
Unclassified plant and construction in progress	<u>7,206,189</u>	<u>4,478,437</u>
	<u>\$ 88,385,628</u>	<u>\$ 87,916,271</u>

The Water system capital asset additions are primarily related to routine additions and replacement of transmission, distribution and general plant.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Debt

At the end of 2025, the Water System had \$72.2 million in bonds outstanding versus \$74.0 million in 2024, for a decrease of \$1.8 million, or 2.5%. As there was no new debt issued during 2025, 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 2026 net operating income to increase from 2025. Water rates increased in March 2025 for retail customers. Last year, the Water System was awarded grants that will continue to be used for specified capital projects in 2026. Of the \$2.5 million awarded by the City of Owensboro, the Water System is expecting to receive \$0.8 million over the remaining duration of this project. These monies will continue to be used for completion of the Hillcrest pumping station project. The Water System is also expecting to receive \$0.6 million from the Kentucky Infrastructure Authority for well construction. Of the \$1.0 million awarded by Kentucky Infrastructure Authority, the Water System is expecting to receive \$0.4 million over the remaining duration of this project. These monies will continue to be used for improvements related to the OMU Lead Service Line Inventory Project.

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**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

STATEMENTS OF NET POSITION

Years Ended May 31, 2025 and 2024

**ASSETS AND DEFERRED OUTFLOWS OF
RESOURCES**

	<u>2025</u>	<u>2024</u>
Utility plant, net	\$ 88,385,628	\$ 87,916,271
Restricted assets	<u>10,548,482</u>	<u>9,872,281</u>
Current assets:		
Cash and cash equivalents	3,960,089	4,584,297
Accounts receivable, less allowance for doubtful accounts of \$18,101 for 2025 and \$17,910 for 2024	3,584,859	3,178,154
Materials and supplies inventories	2,210,796	1,726,736
Prepayments	<u>-</u>	<u>2,354</u>
Total current assets	<u>9,755,744</u>	<u>9,491,541</u>
Other noncurrent assets		
Net other postemployment benefits asset	190,318	154,427
Other	<u>1,159,028</u>	<u>1,065,697</u>
Total other noncurrent assets	1,349,346	1,220,124
Total assets	<u>110,039,200</u>	<u>108,500,217</u>
Deferred outflows of resources:		
Deferred outflow regulatory asset - decommissioning	397,473	446,685
Deferred pension outflow	1,146,457	1,311,964
Deferred other postemployment benefit outflows	278,038	413,078
Deferred pension obligation	6,504,707	7,231,242
Deferred postemployment benefit obligation	1,730,537	2,361,711
Unamortized loss on debt refunding	521,637	572,322
Net unrealized loss on investments	<u>453,352</u>	<u>648,617</u>
Total deferred outflows of resources	<u>11,032,201</u>	<u>12,985,619</u>
Total assets and deferred outflows of resources	<u><u>\$ 121,071,401</u></u>	<u><u>\$ 121,485,836</u></u>

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

	<u>2025</u>	<u>2024</u>
Net position:		
Net investment in capital assets	\$ 19,074,217	\$ 18,444,558
Restricted for capital projects, net of related debt	6,275,123	3,912,113
Restricted for debt service	2,204,076	2,007,494
Restricted for other purposes	190,318	154,427
Unrestricted	<u>8,753,255</u>	<u>8,403,416</u>
Total net position	<u>36,496,989</u>	<u>32,922,008</u>
Long-term debt	<u>71,459,762</u>	<u>73,435,338</u>
Current liabilities (payable from restricted assets):		
Current maturities of long-term debt	1,920,000	1,840,000
Accrued interest payable	<u>566,453</u>	<u>583,890</u>
	<u>2,486,453</u>	<u>2,423,890</u>
Current liabilities (payable from current assets):		
Accounts payable	<u>660,279</u>	<u>1,209,100</u>
Total current liabilities	<u>3,146,732</u>	<u>3,632,990</u>
Other noncurrent liabilities:		
Net pension liability	6,573,389	7,177,076
Accrued Tier 1 & 2 Retiree Sick Leave	<u>-</u>	<u>14,211</u>
Total other noncurrent liabilities	<u>6,573,389</u>	<u>7,191,287</u>
Total liabilities	<u>81,179,883</u>	<u>84,259,615</u>
Deferred inflows of resources:		
Deferred pension inflows	1,077,775	1,366,130
Deferred other postemployment benefit inflows	2,198,893	2,929,215
Deferred Revenue Liability-Water Districts	<u>117,861</u>	<u>8,868</u>
	<u>3,394,529</u>	<u>4,304,213</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 121,071,401</u></u>	<u><u>\$ 121,485,836</u></u>

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended May 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Operating revenues:		
Charges for services:		
Residential	\$ 6,199,936	\$ 5,773,813
Commercial	5,565,454	4,953,545
Water districts	4,521,292	4,288,336
Fire protection	381,203	376,910
City of Owensboro	369,307	346,928
Electric Light and Power System	22,110	24,537
Service revenues	<u>354,631</u>	<u>399,200</u>
Total operating revenues	<u>17,413,933</u>	<u>16,163,269</u>
Operating expenses:		
Production and purification	5,388,397	5,365,590
Transmission and distribution	1,660,224	1,837,633
Customer service and information	657,125	683,719
General and administrative	1,818,166	1,690,260
Depreciation	<u>4,277,422</u>	<u>4,265,023</u>
Total operating expenses	<u>13,801,334</u>	<u>13,842,225</u>
Operating income	<u>3,612,599</u>	<u>2,321,044</u>
Nonoperating revenues (expenses):		
Interest and debt expense	(2,796,102)	(2,878,232)
Interest income on investments	558,997	631,378
Other income	1,023,556	544,494
Net increase (decrease) in fair value of investments	(453,352)	(648,617)
Deferred net change in fair value of investments	<u>453,352</u>	<u>648,617</u>
Total nonoperating revenues (expenses)	<u>(1,213,549)</u>	<u>(1,702,360)</u>
Income before contributions and transfers	2,399,050	618,684
Contributions in aid of construction	1,545,311	127,631
Transfers out - dividends to City of Owensboro	<u>(369,380)</u>	<u>(347,006)</u>
Change in net position	<u>3,574,981</u>	<u>399,309</u>
Net position, beginning of year	<u>32,922,008</u>	<u>32,522,699</u>
Net position, end of year	<u><u>\$ 36,496,989</u></u>	<u><u>\$ 32,922,008</u></u>

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

STATEMENTS OF CASH FLOWS

Years Ended May 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash flows from operating activities:		
Receipts from customers	\$ 16,993,228	\$ 15,905,650
Payments to suppliers	(6,202,819)	(5,185,308)
Payments to employees	(3,742,524)	(3,813,769)
Net cash provided by operating activities	<u>7,047,885</u>	<u>6,906,573</u>
Cash flows from noncapital financing activities:		
Transfers out - dividends to City of Owensboro	<u>(359,566)</u>	<u>(346,398)</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(5,359,179)	(2,887,400)
Proceeds from sale of utility plant	13,435	11,999
Proceeds from grants	637,704	264,060
Proceeds from contributed capital	1,917,729	268,435
Payments on long-term debt	(1,840,000)	(1,760,000)
Interest paid on long-term debt	(2,760,819)	(2,839,020)
Net cash used in capital and related financing activities	<u>(7,391,130)</u>	<u>(6,941,926)</u>
Cash flows from investing activities:		
Purchase of investments	(1,191,897)	-
Proceeds from maturities of investments	1,200,000	-
Interest on investments	554,179	629,811
Net cash provided by investing activities	<u>562,282</u>	<u>629,811</u>
Net increase (decrease) in cash and cash equivalents	(140,529)	248,060
Cash and cash equivalents, beginning of year	<u>10,230,219</u>	<u>9,982,159</u>
Cash and cash equivalents, end of year	<u>\$ 10,089,690</u>	<u>\$ 10,230,219</u>
Included in the following Statements of Net Position captions:		
Cash and cash equivalents, unrestricted	\$ 3,960,089	\$ 4,584,297
Cash and cash equivalents, restricted	<u>6,129,601</u>	<u>5,645,922</u>
	<u>\$ 10,089,690</u>	<u>\$ 10,230,219</u>

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

STATEMENTS OF CASH FLOWS, Concluded

Years Ended May 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,612,599	2,321,044
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,455,582	4,408,315
Change in assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	(406,705)	(231,619)
Materials and supplies	(484,060)	(195,470)
Prepayments	2,354	(2,354)
Other noncurrent assets	(102,271)	(231,161)
Increase (decrease) in liabilities:		
Accounts payable	(124,396)	825,289
Other noncurrent liabilities	94,782	12,529
Net cash provided by operating activities	\$ <u>7,047,885</u>	\$ <u>6,906,573</u>
Noncash investing, capital and financing activities:		
Amortization of debt discount and expense and deferred loss on debt defeasance	\$ <u>52,719</u>	\$ <u>54,358</u>

OWENSBORO MUNICIPAL UTILITIES WATER WORKS SYSTEM

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

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 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 26,000 residential, commercial and industrial metered accounts 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, 2025 and 2024

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 2025 and 2024 was approximately 3.1% 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, 2025 and 2024

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 perpetual 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, 2025 and 2024

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.

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, 2025 and 2024

2. Utility Plant

Water utility plant activity for the year ended May 31, 2025, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Utility plant:				
Source of supply plant	\$ 6,638,958	\$ 128,347	\$ -	\$ 6,767,305
Pumping plant	1,625,051	-	-	1,625,051
Water treatment plant	72,824,654	15,442	-	72,840,096
Transmission and distribution plant	52,199,894	1,432,808	(51,093)	53,581,609
General plant	5,832,330	622,388	(59,030)	6,395,688
Unclassified plant in service	451,962	18,478	-	470,440
Total, at original cost	<u>139,572,849</u>	<u>2,217,463</u>	<u>(110,123)</u>	<u>141,680,189</u>
Accumulated depreciation:				
Source of supply plant	(3,824,518)	(231,563)	-	(4,056,081)
Pumping plant	(406,188)	(40,725)	-	(446,913)
Water treatment plant	(17,985,788)	(1,594,771)	-	(19,580,559)
Transmission and distribution plant	(29,725,894)	(2,345,667)	51,093	(32,020,468)
General plant	(3,740,665)	(242,856)	57,232	(3,926,289)
Total accumulated depreciation	<u>(55,683,053)</u>	<u>(4,455,582)</u>	<u>108,325</u>	<u>(60,030,310)</u>
Construction in progress	<u>4,026,475</u>	<u>2,709,274</u>	<u>-</u>	<u>6,735,749</u>
Utility plant, net	<u>\$ 87,916,271</u>	<u>\$ 471,155</u>	<u>\$ (1,798)</u>	<u>\$ 88,385,628</u>

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

	<u>2025</u>	<u>2024</u>
Water utility plant	\$ 4,277,422	\$ 4,265,023
Transportation depreciation charged to construction activities or other operating expenses	<u>178,160</u>	<u>143,292</u>
	<u>\$ 4,455,582</u>	<u>\$ 4,408,315</u>

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

3. Restricted Assets

Restricted assets at May 31 consists of the following:

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 6,129,601	\$ 5,645,922
Investments	4,389,088	4,201,384
Accrued interest receivable	<u>29,793</u>	<u>24,975</u>
	<u>\$ 10,548,482</u>	<u>\$ 9,872,281</u>

The above balances are contained in the following funds:

	<u>2025</u>	<u>2024</u>
Sinking Fund	\$ 6,794,276	\$ 6,459,489
Renewal and Replacement Fund	3,313,487	944,654
Construction Fund	<u>440,719</u>	<u>2,468,138</u>
	<u>\$ 10,548,482</u>	<u>\$ 9,872,281</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 \$750,435 at May 31, 2025), 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. 72, *Fair Value Measurement and Application* (GASBS No. 72), 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. 72, the Water System recorded unrealized gains (losses) of \$195,807 and \$26,913 for the years ended May 31, 2025 and 2024, 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, 2025 and 2024, have been deferred.

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

	<u>2025</u>	<u>2024</u>
Net unrealized gain (loss) on investments	\$ <u>(453,352)</u>	\$ <u>(648,617)</u>

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

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>2025</u>	<u>2024</u>
Deposits in financial institutions	\$ 10,089,490	\$ 10,230,020
Investments other than deposits	<u>4,389,088</u>	<u>4,201,383</u>
	<u>\$ 14,478,578</u>	<u>\$ 14,431,403</u>

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

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 3,959,889	\$ 4,584,097
Restricted assets:		
Cash and cash equivalents	6,129,601	5,645,922
Investments	<u>4,389,088</u>	<u>4,201,384</u>
	<u>\$ 14,478,578</u>	<u>\$ 14,431,403</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, 2025, \$10,043,172 of the Water System's bank balance of \$10,089,490 was exposed to custodial credit risk as follows:

Uninsured with collateral held by pledging bank's agent	\$ <u>10,043,172</u>
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**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

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, 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, 2025, 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	\$ 2,326,574
Federal Farm Credit Bank - Callable	06/03/2030	867,070
U. S. Treasury Note	08/31/2029	<u>1,195,444</u>
		<u>\$ 4,389,088</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, 2025.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

5. Long-Term Debt

Long-term debt activity for the year ended May 31, 2025, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds payable:					
Series of 2014	\$ 5,645,000	\$ -	\$ -	\$ 5,645,000	\$ -
Series of 2015	5,110,000	-	(45,000)	5,065,000	45,000
Series of 2016	5,170,000	-	(370,000)	4,800,000	385,000
Series of 2018	58,070,000	-	(1,425,000)	56,645,000	1,490,000
	73,995,000	-	(1,840,000)	72,155,000	1,920,000
Add unamortized debt premium	1,280,338	-	(55,576)	1,224,762	-
Total bonds payable	\$ 75,275,338	\$ -	\$ (1,895,576)	\$ 73,379,762	\$ 1,920,000

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

	2025	2024
Series of 2014:		
1.75% to 3.9%, due serially September 15, 2025 to 2038	\$ 5,645,000	\$ 5,645,000
Series of 2015:		
3.0% to 4.0%, due serially September 15, 2025 to 2041	5,065,000	5,110,000
Series of 2016:		
2.0% to 3.0%, due serially September 15, 2025 to 2035	4,800,000	5,170,000
Series of 2018:		
3.0% to 5.0%, due serially September 15, 2025 to 2048	56,645,000	58,070,000
Total long-term debt	72,155,000	73,995,000
Less current maturities	(1,920,000)	(1,840,000)
Add unamortized debt premium	1,224,762	1,280,338
	\$ 71,459,762	\$ 73,435,338

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

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>
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	2,145,000	2,454,374	4,599,374
2030	2,210,000	2,387,134	4,597,134
2031 – 2035	12,235,000	10,755,131	22,990,131
2036 – 2040	14,730,000	8,258,608	22,988,608
2041 – 2045	17,820,000	5,168,094	22,988,094
2046 – 2048	17,005,000	1,394,100	18,399,100
	<u>\$ 72,155,000</u>	<u>\$ 38,201,534</u>	<u>\$ 110,356,534</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, 2025 and 2024

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, 2025 and 2024

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, 2025 and 2024

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 78.635.

The Water System's actuarially determined contribution rates and contribution amounts applicable to fiscal year 2025 were based on annual creditable compensation for the year ended May 31, 2024, were as follows:

	<u>Contribution Rates</u>	<u>Contributions</u>
Pension	19.71%	\$ 911,959
OPEB	-	-
Total	<u>19.71%</u>	<u>\$ 911,959</u>

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

The net pension liability and OPEB asset reported as of May 31, 2025, were measured as of June 30, 2024, and the total pension and OPEB liabilities used to calculate the net pension liability and OPEB asset was determined by an actuarial valuation as of June 30, 2023. 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, 2025 and 2024

6. Pension and Other Postemployment Benefits – CERS, Continued

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

	<u>Pension</u>	<u>OPEB</u>
June 30, 2023	0.111853%	0.111849%
Decrease	<u>(0.002338%)</u>	<u>(0.001826%)</u>
June 30, 2024	<u>0.109515%</u>	<u>0.110023%</u>

The Water System's net pension liability and OPEB asset and expense as of and for the year ended May 31, 2025, were as follows:

	<u>Net Pension Liability</u>	<u>Net OPEB Asset</u>
Proportionate Share	\$ <u>6,573,389</u>	\$ <u>(190,318)</u>
Pension/OPEB Expense	\$ <u>911,959</u>	\$ <u>-</u>

At May 31, 2025, the Water System reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	<u>Pension</u>		<u>OPEB</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 318,164	\$ -	\$ 105,586	\$ 1,497,430
Changes of assumptions	-	296,988	172,452	134,290
Net difference between projected and actual earnings on plan investments	-	422,634	-	173,677
Changes in proportion and differences between contributions and proportionate share of contributions	-	358,153	-	393,496
Contributions subsequent to the measurement date	<u>828,293</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ <u>1,146,457</u>	\$ <u>1,077,775</u>	\$ <u>278,038</u>	\$ <u>2,198,893</u>

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

6. Pension and Other Postemployment Benefits – CERS, Continued

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

The \$828,293 of deferred outflows of resources resulting from the Water System's pension contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending May 31, 2025. 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,	<u>Pension</u>	<u>OPEB</u>
2026	\$ (495,965)	\$ (840,804)
2027	(6,993)	(593,793)
2028	(162,465)	(451,964)
2029	(94,188)	(34,294)
	<u>\$ (759,611)</u>	<u>\$ (1,920,855)</u>

Actuarial Assumptions

The total pension/OPEB liabilities in the June 30, 2023, actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Healthcare payroll growth rate	2.00%
Salary increases	3.30% to 10.30%, varies by service
Net investment rate of return	6.50%
Healthcare cost trend rates (OPEB)	Pre-65: Initial trend starting at 7.10% at January 1, 2026, and gradually decreasing to an ultimate trend rate of 4.25% over a period of 14 years. Post-65: Initial trend starting at 8.0% in 2026, then gradually decreasing to an ultimate trend rate of 4.25% over a period of 9 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-2020 mortality improvement scale using a base year of 2010. The mortality table used for nondisabled retired members

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

6. Pension and Other Postemployment Benefits – CERS, Continued

Actuarial Assumptions, Continued

was a system-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for the disabled retired members was PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 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>
Equity		
Public equity	50.00%	4.15%
Private equity	10.00	9.10%
	<u>60.00</u>	
Liquidity		
Core fixed income	10.00	2.85%
Specialty credit	10.00	3.82%
Cash	0.00	1.70%
	<u>20.00</u>	
Inflation protected		
Real estate	7.00	4.90%
Real return	13.00	5.35%
	<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, 2025 and 2024

6. Pension and Other Postemployment Benefits – CERS, Continued

Discount Rate, Continued

	Pension	OPEB
Discount rate, June 30, 2023	6.50%	5.93%
Increase (decrease)	-	.06%
Discount rate, June 30, 2024	6.50%	5.99%

The discount rate of 6.50% used to measure the total pension liability was based on the expected rate of return on pension plan investments. The discount rate of 5.99% used to measure the total OPEB liability was based on the expected rate of return on OPEB plan investments of 6.50% and a municipal bond rate of 3.97% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2024.

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 each future year calculated in accordance with the current funding policy.

Sensitivity of the Water System's Proportionate Share of the Pension Liability and OPEB Asset to Changes in the Discount Rate

The following presents the Water System's proportionate share of the net pension liability and OPEB asset, as well as what the Water System's proportionate share of the net pension liability and OPEB liability (asset) 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 (Asset)
1% decrease	5.50%	\$ 8,474,172	4.99%	\$ 257,332
Current discount rate	6.50%	\$ 6,573,389	5.99%	\$ (190,318)
1% increase	7.50%	\$ 4,996,240	6.99%	\$ (566,703)

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

6. Pension and Other Postemployment Benefits – CERS, Continued

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

The following presents the Water System's proportionate share of the net OPEB asset, as well as what the Water System's proportionate share of the net OPEB liability (asset) 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	6.10% Pre-65 or 7.00% Post-65	\$ (457,883)
Current healthcare cost trend rates	7.10% Pre-65 or 8.00% Post-65	\$ (190,318)
1% increase	8.10% Pre-65 or 9.00% Post-65	\$ 121,375

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, 2025.

Pension	OPEB
\$ 104,027	\$ -

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 \$4,521,293 and \$4,288,336 for 2025 and 2024, respectively.

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

NOTES TO FINANCIAL STATEMENTS

Years Ended May 31, 2025 and 2024

9. 401(a) Qualified Retirement Plan

At the beginning of 2025, OMU adopted a defined contribution 401(a) plan available to all employees who meet the eligibility requirements of the plan. Under the plan, OMU will match 100% of the employee's contribution up to 2% of the employee's gross wages. Employees will be fully vested after five complete years of service.

10. 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>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Water System's proportion of the net pension liability	0.109915%	0.111853%	0.106688%	0.120660%	0.132245%	0.128660%	0.126208%	0.122463%	0.123810%	0.120923%
Water System's proportionate share of the net pension liability	\$ 6,573,389	\$ 7,177,076	\$ 7,712,455	\$ 7,693,040	\$ 10,143,064	\$ 9,048,688	\$ 7,686,431	\$ 7,168,159	\$ 6,095,910	\$ 5,199,116
Water System's covered payroll	\$ 4,626,887	\$ 4,413,819	\$ 4,500,545	\$ 4,127,221	\$ 3,721,734	\$ 3,491,495	\$ 3,316,556	\$ 2,923,793	\$ 2,869,077	\$ 2,803,919
Water System's proportionate share of the net pension liability as a percentage of its covered payroll	142.07%	162.60%	171.37%	186.40%	272.54%	259.16%	231.76%	245.17%	212.47%	185.42%
Plan fiduciary net position as a percentage of the total pension liability	61.61%	57.48%	52.42%	57.33%	47.81%	50.45%	53.54%	53.32%	55.50%	59.97%

OWENSBORO MUNICIPAL UTILITIES
WATER SYSTEM

SCHEDULE OF PENSION CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM

Last 10 Fiscal Years

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2023</u>	<u>2023</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contributions	\$ 911,959	\$ 1,059,815	\$ 981,441	838,869	\$ 800,674	\$ 703,199	\$ 564,166	\$ 484,778	\$ 407,575	\$ 355,884	
Contributions in relation to the contractually required contributions	(911,959)	(1,059,815)	(981,441)	(838,869)	(800,674)	(703,199)	(564,166)	(484,778)	(407,575)	(355,884)	
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Water System's covered payroll	\$ 4,626,887	\$ 4,540,766	\$ 4,192,281	3,965,269	\$ 4,150,073	\$ 3,673,597	\$ 3,507,140	\$ 3,355,482	\$ 2,941,934	\$ 2,815,932	
Contributions as a percentage of covered payroll	19.71%	23.34%	23.41%	21.16%	19.29%	19.14%	16.09%	14.45%	13.85%	12.64%	

**OWENSBORO MUNICIPAL UTILITIES
WATER SYSTEM**

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

Last 10 Fiscal Years *

	<u>2025</u>	<u>2024</u>	<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 (asset)	0.110023%	0.111849%	0.106675%	0.120632%	0.132206%	0.128660%	0.126208%	0.122463%	0.123810%
Water System's proportionate share of the net OPEB liability (asset)	\$ (190.318)	\$ (154.427)	\$ 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	\$ 4,626,887	\$ 4,413,819	\$ 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 (asset) as a percentage of its covered payroll	4.11%	3.50%	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	104.89%	104.23%	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

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contributions	\$ -	\$ -	\$ 142,183	\$ 229,035	\$ 197,472	\$ 173,431	\$ 182,954	\$ 157,352	\$ 138,196	\$ 132,955
Contributions in relation to the contractually required contributions	-	-	(142,183)	(229,035)	(197,472)	(173,431)	(182,954)	(157,352)	(138,196)	(132,955)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Water System's covered payroll	\$ 4,649,627	\$ 4,578,166	\$ 4,192,281	\$ 3,965,269	\$ 4,150,073	\$ 3,673,597	\$ 3,507,140	\$ 3,355,482	\$ 2,941,934	\$ 2,815,932
Contributions as a percentage of covered payroll	0.00%	0.00%	3.39%	5.78%	4.76%	4.72%	5.22%	4.69%	4.70%	4.72%

**OWENSBORO MUNICIPAL UTILITIES
WATER WORKS SYSTEM**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Year Ended May 31, 2025

Changes of Benefit Terms

2016 thru 2025 None

Changes of Assumptions

2025 OPEB:
 The single discount rate changed from 5.93% to 5.99%.

2024 Pension and OPEB:
 The single discount rate changed from 6.25% to 6.50% for Pension.
 The single discount rate changed from 5.70% to 5.93% for OPEB.

2023 OPEB:
 The single discount rate changed from 5.20% to 5.70%.

2022 OPEB:
 The single discount rate changed from 5.34% to 5.20%.

2021 OPEB:
 The single discount rate changed from 5.68% to 5.34%.

2020 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%.

2019 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%.

2018 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%.

2017 None

2016 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, 2025, and the related notes to the financial statements, and have issued our report thereon dated September 5, 2025.

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.

A handwritten signature in black ink, appearing to read "Ringtham CPAs PSC".

Owensboro, Kentucky
September 5, 2025