

EAST CLARK COUNTY WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2025 and 2024

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SUMMERS, MCCRARY & SPARKS, P.S.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of
East Clark County Water District
Winchester, KY

Opinions

We have audited the accompanying financial statements of the business-type activities of the East Clark County Water District, as of and for the years ended December 31, 2025 and December 31, 2024, and the related notes to the financial statements, which collectively comprise the East Clark County Water District's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the East Clark County Water District, as of December 31, 2025 and December 31, 2024, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 East Clark County Water District, 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 East Clark County Water District'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 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.

In performing an audit in accordance with generally accepted 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 East Clark County Water District'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 East Clark County Water District'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 4-7, budgetary comparison information on page 40, and schedules of proportionate of net pension liability and contributions and net OPEB liability and contributions on pages 33-39 be presented to supplement the basic financial statements.

Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 opinions on the financial statements that collectively comprise the East Clark County Water District's basic financial statements. The Statement of Revenue, Expenditures, and Changes in Net Position- Budget to Actual, Statement of Functional Expenses- 2025 and Statement of Functional Expenses – 2024 are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit and the report of the other auditors, the Statement of Revenue, Expenditures, and Changes in Net Position- Budget to Actual, Statement of Functional Expenses- 2025 and Statement of Functional Expenses – 2024 are fairly stated, in all material respects, in relation to the basic 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 March 31, 2026, on our consideration of the District'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 to solely 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 East Clark County Water District'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 District's internal control over financial reporting and compliance.

Summers, McCrary & Sparks, PSC

Lexington, KY

March 31, 2026

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
DECEMBER 31, 2025 and 2024

East Clark County Water District (the District) is presenting the following discussion and analysis to provide an overall review of the District's financial activities for the fiscal years ending December 31, 2025, 2024, and 2023. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

2025 FINANCIAL HIGHLIGHTS

- The District's operating revenues remained consistent with the prior year and operating expenses increased from the prior year.
- During 2025 the District received \$159,249 in additional Clean Water Grants.
- The District's total assets plus deferred outflows of resources decreased \$123,490 or 1.22%. Total liabilities and deferred inflows of resources decreased \$172,752 or 8.88% from 2024 to 2025. Net position increased \$49,292 or 0.6% from 2024 to 2025.
- Interest income for 2025 was \$77,777 which is a decrease of \$1,201 from interest income in 2024.

GENERAL INFORMATION ABOUT EAST CLARK COUNTY WATER DISTRICT

The East Clark County Water District was organized in 1967 pursuant to Chapter 74 of the Kentucky Revised Statutes. Management is vested in a five-member commission consisting of a chairman and four commissioners appointed by Clark County Fiscal Court.

The District relies on Winchester Municipal Utilities and Kentucky American Water Company for its water supply. Water is pumped to approximately 2800 customers through more than 197 miles of water mains. The Kentucky Public Service Commission (PSC) regulates the District in matters of rates, rules, and levels of service.

DISTRICT FINANCIAL ANALYSIS

The Statements of Net Position include all the District's assets and liabilities. These statements provide information about the nature and amounts of investments in resources and the obligations to creditors, which are the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the District. A summary of the District's Statements of Net Position is presented below.

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
DECEMBER 31, 2025 AND 2024

Condensed Statements of Net Position

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Current and other assets	\$ 2,789,327	\$ 2,701,218	\$ 2,492,615
Capital Assets, net of depreciation	<u>7,210,594</u>	<u>7,390,054</u>	<u>7,243,691</u>
Total Assets	<u>9,999,921</u>	<u>10,091,272</u>	<u>9,563,992</u>
Deferred Outflows of resources	<u>275,975</u>	<u>308,114</u>	<u>347,561</u>
Debt outstanding	440,171	516,206	604,528
Other liabilities	<u>1,057,105</u>	<u>1,047,028</u>	<u>1,022,891</u>
Total liabilities	<u>1,497,276</u>	<u>1,563,234</u>	<u>1,627,419</u>
Deferred Inflows of resources	<u>275,344</u>	<u>382,138</u>	<u>485,278</u>
Investment in capital assets, net of depreciation	6,770,423	6,873,848	6,466,849
Restricted net assets	108,814	103,998	94,471
Unrestricted net assets	<u>1,624,039</u>	<u>1,476,168</u>	<u>1,248,657</u>
Total net position	<u>\$ 8,503,276</u>	<u>\$ 8,454,014</u>	<u>\$ 7,809,977</u>

Net position increased \$49,262 from 2024 to 2025, an increase of 0.58%. Debt outstanding decreased \$76,035 or 14.73% from 2024.

Condensed Statements of Revenue, Expenditures, and Changes in Net Position

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Operating revenues	\$ 1,810,236	\$ 1,802,347	\$ 1,758,534
Non-operating revenues	<u>131,616</u>	<u>613,418</u>	<u>66,559</u>
Total revenues	<u>1,941,852</u>	<u>2,415,765</u>	<u>1,825,093</u>
Operating Expenses	1,527,430	1,402,122	1,336,928
Depreciation	389,600	390,074	378,743
Non-operating expense	<u>17,263</u>	<u>18,008</u>	<u>21,094</u>
Total expenses	<u>1,934,293</u>	<u>1,810,204</u>	<u>1,736,765</u>
Net income	7,558	605,561	88,328
Customer connection fees	<u>41,704</u>	<u>60,700</u>	<u>53,300</u>
Change in net position	<u>49,262</u>	<u>666,261</u>	<u>141,628</u>

In 2025, the District's operating revenue increased \$7,889 or 0.44% over 2024. Non-operating revenue consisted of interest income of \$77,777, grant proceeds of \$159,249, and a loss on sale of assets of \$105,411 for a total of \$131,615. In 2024, non-operating revenue consisted of interest income of \$78,978, grant proceeds of \$528,517, and a gain on sale of assets of \$5,923. In 2023, non-operating revenue consisted of interest income of \$40,050 and grant proceeds of \$26,500.

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
DECEMBER 31, 2025 AND 2024

Operating expenses increased by \$125,308 during 2025, which was a 8.94% increase. Increases were primarily due to increases in personnel costs and operating supplies. In 2024, operating expenses increased by \$76,525 which was a 4.46% increase. Increases were primarily due to increases in personnel costs, operating supplies and purchased water. The decrease in depreciation between 2025 and 2024 was \$474 or 0.12%. Non-operating expense consisted solely of interest expense on debt of \$17,263, \$18,008, and \$21,094, for the three years 2025, 2024, and 2023, respectively.

CAPITAL EXPENDITURES

		<u>2025</u>		<u>2024</u>		<u>2023</u>
Capital Assets	\$	14,920,003	\$	14,933,084	\$	14,449,366
Accumulated depreciation		(7,709,409)		(7,543,030)		(7,377,989)
	\$	<u>7,210,594</u>	\$	<u>7,390,054</u>	\$	<u>7,071,377</u>

In 2019, the District began a waterline extension project which was temporarily suspended in 2020, due to the coronavirus pandemic. The project was resumed in early 2023 when it was safe to contact landowners in the area. In 2024 and 2025, the District continued work on two clean water projects and completed a line extension on Highway 15 at Kiddville Road. Acquisitions of equipment were financed from the District’s reserve funds in 2025, 2024 and 2023. Contributions to capital for new meters tapped on to existing lines amounted to \$41,704, \$60,700 and \$53,300 in 2025, 2024 and 2023 respectively.

BONDS AND CAPITAL LEASE OBLIGATIONS

		<u>2025</u>		<u>2024</u>		<u>2023</u>
Bonds	\$	435,000	\$	510,000	\$	595,000
Premium/(Discount)		5,171		6,206		9,528
Total	\$	<u>440,171</u>	\$	<u>516,206</u>	\$	<u>604,528</u>

The District made all its scheduled debt payments during 2025, 2024 and 2023.

ECONOMIC FACTORS AND FUTURE BUDGET ISSUES

The District continued to experience new growth from new meter installations on existing waterlines during 2025. The growth is attributed to new housing starts in Clark County and is expected to continue in 2026.

The District purchases water from Winchester Municipal Utilities and Kentucky American Water Company for distribution to District customers. Water rate increases by these supplies are passed on to District customers as they occur.

Due to the increases in transmission costs and other operating expenses the District had operated at a loss for several years. The District petitioned the Kentucky Public Service Commission and was granted a rate increase in 2022. Net operating income was \$42,863 in 2023 but declined to \$10,151 in 2024 and continued declining in 2025 to a loss of \$106,794. Another rate increase is anticipated in the near future.

EAST CLARK COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
DECEMBER 31, 2025 AND 2024

DISTRICT CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the utility's finances and to demonstrate the utility's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact East Clark County Water District, 118 Hopkins Street, Winchester, KY 40392 or by phone at (859) 745-1458 or by email at wdballard@bellsouth.net.

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2025 AND 2024

ASSETS

	<u>2025</u>	<u>2024</u>
Current assets:		
Cash and cash equivalents	\$ 703,192	\$ 673,899
Investments	1,703,391	1,623,817
Receivables:		
Customer accounts	117,311	122,574
Unbilled	61,443	61,443
Accrued interest	11,230	14,811
Inventory, at cost	83,632	73,306
Prepaid expenses	25,493	25,851
	<u>2,705,692</u>	<u>2,595,701</u>
 Restricted assets:		
Cash and cash equivalents	83,635	82,564
	<u>83,635</u>	<u>82,564</u>
 Capital assets:		
Property, plant and equipment, net of depreciation	6,344,630	6,673,784
Construction in progress	775,920	626,226
Land	90,044	90,044
	<u>7,210,594</u>	<u>7,390,054</u>
 Other noncurrent assets:		
Net OPEB asset	-	22,953
	<u>-</u>	<u>22,953</u>
 Total assets	<u>9,999,921</u>	<u>10,091,272</u>
 Deferred outflows of resources	275,975	308,114
	<u>275,975</u>	<u>308,114</u>
 Total assets and deferred outflows of resources	<u>\$ 10,275,896</u>	<u>\$ 10,399,386</u>

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2025 AND 2024

LIABILITIES AND NET POSITION

	<u>2025</u>	<u>2024</u>
Current liabilities:		
Accounts payable, trade	\$ 4,607	\$ 10,835
Accrued compensated absences	54,431	46,582
Accrued interest payable	7,407	8,695
Accrued liabilities	36,156	34,820
Refundable customer deposits	153,177	151,537
Revenue bonds - current portion	75,000	75,000
Total current liabilities	330,778	327,469
Long-term liabilities:		
Revenue bonds net of current portion	365,171	441,206
Net OPEB liability	13,604	-
Net pension liability	787,723	794,559
Total long-term liabilities	1,166,498	1,235,765
Total liabilities	1,497,276	1,563,234
Deferred inflows of resources	275,344	382,138
Net Position		
Net Investment in capital assets	6,770,423	6,873,848
Restricted:		
Restricted for debt retirement	108,814	103,998
Unrestricted	1,624,039	1,476,168
Total net position	8,503,276	8,454,014
Total liabilities, net position and deferred inflows of resources	\$ 10,275,896	\$ 10,399,386

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
Operating revenues		
Water sales	\$ 1,764,948	\$ 1,759,178
Other operating income	<u>45,288</u>	<u>43,169</u>
Total operating revenues	<u>1,810,236</u>	<u>1,802,347</u>
Operating expenses		
Transmission, distribution and services	686,220	600,499
Purchased water	378,880	407,723
General and administrative	462,330	393,900
Depreciation	<u>389,600</u>	<u>390,074</u>
Total operating expenses	<u>1,917,030</u>	<u>1,792,196</u>
Operating income	<u>(106,794)</u>	<u>10,151</u>
Non-operating revenues (expenses):		
Customer connection fees	41,704	60,700
Interest income	77,777	78,978
Grant revenue	159,249	528,517
Gain (Loss) on disposal of assets	(105,411)	5,923
Interest expense	<u>(17,263)</u>	<u>(18,008)</u>
Total non-operating revenues (expenses)	<u>156,056</u>	<u>656,110</u>
Change in net position	<u>49,262</u>	<u>666,261</u>
Net position at the beginning of the year	8,454,014	7,809,977
Change in accounting principle	-	<u>(22,224)</u>
Net position at the beginning of the year - restated	<u>8,454,014</u>	<u>7,787,753</u>
Net position at the end of the year	<u><u>\$ 8,503,276</u></u>	<u><u>\$ 8,454,014</u></u>

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,860,623	\$ 1,807,104
Cash payments to suppliers for goods and services	(756,795)	(727,514)
Cash payments to employees and professional contractors for services	<u>(867,352)</u>	<u>(775,835)</u>
Net cash provided by operating activities	<u>236,476</u>	<u>303,755</u>
Cash flows from capital and related financing activities:		
Principal payments on bonds and lease obligations	(76,035)	(88,322)
Interest payments on bonds and lease obligations	(17,263)	(18,008)
Purchase of fixed assets	(319,274)	(712,053)
Sale of fixed assets	3,723	9,224
Customer connection fees	<u>41,704</u>	<u>60,700</u>
Net cash used by capital and related financing activities	<u>(367,145)</u>	<u>(748,459)</u>
Cash flows from investing activities:		
Non-operating revenue	159,249	528,517
Sale (acquisition) of unrestricted investments	(79,574)	(80,785)
Interest received on cash deposits and investments	<u>81,358</u>	<u>87,153</u>
Net cash provided by investing activities	<u>161,033</u>	<u>534,885</u>
Increase (decrease) in cash and cash equivalents	30,364	90,181

EAST CLARK COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
Increase (decrease) in cash and cash equivalents (from page 10)	30,364	90,181
Cash and cash equivalents at the beginning of the year	<u>756,463</u>	<u>666,282</u>
Cash and cash equivalents at the end of the year	<u>\$ 786,827</u>	<u>\$ 756,463</u>
Reconciliation of cash and cash equivalents at the end of the year		
Unrestricted cash and cash equivalents	\$ 703,192	\$ 673,899
Restricted cash and cash equivalents	<u>83,635</u>	<u>82,564</u>
Total cash and cash equivalents at the end of the year	<u>\$ 786,827</u>	<u>\$ 756,463</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ (106,794)	\$ 10,151
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	389,600	390,074
(Increase) decrease in:		
Customer accounts receivable	5,263	6,815
Unbilled receivable	-	(9,233)
Inventory	(10,326)	(15,036)
Prepaid expenses	358	(5,404)
Net OPEB asset	22,953	(5,811)
Changes in deferred outflows of resources	32,139	33,426
Increase (decrease) in:		
Accounts payable, trade accounts	(6,228)	2,191
Accrued liabilities	1,336	(7,915)
Accrued interest payable	(1,288)	(1,046)
Accrued compensated absences	7,849	3,948
Changes in net pension liability	(6,836)	(2,115)
Changes in net OPEB liability	13,604	-
Changes in deferred inflows of resources	(106,794)	(103,140)
Customer deposits	<u>1,640</u>	<u>6,850</u>
Net cash provided by operating activities	<u>\$ 236,476</u>	<u>\$ 303,755</u>

See accompanying notes to the financial statements

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

East Clark County Water District (the District) is a "Class B" water district located in Clark County, Kentucky, with principal offices located at 118 Hopkins Lane, Winchester, Kentucky. It was organized in 1967, under Kentucky Revised Statutes, Chapter 74. It is overseen by a five-member commission consisting of a chairman and four commissioners, all appointed by Clark County Fiscal Court. Water is purchased from Winchester Municipal Utilities and Kentucky American Water Company and resold to approximately 2,800 residential and commercial customers.

Basis of Accounting and Measurement Focus

The financial transactions are accounted for and presented in accordance with standards developed by the Governmental Accounting Standards Board (GASB). As such, the District's financial transactions are accounted for as a business-type activity and, its financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. The District is financed and operated in a manner similar to a private business where the intent of the governing body is that cost (expenses, including depreciation) of providing goods or services to the public on a continuing basis are financed primarily through user charges.

The District is accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating Revenues and Expenses

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering water to customers in connection with the District's ongoing operations. The principal operating revenues are charges to customers for water sales and services. Operating expenses include the cost of purchasing water and other related service expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Non-operating revenues and expenses consists of transactions outside normal costs of operations and may include interest income and expenses as well as grants, customer contributed fees, sales of assets and external contract related to road and railroad maintenance and improvements.

Property and Equipment

The District capitalizes expenditures for property and equipment of \$1,000 or more. Property and equipment are stated at cost. Donations are recorded at their fair market value at the date of transfer. No donated assets were received in the years ended December 31, 2025 and 2024.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Depreciation of exhaustible fixed assets is charged as an expense against operations, and accumulated depreciation is reported on the balance sheets. Depreciation is provided for financial statement purposes by the straight-line method over the following estimated useful lives:

Lines and storage	50 years
Building	30 years
Pumps and treatment equipment	20 years
Maintenance equipment and vehicles	3-10 years
Office furniture and equipment	3-5 years

Capital Grants and Subsidies

The purchase of property and equipment acquired by grants and subsidies restricted for that purpose are capitalized and the grant or subsidy is recorded as non-operating revenue. These grants and subsidies are not subject to repayment. Certain plant assets have been contributed by customers. These contributions are not subject to repayment.

Receivables

All receivables are reported at their gross value. Estimated un-billed revenues from water sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billing during the month following the close of the fiscal year. No allowance for doubtful accounts is provided. The District identifies and writes off uncollectible accounts as they occur. Amounts written off as of December 31, 2025 and 2024 were \$1,813 and \$1,845, respectively.

Vacation, Sick Leave, and Other Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Paid vacation time accrues at the rate of one to three weeks based on the length of employment. Unused vacation time may be carried forward from one year to the next with certain limitations. Other compensated absences do not vest and are recorded as expenditures when they are paid.

Pensions

GASB Statement No. 68 requires recognition in the financial statements and notes of the employer's (the District) obligation for the net long- term pension obligations. See Note 7.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Postemployment Benefits (OPEB)

Beginning in fiscal year 2018, the District implemented GASB Statement No. 75, which requires recognition of the employer's (the District) obligation for the net long-term OPEB obligations. See Note 8.

Cash and Cash Equivalents

The District includes in "cash and cash equivalents", cash on hand and unrestricted cash in checking accounts, money market accounts, federal treasury obligations, and restricted and unrestricted certificates of deposit with maturities of three months or less.

Inventories

Inventories are stated at the lower of cost or market value on a first-in, first-out basis.

Investments

Investments consist of certificates of deposit with maturity dates of three months or more. Management believes the face value of the certificates approximates their market value. Certificates of deposit in excess of FDIC insurance are collateralized by securities held by the pledging institution.

Interest

Interest is charged to expense as incurred except for interest related to loans used for construction projects, which is capitalized net of interest earned on such borrowed construction funds. Interest capitalization ceases when the construction project is substantially complete. There was no capitalized interest during 2025 and 2024.

Compensated Absences

It is the District's policy to permit employees to accumulate earned, but unused vacation leave which will be paid to employee upon separation from the District's service. A liability has been recorded representing the District's commitment to fund such costs from future operations. The District has also recorded a liability for all leave expected to be used in the next fiscal year. This estimate was calculated using a rolling three year average of paid time off used.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

The Statement of Net Position includes a separate section for Deferred Outflows of Resources. This represents the usage of net position applicable to future periods and will be recognized as expenditures in the future period to which it applies. This category includes amounts related to pensions and other post-employment benefits (OPEB) for certain actuarially determined differences between projected and actual investment earnings and/or other differences between projected and actual demographic experience, as well as contributions made by the District subsequent to the measurement date.

The Statement of Net Position includes a separate section for Deferred Inflows of Resources. This represents the acquisition of net position applicable to future periods and will be recognized as revenue in the future period to which it applies. This category includes amounts related to pensions and OPEB for certain actuarially determined differences between projected and actual demographic experience and/or projected and actual investment earnings.

Net Position Classifications

The District records restrictions for portions of its net position which are legally segregated for specific future use, or which do not represent available spendable resources and therefore are not available for appropriation. Unrestricted portions of net position indicate amounts which are available for appropriation in future periods. Restrictions in net position are classified as follows:

- **Net Investment in Capital Assets** includes the District's capital assets, (net of accumulated depreciation) reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The net investment in capital assets also reflects any related balances in deferred outflows or inflows of resources.

- **Restricted for Debt Service** includes assets that have been set aside as required by statute or bond covenant for the future payment of the District's debt.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources in accordance with their restrictions first, then unrestricted resources, as they are needed.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Pronouncements

The District has implemented the following new accounting pronouncements:

GASB Statement No. 101: - During FY2025, The District implemented GASBS No. 101, Compensated Absences. This standard revises some definitions for compensated absences and consolidates guidance for all types of leave to a single accounting recognition. See earlier discussion of the basis used to estimate the probability of using this leave and See Note 11 for the impact of the retroactive application of this guidance to compensated absence leave as of December 31, 2024.

GASB Statement No. 102: - GASBS No. 102, Certain Risk Disclosures, was issued in December 2023 and was effective for fiscal years beginning after June 15, 2024. This standard requires additional disclosures for concentrations that reflect a lack of diversity in resource flows. In addition, disclosures about constraints that impose limitation by external party or by the formal action of the government's highest level of decision-making authority. Constraints may also affect a government's ability to acquire resources or control spending. The District has evaluated significant revenue sources and critical legal and statutory requirements to evaluate whether the District is vulnerable to risks of concentration or constraints. The District's management has determined that no risk disclosures are required by GASBS No. 102.

GASB Statement No. 103: - In April 2024, the GASB issued Statement No. 103, Financial Reporting Model Improvements, effective for fiscal years beginning after June 15, 2025 (The District's 2026 fiscal year). This guidance clarifies management's responsibility for explaining key variances in management's discussion and analysis. The budget discussion will be deleted from the MD&A and governments will only report the budgetary comparison schedule in required supplementary information. Additional changes include classification of unusual or infrequent items, the reporting format for proprietary statements, and reporting major component units.

GASB Statement No. 104: - GASBS No. 104, Disclosure of Certain Capital Assets, was issued in September 2024 and will be effective for fiscal years beginning after June 15, 2025 (The District's 2026 fiscal year). GASBS No. 104 requires separate reporting of leased, public-private partnership, and subscription-based information technology right-to-use assets. Additional disclosures may also be required for capital assets that are held for resale. The District currently has no leased or SBITA right-to-use assets or capital assets that are held for sale, so implementation of this standard will have no impact on the District's financial position.

EAST CLARK COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2025 AND 2024

NOTE 2 – CUSTODIAL CREDIT RISK- DEPOSITS

The District investment policies conform to the statutes of the Commonwealth of Kentucky. District funds are deposited in banks insured by the Federal Deposit Insurance Corporation (FDIC). Investments include certificates of deposit with maturities greater than three months. Collateral, from banks, is required for all deposits in excess of FDIC insurance at 100% of the carrying amount of the deposits. Collateral consists of obligations of the United States and Kentucky Revenue Bonds and is held by the bank’s trust department in the District’s name or by letter of credit held by a third party in the District’s name.

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the District’s deposits and/or investments may not be returned to it. The District’s policy on custodial credit risk requires banks to pledge additional bank assets as collateral on District’s deposits that exceed FDIC insurance.

As of December 31, 2025, and 2024, District’s total deposits at banks were \$2,410,707 and \$2,306,227 respectively, were exposed to custodial credit risk as follows:

	2025	2024
Insured by FDIC coverage	\$ 500,000	\$ 500,000
Insured by collateral held by a third party in the District's name	1,595,000	1,500,000
Insured by collateral held by the bank's trust department in the District's name	488,689	542,031
	\$ 2,583,689	\$ 2,542,031

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The District’s fair value measurements are all based upon Level 1 inputs. As of December 31, 2025 the District’s funds held with two financial institutions were overinsured by \$172,982 collectively.

NOTE 3 - CREATION OF FUNDS AND RESTRICTIONS ON CASH

The Bond Resolutions require the creation of various separate deposit accounts, each designated for a specific purpose, as defined in the resolution. A summary of the required accounts and their significant provisions follows:

Bond and Interest Sinking Funds

The Bond and Interest Sinking Funds were established to provide sources of funds for the payment of bond principal and interest, currently due. Each month funds equal to the total of (1) one-sixth of the next succeeding semiannual interest payment plus (2) one-twelfth of the next annual bond principal payments are to be transferred to the funds. For the years ended December 31, 2025 and 2024 the required Sinking Fund Reserve balances were \$108,814 and \$103,998, respectively.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 4 – PROPERTY, PLANT, AND EQUIPMENT

Activity for plant and equipment, which is capitalized by the District for the year ended December 31, 2025 and 2024, is summarized below:

2025:	Beginning Balance	Additions	Retirements	Ending Balance
Non depreciable assets:				
Land	\$ 90,044	\$ -	\$ -	\$ 90,044
Construction in Progress	626,226	149,694	-	775,920
Total non-depreciable assets	<u>716,270</u>	<u>149,694</u>	<u>-</u>	<u>865,964</u>
Depreciable assets:				
Buildings & improvements	618,832	37,857	-	656,689
Pumps	98,539	-	-	98,539
Lines & storage	11,441,035	-	332,356	11,108,679
Meters	1,371,057	41,704	-	1,412,761
Office equipment	73,641	-	-	73,641
Vehicles	318,094	-	-	318,094
Maintenance equipment	295,615	90,020	-	385,635
Total depreciable assets	<u>14,216,812</u>	<u>169,581</u>	<u>332,356</u>	<u>14,054,037</u>
Less accumulated depreciation				
Buildings & improvements	226,944	29,910	-	256,854
Pumps	90,007	1,590	-	91,597
Lines & storage	5,882,095	251,080	-	6,133,175
Meters	877,637	58,668	223,222	713,083
Office equipment	51,615	4,830	-	56,445
Vehicles	165,776	28,918	-	194,694
Maintenance equipment	248,954	14,604	-	263,558
Total accumulated depreciation	<u>7,543,028</u>	<u>389,600</u>	<u>223,222</u>	<u>7,709,406</u>
Depreciable assets, net	<u>6,673,785</u>	<u>(220,019)</u>	<u>109,134</u>	<u>6,344,632</u>
Total capital assets, net of depreciation	<u>\$ 7,390,054</u>	<u>\$ (70,325)</u>	<u>\$ 109,134</u>	<u>\$ 7,210,594</u>

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 4 – PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

2024:	Beginning Balance	Additions	Retirements	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Non depreciable assets:				
Land	\$ 90,044	\$ -	\$ -	\$ 90,044
Construction in Progress	116,287	509,939	-	626,226
Total non-depreciable assets	<u>206,331</u>	<u>509,939</u>	<u>-</u>	<u>716,270</u>
Depreciable assets:				
Buildings & improvements	632,934	119,722	133,824	618,832
Pumps	98,539	-	-	98,539
Lines & storage	11,419,344	21,691	-	11,441,035
Meters	1,310,357	60,700	-	1,371,057
Office equipment	90,209	-	16,568	73,641
Vehicles	369,469	-	51,375	318,094
Maintenance equipment	322,177	-	26,562	295,615
Total depreciable assets	<u>14,243,029</u>	<u>202,113</u>	<u>228,330</u>	<u>14,216,812</u>
Less accumulated depreciation				
Buildings & improvements	329,890	27,596	130,542	226,944
Pumps	86,958	3,049	-	90,007
Lines & storage	5,628,051	254,044	-	5,882,095
Meters	820,501	57,136	-	877,637
Office equipment	62,899	5,266	16,550	51,615
Vehicles	188,233	28,918	51,375	165,776
Maintenance equipment	261,451	14,065	26,562	248,954
Total accumulated depreciation	<u>7,377,983</u>	<u>390,074</u>	<u>225,029</u>	<u>7,543,028</u>
Depreciable assets, net	<u>6,865,046</u>	<u>(187,96)</u>	<u>3,301</u>	<u>6,673,785</u>
Total capital assets, net of depreciation	<u>\$ 7,071,377</u>	<u>\$ 321,978</u>	<u>\$ 3,301</u>	<u>\$ 7,390,054</u>

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 5 – LONG TERM DEBT AND LEASES

The District issues revenue bonds to finance improvements and extensions to water lines. During 2025 and 2024 the District issued no new revenue bonds.

At December 31, 2025 and 2024, East Clark County Water District had the following long-term debt and leases outstanding:

2025 Bonds:

Description	Beginning Balance	New Issue	Principal Payment	Ending Balance	Due Within One Year
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2010C Bonds, with interest of 2.2% to 4.35% payable 1/1 and 7/1	\$ 285,000	\$ -	\$ 40,000	\$ 240,000	\$ 45,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2011C Bonds, with interest of 2.15% to 4.275% payable 1/1 and 7/1	225,000	-	30,000	195,000	30,000
Bond Premiums	6,206	-	1,035	5,171	-
	<u>\$ 516,206</u>	<u>\$ -</u>	<u>\$ 76,035</u>	<u>\$ 440,171</u>	<u>\$ 75,000</u>

2024 Bonds:

Description	Beginning Balance	New Issue	Principal Payment	Ending Balance	Due Within One Year
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2010C Bonds, with interest of 2.2% to 4.35% payable 1/1 and 7/1	\$ 325,000	\$ -	\$ 40,000	\$ 285,000	\$ 45,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2011C Bonds, with interest of 2.15% to 4.275% payable 1/1 and 7/1	255,000	-	30,000	225,000	30,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program, Series 2013C Bonds, with interest of 2.3% to 4.8% payable 1/1 and 7/1	15,000	-	15,000	-	-
Bond Premiums	9,528	-	3,322	6,206	-
	<u>\$ 604,528</u>	<u>\$ -</u>	<u>\$ 88,322</u>	<u>\$ 516,206</u>	<u>\$ 75,000</u>

NOTE 6 – INSURANCE

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees and customers; and acts of God. The District insures against these risks through insurance obtained from the Kentucky Association of Counties (KACO) which is a pooled risk association. In addition, casualty and liability insurance, KACO also provides the District’s worker’s compensation insurance. The District pays an annual premium for insurance coverage and is liable for additional premium assessments as determined by the pooled losses. At December 31, 2024 and 2023, no additional premium assessment had been made.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS)

General information about the County Employees Retirement System Non-Hazardous (“CERS”)

Plan description—Employees are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Public Pensions Authority (KPPA), an agency of the Commonwealth of Kentucky. As of April 1, 2021, Kentucky Revised Statute (“KRS”) Section 78.782 shifted the governance of CERS to a separate Board of Trustees of the County Employees Retirement System. The CERS Board manages the CERS trust, including investment management. KPPA provides the day-to-day administration (KRS 61.505) for accounting and benefit administration for CERS. The Kentucky General Assembly has the authority to establish and amend benefit provisions. The Kentucky Public Pensions Authority issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. All District employees participating in CERS are provided benefits through the nonhazardous plan. Employees are vested in the plan after five years’ service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years of service or 65 years old
	Reduced retirement	At least 5 years of service and 55 years old At least 25 years of service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years of service and 65 years old Or age 57+ and the sum of service years plus age equal 87
	Reduced retirement	At least 10 years of service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years of service and 65 years old Or age 57+ and the sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments (COLA) are provided at the discretion of the General Assembly. In 2013, the General Assembly established funding status thresholds which must be achieved before another COLA can be awarded to retirees. Retirement is based on a factor of the number of years’ service and hire date multiplied by the average of the highest five years of earnings. Reduced benefits are based on factors of both these components.

Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years’ service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent’s beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent’s monthly final rate of pay and any dependent child will receive 10% of the decedent’s monthly final rate of pay up to 40% for all dependent children. Five years of service is required for nonservice-related disability benefits.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

Employer Contributions – For the year ended June 30, 2025, employer contributions were established by the County Employees Retirement Systems in December 2023. The governing Board establishes employer contribution rates based on the annual actuarial valuation completed in November each year for the fiscal year beginning the following July 1. For fiscal year 2025, the employer contribution rate for CERS nonhazardous pensions was 19.71%. (See Note 8 for additional rate information for the OPEB plans.)

Employee Contributions – Required contributions by the employee are based on the tier:

	<u>Non Hazardous</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

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

At December 31, 2025, the District reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the District as its proportionate share of the net pension liability was \$787,723. The net pension liability for each plan was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actuarial liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2025, the District's proportion was 0.014156 percent. For the year ended December 31, 2025, the District recognized pension expense of \$1,653 related to CERS.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

At December 31, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 26,115	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	29,071	107,839
Changes in proportion and differences between District contributions and proportionate share of contributions	45,413	-
District contributions subsequent to the measurement date	<u>92,344</u>	<u>-</u>
	<u>\$ 192,943</u>	<u>\$ 141,552</u>

\$92,344 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2026.

Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	
2026	\$ 46,715
2027	\$ (14,895)
2028	\$ (25,596)
2029	\$ (13,464)
2030	\$ -

EAST CLARK COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2025 AND 2024

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

Actuarial assumptions - The total pension liability in the June 30, 2025 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS
Inflation	2.50%
Payroll growth rate	2.00%
Cost-of-living adjustment	0.0%
Salary Increases	3.30% - 10.30%
Investment rate of return	6.50%

For CERS, mortality tables used for non-hazardous retired members was a system-specific mortality table based on mortality experience from 2013 to 2022, for the non-hazardous system, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2023. Mortality for active non-hazardous members was based on the PUB-2010 General Mortality table, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years, at a minimum. The most recent experience study was based on experience through June 30, 2022 and adopted by the CERS Board of Trustees on May 9, 2023. In 2024, the CERS Actuarial Committee requested an update on the key economic assumptions to evaluate these assumptions for the 2024 evaluation. GRS relied on capital market assumptions, CERS 2024 investment policy for the target asset allocation, and changes to investment consultants assumptions based on 2024 market conditions to develop recommended assumptions for inflation, investment returns, and payroll growth. The long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates 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 is summarized the table below. The current long-term inflation assumption is 2.3% per annum for the non-hazardous plan.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity:	53.00%	
Public Equity	45.00%	4.15%
Private Credit	8.00%	7.90%
Fixed Income:	35.00%	
Core Fixed Income	13.00%	2.70%
Specialty Credit	20.00%	3.83%
Cash	2.00%	1.25%
Inflation Protected:	12.00%	
Real Estate	5.00%	4.75%
Real Return	<u>7.00%</u>	5.20%
Total	<u>100.00%</u>	
Expected Real Return		4.24%
Long Term Inflation Assumption		<u>2.50%</u>
Expected Nominal Return for Portfolio		<u>6.74%</u>

Discount rate—For CERS, the discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
CERS District's proportionate share of net pension liability	\$ 1,041,423	\$ 787,723	\$ 578,415

Pension plan fiduciary net position—Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of CERS.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 7 – COUNTY EMPLOYEE RETIREMENT SYSTEM (CERS) (CONTINUED)

Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, was amended by GASBS No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The GASB standards allow entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities for these defined contribution plans from their financial statements. The District therefore does not show these assets and liabilities in this financial statement.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Retired District employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advance funded on an actuarially determined basis through the CERS plans. The change in governance for CERS discussed in Note 7 for pension plan governance also applies to the CERS OPEB plans. The Kentucky Public Pensions Authority's publicly available financial report includes the CERS OPEB plan reports and may be obtained from <http://kyret.ky.gov/>.

CERS Other Postemployment Benefits

Plan Description— All District employees participating in CERS are provided benefits through the nonhazardous plan. CERS health insurance benefits are subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, CERS pays a percentage of the monthly contribution rate for insurance covered based on the retired member's years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member's health insurance premium.

Benefits Provided—Percentage of premium subsidies ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the CERS health plans. Members who began participating with CERS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the CERS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

Contributions—CERS allocates a portion of the employer contributions to the health insurance benefit plans. Beginning with the 2023 measurement, the CERS nonhazardous OPEB plan was over funded and employer contributions were decreased to zero. CERS allocated 0.0% in FY 2025 and FY 2024 for the actuarially required contribution rate paid by employers for funding the nonhazardous healthcare benefit. In addition, 1% of the Tier 2 and 3 employee contributions are allocated to the health insurance plan for nonhazardous plans.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Actuarial assumptions – The total OPEB liability in the June 30, 2025 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return 6.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases 3.30% - 10.30%, for non-hazardous, depending on years of service
Inflation rate 2.30%

Healthcare cost trend rates:

Under 65 Initial trend rate starts at 7.10%, January 2026, and gradually decreasing to an ultimate trend rate of 4.25% over a period of 14 years

Ages 65 and Older Initial trend starting at 8.00%, January 2026, and gradually decreasing to an ultimate trend rate of 4.25% over a period of 14 years

Municipal Bond Index Rate 3.97%

Discount Rate 6.26% non-hazardous

Post-retirement mortality rates (non-disabled) used 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 remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2022 valuation were based on a review of recent plan experience for the period ending June 30, 2022 and adopted by the CERS Board of Trustees on May 9, 2023. The investment return, price inflation, and payroll growth assumption were adopted by the Board in May 2024 for use with the June 30, 2024 valuation to reflect future economic expectations.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years, at a minimum. The most recent analysis was based on a review of recent plan experience for the period ending June 30, 2022 and adopted by the CERS Board of Trustees on May 9, 2023.

The long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates 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 is summarized the table below. The current long-term inflation assumption is 2.3% per annum for the nonhazardous plan.

EAST CLARK COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2025 AND 2024

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

The target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized the table below.

<u>Asset Class</u>	Target <u>Allocation</u>	Long-Term Expected <u>Real Rate of Return</u>
Equity:	53.00%	
Public Equity	45.00%	4.15%
Private Credit	8.00%	7.90%
Fixed Income:	35.00%	
Core Bonds	13.00%	2.70%
High Yield Credit	20.00%	3.83%
Cash	2.00%	1.25%
Inflation Protected:	12.00%	
Real Estate	5.00%	4.75%
Real Return	<u>7.00%</u>	5.20%
Total	<u>100.00%</u>	
Expected Real Return		4.24%
Long Term Inflation Assumption		<u>2.50%</u>
Expected Nominal Return for Portfolio		<u>6.74%</u>

Discount rate – The single discount rate of 6.26% for CERS nonhazardous was used to measure the total OPEB liability as of June 30, 2025. The Single discount rate is 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, 2025. Future contributions are projected in accordance with the current funding policy mandated in Ky Revised Statutes 61.565, as amended, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (the Kentucky General Assembly reset the amortization period to 30 years in 2020) and the actuarial assumptions and methods adopted by the Board of Trustees. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system.

However, the cost associated with the implicit employer subsidy for non-Medicare retirees is not currently included in the calculation of the System’s actuarial determined contributions and any cost associated with the implicit subsidy is not paid out of the System’s trust. The implicit rate subsidy is paid by the Commonwealth of Kentucky self-insurance fund, Kentucky Employees Health Plan. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

EAST CLARK COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2025 AND 2024

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

The following table presents the District’s proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.99%, as well as what the District’s proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.93%) or 1-percentage-point higher (6.93%) than the current rate:

	1% Decrease		Current Discount Rate	1% Increase
CERS	5.26%		6.26%	7.26%
District’s proportionate share				
of net OPEB liability	\$ 81,631	\$	13,604	\$ (43,650)

Sensitivity of the District’s proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the District’s proportionate share of the collective net OPEB liability, as well as what the District’s proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease		Current Health Care Trend Rate	1% Increase
CERS				
District’s proportionate share				
of net OPEB liability	\$ (31,440)	\$	13,604	\$ 66,335

The Kentucky Public Pensions Authority’s publicly available financial report includes financial reports for the CERS OPEB plans and may be obtained from <http://kyret.ky.gov/>.

NOTE 9 - PURCHASED WATER

The District entered into a written agreement to purchase most of its water from Winchester Municipal Utilities (WMU). The term of the contract is for forty years ending October 3, 2059 with the right to renew and extend for an additional twenty years. The District purchases water at \$1.72 per 100 cubic feet of water. This rate is subject to periodic increases by WMU. With the approval of the Public Service Commission, the District may pass these rate increases along to its customers. Water is delivered to the District by meters maintained by WMU.

NOTE 10 – SUBSEQUENT EVENT

The District has evaluated subsequent events through March 31, 2026, the date on which these financial statements were available to be issued, and found no events which require disclosure.

EAST CLARK COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLE

In FY2025, the District implemented GASBS No. 101, Compensated Absences, which requires recognition of an additional liability for earned leave that is more than likely to be used for time off during the next fiscal year. GASBS No. 101 also requires retroactive recognition of these liabilities as of December 31, 2024. The effects to the financial statements for the year ended December 31, 2024 are as follows:

	As Originally Stated	Restated	Change
Statement of Net Position			
Accrued compensated absences	\$24,358	\$46,582	\$22,224
Unrestricted net position	\$1,498,392	\$1,476,168	(\$22,224)
Statement of Revenues, Expenditures, and Changes in Net Position			
Net position at the beginning of the year	\$7,809,977	\$7,787,753	(\$22,224)

REQUIRED SUPPLEMENTARY INFORMATION

**EAST CLARK COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 2025**

	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)
COUNTY EMPLOYEES RETIREMENT SYSTEM:	12/31/2025 (6/30/25)	12/31/2024 (6/30/24)	12/31/2023 (6/30/23)	12/31/2022 (6/30/22)	12/31/2021 (6/30/21)
NONHAZARDOUS PLAN					
District's proportion of the net pension liability	0.014156%	0.013286%	0.012416%	0.011795%	0.012098%
District's proportionate share of the net pension liability	\$ 787,723	\$ 794,559	\$ 796,674	\$ 852,662	\$ 771,342
District's covered-employee payroll	\$ 483,692	\$ 433,123	\$ 368,329	\$ 334,409	\$ 295,991
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	162.86%	183.45%	216.29%	254.98%	260.60%
Plan fiduciary net position as a percentage of the total pension liability	65.34%	61.61%	57.48%	52.42%	57.33%

	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)
COUNTY EMPLOYEES RETIREMENT SYSTEM:	12/31/2020 (6/30/20)	12/31/2019 (6/30/19)	12/31/2018 (6/30/18)	12/31/2017 (6/30/17)	12/31/2016 (6/30/16)
NONHAZARDOUS PLAN					
District's proportion of the net pension liability	0.011481%	0.010851%	0.010887%	0.010048%	0.011160%
District's proportionate share of the net pension liability	\$ 880,583	\$ 763,156	\$ 663,051	\$ 588,140	\$ 547,303
District's covered-employee payroll	\$ 282,749	\$ 263,115	\$ 267,268	\$ 238,770	\$ 255,169
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	311.44%	290.05%	248.08%	246.32%	214.49%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	50.45%	53.54%	53.30%	55.50%

Note: Schedule is intended to show information for the last 10 fiscal years.

Note: These amounts are based on the prior year's measurement period, not the District's fiscal year.

**EAST CLARK COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS - PENSION
FOR THE YEAR ENDED DECEMBER 31, 2025**

COUNTY EMPLOYEES RETIREMENT SYSTEM:	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Contractually required contribution	\$ 92,344	\$ 95,747	\$ 80,259	\$ 77,097	\$ 72,764
Contributions in relation to the contractually required contribution	<u>92,344</u>	<u>95,747</u>	<u>80,259</u>	<u>77,097</u>	<u>72,764</u>
Contribution deficiency (excess)	-	-	-	-	-
District's covered-employee payroll	\$ 468,513	\$ 410,227	\$ 342,987	\$ 360,266	\$ 377,016
District's contributions as a percentage of its covered-employee payroll	19.71%	23.34%	23.40%	21.40%	19.30%
 COUNTY EMPLOYEES RETIREMENT SYSTEM:	 <u>2020</u>	 <u>2019</u>	 <u>2018</u>	 <u>2017</u>	 <u>2016</u>
Contractually required contribution	\$ 58,215	\$ 44,397	\$ 39,071	\$ 34,127	\$ 31,581
Contributions in relation to the contractually required contribution	<u>58,215</u>	<u>44,397</u>	<u>39,071</u>	<u>34,127</u>	<u>31,581</u>
Contribution deficiency (excess)	-	-	-	-	-
District's covered-employee payroll	\$ 301,632	\$ 263,115	\$ 267,268	\$ 238,770	\$ 255,169
District's contributions as a percentage of its covered-employee payroll	19.30%	16.87%	14.62%	14.29%	12.38%

Note: Schedule is intended to show information for the last 10 fiscal years.

**EAST CLARK COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION
FOR THE YEAR ENDED DECEMBER 31, 2025**

COUNTY EMPLOYEES RETIREMENT SYSTEM:

The actuarially determined contribution rates are determined on an annual basis using the actuarial valuation conducted two years prior to the year in which the contribution will be assessed.

2023 Changes of Assumptions –The inflation rate was increased to 2.5% and the investment rate of return was increased to 6.5%. The system specific mortality table was revised to MP-2020 and the base year was changed to 2023. Salary increase were revised to 3.30% to 10.30%, varies by service.

2020 Changes of Assumptions –The amortization period for the unfunded liability was reset as of June 30, 2019, to a closed 30-year period.

2019 Changes of Assumptions – The 2019 actuarial valuation used updated mortality tables for all categories of members and beneficiaries and a system-specific mortality table for non-disabled retirees. In 2019, mortality rates for active members were based on the PUB-2010 General Mortality table, for the nonhazardous members projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. Post-retirement mortality rates (non-disabled) used a system-specific mortality table based on mortality experience from 2013 – 2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The PUB-2010 Disabled Mortality Table is used for post-retirement mortality for disabled retirees with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. Previous valuations were based on RP-2000 Combined Mortality Tables.

2017 Changes of Assumptions – For the 2017 actuarial valuation, several key actuarial assumptions were revised. Changes in assumptions prior to 2016 provided minor adjustments to the actuarial measurements. The following table outlines the actuarial methods and assumptions that were used in 2019 and 2016 to determine contribution rates reported for all systems:

Assumption	2017 Valuation	2016 Valuation
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level of Percentage of Payroll, closed	Level of Percentage of Payroll, closed
Remaining Amortization Period	26 Years	27 Years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Post-retirement benefit adjustments	0.00%	0.00%
Inflation	2.30%	3.25%
Salary Increase	3.3% to 11.55% varies by service), average, including Inflation	4% , average, including Inflation
Investment Rate of Return	6.25% , Net of Pension Plan Investment Expense, including Inflation	7.5% , Net of Pension Plan Investment Expense, including Inflation

**EAST CLARK COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION
FOR THE YEAR ENDED DECEMBER 31, 2025**

COUNTY EMPLOYEES RETIREMENT SYSTEM (Cont'd):

Changes of Benefit Terms -

2014: A cash balance plan was introduced for member whose participation date begins on or after January 1, 2014

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

**EAST CLARK COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 2025**

	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)
COUNTY EMPLOYEES RETIREMENT SYSTEM:	12/31/2025 (6/30/25)	12/31/2024 (6/30/24)	12/31/2023 (6/30/23)	12/31/2022 (6/30/22)	12/31/2021 (6/30/21)
District's proportion of the net OPEB liability	0.014165%	0.013269%	0.012416%	0.011793%	0.012095%
District's proportionate share of the net OPEB liability	\$ 13,604	\$ (22,953)	\$ (17,142)	\$ 232,736	\$ 231,553
District's covered-employee payroll	\$ 483,692	\$ 433,123	\$ 368,329	\$ 334,409	\$ 316,852
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	2.81%	-5.30%	-4.65%	69.60%	73.08%
Plan fiduciary net position as a percentage of the total OPEB liability	97.66%	104.89%	104.23%	60.95%	62.91%

	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)
COUNTY EMPLOYEES RETIREMENT SYSTEM:	12/31/2020 (6/30/20)	12/31/2019 (6/30/19)	12/31/2018 (6/30/18)	12/31/2017 (6/30/17)
District's proportion of the net OPEB liability	0.011478%	0.010849%	0.010887%	0.010048%
District's proportionate share of the net OPEB liability	\$ 277,159	\$ 182,475	\$ 193,279	\$ 201,999
District's covered-employee payroll	\$ 300,791	\$ 279,620	\$ 279,813	\$ 238,770
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	92.14%	65.26%	69.07%	84.60%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	60.44%	57.62%	52.40%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Note: These amounts are based on the prior year's measurement period, not the District's fiscal year.

**EAST CLARK COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS - OPEB
FOR THE YEAR ENDED DECEMBER 31, 2025**

COUNTY EMPLOYEES RETIREMENT SYSTEM:	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
NONHAZARDOUS PLAN					
Contractually required contribution	\$ -	\$ -	\$ 11,627	\$ 19,015	\$ 17,946
Contributions in relation to the contractually required contribution	-	-	11,627	19,015	17,946
Contribution deficiency (excess)	-	-	-	-	-
District's covered-employee payroll	\$ 468,513	\$ 410,227	\$ 342,987	\$ 360,266	\$ 377,017
District's contributions as a percentage of its covered-employee payroll	0.00%	0.00%	3.39%	5.28%	4.76%
 COUNTY EMPLOYEES RETIREMENT SYSTEM:	 <u>2020</u>	 <u>2019</u>	 <u>2018</u>	 <u>2017</u>	
NONHAZARDOUS PLAN					
Contractually required contribution	\$ 14,358	\$ 17,570	\$ 14,989	\$ 11,572	
Contributions in relation to the contractually required contribution	14,358	17,570	14,989	11,572	
Contribution deficiency (excess)	-	-	-	-	
District's covered-employee payroll	\$ 301,639	\$ 279,620	\$ 279,813	\$ 238,770	
District's contributions as a percentage of its covered-employee payroll	4.76%	6.28%	5.36%	4.85%	

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.
Note: These amounts are based on the prior year's measurement period, not the District's fiscal year.

**EAST CLARK COUNTY WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB
FOR THE YEAR ENDED DECEMBER 31, 2025**

COUNTY EMPLOYEES RETIREMENT SYSTEM:

Valuation Date: June 30, 2023

2023 Changes in Actuarial Assumptions: Investment return assumption was raised to 6.50% for the actuarial valuation and the municipal bond rate was raised 3.86%. The single discount rate for the 2023 measurement was increased to 5.93%. Contributions in the 2023 measurement period were based on the 2021 valuation that used an investment return of 6.25%, inflation of 2.3%, and salary increases of 3.3% to 10.30%, depending on service.

2022 Changes in Actuarial Assumptions: Initial rates for health cost trends for retirees under age 65 were lowered from 6.4% to 6.25% and rates for retirees ages 65 or older were increased from 2.9% to 5.5%. Municipal bond index rate was lowered from 2.45% to 1.92% (Fidelity 20-Year Municipal GO AA Index). And the single discount rate for the CERS non-hazardous insurance plan was lowered from 5.34% to 5.20%.

2017 Changes in Actuarial Assumptions: The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions which were changed from the 2016 actuarial valuation, applied to all periods included in the measurement:

Investment rate of Return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	4% average
Inflation rate	3.25%
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Ages 65 and Older	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years
Municipal Bond Index Rate	3.56%
Discount Rate	5.84%

SUPPLEMENTARY INFORMATION

EAST CLARK COUNTY WATER DISTRICT
OTHER SUPPLEMENTARY INFORMATION
STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN NET POSITION - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2025 AND 2024

	2025 Budget	2025 Actual	Favorable (Unfavorable)	2024 Budget	2024 Actual	Favorable (Unfavorable)
Operating revenues:						
Water sales	\$ 1,817,000	\$ 1,810,236	\$ (6,764)	\$ 1,799,434	\$ 1,802,347	\$ 2,913
Total operating revenues	<u>1,817,000</u>	<u>1,810,236</u>	<u>(6,764)</u>	<u>1,799,434</u>	<u>1,802,347</u>	<u>2,913</u>
Operating expenses:						
Operation and maintenance	1,602,000	1,490,535	111,465	1,527,667	1,367,404	160,263
Depreciation and amortization	390,000	389,600	400	390,000	390,074	(74)
Taxes	35,000	36,895	(1,895)	35,000	34,718	282
Total operating expenses	<u>2,027,000</u>	<u>1,917,030</u>	<u>109,970</u>	<u>1,952,667</u>	<u>1,792,196</u>	<u>160,471</u>
Operating income	<u>(210,000)</u>	<u>(106,794)</u>	<u>103,206</u>	<u>(153,233)</u>	<u>10,151</u>	<u>163,384</u>
Non-operating revenues (expenses):						
Interest income	80,000	77,777	(2,223)	80,000	78,978	(1,022)
Grant proceeds	160,749	159,249	(1,500)	6,000	528,517	(77)
Customer connection fees	42,000	41,704	(296)	61,000	60,700	(300)
Non-operating income	(7,000)	(105,411)	(98,411)	537,707	5,923	(9,190)
Interest expense	-	(17,263)	(17,263)	-	(18,008)	(18,008)
Total non-operating revenues (expenses)	<u>275,749</u>	<u>156,056</u>	<u>(119,693)</u>	<u>684,707</u>	<u>656,110</u>	<u>(28,597)</u>
Change in net position	<u>\$ 65,749</u>	<u>\$ 49,262</u>	<u>\$ (16,487)</u>	<u>\$ 531,474</u>	<u>\$ 666,261</u>	<u>\$ 134,787</u>

EAST CLARK COUNTY WATER DISTRICT
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2025

	Transmission, Distribution, and Services	Purchased Water	General and Administrative	Depreciation	Total
Purchased water	\$ -	\$ 378,880	\$ -	\$ -	\$ 378,880
Depreciation	-	-	-	389,600	389,600
Salaries	340,838	-	150,083	-	490,921
Employee benefits	120,784	-	53,185	-	173,969
Supplies	97,478	-	4,928	-	102,406
Repairs and maintenance	14,670	-	9,827	-	24,497
Outside services	16,684	-	26,706	-	43,390
Commissioners' salaries	-	-	30,000	-	30,000
Payroll tax expense	25,616	-	11,279	-	36,895
Professional fees	-	-	27,387	-	27,387
Utilities	29,848	-	8,478	-	38,326
Truck expense	29,284	-	2,490	-	31,774
Equipment rental	6,886	-	-	-	6,886
Insurance	-	-	52,488	-	52,488
Postage	-	-	22,537	-	22,537
Bad debts	-	-	1,813	-	1,813
Miscellaneous	-	-	38,435	-	38,435
Telephone	9,479	-	4,556	-	14,035
Dues and subscriptions	-	-	3,936	-	3,936
Loading station expense	209	-	-	-	209
Employee training and seminars	-	-	5,565	-	5,565
PSC assessment	-	-	2,875	-	2,875
Uniforms	-	-	4,207	-	4,207
Lab testing	7,533	-	-	-	7,533
Travel and meals expense	-	-	1,555	-	1,555
Expenses allocated to capital	(13,089)	-	-	-	(13,089)
	<u>\$ 686,220</u>	<u>\$ 378,880</u>	<u>\$ 462,330</u>	<u>\$ 389,600</u>	<u>\$ 1,917,030</u>

EAST CLARK COUNTY WATER DISTRICT
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2024

	Transmission, Distribution, and Services	Purchased Water	General and Administrative	Depreciation	Total
Purchased water	\$ -	\$ 407,723	\$ -	\$ -	\$ 407,723
Depreciation	-	-	-	390,074	390,074
Salaries	298,869	-	141,249	-	440,118
Employee benefits	83,839	-	39,624	-	123,463
Supplies	95,614	-	3,902	-	99,516
Repairs and maintenance	18,824	-	9,063	-	27,887
Outside services	18,247	-	28,156	-	46,403
Commissioners' salaries	-	-	29,826	-	29,826
Payroll tax expense	23,576	-	11,142	-	34,718
Professional fees	-	-	25,384	-	25,384
Utilities	28,452	-	7,643	-	36,095
Truck expense	30,214	-	2,855	-	33,069
Equipment rental	7,995	-	-	-	7,995
Insurance	-	-	46,298	-	46,298
Postage	-	-	20,482	-	20,482
Bad debts	-	-	1,845	-	1,845
Miscellaneous	-	-	2,942	-	2,942
Telephone	5,480	-	4,548	-	10,028
Dues and subscriptions	-	-	2,169	-	2,169
Loading station expense	1,314	-	-	-	1,314
Employee training and seminars	-	-	8,484	-	8,484
PSC assessment	-	-	2,808	-	2,808
Uniforms	-	-	4,454	-	4,454
Lab testing	7,164	-	-	-	7,164
Travel and meals expense	-	-	1,026	-	1,026
Expenses allocated to capital	(19,089)	-	-	-	(19,089)
	<u>\$ 600,499</u>	<u>\$ 407,723</u>	<u>\$ 393,900</u>	<u>\$ 390,074</u>	<u>\$ 1,792,196</u>

SUMMERS, MCCRARY & SPARKS, P.S.C.

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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*

To the Board of Commissioners of
East Clark County Water District
Winchester, KY

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 business-type activities of East Clark County Water District, as of and for the years ended December 31, 2025 and December 31, 2024, and the related notes to the financial statements, which collectively comprise East Clark County Water District's basic financial statements, and have issued our report thereon dated March 31, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered East Clark County Water District'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 East Clark County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of East Clark County Water District'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 a 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Clark County Water District'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 that 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.

Summers, McCrary & Sparks, PSC

Lexington, KY
March 31, 2026