

EAST PENDLETON COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2025 and 2024

EAST PENDLETON COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2025 and 2024

Table of Contents

	<u>Pages</u>
Board of Commissioners	1
Financial Section	
Independent Auditor's Report	2-4
Management's Discussion and Analysis	5-9
Basic Financial Statements	
Statements of Net Position	10-11
Statements of Revenues, Expenses, and Changes in Net Position	12
Statements of Cash Flows	13
Notes to the Financial Statements	14-36
Required Supplementary Information	
Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure - Non-Hazardous	37
Multiple Employer, Cost Sharing, Defined Benefit OPEB Plan Disclosure - Non-Hazardous	38
Other Supplementary Information	
Schedules of Operations, Maintenance and Administrative Expenses	39
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	40-41

EAST PENDLETON COUNTY WATER DISTRICT

BOARD OF COMMISSIONERS

December 31, 2025 and 2024

Lisa Cobb, Chairman

David Pribble, Treasurer

Keith Gunkel, Secretary

Of Counsel

William J. Verax IV
Attorney

Administration

Joby Brewer, General Manager

Independent Auditor's Report

**To the Board of Commissioners
East Pendleton County Water District
Falmouth, Kentucky**

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the East Pendleton County Water District (District), as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the East Pendleton County Water District's basic 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 respective financial position of the business-type activities of the East Pendleton County Water District as of December 31, 2025 and 2024, and the respective 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 accounting 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 Pendleton County Water District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 Pendleton 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 judgement 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 Pendleton 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 Pendleton 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* and *Multiple Employer, Cost Sharing, Defined Benefit Pension and OPEB* disclosures 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 the financial reporting for placing the basic 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 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 East Pendleton County Water District's basic financial statements. The accompanying Schedules of Operations, Maintenance, and Administrative Expenses 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. In our opinion, the accompanying Schedules of Operations, Maintenance, and Administrative Expenses 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 June 17, 2026, on our consideration of the East Pendleton County Water 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 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 East Pendleton 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 East Pendleton County Water District's internal control over financial reporting and compliance.

Chamberlin Owen & Co., Inc.

Chamberlin Owen & Co., Inc.
Certified Public Accountants
Erlanger, Kentucky
June 17, 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2025. The information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent year by \$5,737,275 (net position). This was an increase of \$601,343. This increase is due primarily to an increase in capital grants received by the District which was accompanied by a slight increase in the operating revenues.
- At the end of the current year, unrestricted net position was \$696,273.

USING THIS ANNUAL REPORT

The financial statements presented herein include all the activities of the District accounted for within a single proprietary (enterprise) reporting entity. The financial statements include a statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows, notes to the financial statements and a supplemental schedule. These statements show the condition of the District's finances and the sources of income and the funds expended.

Basis of Accounting

The District's financial statements are prepared using the accrual basis of accounting.

The Statements of Net Position and Revenues, Expenses and Changes in Net Position

In the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position, we report the District's activities.

- The District charges rates for water usage based on the water consumption of its customers to cover all or most of the cost of providing potable water to those customers.

SUMMARY OF NET POSITION

Table 1 provides a summary of the District's net position at December 31, 2025, 2024, and 2023:

Table 1
Net Position

	2025	2024	2023
Current assets	\$ 1,519,302	\$ 1,053,086	\$ 911,775
Restricted assets	658,890	721,565	743,605
Capital assets, net	5,047,135	4,698,121	3,886,567
Deferred outflows of resources - pension & OPEB contribution	97,518	121,717	168,173
Total Assets and Deferred Outflows of Resources	<u>7,322,845</u>	<u>6,594,489</u>	<u>5,710,120</u>
Current liabilities	391,316	46,091	53,932
Liabilities payable from restricted assets	73,721	139,311	135,048
Long-term liabilities	860,700	957,024	1,115,240
Deferred inflows of resources - pension & OPEB	259,833	316,131	413,926
Total Liabilities and Deferred Inflows of Resources	<u>1,585,570</u>	<u>1,458,557</u>	<u>1,718,146</u>
Net Position:			
Net investment in capital assets	4,777,519	4,345,273	3,450,710
Restricted	263,483	321,189	354,804
Unrestricted	696,273	469,470	186,460
Total Net Position	<u>\$ 5,737,275</u>	<u>\$ 5,135,932</u>	<u>\$ 3,991,974</u>

The District's net position for 2025 increased 11.7% or \$601,343. This increase is due mainly to an increase in capital grant revenue along with an increase in operating revenues.

The largest portion of the District's net position (83.3%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt.

An additional portion of the District's net position (4.6%) is restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The unrestricted net position may be used to meet the District's ongoing obligations to customers and creditors.

Table 2 compares the revenues and expenses for the current year and the previous two years.

Table 2
Changes in Net Position

	2025	2024	2023
Operating revenues:			
Water sales	\$ 1,200,445	\$ 1,167,467	\$ 1,357,815
Sewer sales	21,374	23,009	22,111
Forfeited discounts	22,281	20,307	20,138
Miscellaneous services revenues	14,463	40,745	8,927
Total operating revenues	1,258,563	1,251,528	1,408,991
Operating expenses:			
Water purchased	256,221	220,526	249,929
Operation and maintenance expense	791,445	762,144	761,068
Sewer expenses	20,799	18,504	17,268
Depreciation	166,608	148,171	150,835
Total operating expenses	1,235,073	1,149,345	1,179,100
Net operating profit	23,490	102,183	229,891
Non-operating income (expenses)			
Investment income	38,658	32,753	7,222
Gain (loss) disposal of assets	12,900	-	-
Net effect on change in pension expense	109,962	126,325	80,203
Interest on long-term debt	(10,272)	(11,916)	(14,366)
Net non-operating expenses	151,248	147,162	73,059
Income (loss) before capital contributions	174,738	249,345	302,950
Capital contributions and grants	426,605	894,613	86,008
Change in net position	601,343	1,143,958	388,958
Net position, January 1	5,135,932	3,991,974	3,614,240
Prior period change	-	-	(11,224)
Net position, December 31	\$ 5,737,275	\$ 5,135,932	\$ 3,991,974

SUMMARY OF CHANGES IN NET POSITION

Revenues

Operating revenues increased \$7,035 or 0.6% from 2024 to 2025. This is primarily due to the difference in water consumption between the two years.

Operation and Maintenance Expense

Operation and maintenance expense increased \$29,301 or 3.8% from 2024 to 2025.

Net Effect on Change in Pension and OPEB Expense

In recording the District's proportionate share of the unfunded pension and OPEB liability (asset) and the related deferred inflows and outflows, the District calculates the annual (expense) gain related to this unfunded net liability. During 2025 the net change created a pension benefit of \$109,962 compared to a pension benefit of \$126,325 reported in 2024.

Capital Contributions

Capital contributions decreased \$468,008 or 52.3% from 2024 to 2025. The District received some residual contributions from several grants for construction projects that were completed at the end of 2024. There were tap on fees for 33 new customers along existing lines during 2025 in comparison to 48 new customers during 2024.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2025, the District had \$5,047,135 invested in capital assets including land, buildings, water systems, equipment, and vehicles, as reflected in the following schedule. This represents a net increase (additions less retirements and depreciation) of \$349,014. During 2025, the cost of new equipment and the cost of a small line extension project exceeded the depreciation expense for the year.

Table 3 Summarizes the District's capital assets at December 31, 2025, 2024, and 2023.

Table 3
Capital Assets at Year End

	2025	2024	2023
Capital assets not depreciated:			
Construction in progress	\$ 321,053	\$ 953,381	\$ 75,342
Organizational costs	7,200	7,200	7,200
Water land	16,157	16,157	16,157
Sewer land	1,168	1,168	1,168
Subtotal	<u>345,578</u>	<u>977,906</u>	<u>99,867</u>
Capital assets being depreciated:			
Water property and equipment	9,106,823	8,033,564	7,951,878
Sewer property and equipment	37,183	37,183	37,183
Subtotal	<u>9,144,006</u>	<u>8,070,747</u>	<u>7,989,061</u>
Accumulated depreciation	<u>(4,442,449)</u>	<u>(4,350,532)</u>	<u>(4,202,361)</u>
Capital Assets, net	<u>\$ 5,047,135</u>	<u>\$ 4,698,121</u>	<u>\$ 3,886,567</u>

Debt Outstanding

Table 4 illustrates the District's outstanding debt at December 31, 2025, 2024, and 2023.

	2025	2024	2023
Bond payable obligations	\$ 195,000	\$ 270,000	\$ 345,000
Note payable obligations	74,616	82,848	90,857
Total	<u>\$ 269,616</u>	<u>\$ 352,848</u>	<u>\$ 435,857</u>

At year-end, the District had \$269,616 in outstanding debt compared to \$352,848 last year. This is a decrease of \$83,232. Scheduled principal payments for 2026 are \$18,460.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2026 projects an increase in net position, but one that will be much lower than what was experienced in the 2025 calendar year. This is due primarily to a decrease in capital contributions accompanied by an increase in operating expenses in the coming year. The decrease in capital contributions is due to the completion of a construction project during calendar year 2025.

FINANCIAL CONTACT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administrative Office at 601 Woodson Road, Falmouth, Kentucky 41040.

Joby Brewer

Joby Brewer, Assistant General Manager
East Pendleton County Water District

EAST PENDLETON COUNTY WATER DISTRICT STATEMENTS OF NET POSITION December 31, 2025 and 2024

	2025	2024
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 990,035	\$ 832,433
Customer accounts receivable	122,451	118,216
Other accounts receivable	310,032	29,143
Inventories	80,255	57,617
Prepays	16,529	15,677
Total Current Assets	<u>1,519,302</u>	<u>1,053,086</u>
Restricted Assets		
Cash - construction	340,895	345,462
Depreciation reserve	55,640	54,337
Bond sinking fund	76,506	140,360
Certificates of deposits	131,337	126,493
Customer deposits	54,512	54,913
Total Restricted Assets	<u>658,890</u>	<u>721,565</u>
Capital Assets		
Construction in progress	321,053	953,381
Property, plant and equipment - Water	9,130,181	8,056,922
Less: accumulated depreciation - Water	(4,407,077)	(4,315,901)
Property, plant and equipment - Sewer	38,351	38,351
Less: accumulated depreciation - Sewer	(35,373)	(34,632)
Total Capital Assets, net of depreciation	<u>5,047,135</u>	<u>4,698,121</u>
TOTAL ASSETS	7,225,327	6,472,772
DEFERRED OUTFLOW OF RESOURCES		
Deferred outflows related to pensions and OPEB	<u>97,518</u>	<u>121,717</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ 7,322,845	\$ 6,594,489

Continued on page 11

EAST PENDLETON COUNTY WATER DISTRICT STATEMENTS OF NET POSITION - Continued from page 10 December 31, 2025 and 2024
--

	<u>2025</u>	<u>2024</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 362,316	\$ 21,331
Accrued and withheld liabilities	29,000	24,760
Total Current Liabilities	<u>391,316</u>	<u>46,091</u>
Current Liabilities Payable From Restricted Assets		
Revenue bonds and lease obligations - current portion	18,460	83,232
Customer deposits	48,175	48,995
Accrued interest payable	7,086	7,084
Total Current Liabilities Payable From Restricted Assets	<u>73,721</u>	<u>139,311</u>
Long-Term Liabilities		
KIA notes payable, net of current portion	66,156	74,616
Bonds payable, net of current portion	185,000	195,000
Net unfunded pension and OPEB liability	609,544	687,408
Total Long-Term Liabilities	<u>860,700</u>	<u>957,024</u>
TOTAL LIABILITIES	<u>1,325,737</u>	<u>1,142,426</u>
DEFERRED INFLOW OF RESOURCES		
Defeasance on refunding	12,111	12,111
Deferred inflows related to pensions and OPEB	247,722	304,020
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	<u>1,585,570</u>	<u>1,458,557</u>
NET POSITION		
Net investment in capital assets	4,777,519	4,345,273
Restricted for debt service	76,506	140,360
Restricted for depreciation	186,977	180,829
Unrestricted	696,273	469,470
TOTAL NET POSITION	<u>\$ 5,737,275</u>	<u>\$ 5,135,932</u>

The accompanying notes are an integral part of the financial statements.

EAST PENDLETON COUNTY WATER DISTRICT STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Years Ending December 31, 2025 and 2024

	2025	2024
OPERATING REVENUES		
Water revenue	\$ 1,222,726	\$ 1,187,774
Sewer revenue	21,374	23,009
Other service revenues	14,463	40,745
TOTAL OPERATING REVENUES	1,258,563	1,251,528
OPERATING EXPENSES		
Water purchased	256,221	220,526
Operations, maintenance, and administrative expenses	791,445	762,144
Sewer expenses	20,799	18,504
Depreciation	166,608	148,171
TOTAL OPERATING EXPENSES	1,235,073	1,149,345
OPERATING PROFIT	23,490	102,183
NON-OPERATING INCOME (EXPENSE)		
Investment income	38,658	32,753
Gain (loss) on disposal of assets	12,900	-
Net effect of change in pension expense	109,962	126,325
Interest on long-term obligations	(10,272)	(11,916)
NET NON-OPERATING INCOME (EXPENSES)	151,248	147,162
NET GAIN	174,738	249,345
CAPITAL GRANTS AND CONTRIBUTIONS	426,605	894,613
CHANGE IN NET POSITION	601,343	1,143,958
NET POSITION, JANUARY 1	5,135,932	3,991,974
NET POSITION, DECEMBER 31	\$ 5,737,275	\$ 5,135,932

The accompanying notes are an integral part of the financial statements.

EAST PENDLETON COUNTY WATER DISTRICT STATEMENTS OF CASH FLOWS For the Years Ending December 31, 2025 and 2024
--

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 973,439	\$ 1,253,904
Paid to suppliers for goods and services	(219,880)	(439,526)
Paid to or on behalf of employees for services	(526,850)	(580,269)
NET CHANGE IN CASH FROM OPERATING ACTIVITIES	<u>226,709</u>	<u>234,109</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	<u>33,814</u>	<u>30,694</u>
NET CHANGE IN CASH FROM INVESTING ACTIVITIES	<u>33,814</u>	<u>30,694</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long term debt	(83,232)	(83,010)
Interest paid on long term debt	(10,272)	(11,904)
Contributed capital received	426,605	894,613
Acquisition and construction of capital assets	(515,621)	(959,725)
Proceeds from sale of capital assets	12,900	-
Increase in customer deposits	(820)	4,030
NET CHANGE IN CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(170,440)</u>	<u>(155,996)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>90,083</u>	<u>108,807</u>
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>1,427,505</u>	<u>1,318,698</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u><u>\$ 1,517,588</u></u>	<u><u>\$ 1,427,505</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CHANGE IN CASH FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ 23,490	\$ 102,183
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	166,608	148,171
Change in operating assets and liabilities		
Decrease (Increase) in receivables	(285,124)	2,376
Decrease (Increase) in inventories	(22,638)	(8,828)
Decrease (Increase) in prepaid assets	(852)	(1,952)
Increase (Decrease) in accounts payable	340,985	(5,223)
Increase (Decrease) in other accrued liabilities	4,240	(2,618)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 226,709</u></u>	<u><u>\$ 234,109</u></u>
SUPPLEMENTAL INFORMATION		
Interest expensed	<u><u>\$ (10,272)</u></u>	<u><u>\$ (11,916)</u></u>
Components of cash on the Statement of Net Position		
Cash and cash equivalents	\$ 990,035	\$ 832,433
Cash - construction	340,895	345,462
Restricted Cash	186,658	249,610
	<u><u>\$ 1,517,588</u></u>	<u><u>\$ 1,427,505</u></u>

The accompanying notes are an integral part of the financial statements.

EAST PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2025 and 2024
--

NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

The East Pendleton County Water District (District) is a water utility, which provides service to residential and commercial customers in Pendleton County, Kentucky. The District was created by the Pendleton County Fiscal Court under the provisions of chapter 74 of the Kentucky Revised Statutes (“KRS”) in 1965. The District’s current service area includes parts of Pendleton, Campbell, Bracken, and Harrison Counties.

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission (“PSC”) pursuant to KRS 278.040.

Basis of Accounting

The District’s financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles for state and local governments in the United States of America.

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into “invested in capital assets, net of related liabilities”; “restricted”; and “unrestricted” components.

Cash Equivalents

For purposes of the statements of net position and statements of cash flows, the District considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Budgets

In accordance with Kentucky Revised Statute 65A, the District is required to upload a balanced budget on the Kentucky Department of Local Government’s website prior to January 15. The budget includes proposed expenditures and the means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year-end.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined under the First-In, First-Out (FIFO) method. Market is determined on the basis of estimated realizable market values.

EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025 and 2024

Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net assets that applies to future periods, and therefore deferred until that time. A deferred loss on refunding results from the difference in the carrying value of the refunded debt and the reacquisition price. The District also recognizes deferred outflows of resources related to pensions and other postemployment benefits.

Deferred inflows of resources represent an acquisition of net assets that applies to future periods and is therefore deferred until that time. A deferred gain on refunding results from the difference in the carrying value of the refunded debt and the reacquisition price. The District also recognizes deferred inflows of resources related to pensions and other postemployment benefits.

Distribution System, Building, and Equipment

Property, plant, transmission lines and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the "Non-Operating Income (Expense)" portion of the Statements of Revenues, Expenses, and Changes in Net Position.

Construction in Progress

Capitalizable costs incurred on projects which are not in use or ready for use at year end are held as "Construction in Progress". When the related asset is ready for use, related costs are transferred to the related asset account.

Capital Contributions

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District's income statement. These contributions represent customer tap-in fees and other contributions to recover the costs of extensions of the distribution system. The District also includes estimated cost figures for those lines contributed by outside contractors.

During 2025 and 2024 these contributions consisted of the following:

Source	2025	2024
Tap in fees and construction costs paid by new customers	\$ 29,701	\$ 35,900
Capital grants	396,904	858,713
Total	<u>\$ 426,605</u>	<u>\$ 894,613</u>

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension (expense) gain, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025 and 2024

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB (expense) gain, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Income Tax Status

The District is exempt from federal and state income taxes since it is a governmental entity. Accordingly, the financial statements include no provision for income taxes.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-operating Revenues

Revenues have been classified as operating and non-operating. Operating revenues are those revenues that are directly generated from the sale of water to customers. Non-operating revenues are those revenues that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, sales of fixed assets and interest income.

NOTE 2 – DEPOSITS AND INVESTMENTS

The following table provides a reconciliation of cash, cash equivalents and investments as shown on the Comparative Statements of Net Position as of December 31, 2025 and 2024.

	December 31, 2025	December 31, 2024
Reported in Statements of Net Position:		
Cash & cash equivalents		
Unrestricted	\$ 990,035	\$ 832,433
Restricted	<u>527,553</u>	<u>595,072</u>
Total cash & cash equivalents	<u>1,517,588</u>	<u>1,427,505</u>
Investments		
Restricted	<u>131,337</u>	<u>126,493</u>
Total Cash, Cash Equivalents and Investments	<u><u>\$ 1,648,925</u></u>	<u><u>\$ 1,553,998</u></u>

EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025 and 2024

Deposits

As of December 31, 2025, the District's depository banks are Heritage and Republic Bank. the District's deposits are fully collateralized and/or covered by federal depository insurance. At December 31, 2025, the collateral pledged consisted of securities within an investment portfolio held by the bank, with market values reported on the collateral statement issued under the District's name. At December 31, 2025, the bank balance of the district's demand account at Heritage was \$1,490,144 with \$27,444 held at Republic Bank.

Investments

As of December 31, 2025, the District's investments are made up of certificate of deposits. The certificate of deposit is with Heritage Bank. Investments are reported at fair value as of December 31, 2025.

The following table presents information related to the District's investments and deposits at December 31, 2025.

	<u>Reported Value</u>	<u>Weighted Average Maturity in Years</u>
Money Market Funds	\$ 27,444	0.003
Cash	1,490,144	0.000
Certificate of Deposits	131,337	0.000
Total cash equivalents and investments	<u>\$ 1,648,925</u>	

Risks

Interest Rate Risk: Interest rate risk is the risk that a change in market interest rates of fixed income securities will adversely affect the fair value of the investment. The District minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. The weighted average maturity in years represents the interest rate risk for the District. At December 31, 2025, the longest remaining maturity for any investment was approximately five years.

Credit Risk: Credit risk is the risk that an issuer of financial securities will not fulfill its obligations to the holder of the obligation. In accordance with Kentucky Revised Statutes and the District's investment policy, the District manages credit risk by limiting its investments in state and local governments in those rated in one of the three highest categories by a competent rating agency. Restricted fund investments in state and local governments must be rated in one of the two highest rating categories.

Concentration of Credit Risk: Concentration of credit risk for investments is the risk of loss attributable to the magnitude of an investment in a single issuer. The District's investment policy requires that investments be diversified to eliminate the risk of loss from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The District was in compliance with its investment policy at December 31, 2025.

EAST PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2025 and 2024
--

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 or collateral securities would not be returned to it. The District considers the collateral provided by financial institutions with who it does business adequate to cover all deposits in excess of limits set forth by the Federal Deposit Insurance Corporation.

Custodial Credit Risk – Investments: For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The District's investments are held in the District's name by an independent custodial agent and investments in obligations of the United States or its agencies are held by the Federal Reserve in a custodial account.

Fair Value Measurement

GASB 72 requires the District to disclose how we measure the fair value of investments and the underlying valuation techniques. Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for these securities or repurchase agreements. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing approach. Matrix pricing is used to value securities based on the securities' relationship to the benchmark quoted prices. Assets classified in Level 3 are valued based on unobservable inputs.

The following table summarizes the District's investments subject to fair value measurements and valuation techniques as of December 31, 2025.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments at fair value level:				
Certificates of Deposit	\$ 131,337	-	-	\$ 131,337
Total investments	<u>\$ 131,337</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 131,337</u>

Restricted Cash and Investments

Cash and investments are restricted for various purposes as specified by the District's General Bond Resolution and other debt agreements. The following table summarizes restricted cash and investments by purpose at December 31, 2025 and 2024.

	December 31, 2025	December 31, 2024
Debt service reserve	\$ 131,337	\$ 126,493
Debt service	76,506	140,360
Renewal and replacement	340,895	345,462
Other restricted	110,152	109,250
Total restricted cash & investments	<u>\$ 658,890</u>	<u>\$ 721,565</u>

EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025 and 2024

The General Bond Resolution sets a debt service reserve requirement equal to at least 10% of the face amount of all bonds issued under the resolution. Draws under the Reserve Policy may only be used to make payments of principal and interest on the bonds. Cash and investments in the debt service reserve funds shall be transferred to the debt service funds for payment of debt service on the bonds before any draw may be made on the Reserve Policy.

The following table summarizes the District's compliance with the debt service reserve requirement at December 31, 2025 and 2024.

	December 31, 2025	December 31, 2024
Debt Service reserve	\$ 55,640	\$ 54,337
Reserve surety policy	<u>76,506</u>	<u>140,360</u>
Debt service reserve replacement	<u>\$ 132,146</u>	<u>\$ 194,697</u>

NOTE 3 – RESTRICTED NET POSITION

Net position is comprised of net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted. Invested in capital assets, net of related debt consists of all capital assets net of accumulated depreciation and reduced by outstanding debts, that is attributable to the acquisition, construction and improvement of those assets. The restricted portion of net position consists of assets, net of related liabilities, for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. The unrestricted portion of net position consists of all other assets, net of related liabilities, not included in the above categories. Included in the restricted portion of net position at December 31:

	2025	2024
Depreciation Reserve Fund	\$ 186,977	\$ 180,830
Bond Sinking Fund	<u>76,506</u>	<u>140,360</u>
Total Restricted Net Position	<u>\$ 263,483</u>	<u>\$ 321,190</u>

NOTE 4 – UTILITY PLANT IN SERVICE

All property, plant and equipment, including infrastructure assets, are recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss included in the results of operations. Repair and maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred.

EAST PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2025 and 2024
--

The property, plant and equipment accounts are summarized as follows:

Asset Type	Balance at December 31, 2024	Additions	Retirements	Balance at December 31, 2025
Capital assets not depreciated:				
Construction in progress	\$ 953,381	\$ 338,958	\$ (971,286)	\$ 321,053
Organizational costs	7,200	-	-	7,200
Water land	16,157	-	-	16,157
Sewer land	1,168	-	-	1,168
Totals	977,906	338,958	(971,286)	345,578
Capital assets being depreciated:				
Water property and equipment	8,033,564	1,147,950	(74,691)	9,106,823
Sewer property and equipment	37,183	-	-	37,183
Totals	8,070,747	1,147,950	(74,691)	9,144,006
Less: accumulated depreciation	(4,350,532)	(166,608)	74,691	(4,442,449)
Depreciable assets. Net	3,720,215	981,342	-	4,701,557
Total capital assets, net	\$ 4,698,121	\$ 1,320,300	\$ (971,286)	\$ 5,047,135

NOTE 5 – LONG TERM DEBT

The following is a summary of the District's debt:

Debt Instrument	Balance at December 31, 2024	Additions	Retirements	Balance at December 31, 2025
Kentucky Infrastructure Authority Loan	\$ 82,848	\$ -	\$ (8,232)	\$ 74,616
Kentucky Rural Water Finance Corp.	270,000	-	(75,000)	195,000
Subtotal	352,848	\$ -	\$ (83,232)	269,616
Less: current portion of long-term debt	(83,010)			(18,460)
Total Long-Term Indebtedness	\$ 269,838			\$ 251,156

Kentucky Infrastructure Authority Loan

During the year ended December 31, 2014, the District partnered with the Kentucky Infrastructure Authority to fund construction of the water service lines. This Kentucky Infrastructure Authority Loan bears an interest rate of 2.75% and matures December 1, 2033.

EAST PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2025 and 2024
--

The remaining debt service is as follows:

Year	Principal Amount	Interest Amount	Total Debt Service
2026	\$ 8,460	\$ 1,994	\$ 10,454
2027	8,694	1,760	10,454
2028	8,935	1,519	10,454
2029	9,183	1,271	10,454
2030	9,437	1,017	10,454
2031-2033	29,907	1,456	31,363
Totals	<u>\$ 74,616</u>	<u>\$ 9,017</u>	<u>\$ 83,633</u>

Kentucky Rural Water Finance Corporation

On February 19, 2015, The District entered into an assistance agreement with the Kentucky Rural Water Finance Corporation for a loan in the amount of \$895,000. Concurrent with this agreement, the KRWFC issued Public Projects Refunding Revenue Bonds, Series 2015B which refunded the District's outstanding Series 1998 Bonds, Series 2001 Bonds and Series 2006 Bonds. The water systems represent collateral on the bonds. The note payable to the Kentucky Rural Water Finance Corporation contains principal and interest payments which mirror related KRWFC bond issues. Principal payments are due annually on February 1 beginning in 2016 and ending February 1, 2041. Interest is payable February 1 and August 1 of each year. The KRWFC bond bears a variable interest rate of 2.25-3.625%. The remaining debt service is as follows:

Year	Principal Amount	Interest Amount	Total Debt Service
2026	\$ 10,000	\$ 6,669	\$ 16,669
2027	10,000	6,344	16,344
2028	10,000	6,019	16,019
2029	10,000	5,694	15,694
2030	10,000	5,369	15,369
2031-2035	60,000	21,567	81,567
2036-2040	75,000	9,366	84,366
2041	10,000	272	10,272
Totals	<u>\$ 195,000</u>	<u>\$ 61,300</u>	<u>\$ 256,300</u>

NOTE 6 - COUNTY EMPLOYEES' RETIREMENT SYSTEM

Plan description – District employees are covered by CERS (County Employees' Retirement System), a cost-sharing multiple-employer defined benefit pension and health insurance (Other Post-Employment Benefits; OPEB) plan administered by the Kentucky Public Pension Authority, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Public Pension Authority administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Public Pension 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/>.

The Plan is divided into both a **Pension Plan** and **Health Insurance Fund Plan** (Other Post-Employment Benefits; OPEB) and each plan is further sub-divided based on **Non-Hazardous** duty and **Hazardous** duty covered-employee classifications. The District has only Non-Hazardous employees.

EAST PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2025 and 2024
--

Membership in CERS consisted of the following at June 30, 2024:

	Non-Hazardous	
	Pension	OPEB
Active Plan Members	80,440	80,072
Inactive Plan Members	115,789	26,288
Retired Members	72,385	38,993
	<u>268,614</u>	<u>145,353</u>
Number of participating employers		<u>1,151</u>

PENSION PLAN

Benefits provided: The non-hazardous system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

Tier 1: Retirement Eligibility for Members Whose Participation Began Before 09/01/2008

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
65	1 month	None
Any	27	None
55	5	6.5% per year for first five years, and 4.5% for the next five years before age 65 or 27 years of service.
Any	25	6.5% per year for first five years, and 4.5% for the next five years before age 65 or 27 years of service.

Tier 2: Retirement Eligibility for Members Whose Participation Began on or After 09/01/2008 but before 01/01/2014

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
65	5	None
57	Rule of 87	None
60	10	6.5% per year for first five years, and 4.5% for the next five years before age 65 or Rule of 87 (age plus years of service).

Tier 3: Retirement Eligibility for Members Whose Participation Began On or After 01/01/2014

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
65	5	None
57	Rule of 87	None

EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025 and 2024

Benefit Formula for Tiers 1 & 2

Final Compensation	X	Benefit Factor	X	Years of Service
Average of the five highest years of compensation if participation began before 09/01/2008.		2.20% if: Member begins participating prior to 08/01/2004.		Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).
		2.00% if: Member begins participating on or after 08/01/2004 and before 09/01/2008.		
Average of the last complete five years of compensation if participation began on or after 09/01/2008 but before 01/01/2014.		Increasing percent based on service at retirement up to 30 years* plus 2.00% for each year of service over 30 if: Member begins participating on or after 08/01/2004 but before 01/01/2014.		

* **Service** (and **Benefit Factor**): **10 years or less** (1.10%); **10 - 20 years** (1.30%); **20 - 26 years** (1.50%); **26 - 30 years** (1.75%)

Benefit Formula for Tier 3

$$(A-B) = C \times 75\% = D, \text{ then } B+D = \text{Interest}$$

Measurement Year	A	B	C	D	Interest Rate Earned (4% + Upside)	Total Interest Credited to Members' Account
	5 Year Geometric Average Return	Less Guarantee Rate	Upside Sharing Interest	Interest Rate Earned		
2025	9.89%	4.00%	5.89%	4.42%	8.42%	\$ 54,364,000
2024	7.67%	4.00%	3.67%	2.75%	6.75%	\$ 35,699,000

For post-retirement death benefits, if the member is receiving a monthly benefit based on at least four (4) years of creditable service, the retirement system will pay a \$5,000 death benefit payment to the beneficiary named by the member specifically for this benefit.

For disability benefits, members participating before August 1, 2004 may retire on account of disability provided the member has at least 60 months of service credit and is not eligible for an unreduced benefit. Additional service credit may be added for computation of benefits under the benefit formula. Members participating on or after August 1, 2004 but before January 1, 2014 may retire on account of disability provided the member has at least 60 months of service credit. Benefits are computed at the greatest of 20% for non-hazardous of final rate of pay or the amount calculated under the benefit formula based upon actual service. Members participating on or after January 1, 2014 may retire on account of disability provided the member has at least 60 months of service credit. The hybrid account which includes member contributions, employer contributions, and interest credits can be withdrawn from the System as a lump sum or an annuity equal to the larger of 20% for non-hazardous of the member's monthly final rate of pay or the annuitized hypothetical account into a single life annuity option. Members disabled as a result of a single duty-related injury or act of violence related to their job may be eligible for special benefits.

For pre-retirement death benefits, the beneficiary of a deceased active member will be eligible for a monthly benefit if the member was: (1) eligible for retirement at the time of death or, (2) under the age

EAST PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2025 and 2024
--

of 55 with at least 60 months of service credit and currently working for a participating agency at the time of death or (3) no longer working for a participating agency but at the time of death had at least 144 months of service credit. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump sum payment of the member's contributions and any accumulated interest.

The Kentucky General Assembly has the authority to increase, suspend, or reduce Cost of Living Adjustments (COLAs). Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature authorizes on a biennial basis and either (1) the system is over 100.00% funded or (2) the Legislature appropriates sufficient funds to pay the increased liability for the COLA.

House Bill 271 passed during the 2020 legislative session which removed provisions that reduce the monthly payment to a surviving spouse of a member whose death was due to an in line of duty or duty-related injury upon remarriage of the surviving spouse. It also increased benefits for a very small number of surviving spouses and dependent children who did not initially elect the in line of duty or duty-related benefit. There were no other material benefit provision changes since the prior valuation.

Contributions

The employee contribution rate is set by state statute. Non-Hazardous employees contribute 5.00% of their annual creditable compensation. Employees hired on or after September 1, 2008 contribute an additional 1.00% to health insurance.

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6.00% for non-hazardous of their annual creditable compensation. The 1.00% was deposited to an account created for the payment of health insurance benefits under 26 USC section 401(h) in the Pension Fund. These members were classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.50%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1.00% contribution to the 401(h) account is non-refundable and is forfeited.

Plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5.00% non-hazardous of their annual creditable compensation and 1.00% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with 4.00% non-hazardous employer pay credit. The employer pay credit represents a portion of the employer contribution.

The employer contribution rates are set by the KRS Board under Kentucky Revised Statute 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly.

The District contributed 19.71% of covered-employee's compensation (from January – June 2025) of which 19.71% was for the pension fund and 0% was for the health insurance fund and contributed 18.62% of covered-employee's compensation (from July – December 2025), of which 18.62% was for the pension fund and 0% was for the health insurance fund.

EAST PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2025 and 2024
--

The District made all required contributions for the non-hazardous Plan pension obligation for the fiscal year in the amount of \$66,466, of which \$66,466 was for the pension fund and \$0 was for the health insurance fund.

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 of \$599,195 as its proportionate share of the net pension liability. The net pension liability 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 was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At the June 30, 2025 measurement year, the District's non-hazardous employer allocation proportion was 0.01077% of the total CERS non-hazardous duty employees. For the year ended December 31, 2025, the District recognized a pension benefit of \$62,579 in addition to its \$66,466 pension contribution.

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

	Non-Hazardous	
	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ 19,865	\$ -
Net difference between projected actual earnings on plan investments	-	(59,916)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(49,211)
Contributions subsequent to the measurement date	33,374	-
	<u>\$ 53,239</u>	<u>\$ (109,127)</u>

The District's contributions subsequent to the measurement date of \$33,374 will be recognized as a reduction of the net pension liability in the year ending December 31, 2026.

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

EAST PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2025 and 2024
--

Measurement Year Ending	Net
June 30,	Deferral
2026	\$ (22,230)
2027	(37,321)
2028	(19,470)
2029	(10,241)
2030	-
Thereafter	-
	<u>\$ (89,262)</u>

Basis of Calculations

The actuarial valuation as of June 30, 2025 was performed by Gabriel, Roeder, Smith & Co. (GRS) plan in compliance with *GASB Statement No. 67 - Financial Reporting for Pension Plans*. The total pension liability, the net pension liability, and the sensitivity information as of June 30, 2025 were based on an actuarial valuation date of June 30, 2024. The total pension liability was rolled-forward from the original valuation date of June 30, 2024 to the plan's fiscal year ending of June 30, 2025 using generally accepted actuarial procedures.

Actuarial Methods and Assumptions to Determine the Total Pension Liability and the Net Pension Liability

Below is a summary of the principal assumptions used for the June 30, 2024, actuarial valuation:

Inflation	2.50%
Payroll Growth Rate	2.0% for CERS Non-hazardous
Salary Increases	3.30% to 10.30%, varies by service for CERS Non-hazardous
Investment Rate of Return	6.50% for CERS Non-hazardous
Mortality	
Pre-retirement	PUB-2010 General Mortality table projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.
Post-retirement (non-disabled)	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.
Post-retirement (disabled)	PUB-2010 Disabled Mortality table projected with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2010.

Changes of Assumptions - Plan

There have been no assumption, method or plan provision changes that would materially impact the total pension liability since June 30, 2024. It is GRS's opinion that these procedures for determining the information contained in these reports are reasonable, appropriate, and comply with applicable requirements under *GASB Statement No. 68 Accounting and Financial Reporting for Pensions*.

EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025 and 2024

Discount Rate

The projection of cash flows used to determine the discount rate of 6.50% for CERS Nonhazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute, as amended by House Bill 362, (passed in 2018) over the remaining 27 years (closed) amortization period of the unfunded actuarial accrued liability.

Also, the provisions of House Bill 362 (passed during the 2018 legislative session) are still in effect and limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30, 2028. However, contribution rates are not currently projected to increase by more than 12% in any given future year. Therefore, for the purposes of this calculation, the provisions of House Bill 362 do not impact the projected employer contributions.

The discount rate determination does not use a municipal bond rate.

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contributions for 2025

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending December 31, 2025:

Actuarial Valuation Date	June 30, 2023
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Method	Level Percent of Pay
Amortization Period	30 years closed period at June 30, 2019; gains and losses incurring after 2019 will be amortized over separate closed 20-year amortization bases
Payroll Growth Rate	2.0%
Investment Rate of Return	6.50%
Inflation	2.50%
Salary Increases	3.30% to 10.30%, varies by service for Non-Hazardous
Mortality	System specific mortality table based on experience from 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

EAST PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2025 and 2024
--

Plan Target Allocation

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	CERS Pensions Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Public equity	45.00%	4.15%
Private equity	8.00%	7.90%
Core bonds	13.00%	2.70%
Specialty credit / high yield	20.00%	3.83%
Cash	2.00%	1.25%
Real estate	5.00%	4.75%
Real return	7.00%	5.20%
Expected Real Return	100.00%	4.24%
Long-Term Inflation Assumption		2.50%
Expected Nominal Return for Portfolio		6.74%

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50%) or 1-percentage-point higher (7.50%) than the current rate:

	Proportionate Share of Net Pension Liability		
	1% Decrease	Current Rate	1% Increase
	5.50%	6.50%	7.50%
Non-hazardous	\$ 792,176	\$ 599,195	\$ 439,981
Total	\$ 792,176	\$ 599,195	\$ 439,981

HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS

General Information about the OPEB Plan

Plan description: County Employees Retirement System consists of two plans, Non-Hazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit OPEB plan administered by the Kentucky Public Pension Authority under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS. The District only participates in the non-hazardous plan.

Benefits provided: The KRS' Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare

EAST PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2025 and 2024
--

retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty.

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5% based upon Kentucky Revised Statutes.

This benefit is not protected under the inviolable contract provisions of KRS 61.692. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Portion Paid by Insurance Fund	
Years of Service	Paid by Insurance Fund (%)
20 + Years	100.00%
15 - 19 Years	75.00%
10 - 14 Years	50.00%
4 - 9 Years	25.00%
< 4 Years	0.00%

Contributions

The employee contribution rate is set by state statute. Non-Hazardous employees contribute 5.00% of their annual creditable compensation. Employees hired on or after September 1, 2008 contribute an additional 1.00% to health insurance.

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6.00% for non-hazardous of their annual creditable compensation. The 1.00% was deposited to an account created for the payment of health insurance benefits under 26 USC section 401(h) in the Pension Fund. These members were classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.50%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1.00% contribution to the 401(h) account is non-refundable and is forfeited.

EAST PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2025 and 2024
--

Plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5.00% non-hazardous of their annual creditable compensation and 1.00% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with 4.00% non-hazardous employer pay credit. The employer pay credit represents a portion of the employer contribution.

The employer contribution rates are set by the KRS Board under Kentucky Revised Statute 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly.

The District contributed the required 0% of covered-employee's compensation (from January – June 2025) and contributed the required 0% of covered-employee's compensation (from July – December 2025) for the health insurance fund. These contributions are actuarially determined as an amount that is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability (asset). For the year ended December 31, 2025, the District recognized an OPEB benefit of \$47,383 in addition to its \$0 OPEB contribution.

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

At December 31, 2025, the District reported an OPEB liability of \$10,349 as its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2025, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB asset was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all governmental entities, actuarially determined. At the June 30, 2025 measurement year, the District's proportion of the total non-hazardous plan was 0.01078%.

In addition, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

EAST PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2025 and 2024
--

	Non-Hazardous	
	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ 33,564	\$ (88,968)
Net difference between projected actual earnings on plan investments	-	(23,436)
Changes of assumptions	6,902	(5,925)
Changes in proportion and differences between contributions and proportionate share of contributions	3,813	(20,266)
Contributions subsequent to the measurement date	-	-
	<u>\$ 44,279</u>	<u>\$ (138,595)</u>

The District's contributions subsequent to the measurement date of \$0 for non-hazardous duty employees will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2026.

Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Measurement Year Ending June 30,	Net Deferral
2026	\$ (51,043)
2027	(40,203)
2028	(2,133)
2029	(938)
2030	-
Thereafter	-
	<u>\$ (94,317)</u>

Basis of Calculations

The actuarial valuation as of June 30, 2025 was performed by Gabriel, Roeder, Smith & Co. (GRS) plan in compliance with *GASB Statement No. 74 - Financial Reporting for Other Post-Employment Benefit Plans*. The total OPEB liability, the net OPEB liability, and the sensitivity information as of June

EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025 and 2024

30, 2025 were based on an actuarial valuation date of June 30, 2024. The total OPEB liability was rolled-forward from the original valuation date of June 30, 2024 to the plan's fiscal year ending of June 30, 2025 using generally accepted actuarial procedures.

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and the Net OPEB Liability

Below is a summary of the principal assumptions used for the June 30, 2024 actuarial valuation:

Investment Rate of Return	6.50% for CERS Non-hazardous
Inflation	2.50%
Salary Increases	3.30% to 10.30%, varies by service for CERS Non-hazardous
Payroll Growth Rate	2.0% for CERS Non-hazardous
Mortality	
Pre-retirement	PUB-2010 General Mortality table projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.
Post-retirement (non-disabled)	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.
Post-retirement (disabled)	PUB-2010 Disabled Mortality table projected with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2010.
Health Care Trend Rates	
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 8.00% in 2026, then gradually decreasing to an ultimate trend rate of 4.25% over a period of 10 years.

Change in Assumptions - Plan

The discount rate used to calculate the total OPEB liability increased from 5.99% to 6.26% for the nonhazardous plan. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2024, valuation process and was updated to better reflect the plan's anticipated long-term healthcare cost increases. In general, the updated assumption is assuming higher future increases in pre-Medicare health care costs. The Total OPEB Liability as of June 30, 2025, is determined using these updated assumptions.

Senate Bill 10 passed during the 2025 legislative session and increased the insurance benefit for members who began participation on or after July 1, 2003, to \$40 a month for nonhazardous CERS service effective January 1, 2026. These increases are only payable when a member is not eligible for Medicare benefits and only if they have met certain service thresholds at retirement. Additionally, this legislation increases the insurance member contribution rate for hazardous members from 1% of pay to 2% of pay, effective July 1, 2026,

EAST PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2025 and 2024
--

and extended the required member contribution to CERS members hired on or after July 1, 2003, but prior to September 1, 2008, for both funds.

There have been no other plan provision changes that would materially impact the total OPEB liability since June 30, 2024. It is GRS's opinion that these procedures are reasonable and appropriate and comply with applicable requirements under GASB *Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Discount Rate

Single discount rates 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 5.20%, as reported in Bond Buyer's "20-Year Municipal GO AA Index" as of June 30, 2025. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected separately and were sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy was not included in the calculation of the plans' actuarially determined contributions, and any cost associated with the implicit subsidy will not be paid out of the plan trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The projection of cash flows used to determine the single discount rate must include an assumption regarding future employer contributions made each year. Future contributions are projected assuming that each participating employer in each insurance plan contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy.

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for Fiscal Year 2025

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the fiscal year ending June 30, 2025:

Valuation Date	June 30, 2023
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Method	Level Percent of Pay
Amortization Period	30 years closed period at June 30, 2019; gains and losses incurring after 2019 will be amortized over separate closed 20-year amortization bases

EAST PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2025 and 2024
--

Payroll Growth Rate	2.0%
Investment Rate of Return	6.50%
Inflation	2.50%
Salary Increases	3.30% to 10.30%, varies by service for Non-hazardous
Mortality	System-specific mortality table based on mortality experience 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 6.80% at January 1, 2025, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2024 premiums were known at the time of the valuation and were included into the liability measurement.
Post - 65	Initial trend starting at 8.50% at January 1, 2025, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years. The 2024 premiums were known at the time of the valuation and were included into the liability measurement.

Changes of Assumptions - Contributions

The discount rates used to calculate the total OPEB liability (asset) increased from 5.99% to 6.26%. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2025 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. There were no other material assumption changes.

Plan Target Allocation

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	CERS Pensions	
	Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Public equity	45.00%	4.15%
Private equity	8.00%	7.90%
Core bonds	13.00%	2.70%
Specialty credit /high yield	20.00%	3.83%
Cash	2.00%	1.25%
Real estate	5.00%	4.75%
Real return	7.00%	5.20%
Expected Real Return	100.00%	4.24%
Long-Term Inflation Assumption		2.50%
Expected Nominal Return for Portfolio		6.74%

EAST PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2025 and 2024
--

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the proportionate share of the net OPEB liability calculated using the discount rates of 6.26% for the non-hazardous plan, as well as what the proportionate share of the net OPEB 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:

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Discount Rate, Non-Hazardous	5.26%	6.26%	7.26%
Net OPEB liability, Non-Haz	\$ 62,095	\$ 10,349	\$ (33,204)
Total	\$ 62,095	\$ 10,349	\$ (33,204)

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Healthcare cost trend rate			
Net OPEB liability, non-hazardous	\$ (23,916)	\$ 10,349	\$ 50,460
Total	\$ (23,916)	\$ 10,349	\$ 50,460

Plan Fiduciary Net Position

Both the Pension Plan and the Health Insurance Plan issue publicly available financial reports that include financial statements and required supplementary information, and detailed information about each Plan's fiduciary net position. These reports may be obtained, in writing, from the Kentucky Public Pension Authority, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601 or online at www.kyret.ky.gov.

NOTE 7 – ECONOMIC DEPENDENCY/CREDIT RISK

East Pendleton County Water District is a government agency operating with one office in Falmouth, Kentucky. It grants credit to customers who are primarily local residents and businesses. The District receives all of its operating revenues from customers in Pendleton, Campbell, Bracken, and Harrison Counties.

NOTE 8 – CONCENTRATIONS

The District has agreements to purchase water from the City of Falmouth, Kentucky and the Bracken County Water District.

NOTE 9 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS IN CURRENT YEAR

Statement No. 102 – Certain Risk Disclosures – Establishes financial reporting requirements for risks related to vulnerabilities due to certain concentrations or constraints. This implementation of this statement should have no direct material impact on the District.

EAST PENDLETON COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2025 and 2024
--

NOTE 10 – FUTURE ACCOUNTING STANDARDS

Statement No. 103 – *Financial Reporting Model Improvements* – Implementation in calendar year 2026

Statement No. 104 – *Disclosure of Certain Capital Assets* – Implementation in calendar year 2026

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated events through June 17, 2026, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2025 through June 17, 2026, to disclose.

EAST PENDLETON COUNTY WATER DISTRICT**MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN DISCLOSURE-NON-HAZARDOUS****Last Ten Fiscal Years**

Schedule of the District's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Proportion of net pension liability (asset)	0.010770%	0.011840%	0.012140%	0.011622%	0.013196%	0.012490%	0.012199%	0.011313%	0.011109%	0.009370%
Proportionate share of the net pension liability (asset)	\$ 599,195	\$ 707,903	\$ 779,157	\$ 840,156	\$ 841,349	\$ 957,973	\$ 857,961	\$ 688,996	\$ 650,244	\$ 461,342
Covered payroll in year of measurement	\$ 362,277	\$ 337,892	\$ 340,992	\$ 321,372	\$ 337,069	\$ 319,921	\$ 307,718	\$ 280,393	\$ 270,478	\$ 209,696
Share of the net pension liability (asset) as a percentage of its covered payroll	165.40%	209.51%	228.50%	261.43%	249.61%	299.44%	278.81%	245.73%	240.41%	220.01%
Plan fiduciary net position as a percentage of total pension liability (asset)	65.34%	61.61%	57.48%	52.42%	57.33%	47.81%	50.45%	53.54%	53.32%	55.50%

Schedule of the District's Contributions
County Employees' Retirement System (CERS)

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	\$ 66,466	\$ 74,448	\$ 84,315	\$ 75,476	\$ 70,819	\$ 63,893	\$ 56,072	\$ 44,288	\$ 41,414	\$ 27,596
Actual contribution	\$ 66,466	\$ 74,448	\$ 84,315	\$ 75,476	\$ 70,819	\$ 63,893	\$ 56,072	\$ 44,288	\$ 41,414	\$ 27,596
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Covered payroll	\$ 347,129	\$ 349,204	\$ 360,791	\$ 326,542	\$ 336,182	\$ 331,052	\$ 315,253	\$ 287,497	\$ 292,976	\$ 210,496
Contributions as a percentage of covered payroll	19.15%	21.32%	23.37%	23.11%	21.07%	19.30%	17.79%	15.40%	14.14%	13.11%

Notes to Required Supplementary Information
for the Year Ended December 31, 2025

The net pension liability (asset) as of December 31, 2025, is based on the June 30, 2025, actuarial valuation. The changes to the elements of the pension (expense) gain, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between District's contributions and proportionate share of contributions are detailed in NOTE 6 in the Notes to the Financial Statements.

EAST PENDLETON COUNTY WATER DISTRICT MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT OPEB PLAN DISCLOSURE-NON-HAZARDOUS Last Ten Fiscal Years

Schedule of the District's Proportionate Share of the Net Pension Liability

County Employees' Retirement System (CERS)

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Proportion of net OPEB liability (asset)	0.010780%	0.011850%	0.012140%	0.011620%	0.01319%	0.012486%	0.01220%	0.01131%	0.01111%	0.01111%
Proportionate share of the net OPEB liability (asset)	\$ 10,349	\$ (20,495)	\$ (16,764)	\$ 229,322	\$ 252,573	\$ 301,499	\$ 205,131	\$ 200,860	\$ 223,329	\$ 175,173
Covered payroll in year of measurement	\$ 362,277	\$ 337,892	\$ 340,992	\$ 321,372	\$ 337,069	\$ 319,921	\$ 307,718	\$ 280,393	\$ 270,478	\$ 209,696
Share of the net pension liability (asset) as a percentage of its covered payroll	2.86%	-6.07%	-4.92%	71.36%	74.93%	94.24%	66.66%	71.64%	82.57%	83.54%
Plan fiduciary net position as a percentage of total OPEB liability (asset)	97.66%	104.89%	104.23%	60.95%	62.91%	51.67%	60.44%	57.62%	52.39%	

Schedule of the District's Contributions
County Employees' Retirement System (CERS)

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	\$ -	\$ -	\$ 6,025	\$ 12,246	\$ 14,996	\$ 15,758	\$ 15,781	\$ 14,368	\$ 14,042	\$ 10,310
Actual contribution	\$ -	\$ -	\$ 6,025	\$ 12,246	\$ 14,996	\$ 15,758	\$ 15,781	\$ 14,368	\$ 14,042	\$ 10,310
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Covered payroll	\$ 347,129	\$ 349,204	\$ 360,791	\$ 326,542	\$ 336,182	\$ 331,052	\$ 315,253	\$ 287,497	\$ 292,976	\$ 210,496
Contributions as a percentage of covered payroll	0.00%	0.00%	1.67%	3.75%	4.46%	4.76%	5.01%	5.00%	4.79%	4.90%

Notes to Required Supplementary Information
for the Year Ended December 31, 2025

The net pension liability (asset) as of December 31, 2025, is based on the June 30, 2025, actuarial valuation. The changes to the elements of the OPEB (expense) gain, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between District's contributions and proportionate share of contributions are detailed in NOTE 6 in the Notes to the Financial Statements.

EAST PENDLETON COUNTY WATER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ending December 31, 2025 and 2024
--

	2025	2024
Operations, Maintenance and Administrative Expenses		
Salaries and wages - employees	\$ 450,317	\$ 487,725
Employee pension and benefits	66,573	75,826
Commissioners' fees	14,200	14,100
Contractual services - accounting	26,753	20,546
Contractual services - other	40,640	24,755
Insurance - general and vehicle	23,621	20,880
Insurance - workers' compensation	6,181	6,512
Materials and supplies	85,647	31,445
Miscellaneous	8,076	6,440
Purchased power	40,187	39,588
Regulatory commission	1,996	2,189
Taxes	124	23
Transportation	19,432	24,194
Utilities	7,698	7,921
Total Operations, Maintenance and Administrative Expenses	<u>\$ 791,445</u>	<u>\$ 762,144</u>

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

**To the Board of Commissioners
East Pendleton County Water District
Falmouth, 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 business-type activities of East Pendleton County Water District as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements which collectively comprise East Pendleton County Water District's basic financial statements and have issued our report thereon dated June 17, 2026.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered East Pendleton 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 Pendleton County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of East Pendleton 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did not identify certain deficiencies in internal control that we consider significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the East Pendleton County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. Noncompliance 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 audits, 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.

Chamberlin Owen & Co., Inc.

Chamberlin Owen & Co., Inc.

Erlanger, Kentucky

June 17, 2026