

FARMDALE WATER DISTRICT
FRANKFORT, KENTUCKY

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

Farmdale Water District

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HARROD & ASSOCIATES, P.S.C.
Certified Public Accountants
#2 HMB CIRCLE, SUITE A
FRANKFORT, KENTUCKY 40601

TEL. (502) 695-7300
FAX (502) 695-9125

MEMBER
AMERICAN INSTITUTE OF CPA'S
KENTUCKY SOCIETY OF CPA'S

Independent Auditor's Report

To the Board of Directors
Farmdale Water District
Frankfort, Kentucky

Opinion

We have audited the accompanying financial statements of the business-type activities of Farmdale Water District ("the District") (a nonprofit governmental entity), which comprise the statement of net position as of December 31, 2025 and 2024, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Farmdale Water District as of December 31, 2025 and 2024, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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 District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements. In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement 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 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 management's discussion and analysis on pages 6 through 12 and the historical pension and OPEB information on pages 40 through 47 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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.

Harrod & Associates, PSC

Harrod & Associates, PSC
Frankfort, Kentucky

March 23, 2026

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**Farmdale Water District
Management’s Discussion and Analysis
For the Years Ended December 31, 2025 and 2024**

As management of Farmdale Water District (“the District”), we offer readers of the District’s financial statements this narrative overview of the District for the years ended December 31, 2025 and 2024. We encourage readers to consider the information presented here in conjunction with the District’s financial statements and notes to the basic financial statements, which follow this section, to enhance their understanding of the District’s financial performance.

The District was established in May 1961 under Kentucky Revised Statutes (KRS 74.012) as a water system to operate, maintain, improve, and expand the distribution of water. The District serves primarily western Franklin County and parts of eastern Anderson and Shelby Counties. In addition to the distribution of water, the District collects fees for several sewer treatment plants.

In October 2012, the District began installing meters which can be read by radio waves, building a water tower with increased storage capacity, and installing new pipe from the pump station. The District financed these improvements via company funds, grants from the Kentucky Infrastructure Authority, and loans from Regions Bank via the U.S. Department of Agriculture. The loan from Regions Bank was repaid in April 2014 with loan funds from the U.S. Department of Agriculture. The principal repayment of the federal funds began in 2015. All associated capital improvement projects were completed in 2013.

Due to the age of the lines and pipes, leaks have been a continuing and ongoing problem for the District. In order to combat water loss issues and improve their overall system, in 2024, the District began their Asbestos Cement (AC) Water Line Replacement Project. This project plans to replace approximately 35,000 linear feet of AC line. Similar to the previous enhancement project from 2012, this new project is also being financed through a Regions Bank loan via the U.S. Department of Agriculture. The loan draws have been made from Regions Bank for 2024 and 2025, and will be repaid in February 2026 with \$2,458,000 in loan funds from the U.S. Department of Agriculture. The principal repayment of the federal funds will begin in 2027 and go for 40 years. All associated capital improvement projects were substantially complete as of December 2025, with full completion expected by February 2026.

As part of the above project, the District incurred approximately \$940,000 and \$902,000 in 2025 and 2024, respectively, for the repair and replacement of water lines as part of its ongoing effort to reduce water loss. The District’s water loss percentage averaged approximately 29% for both 2025 and 2024, representing a significant improvement from 42% in 2023.

In addition, during 2025, the District replaced all water meters over 10 years old, as required by the Kentucky Public Service Commission, at a cost of approximately \$435,000. The District continues to pursue additional grant and loan funding to replace remaining asbestos cement (AC) lines, with a goal of completing these replacements by the end of 2028.

Financial Highlights

In 2025, the assets of the District exceeded its liabilities at the close of the year by \$1,955,975. Of this amount, \$1,863,169 was invested in capital assets (net of related debt); \$136,775 was restricted for debt retirement, customer deposits, and new construction; and (\$43,969) was unrestricted. In 2025, the District’s net assets decreased \$169,899, which represents a decline from the prior year and reflects increased operating costs and other changes in net position during the year.

**Farmdale Water District
Management’s Discussion and Analysis
For the Years Ended December 31, 2025 and 2024**

Financial Highlights (Continued)

In 2024, the assets of the District exceeded its liabilities at the close of the year by \$2,125,874. Of this amount, \$1,494,953 was invested in capital assets (net of related debt); \$473,366 was restricted for debt retirement, customer deposits, water loss reserves, and new construction; and \$157,555 was unrestricted. In 2024, the District’s net assets increased \$74,801, which represents an improvement over the prior year’s loss, and is the first overall increase in net assets in over 10 years.

Revenues

Gross revenue from the sale of water and sewer surcharges, including tap on fees and reconnect fees totaled \$1,741,839 and \$1,678,176 for the calendar years 2025 and 2024, respectively. The Kentucky Public Service Commission (PSC) approved no rate increases in 2025 and 2024, with the most recent increase occurring in late 2020. However, a rate increase was approved in January 2026, effective for billing cycles beginning in February 2026.

Expenses

Operating expenses were \$1,920,544 and \$1,628,508 for the calendar years 2025 and 2024, respectively. Operating expenses generally refer to the ordinary and necessary business expenses incurred in the day-to-day operation of the utility. Some of the broad categories of these expenses are classified as “Water Purchased,” “Transmission and Distribution,” “Administrative and General Expense,” “Maintenance and Repairs,” “Taxes and Licenses” and “Employee Benefits.” They include such things as system maintenance, supplies, office supplies, customer service, fringe benefits, billing, and accounting. These represent current period expenses that are not capitalized as part of construction projects with a service life greater than one year.

Organization and Business

Farmdale Water District provides water service to approximately 2,780 rural, residential and commercial customers in western Franklin County and parts of Anderson and Shelby Counties. The District was created under KRS 74.012. The Franklin County Fiscal Court appoints the District’s three commissioners to serve four-year terms. The District is governed by the Kentucky Public Service Commission.

Financial Overview

The District’s financial statements are comprised of two components:

- >Financial Statements
- >Notes to the Financial Statements

Included as part of the financial statements are three different types (and names) of statements and their respective notes.

The three financial statement types:

1. **The Statement of Net Position** presents information on the District’s assets and liabilities with the difference between the two reported as net position. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

**Farmdale Water District
Management’s Discussion and Analysis
For the Years Ended December 31, 2025 and 2024**

Financial Overview (Continued)

2. **The Statement of Revenues, Expenses, and Changes in Net Position** presents information showing how the District’s net assets changed based on current year activity. Results of operations are reported as the underlying events occur, regardless of the timing of cash flows. This means that revenues and expenses are reported in the financial statements for some items that will result in cash flows (positive or negative) in some future year. This is the “accrual” basis of accounting and is further explained in Note 1C.
3. **The Statement of Cash Flows** presents the cash flow changes occurring during the calendar years 2025 and 2024 in highly liquid cash. “Highly liquid” means it is, or can quickly be, turned into useable cash (for these purposes an original maturity of the investment of 3 months or less).

The Notes to the Financial Statements provide additional information that is essential for a full and complete understanding of the information provided in the financial statements. The Notes to the Financial Statements can be found on pages 19 through 34 of this report.

Statement of Net Position Overview

The District was not required to have an audit under Uniform Guidance for 2025 or 2024.

Condensed Statement of Net Position

	2025	2024	Change from 2024 to 2025	
			Amount	Percent
ASSETS				
Current and other assets	\$ 883,760	\$ 1,331,939	\$ (448,179)	-33.65%
Capital assets, net	5,264,125	3,987,303	1,276,822	32.02%
Deferred outflows	116,345	36,987	79,358	214.56%
Total assets	6,264,230	5,356,229	908,001	16.95%
LIABILITIES				
Current and other liabilities	556,176	635,077	(78,901)	-12.42%
Long-term debt	3,651,264	2,460,850	1,190,414	48.37%
Deferred inflows	100,815	134,428	(33,613)	-25.00%
Total liabilities	4,308,255	3,230,355	1,077,900	33.37%
NET POSITION				
Net investment in capital assets	1,863,169	1,494,953	368,216	24.63%
Restricted	136,775	473,366	(336,591)	-71.11%
Unrestricted	(43,969)	157,555	(201,524)	-127.91%
Total net position	\$ 1,955,975	\$ 2,125,874	\$ (169,899)	-7.99%

**Farmdale Water District
Management's Discussion and Analysis
For the Years Ended December 31, 2025 and 2024**

Financial Overview (Continued)

Assets

In 2025, the District's total assets increased by \$908,001 or 16.95%, mainly due to the large increase in capital assets. This can be attributed mainly to the previously mentioned AC water line project that began in 2024 and continued through 2025, as well as the newly installed meters.

Capital Assets

The District's investments in capital assets as of December 31, 2025 and 2024 amounted to \$5,264,125 and \$3,987,303 (net of accumulated depreciation), respectively. This includes investments in transmission and distribution related to infrastructure, as well as general items such as office equipment, vehicles, building and building improvements, etc. Major capital asset events during the current fiscal year included installation of new water lines as part of the AC water line project, the replacement of all meters older than 10 years old, the purchase of two new maintenance vehicles, and an additional project to relocate the South Benson water line.

Liabilities

In 2025, the District's total liabilities increased by \$1,077,900 or 33.37%. The audited financial statements indicate the most notable increase was the Kentucky Rural Water Financing Agency Loan Payable, draws from which financed the AC water line project. All other liabilities remained substantially consistent with the prior year.

Net Position

The District's assets exceeded its liabilities by \$1,955,975 and \$2,125,874 for the years ended December 31, 2025 and 2024, respectively. This represents a decrease from 2024 to 2025 of \$169,899. Changes in net position over time may serve as a useful indicator of the District's overall financial condition. A significant portion of the District's net position is invested in capital assets, which are essential to providing services but are not available for spending. Accordingly, the District must maintain sufficient liquidity from operating revenues to meet its ongoing obligations and fund future capital needs.

Net position reflects the District's investment in capital assets, which are used to provide services to customers and are not available for spending. Resources needed to repay outstanding debt will be generated from operating revenues, as capital assets themselves cannot be used to satisfy long-term obligations.

**Farmdale Water District
Management's Discussion and Analysis
For the Years Ended December 31, 2025 and 2024**

Financial Overview (Continued)

Statement of Revenues, Expenses, and Changes in Net Position Overview

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	2025	2024	Change from 2024 to 2025		2025 Budget
			Amount	Percent	
Operating revenues	\$ 1,741,839	\$ 1,678,176	\$ 63,663	3.79%	\$ 1,662,400
Operating expenses	1,920,544	1,628,508	292,036	17.93%	1,662,712
Operating income/(loss)	<u>(178,705)</u>	<u>49,668</u>	<u>(228,373)</u>	-459.80%	<u>(312)</u>
Net non-operating income/(expenses)	<u>8,806</u>	<u>25,133</u>	<u>(16,327)</u>	-64.96%	<u>20,500</u>
Change in net position	<u>\$ (169,899)</u>	<u>\$ 74,801</u>	<u>\$ (244,700)</u>	-327.13%	<u>\$ 20,188</u>

Revenue

For the year ended December 31, 2025, operating revenues were \$1,741,839. This amount represents an increase of \$63,663 or 3.79% from the prior year. Our analysis indicated the main reason for this increase in operating revenues was due to increased residential water sales.

Expenses

For the year ended December 31, 2025, operating expenses were \$1,920,544. This amount represents an increase of \$292,036 or 17.93% from the prior year. This increase was primarily attributable to higher payroll costs, increased interest expense associated with project financing, and elevated maintenance and repair expenses.

Debt Administration

Long-Term Debt

The District has entered into an agreement with the U.S. Department of Agriculture to borrow \$1,668,000 and a subsequent \$190,000 to finance the water system improvements noted above. The construction draws were originally made through Regions Bank. In April 2013, the District received loan proceeds from the U.S. Department of Agriculture and paid off the Regions Bank loan. The District repaid principal of \$31,500 in January 2025 and \$30,000 in January 2024. The loan is a 40-year loan at 3.125% interest payable semi-annually. Prepayment of the loan is not allowed.

In 2024, the District was approved for a 40-year \$2,458,000 loan from the Kentucky Rural Water Financing Agency to finance the AC water line project. \$940,106 and \$886,350 was drawn on the loan during the years ended December 31, 2025 and 2024, respectively. No principal payments are due yet, and interest is accruing at 5.15%. The loan will be refinanced through the U.S. Department of Agriculture in February 2026.

**Farmdale Water District
Management's Discussion and Analysis
For the Years Ended December 31, 2025 and 2024**

Debt Administration (Continued)

Budget

KRS 68.240 requires the District to prepare an annual budget and submit this to the Kentucky Department of Local Government. This budget is prepared based on a combination of prior year activity and current year projections.

The Future

Water

Throughout the year, the District searched for and repaired various major leaks, many due to the ongoing construction and replacement of older lines. The District's average water loss percentage remained consistent for the years ended December 31, 2025 and 2024, running approximately 29.4% and 29.1%, respectively. The District has been working to reduce its water loss percentage for several years, and they are continuing to make progress.

As noted previously, the District has begun the first of many projects intended to combat water loss issues and improve the efficiency of their overall system in 2024 with the AC Water Line Replacement Project. The District expects to complete the project in early 2026, and plans to apply for additional grant and loan funding to replace their remaining AC lines, with a goal of having all the lines replaced by the end of 2028. These projects represent progress toward the District's ultimate goal of reducing water loss to an acceptable amount.

Liquidity

Working capital ratios for 2025 and 2024 were 1.410 and 2.123, respectively. While not optimal, both ratios are considered adequate. The decrease noted in the current year is primarily attributable to a reduction in cash balances, resulting from the use of funds in the water loss surcharge account to finance the replacement of aging meters.

Overall

The District has implemented system enhancements to improve service to customers and increase operating efficiency. These ongoing efforts to reduce water loss are beginning to yield positive results. While the District reported a loss in 2025, it achieved its first positive change in net position in over 10 years in 2024. Additionally, the water loss percentage improved significantly, decreasing from 42% in 2023 to 29% in 2024 and 2025.

With the assistance of legal counsel, the District has adopted a Qualified Infrastructure Improvement Plan and a Water Loss Reduction Plan, which provide a detailed framework for addressing aging infrastructure, reducing system inefficiencies, and improving long-term financial performance. These plans are expected to guide continued capital investment and operational improvements in future periods.

Looking ahead, the District anticipates that recently approved rate increases, which will take effect in 2026, will enhance revenue streams and improve overall financial stability. Management expects that the combination of these rate adjustments and ongoing infrastructure improvements will position the District for improved operating results and strengthened liquidity in future years. The District remains committed to its mission of providing reliable, high-quality services to the Farmdale community at the most reasonable cost possible.

**Farmdale Water District
Management's Discussion and Analysis
For the Years Ended December 31, 2025 and 2024**

Request for Information

This financial report is designed to provide government entities, customers, and creditors with a general overview of the District's finances and demonstrate the District's accountability of monies it receives. If you have questions about this report or need additional information, please contact: Office Manager, Farmdale Water District, 100 Highwood Drive, Frankfort, KY 40601 or Harrod & Associates, PSC, #2 HMB Circle, Frankfort, KY 40601.

**Farmdale Water District
Statement of Net Position
December 31, 2025 and 2024**

	Assets	
	<u>2025</u>	<u>2024</u>
Current Assets		
Cash - Unrestricted	\$ 237,226	\$ 370,458
Cash - Restricted	37,004	37,377
Current Certificates of Deposit	101,165	109,084
Accounts Receivable	278,749	257,813
Grants Receivable	37,859	37,859
Inventory	68,438	54,630
Prepaid Expenses	23,548	22,451
	<hr/>	<hr/>
Total Current Assets	783,989	889,672
	<hr/>	<hr/>
Capital Assets		
Land & Buildings	78,722	78,722
Equipment	295,606	295,606
Vehicles	83,610	71,716
Water Lines, Hydrants, Towers, & Meters	7,448,027	7,549,243
Accumulated Depreciation	(2,641,840)	(4,007,984)
	<hr/>	<hr/>
Total Capital Assets	5,264,125	3,987,303
	<hr/>	<hr/>
Noncurrent Assets		
Cash - Restricted, Water Loss Surcharge	-	336,219
Cash - Restricted, Debt Reserve	99,771	99,771
Net OPEB Asset	-	6,277
	<hr/>	<hr/>
Total Noncurrent Assets	99,771	442,267
	<hr/>	<hr/>
Deferred Outflows		
Deferred Outflows - OPEB	34,223	13,385
Deferred Outflows - Pension	82,122	23,602
	<hr/>	<hr/>
Total Deferred Outflows	116,345	36,987
	<hr/>	<hr/>
Total Assets	<u><u>\$ 6,264,230</u></u>	<u><u>\$ 5,356,229</u></u>

See Independent Auditor's Report
The accompanying notes are an integral part of these financial statements

**Farmdale Water District
Statement of Net Position
December 31, 2025 and 2024**

	Liabilities	
	<u>2025</u>	<u>2024</u>
Current Liabilities		
Accounts Payable	\$ 261,692	\$ 254,658
Customer Deposits and Accrued Interest	42,704	43,518
Accrued Sales, School, and Payroll Taxes	5,604	6,018
Accrued Pension Expense	4,206	2,469
Accrued Loan Interest Payable	197,604	71,509
Current Portion of Noncurrent Liabilities	32,500	31,500
Unearned Income	11,866	8,615
	<hr/>	<hr/>
Total Current Liabilities	556,176	418,287
	<hr/>	<hr/>
Noncurrent Liabilities		
Kentucky Rural Water Financing Agency Loan Payable	1,826,456	886,350
U.S. Department of Agriculture Loan Payable	1,574,500	1,606,000
Current Portion of Noncurrent Liabilities	(32,500)	(31,500)
Net OPEB Liability	4,801	-
Net Pension Liability	278,007	216,790
	<hr/>	<hr/>
Total Noncurrent Liabilities	3,651,264	2,677,640
	<hr/>	<hr/>
Deferred Inflows		
Deferred Inflows - OPEB	65,319	77,660
Deferred Inflows - Pension	35,496	56,768
	<hr/>	<hr/>
Total Deferred Inflows	100,815	134,428
	<hr/>	<hr/>
Total Liabilities	4,308,255	3,230,355
	<hr/>	<hr/>
Net Position		
Invested in Capital Assets, Net of Related Debt	1,863,169	1,494,953
Net Position - Restricted	136,775	473,366
Net Position - Unrestricted	(43,969)	157,555
	<hr/>	<hr/>
Total Net Position	1,955,975	2,125,874
	<hr/>	<hr/>
Total Liabilities and Net Position	<u>\$ 6,264,230</u>	<u>\$ 5,356,229</u>

See Independent Auditor's Report
The accompanying notes are an integral part of these financial statements

Farmdale Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2025 and 2024

Operating Revenues	<u>2025</u>	<u>2024</u>
User Fees:		
Water - Residential	\$ 1,316,975	\$ 1,205,700
Water - Commercial	247,962	235,755
Sewer Surcharge Fees	95,463	94,858
Water Loss Surcharge	325	62,315
Tap-On Fees	22,640	29,432
Late Payment Penalty Income	46,852	46,220
Lease Income	1,200	1,200
Reconnect Fees	10,422	2,696
	1,741,839	1,678,176
Operating Expenses		
Water Purchased	639,081	639,708
Pumping Electricity	22,374	22,061
Salaries & Wages	352,129	257,631
Payroll Taxes	30,279	21,573
Employee Benefits	14,808	9,744
Retirement Expense (Benefit)	19,852	(14,628)
Transmission and Distribution Expense	62,651	92,366
Administrative and General Expense	263,862	240,396
Loan Interest Expense	175,790	100,152
Customer Deposit Interest Expense	680	2,978
Water Testing	6,485	6,335
Maintenance & Repairs	79,980	37,437
Insurance & Workers' Comp	35,420	29,820
Taxes & Licenses	53,970	51,537
Bad Debts	5,945	-
Depreciation	157,238	131,398
	1,920,544	1,628,508
Operating Income (Loss)	(178,705)	49,668

See Independent Auditor's Report
The accompanying notes are an integral part of these financial statements

Farmdale Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2025 and 2024

Nonoperating Revenues (Expenses)	<u>2025</u>	<u>2024</u>
Sewer Fees Collected	912,184	923,189
Sewer Fees Paid	(912,184)	(923,189)
Loss on Disposal of Meters	(3,198)	-
Gain on Sale of Assets	5,250	-
Interest Income	6,754	8,631
Insurance Proceeds	-	3,035
Other Income	-	13,467
	<hr/>	<hr/>
Total Nonoperating Revenues (Expenses)	8,806	25,133
	<hr/>	<hr/>
Change in Net Position	(169,899)	74,801
Net Position - Beginning of Year	2,125,874	2,051,073
	<hr/>	<hr/>
Net Position - End of Year	<u>\$ 1,955,975</u>	<u>\$ 2,125,874</u>

See Independent Auditor's Report
The accompanying notes are an integral part of these financial statements

Farmdale Water District
Statement of Cash Flows
For the Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash Flow from Operating Activities		
Cash received from users and customers	\$ 1,747,794	\$ 1,655,618
Cash payments to employees for services & benefits	(448,081)	(322,588)
Cash payments to suppliers of goods and services	(1,253,863)	(1,146,660)
Net Cash Provided (Used) by Operating Activities	45,850	186,370
Cash Flow from Capital & Related Financing Activities		
USDA loan principal payments	(30,500)	(31,500)
Community Trust loan principal payments	-	(68,269)
Interest paid on loans	(49,695)	(54,205)
Purchases of capital assets and equipment	(1,411,318)	(877,212)
Loan proceeds	940,106	886,350
Proceeds from sales of equipment	5,250	-
Net Cash Provided (Used) by Capital & Related Financing Activities	(546,157)	(144,836)
Cash Flow from Noncapital Financing Activities		
Cash received from non-operating revenues	913,606	1,036,743
Cash paid out from other non-operating expenses	(897,796)	(922,180)
Net Cash Provided (Used) by Noncapital Financing Activities	15,810	114,563
Cash Flows from Investing Activities		
Receipt of interest	6,754	8,631
Interest reinvested in CD	(2,936)	(3,320)
Proceeds from CD closure	110,855	-
Purchase of CD	(100,000)	-
Net Cash Provided (Used) by Investing Activities	14,673	5,311
Net Change in Cash and Cash Equivalents	(469,824)	161,408
Cash and Cash Equivalents, Beginning of Year	843,825	682,417
Cash and Cash Equivalents, End of Year	\$ 374,001	\$ 843,825

See Independent Auditor's Report
The accompanying notes are an integral part of these financial statements

Farmdale Water District
Statement of Cash Flows
For the Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Reconciliation of Cash and Cash Equivalents, End of Year		
Cash on Hand	\$ 75	\$ 75
Whitaker Bank - Operations Account	120,231	256,998
Whitaker Bank - Deposit Account	36,828	37,481
Whitaker Bank - Debt Reserve Account	99,771	99,771
Whitaker Bank - New Construction Account	176	(104)
Community Trust Bank - Loss Surcharge Account	-	336,219
Community Trust Bank - Money Market	115,023	111,437
Community Trust Bank - Checking	1,897	1,948
	\$ 374,001	\$ 843,825
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income (Loss)	\$ (178,705)	\$ 49,668
Noncash items included in operating income (loss):		
Depreciation	157,238	131,398
Bad Debts	5,945	-
Pension/OPEB Outflow Changes	(79,358)	(20,268)
Pension/OPEB Inflow Changes	(33,613)	(40,509)
Pension/OPEB Liability Changes	72,295	(45,773)
Changes in assets and liabilities:		
(Increase)/Decrease in Accounts Receivable	(20,936)	(25,011)
(Increase)/Decrease in Grants Receivable	-	75,225
(Increase)/Decrease in Inventory	(13,808)	8,238
(Increase)/Decrease in Accrued Interest Receivable	-	(3,320)
(Increase)/Decrease in Prepaid Expenses	(1,097)	(4,986)
Increase/(Decrease) in Accounts Payable	7,034	19,094
Increase/(Decrease) in Accrued Taxes	(414)	(167)
Increase/(Decrease) in Customer Deposits & Accrued Interest	(814)	(959)
Increase/(Decrease) in Accrued Pension Expense	1,737	(2,502)
Increase/(Decrease) in Unearned Income	3,251	(1,205)
Increase/(Decrease) in Accrued Loan Interest Payable	126,095	45,947
Increase/(Decrease) in Current USDA Loan Payable	1,000	1,500
Net Cash Provided (Used) by Operating Activities	\$ 45,850	\$ 186,370

See Independent Auditor's Report
The accompanying notes are an integral part of these financial statements

Farmdale Water District
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024

Note 1 – Summary of Significant Accounting Policies

A. General

In May 1961, the Franklin County Fiscal Court created the Farmdale Water District pursuant to Kentucky Revised Statutes (KRS) 74.012. The Court appoints the District's three commissioners to serve up to four-year terms. The District primarily serves residents of western Franklin County; however, it also serves customers in Anderson and Shelby counties. The District is governed by the Kentucky Public Service Commission. The District is not considered a component unit of Franklin County. The District operates under the provisions of KRS 74.012. Additionally, Franklin County does not exercise financial, budgetary, accounting or administrative controls over the District. Therefore, the financial statements of the District are not included in the financial statements of Franklin County.

B. Funding and Concentrations

The District's primary source of funding is the sale of water to residential and commercial customers as well as the collection of sewer fees for various sewer treatment plants. The Kentucky Public Service Commission sets the rates charged for the water sold and adjustments are made accordingly as purchase costs change. The District purchases all of its water from the Frankfort Water & Electric Plant Board. The District entered into a 42-year purchase contract with the Frankfort Water & Electric Plant Board in 2011.

C. Basis of Accounting

The financial statements of the District have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. All the District's activities are accounted for as business-type activities. Operating revenues relate to the District's primary function of water sales, and likewise, operating expenses include expenses to distribute water to customers. Non-operating revenues and expenses relate to all other revenues and expenses.

GASB Statement of Accounting Standards No. 34, as amended by GASB 63, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB 34) established standards for external financial reporting for all state and local governmental entities that include a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net position consists of capital assets, including restricted capital assets, if any, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of "Invested in capital assets, net of related debt." Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted – This component of net position consists of constraints placed on net position imposed by external parties such as through debt covenants, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Farmdale Water District
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024

Note 1 – Summary of Significant Accounting Policies (Continued)

- Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

D. Tax Status

The District is an instrumentality of local government and is, therefore, exempt under IRC 115 from income tax. The District is also exempt from federal unemployment taxes.

E. Cash and Cash Equivalents

For business-type activities, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

F. Compensating Balances

Whitaker Bank requires the District to maintain a minimum of \$1,000 in all three accounts at all times.

G. Accounts Receivable

Accounts receivable are stated at the amount owed by customers to the District. The District does not record an allowance for uncollectible accounts, but instead recognizes bad debts in the period accounts are deemed uncollectible. This practice differs from generally accepted accounting principles; however, management believes the effect is immaterial to the financial statements. Amounts written off during the years ended December 31, 2025 and 2024 totaled \$5,945 and \$0, respectively. Management believes the remaining balance is collectible.

H. Inventory

Inventory consists of parts and materials used to repair meters, water lines or hydrants as well as the value of water in the two storage tank towers. The inventory is stated at cost on a specific identification basis.

I. Prepaid Expenses

Prepaid expenses include expenditures for insurance and software maintenance made in connection with future periods.

J. Significant Estimates

These financial statements were prepared with the use of management’s estimates. Estimates and assumptions are used that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities if any, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates were the actuarial assumptions and calculations concerning pension and OPEB amounts.

Farmdale Water District
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024

Note 1 – Summary of Significant Accounting Policies (Continued)

K. Payment Policies

Customers are billed at the end of each month. Payment is due by the 10th of the following month without penalty. After the 10th, customers have until the 20th of the month to pay in full. If payment is not received by the 20th, service may be disconnected.

L. Federal Loans

In 2012, the District began drawing on a federal loan through the U.S. Department of Agriculture facilitated by Regions Bank. These funds were to assist in paying for various improvements and upgrades in the water lines and pumping station, installation of automated meter reading, and a new water storage tank. In April 2013, the District refinanced the loan with the U.S. Department of Agriculture and paid off the Regions Bank loan. The loan from the U.S. Department of Agriculture totaled \$1,858,000. The District paid \$31,500 and \$30,000 in principal during the calendar years ended December 31, 2025 and 2024, respectively. The loan balance was \$1,574,500 and \$1,606,000 at December 31, 2025 and 2024, respectively.

M. Retirement

For purposes of measuring the net pension liability, deferred outflows and inflows of resources, and pension expense, information about the District's participation in the County Employees Retirement System (CERS) of the Kentucky Public Pensions Authority (KPPA) has been determined on the same basis as they are reported by the KPPA for the CERS plan. For this purpose, benefits including refunds of employee contributions are recognized when due and payable in accordance with the benefit terms of the CERS plan administered by KPPA. The liability was measured at June 30, 2025 and 2024. See Note 4 for full disclosure of activity.

N. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (reduction of an expense) until that time.

Note 2 – Cash and Certificates of Deposit

Cash and cash equivalents consist of cash on hand and held in checking accounts. The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At year-end, the District's cash balances were deposited in various banks.

The District's general operating account and customer deposits are held with Whitaker Bank. The balances of the District's accounts at Whitaker Bank are often in excess of the \$250,000 FDIC insurance provided by the United States Government, but the bank has pledged additional bank assets as collateral to cover the difference.

Farmdale Water District
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024

Note 2 – Cash and Certificates of Deposit (Continued)

The District also has accounts with Community Trust Bank. The accounts are secured by collateral pledged by the bank held by Raymond James & Associates. The market value of the collateral securing the deposits is required to be at least equal to the amount of the deposits held by the bank in excess of the \$250,000 FDIC provided by the United States Government.

The investment policies of the District are governed by state statute. Major provisions of the District’s investment policy include the following: depositories must be with FDIC insured banking institutions, and depositories must be fully insured or collateralize all demand and time deposits.

Bank Balances and Certificates of Deposit:

The fair market value of deposits and certificates of deposit was equivalent to the reported values. All deposits are checking or certificate of deposit accounts. The carrying amount of the District’s bank deposits was \$475,091 and \$952,834 for the years ended December 31, 2025 and 2024, respectively. The chart below gives an indication of the level of risk assumed by the District at year end. The categories are described as follows:

- Category 1 - Insured by FDIC.
- Category 2 - Collateralized with securities held by the pledging financial institution’s trust department or agent in the District’s name.
- Category 3 - Collateralized with securities held by the pledged financial institution in the institution’s name.

Bank Balances and Certificates of Deposit at December 31, 2025, categorized by level of risk are:

	Risk Category			Bank Balances	Uninsured/ Uncolla- terialized	Book Value
	1	2	3			
Bank Balances:						
Whitaker Bank (including CDs)	\$ 250,000	\$ -	\$ 108,171	\$ 358,171	\$ -	\$ 358,171
Community Trust	116,920	-	-	116,920	-	\$ 116,920
Total	\$ 366,920	\$ -	\$ 108,171	\$475,091	\$ -	\$ 475,091

Bank Balances and Certificates of Deposit at December 31, 2024, categorized by level of risk are:

	Risk Category			Bank Balances	Uninsured/ Uncolla- terialized	Book Value
	1	2	3			
Bank Balances:						
Whitaker Bank	\$ 250,000	\$ -	\$ 144,146	\$ 394,146	\$ -	\$ 394,146
Community Trust (including CDs)	250,000	-	308,688	558,688	-	\$ 558,688
Total	\$ 500,000	\$ -	\$ 452,834	\$952,834	\$ -	\$ 952,834

See Independent Auditor’s Report

Farmdale Water District
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024

Note 2 – Cash and Certificates of Deposit (Continued)

Restrictions on Cash:

The District has four restricted cash accounts, comprised of the following:

- Customer Deposits: See Note 6 below for additional information.
- Debt Reserve: The USDA loan requires that the District deposit \$825 per month to a “Funded Debt Reserve” account until the account reaches \$98,500. See Note 10 below for additional information.
- New Construction: The KRWA loan (described in Note 12) requires the District to use a separate account for all loan disbursements and related AC water line project expenses.
- Water Loss Surcharge: In 2020, the Public Service Commission ordered the District to add \$3 per month to each bill (through 2024) to reserve funds for the ongoing excessive water losses due to line leaks. The District must have Kentucky Public Service Commission permission to spend these funds. In 2025, the Commission approved using these funds to replace the meters throughout the system and all of these funds were expended.

Note 3 – Property and Equipment

The District records property and equipment at cost. Depreciation is recorded using the straight-line method over the estimated useful life of the property. The District’s threshold for capitalization is \$2,500. The District uses different depreciable lives for regulatory reporting purposes to the Kentucky Public Service Commission. Land valued at \$4,806 is not being depreciated.

The following represents activity for the year ended December 31, 2025:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/ Towers/ Meters	Totals
Beginning	\$ 78,722	\$ 295,606	\$ 71,716	\$ 7,549,243	\$ 7,995,287
Deletions	-0-	-0-	(22,106)	(1,504,473)	(1,526,579)
Additions	-0-	-0-	34,000	1,403,257	1,437,257
Ending	<u>\$ 78,722</u>	<u>\$ 295,606</u>	<u>\$ 83,610</u>	<u>\$ 7,448,027</u>	<u>\$ 7,905,965</u>

The following represents activity for the year ended December 31, 2024:

	Buildings/ Land	Equipment	Vehicles	Water Lines/ Hydrants/ Towers/ Meters	Totals
Beginning	\$ 78,722	\$ 295,606	\$ 59,560	\$ 6,684,187	\$ 7,118,075
Deletions	-0-	-0-	-0-	-0-	-0-
Additions	-0-	-0-	12,156	865,056	877,212
Ending	<u>\$ 78,722</u>	<u>\$ 295,606</u>	<u>\$ 71,716</u>	<u>\$ 7,549,243</u>	<u>\$ 7,995,287</u>

A summary of property and equipment and depreciation for the years ended December 31, 2025 and 2024 is as follows:

	Cost	Current Provision	Accumulated Depreciation
Year ended December 31, 2025	\$ 7,905,965	\$ 157,238	\$ 2,641,840
Year ended December 31, 2024	\$ 7,995,287	\$ 131,398	\$ 4,007,984

See Independent Auditor’s Report

Farmdale Water District
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024

Note 4 – Employee Retirement Benefits

General Information:

The District is a participating employer of the County Employees Retirement System (CERS). Under the provisions of Kentucky Revised Statute Section 61.645, the CERS Board of Trustees (Board) of the Kentucky Public Pension Authority (KPPA) administers the CERS. The KPPA issues publicly available financial statements which may be downloaded from the KPPA website.

Plan Description:

The CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate. The CERS provides plan members with benefits through a pension trust and an insurance trust. The pension trust provides retirement, disability, and death benefits. The insurance trust provides health insurance or other postemployment benefits (OPEB). Benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the state legislature.

Benefits Provided:

CERS provides retirement, health insurance, death, and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years of service. For retirement purposes, employees are grouped into three tiers based on hire date:

	Participation Date	Unreduced Benefit	Reduced Benefit
Tier 1	Before September 1, 2008	27 years of service or 65 years old and 4 years of service	At least 5 years of service and 55 years old or 25 years of service and any age
Tier 2	After September 1, 2008 but before December 31, 2013	At least 5 years of service and 65 years old or age 57+ and sum of service years plus age equal to 87+	At least 10 years of service and 60 years old
Tier 3	After December 31, 2013	At least 5 years of service and 65 years old or age 57+ and sum of service years plus age equal to 87+	Not available

COLAs are provided at the discretion of the Kentucky General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five consecutive years of earnings. Reduced benefits are based on factors of both components. Participating employees become eligible to receive health insurance benefits after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are provided in one lump sum payment of \$5,000. Five years of 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 or \$10,000 plus 25% 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.

Farmdale Water District
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024

Note 4 – Employee Retirement Benefits (Continued)

Contributions:

For the years ended December 31, 2025 and 2024, plan members were required to contribute 5% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding July 1 of a new biennium. The board may amend contribution rates as of July 1 of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with the actuarial basis adopted by the Board. For the year ended December 31, 2025, participating employers contributed 19.71% (19.71% to the pension fund and 0% to the insurance fund) of each employee's wages from January 1, 2025 to June 30, 2025, and 18.62% (18.62% to the pension fund and 0% to the insurance fund) of each employee's wages from July 1, 2025 to December 31, 2025, which is equal to the actuarially determined rate set by the Board. For the year ended December 31, 2024, participating employers contributed 23.34% (23.34% to the pension fund and 0% to the insurance fund) of each employee's wages from January 1, 2024 to June 30, 2024, and 19.71% (19.71% to the pension fund and 0% to the insurance fund) of each employee's wages from July 1, 2024 to December 31, 2024, which is equal to the actuarially determined rate set by the Board. Administrative costs of the CERS are financed through employer contributions and investment earnings.

The District contributed \$38,427 and \$27,957 for the years ended December 31, 2025 and 2024, respectively, or 100% of the required contributions. The 2025 contributions were allocated \$38,427 to the pension fund and \$0 to the insurance fund. The 2024 contributions were allocated \$27,957 to the pension fund and \$0 to the insurance fund.

Pension Liabilities, Expense, and Deferred Outflows and Inflows of Resources:

At December 31, 2025 and 2024, the District reported a liability for its proportionate share of the net pension liability of \$278,007 and \$216,790, respectively. The net pension liability was measured as of June 30, 2025 and 2024, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2025 and 2024, respectively, and rolled forward using generally accepted actuarial procedures. 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. The District's proportionate share at December 31, 2025 was .004996%, which was equal to its proportion measured as June 30, 2025. At December 31, 2024 was .003625%, which was equal to its proportion measured as of June 30, 2024.

For the years ended December 31, 2025 and 2024, the District recognized pension expense/(benefit) of \$19,852 and (\$14,628), respectively. At December 31, 2025, the District reported deferred outflows and inflows of resources related to pensions from the following sources:

Farmdale Water District
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024

Note 4 – Employee Retirement Benefits (Continued)

Pension Liabilities, Expense, and Deferred Outflows and Inflows of Resources: (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual results	\$ 9,216	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on plan investments	-	27,799
Changes in proportion and difference between employer contributions and proportionate share of contributions	53,147	7,697
Contributions subsequent to the measurement date	19,759	-
Total	\$ 82,122	\$ 35,496

The \$19,759 of deferred outflows of resources resulting from the District’s contributions subsequent to the measurement date as of December 31, 2025, 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 will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>(Inflow)/Outflow</u>
December 31, 2026	\$ 29,934
December 31, 2027	10,719
December 31, 2028	(9,033)
December 31, 2029	(4,753)

Actuarial Assumptions:

Total pension liabilities in the June 30, 2024 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Payroll growth	2.00%
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.50%, net of plan investment expense, including inflation

Mortality rates were 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 pre-retirement and 2023 for post-retirement members. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013 through 2022, projected with the ultimate rates from MP-2020 Mortality Improvement Scale using a base year of 2023. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, 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.

The actuarial assumption used in the June 30, 2025 valuation was based on an actuarial valuation date of June 30, 2024. The total pension liability was rolled-forward from the valuation date to the plan’s fiscal year ending June 30, 2025.

Farmdale Water District
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024

Note 4 – Employee Retirement Benefits (Continued)

Actuarial Assumptions: (Continued)

The long-term expected return on plan assets was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. As of December 31, 2025, the target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

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

Discount Rate:

The discount rate used to measure the total pension liability was 6.5% for non-hazardous classifications. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the closed 30-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

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 6.5%, 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 (5.5%) or 1- percentage-point higher (7.5%) than the current rate:

	<u>Discount Rate</u>	<u>Proportionate Share of Net Pension Liability</u>
1% Decrease	5.5%	\$ 367,544
Current Discount Rate	6.5%	278,007
1% Increase	7.5%	204,137

See Independent Auditor’s Report

**Farmdale Water District
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024**

Note 4 – Employee Retirement Benefits (Continued)

Payable to the Pension Plan:

At December 31, 2025 and 2024, the District reported a payable of \$4,206 and \$2,469 for the outstanding amount of contributions to the pension plan required for the year then ended, respectively. The payable includes both the pension and insurance contribution allocation.

Note 5 – Postemployment Benefits Other Than Pensions

Plan Description:

As more fully described in Note 4, the District participates in the County Employees Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Benefits Provided:

CERS provides health insurance benefits to plan employees and beneficiaries. For OPEB purposes, employees are grouped into three tiers based on hire date:

	Participation Date	Insurance Eligibility	Benefit
Tier 1	Before July 1, 2003	10 years of service credit required	Set percentage of single coverage health insurance based on service credit accrued at retirement
	After July 1, 2003 but before September 1, 2008	10 years of service credit required	Set dollar amount based on service credit accrued, increased annually
Tier 2	After September 1, 2008 but before December 31, 2013	15 years of service credit required	Set dollar amount based on service credit accrued, increased annually
Tier 3	After December 31, 2013	15 years of service credit required	Set dollar amount based on service credit accrued, increased annually

Contributions:

For the years ended December 31, 2025 and 2024, plan members were required to contribute 5% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding July 1 of a new biennium. The board may amend contribution rates as of July 1 of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements

**Farmdale Water District
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024**

Note 5 – Postemployment Benefits Other Than Pensions (Continued)

Contributions: (Continued)

determined in accordance with the actuarial basis adopted by the Board. For the year ended December 31, 2025, participating employers contributed 19.71% (19.71% to the pension fund and 0% to the insurance fund) of each employee’s wages from January 1, 2025 to June 30, 2025, and 18.62% (18.62% to the pension fund and 0% to the insurance fund) of each employee’s wages from July 1, 2025 to December 31, 2025, which is equal to the actuarially determined rate set by the Board. For the year ended December 31, 2024, participating employers contributed 23.34% (23.34% to the pension fund and 0% to the insurance fund) of each employee’s wages from January 1, 2024 to June 30, 2024, and 19.71% (19.71% to the pension fund and 0% to the insurance fund) of each employee’s wages from July 1, 2024 to December 31, 2024, which is equal to the actuarially determined rate set by the Board. Administrative costs of the CERS are financed through employer contributions and investment earnings.

As noted previously in Note 4, the District contributed \$38,427 and \$27,957 for the years ended December 31, 2025 and 2024, respectively, or 100% of the required contributions. The 2025 contributions were allocated \$38,427 to the pension fund and \$0 to the insurance fund. The 2024 contributions were allocated \$27,957 to the pension fund and \$0 to the insurance fund.

OPEB Liabilities/(Assets), Expense, and Deferred Outflows and Inflows of Resources:

At December 31, 2025 and 2024, the District reported a liability/(asset) for its proportionate share of the net OPEB liability/(asset) of \$4,801 and (\$6,277), respectively. The net OPEB liability was measured as of June 30, 2025 and 2024, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date and rolled forward to June 30, 2025 and 2024, respectively, using generally accepted actuarial procedures. The District’s proportion of the net OPEB liability 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 participating entities, actuarially determined. At December 31, 2025, the District’s proportion was .004999%, which was equal to its proportion measured as of June 30, 2025. At December 31, 2024, the District’s proportion was .003629%, which was equal to its proportion measured as of June 30, 2024.

For the years ended December 31, 2025 and 2024, the District recognized OPEB expense of \$14,494 and \$9,390, respectively. At June 30, 2025, the District reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual results	\$ 15,572	\$ 41,276
Change in assumptions	3,202	2,749
Net difference between projected and actual earnings on plan investments	-	10,873
Changes in proportion and difference between employer contributions and proportionate share of contributions	12,594	10,421
Contributions subsequent to the measurement date	2,855	-
Total	\$ 34,223	\$ 65,319

See Independent Auditor’s Report

Farmdale Water District
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024

Note 5 – Postemployment Benefits Other Than Pensions (Continued)

OPEB Liabilities, Expense, and Deferred Outflows and Inflows of Resources: (Continued)

The \$2,855 of deferred outflows of resources resulting from the District’s contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2026. This includes an adjustment of \$2,855 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows and inflows of resources will be recognized in OPEB expense as follows:

<u>Year Ended</u>	<u>(Inflow)/Outflow</u>
December 31, 2026	\$ (22,014)
December 31, 2027	(18,025)
December 31, 2028	3,183
December 31, 2029	2,905

Actuarial Assumptions:

Inflation	2.50%
Payroll growth rate	2.00%
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.50%, net of plan investment expense, including inflation
Healthcare trend	
Pre-65	Initial trend starting at 6.80% at January 1, 2025, gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Post-65	Initial trend starting at 8.50% at January 1, 2025, gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years

Mortality rates were 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 pre-retirement and 2023 for post-retirement members. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013 through 2022, projected with the ultimate rates from MP-2020 Mortality Improvement Scale using a base year of 2023. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, 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.

The net OPEB liability was measured as of June 30, 2025, and the total OPEB liability used to calculate the net OPEB liability was based on an actuarial valuation date of June 30, 2024, rolled forward to June 30, 2025 using generally accepted actuarial procedures.

The long-term expected return on plan assets was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

Farmdale Water District
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024

Note 5 – Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions: (Continued)

As of December 31, 2025, the target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

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

Discount Rate:

The discount rate used to measure the total OPEB liability/(asset) was 6.26% for the year ended June 30, 2025 (5.99% for the prior year) for non-hazardous classifications. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 22-year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.50%, and a municipal bond rate of 5.20%, as reported in Bond Buyer’s “20-Bond GO Index” as of June 30, 2025. However, the cost associated with the implicit employer subsidy was not included in the calculation of the KPPA’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the KPPA’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

The following presents the District’s proportionate share of the net OPEB liability/(asset) calculated using the single discount rate of 6.26%, as well as what the District’s proportionate share of the net OPEB liability/(asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.26%) or 1-percentage-point higher (7.26%) than the current rate:

	<u>Discount Rate</u>	<u>Proportionate Share of Net OPEB Liability/(Asset)</u>
1% Decrease	5.26%	\$ 28,808
Current Discount Rate	6.26%	4,801
1% Increase	7.26%	(15,405)

See Independent Auditor’s Report

**Farmdale Water District
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024**

Note 5 – Postemployment Benefits Other Than Pensions (Continued)

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Trend Rate:

The following presents the District’s proportionate share of the net OPEB liability/(asset) calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>Discount Rate</u>	<u>Proportionate Share of Net OPEB Liability/(Asset)</u>
1% Decrease	5.26%	\$ (11,095)
Current Trend Rate	6.26%	4,801
1% Increase	7.26%	23,410

Plan Provisions – Legislative Changes:

Effective January 1, 2026, the Commonwealth of Kentucky enacted Senate Bill 10 (SB 10), which modifies certain benefit provisions of the County Employees Retirement System (CERS) Insurance Fund, including changes to employer contribution requirements and retiree health benefits. The impact of this legislation has been reflected in the actuarial assumptions and projections used, as applicable, in the June 30, 2025 measurement of the net OPEB liability.

Note 6 – Customer Deposits

New customers must pay a \$70 deposit to become a customer of the District. The District deposits these funds in an interest-bearing savings account. If the customer does not have any late payments or delinquencies, their deposit qualifies to be refunded after 18 months. Currently, the District generally does not refund customer deposits without customer request. Customer deposit liability was \$42,704 and \$43,518 at December 31, 2025 and 2024, respectively.

When the District refunds a customer deposit, it must also pay the customer the related interest earned on the deposit. The Kentucky Public Service Commission requirements provide that the District pay the actual interest earned using the applicable market rate, not to exceed 6%. Currently, the District credits the accrued interest to the customer’s account, and the credit is applied to the next bill.

Note 7 – Tapping Fees and Capital Contributions

The Kentucky Public Service Commission requires tapping fees to be reported for regulatory reporting purposes as capital contributions rather than as revenue. These financial statements are presented in accordance with generally accepted accounting principles; accordingly, tapping fees are not presented in the same manner as in the PSC report. If tapping fees had been reported in accordance with PSC regulatory reporting requirements, operating revenues would have decreased by \$22,640 and \$29,432 for 2025 and 2024, respectively.

Note 8 – Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. In addition to its general liability insurance, the District also carries commercial insurance for all other risks of loss such as workers’ compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three calendar years.

See Independent Auditor’s Report

Farmdale Water District
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024

Note 9 – Federal Loan Payable

As noted previously, the District financed \$1,858,000 with the U.S. Department of Agriculture in April 2013. The District pays the U.S. Department of Agriculture 3.125% on the outstanding balance for the life of the loan. The loan payments were interest only for 2014 with principal payments beginning in January 2015. The loan duration is 40 years and is scheduled to be paid in full by 2052. As part of the loan covenant, the District is required to open a separate bank account (“Funded Debt Reserve Account”) and deposit \$750 per month for the original loan and \$75 per month for the subsequent loan until such time the account reaches \$98,500 (which was reached in December 2023). The account balance was \$99,771 and \$99,771 at December 31, 2025 and 2024, respectively.

The District paid \$31,500 of principal on January 1, 2025 and \$30,000 of principal on January 1, 2024. In addition, another \$32,500 in principal was due on January 1, 2026. Total interest expense on this loan was \$49,203 and \$50,188 for the years ended December 31, 2025 and 2024, respectively. The details of this long-term debt at December 31, 2025 and 2024 are as follows:

	Principal Balance, 1/1	Borrowings	Payments	Principal Balance, 12/31	Current Portion	Long-Term Portion
2025	\$1,606,000	-0-	\$31,500	\$1,574,500	\$32,500	\$1,542,000
2024	\$1,636,000	-0-	\$30,000	\$1,606,000	\$31,500	\$1,574,500

The long-term debt service requirements for the USDA loan is as follows:

Year	Principal	Interest	Total
2026	32,500	48,188	80,688
2027-2032	226,500	265,172	491,672
2033-2037	236,500	183,984	420,484
2038-2042	289,500	142,156	431,656
2043-2047	355,000	90,969	445,969
2048-2052	434,500	28,172	462,672
Total	1,574,500	758,641	2,333,141

Note 10 – KIA Grant Receivable

In 2023, the District was approved for grant funding from the Kentucky Infrastructure Authority (KIA) in the amount of \$113,084. In 2024, \$75,225 of the funding was received, leaving a receivable balance of \$37,859 at December 31, 2025 and 2024. The remaining amount of the grant funding from KIA is expected to be received in 2026.

Note 11 – KRWFA Loan Payable and AC Water Line Project

During the year ended December 31, 2024, the District began the Asbestos Cement Water Line Replacement Project, which is to be financed by a 40-year \$2,458,000 loan from the Kentucky Rural Water Financing Agency (KRWFA). No principal payments are due until project completion, and interest is accruing at 5.15%. \$940,106 and \$886,350 were drawn on the loan during the years ended December 31, 2025 and 2024, respectively. Total interest expense on this loan was \$126,587 and \$46,415 for the years ended December 31, 2025 and 2024, respectively, all of which is accrued and included in Accrued Loan Interest Payable as of December 31, 2025.

See Independent Auditor’s Report

Farmdale Water District
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024

Note 11 – KRWFA Loan Payable and AC Water Line Project (Continued)

The details of this long-term debt at December 31, 2025 and 2024 are as follows:

	Principal Balance, 1/1	Borrowings	Payments	Principal Balance, 12/31	Current Portion	Long-Term Portion
2025	\$ 886,350	940,106	-0-	\$1,826,456	\$ -0-	\$1,826,456
2024	\$ -0-	886,350	-0-	\$ 886,350	\$ -0-	\$ 886,350

The AC Water Line Project was substantially complete at the end of 2025, with the remainder of the project expected to be completed by February 2026 at which point the loan will be refinanced through the USDA. This project will replace approximately 35,000 linear feet of AC line.

Note 12 – Subsequent Events

The District evaluated events occurring between the end of its most recent year and this report date, which is the date these financial statements were available to be issued. Management noted the following subsequent events:

- (1) On January 29, 2026, the Kentucky Public Service Commission approved a rate increase for the District. The approved increase raises customer charges by approximately 16.2%. The new rates will be reflected in February 2026 billing, which will be issued to customers in March 2026 and due in April 2026. In addition to monthly rates, tap-on fees were increased from \$1,132 to \$1,502, or approximately 32.7%. These increases are intended to improve the District’s financial stability, provide adequate cash flow, and support ongoing operations and infrastructure needs.
- (2) On February 4, 2026, the District refinanced the interim Kentucky Rural Water Financing Agency loan used to fund the Asbestos Cement Water Line Replacement Project through the U.S. Department of Agriculture. The refinancing converted the interim project financing to permanent debt in the amount of \$2,458,000. Principal repayment on the new loan will begin in 2027 and continue over a 40-year term.

HARROD & ASSOCIATES, P.S.C.
Certified Public Accountants
#2 HMB CIRCLE, SUITE A
FRANKFORT, KENTUCKY 40601

TEL. (502) 695-7300
FAX (502) 695-9125

MEMBER
AMERICAN INSTITUTE OF CPA'S
KENTUCKY SOCIETY OF CPA'S

**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 Directors
Farmdale Water District
Frankfort, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Farmdale Water District ("the 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 District's basic financial statements and have issued our report thereon dated March 23, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 over financial reporting 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 for the years ended December 31, 2025 and 2024, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness, described in the accompanying Schedule of Findings and Responses as item 2023-001.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 with which could have a direct and material effect on determination of financial statement amounts. 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*.

Farmdale Water District's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Harrod & Associates, PSC

Harrod & Associates, PSC
Frankfort, Kentucky

March 23, 2026

**Farmdale Water District
Schedule of Findings and Responses
December 31, 2025 and 2024**

December 31, 2025

MATERIAL WEAKNESS

2023-001 Preparation of Financial Statements

Condition – As is common within the system of internal control of most small organizations, the accounting function of the District does not prepare the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America. Accordingly, the District has not established internal controls over the preparation of its financial statements. This condition is considered to be a material weakness in the District’s system of internal control over financial reporting.

Additionally, during the course of performing an audit, it is not unusual for the auditor to prepare various journal entries to present the financial statements in accordance with generally accepted accounting principles. This reliance on the auditor to detect and make these necessary adjustments is considered to be a material weakness in the system of internal control. AU-C Section 265 does not make exceptions for reporting deficiencies that are adequately mitigated with non-audit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive.

Communication of the material weakness above helps to emphasize that the responsibility for financial reporting rests entirely with the organization and not the auditor. Stated another way, if an organization is unable to issue, without the auditor’s involvement, complete financial statements with footnotes in accordance with generally accepted accounting principles and free of material misstatement, that inability is a symptom of a material weakness in the system of internal control.

Criteria – A good system of internal control would include personnel with adequate education, skill, experience, and knowledge to create needed journal entries and proper GAAP financial statements and footnotes.

Cause – The District does not have an employee on staff with adequate education, skill, experience, and knowledge to prepare a full set of GAAP financial statements with footnote disclosures, and it would be cost prohibitive to hire one.

Effect – The organization is unable to issue, without the auditor’s involvement, complete financial statements with footnotes in accordance with generally accepted accounting principles.

Management Response – The District engages consultants who possess industry knowledge and expertise to provide financial services, as well as legal, engineering, and other professional services. Based on the auditor’s unmodified opinion and after reading the financial statements, management believes the financial statements to be materially correct. Management does not think that the addition of an employee or consultant to oversee the annual financial reporting process is necessary nor would it be cost effective.

**Farmdale Water District
Schedule of Findings and Responses (Continued)
December 31, 2025 and 2024**

December 31, 2024

MATERIAL WEAKNESS

2023-001 Preparation of Financial Statements

Condition – As is common within the system of internal control of most small organizations, the accounting function of the District does not prepare the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America. Accordingly, the District has not established internal controls over the preparation of its financial statements. This condition is considered to be a material weakness in the District’s system of internal control over financial reporting.

Additionally, during the course of performing an audit, it is not unusual for the auditor to prepare various journal entries to present the financial statements in accordance with generally accepted accounting principles. This reliance on the auditor to detect and make these necessary adjustments is considered to be a material weakness in the system of internal control. AU-C Section 265 does not make exceptions for reporting deficiencies that are adequately mitigated with non-audit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive.

Communication of the material weakness above helps to emphasize that the responsibility for financial reporting rests entirely with the organization and not the auditor. Stated another way, if an organization is unable to issue, without the auditor’s involvement, complete financial statements with footnotes in accordance with generally accepted accounting principles and free of material misstatement, that inability is a symptom of a material weakness in the system of internal control.

Criteria – A good system of internal control would include personnel with adequate education, skill, experience, and knowledge to create needed journal entries and proper GAAP financial statements and footnotes.

Cause – The District does not have an employee on staff with adequate education, skill, experience, and knowledge to prepare a full set of GAAP financial statements with footnote disclosures, and it would be cost prohibitive to hire one.

Effect – The organization is unable to issue, without the auditor’s involvement, complete financial statements with footnotes in accordance with generally accepted accounting principles.

Management Response – The District engages consultants who possess industry knowledge and expertise to provide financial services, as well as legal, engineering, and other professional services. Based on the auditor’s unmodified opinion and after reading the financial statements, management believes the financial statements to be materially correct. Management does not think that the addition of an employee or consultant to oversee the annual financial reporting process is necessary nor would it be cost effective.

**Farmdale Water District
Summary Schedule of Prior Year Audit Findings
December 31, 2025 and 2024**

SIGNIFICANT DEFICIENCY

2023-001 Preparation of Financial Statements

Current Status – Repeated for the current year. As noted previously in the “Management Response” section, management does not believe the addition of an employee or consultant to oversee the annual financial reporting process is necessary nor would it be cost effective.

Required Supplementary Information

Farmdale Water District
Required Supplementary Information - Schedule 1
For the Years Ended December 31, 2025 and 2024

Schedule of Proportionate Share of the Net Pension Liability of County Employees Retirement System

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total CERS Net Pension Liability (\$ in thousands)	\$ 5,564,589	\$ 5,980,423	\$ 6,416,509	\$ 7,229,013	\$ 6,375,785	\$ 7,669,917	\$ 7,033,045	\$ 6,090,305	\$ 5,853,443	\$ 4,299,525
Proportion of the Collective Net Pension Liability	0.004996%	0.003625%	0.004082%	0.004691%	0.004952%	0.004230%	0.003340%	0.006130%	0.005460%	0.005320%
Proportionate Share of the Net Pension Liability	\$ 278,007	\$ 216,790	\$ 261,922	\$ 339,113	\$ 315,793	\$ 324,514	\$ 234,693	\$ 373,153	\$ 319,298	\$ 261,970
Covered Employee Payroll	\$ 200,832	\$ 130,128	\$ 147,220	\$ 168,764	\$ 162,665	\$ 138,937	\$ 81,093	\$ 125,739	\$ 148,407	\$ 120,993
Proportionate Share of the Net Pension Liability as a % of Covered Employee Payroll	138.43%	166.60%	177.91%	200.94%	194.14%	233.57%	289.41%	296.77%	215.15%	216.52%
Total Plan's Fiduciary Net Position (\$ in thousands)	\$10,490,132	\$ 9,596,244	\$ 8,672,597	\$ 7,963,586	\$ 8,565,652	\$ 7,027,327	\$ 7,159,921	\$ 7,018,963	\$ 6,687,237	\$ 6,440,800
Total Plan's Pension Liability (\$ in thousands)	\$16,054,721	\$15,576,667	\$15,089,106	\$15,192,599	\$14,941,437	\$14,697,244	\$14,192,966	\$13,109,268	\$12,540,545	\$10,740,325
Total Pension Plan's Fiduciary Net Position as a % of Total Pension Liability	65.34%	61.61%	57.48%	52.42%	57.33%	47.81%	50.45%	53.54%	53.32%	59.97%

See Independent Auditors' Report and Accompanying
Notes to the Required Supplementary Information

**Farmdale Water District
Required Supplementary Information - Schedule 2
For the Years Ended December 31, 2025 and 2024**

Schedule of Pension Contributions to County Employees Retirement System

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily Required Contributions	\$ 32,799	\$ 26,565	\$ 27,725	\$ 29,552	\$ 24,418	\$ 26,273	\$ 20,627	\$ 24,042	\$ 28,103	\$ 26,755
Less: Contributions	<u>32,799</u>	<u>26,565</u>	<u>27,725</u>	<u>29,552</u>	<u>24,418</u>	<u>26,273</u>	<u>20,627</u>	<u>24,042</u>	<u>28,103</u>	<u>26,755</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Employee Payroll	200,832	130,128	130,128	147,220	162,665	138,937	81,093	125,739	148,407	120,993
Contributions as a % of Covered Employee Payroll	16.33%	20.41%	21.31%	20.07%	15.01%	18.91%	25.44%	19.12%	18.94%	22.11%

See Independent Auditors' Report and Accompanying
Notes to the Required Supplementary Information

Farmdale Water District
Required Supplementary Information - Schedule 3
For the Years Ended December 31, 2025 and 2024

Schedule of Proportionate Share of the Net OPEB Liability/(Asset) of County Employees Retirement System

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total CERS Net OPEB Liability/(Asset) (\$ in thousands)	\$ 96,042	\$ (172,980)	\$ (138,067)	\$ 1,973,514	\$ 1,914,450	\$ 2,414,696	\$ 1,681,955	\$ 1,775,480
Proportion of the Collective Net OPEB Liability/(Asset)	0.004999%	0.003629%	0.003625%	0.004691%	0.004952%	0.00423%	0.00334%	0.00613%
Proportionate Share of the Net OPEB Liability/(Asset)	\$ 4,801	\$ (6,277)	\$ (5,005)	\$ 92,578	\$ 94,804	\$ 102,142	\$ 56,110	\$ 108,784
Covered Employee Payroll	\$ 200,832	\$ 130,128	\$ 147,220	\$ 168,764	\$ 162,665	\$ 138,937	\$ 81,093	\$ 125,739
Proportionate Share of the Net OPEB Liability/(Asset) as a % of Covered Employee Payroll	2.39%	-4.82%	-3.40%	54.86%	58.28%	73.52%	69.19%	86.52%
Total OPEB Plan's Fiduciary Net Position (\$ in thousands)	\$ 4,011,291	\$ 3,707,277	\$ 3,398,375	\$ 3,079,984	\$ 3,246,801	\$ 2,581,613	\$ 2,569,511	\$ 2,414,126
Total OPEB Plan's OPEB Liability/(Asset) (\$ in thousands)	\$ 4,107,333	\$ 3,534,297	\$ 3,260,308	\$ 5,053,498	\$ 5,161,251	\$ 4,996,309	\$ 4,251,466	\$ 4,189,606
Total OPEB Plan's Fiduciary Net Position as a % of Total OPEB Liability/(Asset)	97.66%	104.89%	104.23%	60.95%	62.91%	51.67%	60.44%	57.62%

Note: This is intended to be a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

See Independent Auditors' Report and Accompanying
Notes to the Required Supplementary Information

Farmdale Water District
Required Supplementary Information - Schedule 4
For the Years Ended December 31, 2025 and 2024

Schedule of OPEB Contributions to County Employees Retirement System

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily Required Contributions	\$ -	\$ -	\$ 4,017	\$ 5,410	\$ 6,022	\$ 5,159	\$ 5,719	\$ 7,802
Less: Contributions	<u>-</u>	<u>-</u>	<u>4,017</u>	<u>5,410</u>	<u>6,022</u>	<u>5,159</u>	<u>5,719</u>	<u>7,802</u>
Contribution Deficiency (Excess)	-	-	-	-	-	-	-	-
Covered Employee Payroll	\$ 200,832	\$ 130,128	\$ 147,220	\$ 168,764	\$ 162,665	\$ 138,937	\$ 81,093	\$ 125,739
Contributions as a % of Covered Employee Payroll	0.00%	0.00%	2.73%	3.21%	3.70%	3.71%	7.05%	6.20%

Note: This is intended to be a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information is available.

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Farmdale Water District
Notes to the Required Supplementary Information
For the Years Ended December 31, 2025 and 2024

Note 1 – General Information

A. Net Pension Liability

The measurement date is six months preceding the year end of the District.

B. Net OPEB (Asset)/Liability

The measurement date is six months preceding the year end of the District.

C. Contributions

Contractually required employer contributions reported on the Schedule of Pension Contributions to CERS exclude the portion of contributions paid to CERS but allocated to the Insurance Fund of the CERS. The insurance contributions are reported on the Schedule of OPEB Contributions to CERS.

D. Payroll

The District's covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability of CERS and the Schedule of Proportionate Share of the Net OPEB Liability of CERS is one year prior to the Commission's fiscal year payroll as reported on the Schedule of Pension Contributions to CERS and Schedule of OPEB Contributions to CERS.

Note 2 – Changes in Assumptions

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of each fiscal year, for both pension and OPEB:

A. June 30, 2025 – Pension and OPEB

There were no assumption changes impacting the pension liability calculation. The discount rate used to calculate the total OPEB liability increased from 5.99% to 6.26%. Additionally, healthcare cost trend rate assumptions were increased.

B. June 30, 2024 – Pension and OPEB

There were no assumption changes impacting the pension liability calculation. The discount rate used to calculate the total OPEB liability/(asset) increased from 5.93% to 5.99%.

C. June 30, 2023 – Pension and OPEB

The discount rate used to calculate the total pension liability increased from 6.25% to 6.50%. The discount rate used to calculate the total OPEB liability/(asset) increased from 5.70% to 5.93%.

D. June 30, 2022 – Pension and OPEB

The discount rate used to calculate the total OPEB liability increased from 5.2% to 5.7%.

See Independent Auditor's Report

Farmdale Water District
Notes to the Required Supplementary Information
For the Years Ended December 31, 2025 and 2024

Note 2 – Changes in Assumptions (Continued)

E. June 30, 2021 – Pension and OPEB

The initial healthcare trend rate for pre-65 was changed from 6.4% to 6.3%. The initial healthcare trend rate for post-65 was changed from 2.9% to 6.3%.

F. June 30, 2020 – Pension and OPEB

The initial healthcare trend rate for pre-65 was changed from 7% to 6.4%. The initial healthcare trend rate for post-65 was changed from 5% to 2.9%.

G. June 30, 2019 – Pension and OPEB

The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average.

H. June 30, 2018 – Pension and OPEB

None.

I. June 30, 2017 – Pension and OPEB

- The assumed rate of return was decreased from 7.5% to 6.25%;
- The assumed rate of inflation was reduced from 3.25% to 2.3%; and
- Payroll growth assumption was reduced from 4% to 2%;

J. June 30, 2016 – Pension and OPEB

None.

K. June 30, 2015 – Pension

- The assumed rate of return was decreased from 7.75% to 7.5%;
- The assumed rate of inflation was reduced from 3.5% to 3.25%;
- The assumed rate of wage inflation was reduced from 1% to 0.75%;
- Payroll growth assumption was reduced from 4.5% to 4%;
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females);
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 1 year for females);
- For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement; and
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

L. June 30, 2014 – Pension

None.

See Independent Auditor's Report

Farmdale Water District
Notes to the Required Supplementary Information
For the Years Ended December 31, 2025 and 2024

Note 2 – Changes in Assumptions (Continued)

M. June 30, 2013 – Pension

- The assumed rate of return was 7.75%;
- The assumed rate of inflation was 3.5%;
- The assumed rate of wage inflation was 1%;
- Payroll growth assumption was 4.5%; and
- Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members.