McCreary County Water District
Water and Sewer Divisions
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Independent Auditor's Report
and Combined Financial Statements
December 31, 2025 and 2024

McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2025 and 2024

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McCREARY COUNTY WATER DISTRICT,
WATER AND SEWER DIVISIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2025 AND 2024

Our discussion and analysis of the McCreary County Water District, Water and Sewer Divisions' financial performance provides an overview of the Company's financial activities for the years ended December 31, 2025 and 2024. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

For the year ended December 31, 2025, total operating and non-operating revenues (including capital contributions) totaled $7,820,359 and operating expenses and non-operating expenses amounted to $7,949,023 creating a decrease in net position of $128,664. At year end, net position totaled $27,132,211 of which $28,392,101 (net of related debt) was invested in capital assets, and $871,474 was restricted for debt service and construction. This left a net amount of $(2,131,364) of unrestricted net position.

For the year ended December 31, 2024, total operating and non-operating revenues (including capital contributions) totaled $9,365,710 and operating expenses and non-operating expenses amounted to $7,348,865 creating an increase in net position of $2,016,845. At year end, net position totaled $27,260,875 of which $27,788,505 (net of related debt) was invested in capital assets, and $854,562 was restricted for debt service and construction. This left a net amount of $(1,382,192) of unrestricted net position.

Overview of the Financial Statements

This report consists of Management's Discussion and Analysis, Financial Statements and Supplementary information. The Financial Statements include notes which explain in detail some of the information included in the Financial Statements.

Required Financial Statements

The financial statements of McCreary County Water District, Water and Sewer Divisions report information of the Company using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of utility's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to utility creditors (liabilities). It also provides the basis for evaluation of the capital structure of the utility and assessing the liquidity and financial flexibility of the utility.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the utility's operations over the past year and can be used to determine whether the utility has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Condensed Comparative Financial Analysis:

McCreary County Water District
Water and Sewer Divisions
Statements of Net Position-Summary
December 31, 2025 and 2024

Assets	2025	2024
Total Current Assets	$ 1,902,625	$ 3,649,740
Total Restricted Assets	871,474	942,894
Net Capital Assets	41,686,220	41,918,086
Total Assets	$ 44,460,319	$ 46,510,720
Deferred Outflows of Resources	676,239	949,153
Total Assets and Deferred Outflows of Resources	$ 45,136,558	$ 47,459,873
Liabilities		
Total Current Liabilities	$ 1,873,971	$ 2,742,946
Total Non-current Liabilities	15,104,996	15,947,131
Total Liabilities	$ 16,978,967	$ 18,690,077
Deferred Inflows of Resources	$ 1,025,380	$ 1,508,921
Net Position:		
Invested in capital assets, net of related debt	$ 28,392,101	$ 27,788,505
Restricted for debt service and construction	871,474	854,562
Unrestricted	(2,131,364)	(1,382,192)
Total Net Position	$ 27,132,211	$ 27,260,875
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 45,136,558	$ 47,459,873

The largest portion per year (104.64% and 101.94% respectively) of the utility's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding. The utility used these capital assets to provide services to citizens and consumers. Consequently, these assets are not available for future spending.

Restricted net position per year (3.21% and 3.14% respectively) represent resources that are subject to external restrictions on how they may be used.

The balance per year (-7.85% and -5.08% respectively) of unrestricted net position may be used to meet the utility's ongoing obligations to citizens, consumers and creditors.

McCreary County Water District
Water and Sewer Divisions
Statements of Operations
For the Years Ended December 31, 2025 and 2024

	2025	2024
Total operating revenues	$ 6,535,330	$ 6,644,162
Total operating expenses	7,569,495	6,980,667
Operating loss	(1,034,165)	(336,505)
Net non-operating expenses	407,984	(46,463)
Loss before capital contributions	(626,181)	(382,968)
Capital contributions	497,517	2,399,813
Change in net position	(128,664)	2,016,845
Beginning of year	27,260,875	25,244,030
End of year	$ 27,132,211	$ 27,260,875

During 2025, net position decreased by ($128,664) and consisted of an operating loss of ($1,034,165), net non-operating revenue and expenses of $407,984 and capital contributions of $497,517.

During 2024, net position increased by $2,016,845 and consisted of an operating loss of ($336,505), net non-operating revenue and expenses of ($46,463) and capital contributions of $2,399,813.

Capital Asset Changes

At December 31, 2025, the Utility had invested $41,686,220 in capital assets, net of accumulated depreciation. This amount represents a net decrease of $231,866 from the previous year. The net decrease consisted of additions to capital assets of $1,792,163 less $75,178 book value of assets disposed and less depreciation expense of $1,948,851. The additions were mainly financed with proceeds of debt borrowings.

At December 31, 2024, the Utility had invested $41,918,086 in capital assets, net of accumulated depreciation. This amount represents a net increase of $352,649 from the previous year. The net increase consisted of additions to capital assets of $2,291,298 less $140,257 book value of assets disposed and less depreciation expense of $1,798,392. The additions were mainly financed with proceeds of debt borrowings.

Debt Administration

At December 31, 2025, the utility had total debt equal to $13,294,119 which consisted of $12,984,679 of bonds outstanding, $302,838 of notes payable, and capital leases of $7,202. At the beginning of the year total debt equaled $14,129,581. The decrease in debt of $835,462 was due to additions to debt of $411,522 less scheduled principal payments of $1,244,196 and capital lease payments of $2,788.

At December 31, 2024, the utility had total debt equal to $14,129,581 which consisted of $13,174,836 of bonds outstanding, $944,755 of notes payable, and capital leases of $9,990. At the beginning of the year total debt equaled $15,284,614. The decrease in debt of $1,155,033 was due to additions to debt from capital leases of $19,980 less scheduled principal payments of $1,165,023 and capital lease payments of $9,990.

<u>Other Matters</u>

During 2015, the District implemented GASB No. 68, Accounting and Financial Reporting for Pensions. This standard requires cost sharing governments to report a net pension liability, pension expense and pension related deferred inflows and outflows of resources based upon their proportionate share of the collective amounts for all the governments in the plan; therefore, included in long term liabilities is a net pension liability of $2,833,711 for 2025, and $3,050,913 for 2024.

During 2018, the District retrospectively implemented GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). This standard requires cost-sharing governments to report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based upon their proportionate share of the collective amounts for all the participants in the plan. Therefore, included in long-term liabilities is a net OPEB liability of $48,939 for 2025 and $0 for 2024.

<u>Request for Information</u>

This financial report is designed to provide our customers and creditors with a general overview of McCreary County Water District, Water and Sewer Divisions' finances and to demonstrate the utility's accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact the McCreary County Water District, Whitley City, Kentucky.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
McCreary County Water District
Water and Sewer Divisions
Whitley City, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying combined financial statements of the business-type activities of McCreary County Water District, Water and Sewer Divisions 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 as listed in the table of contents.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of McCreary County Water District, Water and Sewer Divisions as of December 31, 2025 and 2024, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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.

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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 for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules of proportionate share of the net pension and OPEB liabilities and the schedule of contributions on pages 1 through 4 and 40 through 45 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the combined financial statements that collectively comprise McCreary County Water District, Water and Sewer Divisions' basic financial statements. The accompanying combining statements of net position, revenues, expenses and changes in net position, and cash flows are presented for purposes of additional analysis, and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basis financial statements.

The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements of net position, revenues, expenses and changes in net position, and cash flows, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCreary County Water District
Water and Sewer Divisions
Whitley City, Kentucky

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2026, on our consideration of McCreary County Water District, Water and Sewer Divisions' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the McCreary County Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McCreary County Water District's internal control over financial reporting and compliance.

Faulkner, King & Wenz, PSC

July 15, 2026

McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINED STATEMENTS OF NET POSITION
DECEMBER 31, 2025 and 2024

ASSETS	2025	2024
Current assets:		
Cash and cash equivalents	$ 738,936	$ 1,652,414
Unbilled revenues	430,914	494,917
Accounts receivable	483,892	518,619
Other receivables	8,136	675,621
Inventory	239,673	307,049
Prepaid expenses	1,074	1,120
Total current assets	1,902,625	3,649,740
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	388,680	388,680
Investments	482,794	465,882
Net OPEB asset	-	88,332
Capital assets:		
Utility plant	76,688,457	72,482,419
Less accumulated depreciation	(35,002,237)	(33,525,901)
Construction in process	-	2,961,568
Total non-current assets	42,557,694	42,860,980
Deferred Outflows of Resources:		
Deferred outflows - OPEB	301,695	316,836
Deferred outflows - pension	374,544	632,317
Total deferred outflows	676,239	949,153
Total assets and deferred outflows of resources	$ 45,136,558	$ 47,459,873
LIABILITIES		
Current liabilities:		
Accounts payable	$ 212,134	$ 936,532
Accrued interest	114,713	121,224
Taxes payable	29,626	28,071
Other accrued liabilities	402,713	380,041
Customer deposits	43,012	43,715
Notes payable - current	118,485	673,439
Revenue bonds - current portion	950,500	557,136
Lease liabilities - current	2,788	2,788
Total current liabilities	1,873,971	2,742,946
Non-current liabilities:		
Revenue bonds - net current portion	12,033,579	12,617,700
Notes payable	184,353	271,316
Lease liabilities	4,414	7,202
Net OPEB liability	48,939	-
Net pension liability	2,833,711	3,050,913
Total non-current liabilities	15,104,996	15,947,131
Total liabilities	16,978,967	18,690,077
Deferred Inflows of Resources		
Deferred inflows - OPEB	613,011	928,424
Deferred inflows - pension	412,369	580,497
Total deferred inflows	1,025,380	1,508,921
NET POSITION		
Net investment in capital assets	28,392,101	27,788,505
Restricted for debt service and construction	871,474	854,562
Unrestricted	(2,131,364)	(1,382,192)
Total net position	27,132,211	27,260,875
Total liabilities, deferred inflows of resources and net position	$ 45,136,558	$ 47,459,873

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

McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2025 and 2024

	2025	2024
Operating revenues		
Residential sales	$ 3,413,310	$ 3,585,368
Commercial sales	593,572	575,632
Industrial sales	178,705	168,373
Governmental sales	1,929,555	2,208,705
Other sales	420,188	106,084
Total operating revenues	6,535,330	6,644,162
Operating expenses		
General and administrative costs	316,595	301,836
Payroll and related expenses	3,471,919	3,182,505
Repairs and maintenance	211,459	205,425
Other supplies and expenses	1,620,671	1,492,509
Depreciation and amortization	1,948,851	1,798,392
Total operating expenses	7,569,495	6,980,667
Operating loss	(1,034,165)	(336,505)
Nonoperating revenues (expenses)		
Interest income	64,599	107,587
Other income	248,463	214,148
Loss on abandonment of fixed assets	(74,628)	-
Gain (loss) on sale of fixed assets	474,450	(29,607)
Interest expense	(304,900)	(338,591)
Net nonoperating expenses	407,984	(46,463)
Loss before contributions	(626,181)	(382,968)
Capital grants received	497,517	2,399,813
Change in net position	(128,664)	2,016,845
Total net position beginning of year	27,260,875	25,244,030
Total net position end of year	$ 27,132,211	$ 27,260,875

The accompanying notes are an integral part of the financial statements

McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
Cash Flows from Operating Activities		
Cash received from customers	$ 7,301,545	$ 6,232,188
Operating expenses:		
General and administrative	(316,595)	(301,836)
Payroll and related expenses	(3,762,477)	(3,410,419)
Repairs and maintenance	(211,459)	(205,425)
Other supplies and expenses	(2,256,911)	(951,812)
Net cash provided by operating activities	754,103	1,362,696
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(1,792,163)	(2,291,298)
Proceeds from sale of capital assets	475,000	110,650
Principal paid on debt	(1,244,196)	(1,165,023)
Proceeds from debt borrowings	411,522	-
Interest paid on debt	(311,411)	(342,308)
Capital contributions	497,517	2,399,813
Net cash used in capital and related financing activities	(1,963,731)	(1,288,166)
Cash Flows from Investing Activities		
Interest income from investments	64,599	107,587
Other cash receipts	248,463	214,148
Net cash provided by investing activities	313,062	321,735
Net (decrease) increase in cash, cash equivalents, and restricted cash	(896,566)	396,265
Cash, cash equivalents, and restricted cash at beginning of year	2,506,976	2,110,711
Cash, cash equivalents, and restricted cash at end of year	$ 1,610,410	$ 2,506,976
Unrestricted cash and cash equivalents	$ 738,936	$ 1,652,414
Restricted cash and cash equivalents	388,680	388,680
Investments	482,794	465,882
Total cash and cash equivalents, at end of year	$ 1,610,410	$ 2,506,976

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

McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (1,034,165)	$ (336,505)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,948,851	1,798,392
Bad debt expense	45,500	35,219
Change in assets and liabilities:		
Decrease (increase) in receivables	720,715	(447,193)
(Increase) decrease in inventories	67,376	(22,578)
Decrease in prepaids	46	12
Increase (decrease) in accounts payable	(724,398)	512,162
(Decrease) increase in lease liabilities	(2,788)	9,990
Decrease in customer deposits	(703)	(4,061)
Increase in accrued expenses	24,227	45,172
Decrease in net OPEB obligation	(163,001)	(206,817)
Increase (decrease) in net pension obligation	(127,557)	(21,097)
Net cash provided by operating activities	$ 754,103	$ 1,362,696

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the McCreary County Water District, Water and Sewer Divisions (the District) conform to accounting principles generally accepted in the United States of America (GAAP). The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The following is a summary of the more significant policies:

Reporting Entity

The District, consisting of McCreary County Water District Water Division, and McCreary County Water District Sewer Division, has been consolidated for reporting purposes. The entities share the same board of commissioners, central offices and employees.

The District is a special district formed for the express purpose of providing water and sewer service within the confines of McCreary County, Kentucky and East Pine Knot Estates. McCreary County Fiscal Court appoints an independent board of commissioners to govern the district. The District operates as an independent entity in that it: is legally separate; holds corporate powers of organization; the Fiscal Court does not impose their will upon the District; and the District does not impose financial benefit or burden upon the Fiscal Court.

Basis of Presentation

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 which includes 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:

- Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, 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 the 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 asset use through external constraints imposed by creditors (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.

- Unrestricted - This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The District is an individual fund and is accounted for as a business-type activity fund. It is financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The District's financial statements are prepared on the accrual basis of accounting. By utilizing this method, revenues are recognized when they are earned, and expenses are recognized as they are incurred.

Operating income reported in the financial statements includes revenues and expenses related to the continuing operation of the fund. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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

Use of Estimates and Assumptions

In preparing financial statements that conform with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses reflected during the reporting period. Accordingly, actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the allowance for doubtful accounts for accounts receivable.

Compensated Absences

Vacation – Vacation days are accrued at the following rate:

1 day of personal time off per every month of employment.

These days are carried over if unused to a maximum of 60 days; however, all full-time employees with over three years must take ten days of vacation per year.

Sick – Employees earn two sick days for every two months of employment and may carry over a total of twelve days.

These unpaid compensated absences, if applicable, are recorded as accrued liabilities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with maturity of ninety days or less to be cash equivalents.

Accounts Receivable

Trade accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management closely monitors outstanding balances and writes off balances that are deemed to be uncollectible. The allowance for doubtful accounts of $349,500 and $304,000 for the years ended December 31, 2025 and 2024, has been established to reserve for those balances that the entity believes to be uncollectible.

Inventories

Inventories are stated at the lower of cost or market on the basis of "first-in, first-out" (FIFO) inventory method.

Capital and operating grants

Grants that are restricted to the purchase or construction of capital assets are recorded as other income. The District received $497,517 and $2,399,813 in grants for the years ended December 31, 2025 and 2024, respectively.

Capital Assets

Utility plant is stated at original cost and depreciated over its estimated useful lives using the straight-line method. Expenditures for maintenance and repairs are expensed when incurred. Renewals and betterments are capitalized. The range of useful lives used in computing depreciation is:

Classification	Range of lives
Buildings	40 years
Water systems	40 years
Machinery & equipment	5 years

Total depreciation expense was $1,948,851 and $1,798,392 for the years ended December 31, 2025 and 2024, respectively.

Pensions

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease Accounting

The District leases office space and space on its water towers to three utility companies. Rent income on these leases for 2025 and 2024, totaled $17,457 and $36,430 respectively.

The District follows the guidance in GASB 87, *Leases*. This guidance can affect the accounting and disclosures for both lessors and lessees. The standard establishes a model for lease accounting based on the principle that leases are financings of the right to use an underlying asset.

After calculating the impact of the guidance on GASB 87, District management determined that the resulting differences were not material to the financial statements as historically presented.

NOTE 2 – CASH DEPOSITS AND INVESTMENTS

The investment policies of the District are governed by State statute. Major provisions of the District's investment policy include: depositories must be FDIC insured banking institutions; depositories must fully insure or collateralize all demand and time deposits and repurchase agreements; and securities collateralizing repurchase agreements are to be held by independent third parties.

Bank Deposits

The fair market value of deposits was equivalent to the reported values. All deposits are checking or savings accounts. The carrying amount of the District's bank deposits was $1,125,816 and $2,039,294 for the years ended December 31, 2025 and 2024, respectively and the respective bank balances totaled $1,258,887 and $2,109,613 respectively, for the years then ended. The bank balances are covered by $297,578 of FDIC insurance. The remaining bank balances are fully collateralized with securities held by the pledged financial institution in the institution's name. The deposits are categorized to give an indication of the level of risk assumed by the District at year end. The categories are described as follows:

Category 1 – Insured

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.

Category 4 - Unsecured

NOTE 2 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits at December 31, 2025, categorized by level of risk, are:

	Risk Category				Bank	Book
	1	2	3	4	Balance	Value
Unrestricted deposits						
Operating accounts	$ 5,260	$ -	$ 961,309	$ -	$ 966,569	$ 680,448
Restricted deposits						
Debt service and						
Depreciation funds	292,318	-	-	-	292,318	445,368
Total deposits	$ 297,578	$ -	$ 961,309	$ -	$1,258,887	$1,125,816

Deposits at December 31, 2024, categorized by level of risk, are:

	Risk Category				Bank	Book
	1	2	3	4	Balance	Value
Unrestricted deposits						
Operating accounts	$ 30,730	$ -	$1,813,859	$ -	$1,844,589	$1,774,270
Restricted deposits						
Debt service and						
Depreciation funds	265,024	-	-	-	265,024	265,024
Total deposits	$ 295,754	$ -	$1,813,859	$ -	$2,109,613	$2,039,294

The District also had $1,800 and $1,800 of petty cash on hand for the years ended December 31, 2025 and 2024, respectively.

NOTE 2 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

At December 31, 2025 and 2024, the District's investments included the Federated Treasury Obligations Fund (a money market fund). The investments are categorized to give an indication of the level of risk assumed by the District at year end. The categories are described as follows:

Category 1 - Investments that are insured, registered or for which the securities are held by the District or its agent in the District's name.

Category 2 - Uninsured and unregistered investments for which the securities are held by the bank's trust departments or agents in the District's name.

Category 3 - Uninsured and unregistered investments for which the securities are held by the banks, or by their trust departments or agents but not in the District's name.

Investments at December 31, 2025, categorized by level of risk, are:

	Risk Category			Book	Fair
	1	2	3	Value	Value
Treasury MM Fund	$482,794	$ -	$ -	$482,794	$482,794
Total investments	$482,794	$ -	$ -	$482,794	$482,794

Investments at December 31, 2024, categorized by level of risk, are:

	Risk Category			Book	Fair
	1	2	3	Value	Value
Treasury MM Fund	$465,882	$ -	$ -	$465,882	$465,882
Total investments	$465,882	$ -	$ -	$465,882	$465,882

NOTE 3 – RESTRICTED ASSETS

The restricted assets in the accompanying financial statements are restricted as to use by ordinance (Note 7), external parties or by board designation. A schedule of restricted assets at December 31, 2025 and 2024 are:

A schedule of restricted assets at December 31, 2025 are:

	Cash	Investments at cost	Total
Debt service and Depreciation funds	$ 388,680	$ -	$ 388,680
Construction funds	-	-	-
Treasury MM fund	-	482,794	482,794
Total restricted assets	$ 388,680	$ 482,794	$ 871,474

A schedule of restricted assets at December 31, 2024 are:

	Cash	Investments at cost	Total
Debt service and Depreciation funds	$ 388,680	$ -	$ 338,680
Construction funds	-	-	-
Treasury MM Fund	-	465,882	465,882
Total restricted assets	$ 388,680	$ 465,882	$ 854,562

NOTE 4 – CAPITAL ASSETS

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

	Balance 12/31/2024	Additions	Disposals	Transfers	Balance 12/31/2025
Operating fixed assets:					
Land	$ 436,269	$ 10,000	$ -	$ -	$ 446,269
Buildings & Improvements	22,126,509	321,343	(11,991)	1,056,921	23,492,782
Treatment equipment	3,493,710	-	-	1,781,557	5,275,267
Distributions	28,549,414	215,124	-	123,090	28,887,628
Services/meters	4,082,016	229,482	(54,947)	-	4,256,551
Other equipment	13,794,501	1,016,214	(480,755)	-	14,329,960
	72,482,419	1,792,163	(547,693)	2,961,568	76,688,457
Accumulated depreciation	(33,525,901)	(1,948,851)	472,515	-	(35,002,237)
	38,956,518	(156,688)	(75,178)	2,961,568	41,686,220
Construction in progress	2,961,568	-	-	(2,961,568)	-
Utility plant, net	$41,918,086	$ (156,688)	$ (75,178)	$ -	$41,686,220

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

	Balance 12/31/2023	Additions	Disposals	Transfers	Balance 12/31/2024
Operating fixed assets:					
Land	$ 466,269	$ -	$ (30,000)	$ -	$ 436,269
Buildings & Improvements	22,487,303	12,001	(372,795)	-	22,126,509
Treatment equipment	3,493,710	-	-	-	3,493,710
Distributions	28,532,121	17,293	-	-	28,549,414
Services/meters	4,013,919	68,097	-	-	4,082,016
Other equipment	13,200,460	705,928	(111,887)	-	13,794,501
	72,193,782	803,319	(514,682)	-	72,482,419
Accumulated depreciation	(32,101,933)	(1,798,392)	374,424	-	(33,525,901)
	40,091,849	(995,073)	(140,258)	-	38,956,518
Construction in progress	1,473,588	1,487,980	-	-	2,961,568
Utility plant, net	$41,565,437	$ 492,907	$(140,258)	$ -	$41,918,086

NOTE 5 – LONG-TERM DEBT

Outstanding long-term debt primarily consists of revenue bonds and direct placement loans collateralized by the revenues of the District. Revenues of the District are to be used first to pay operating and maintenance expenses and second to establish and maintain the revenue bond funds. The District is in compliance with all significant financial requirements as of December 31, 2025.

The District's bonded indebtedness and other long-term debt at December 31, 2025 and 2024, are summarized as follows:

Debt Description	Rate	Original Issue	Principal O/S 2025	Principal O/S 2024
Water District				
BB&T	3.945%	797,355	$ 271,316	$ 354,978
RD Series 2013 A	Variable	1,415,000	270,000	370,000
RD 2013 Series D	1.875%	635,000	502,000	515,500
RD Series 2020E	Variable	495,000	455,000	465,000
RD Series 2020E	Variable	984,537	870,624	899,102
RD Series 2012 D	Variable	3,205,000	1,945,000	2,065,000
RD Series 2012 D-1	Variable	1,935,000	1,039,000	1,066,000
RD Series 2015	2.500%	1,158,000	1,015,500	1,035,500
RD Series 2020E	Variable	1,535,306	1,219,000	1,241,000
RD Series 2021	1.750%	542,000	504,500	514,000
RD Series 2023	1.875%	615,000	594,000	604,500
KIA F21-025	.250%	245,000	234,367	237,920
KIA CD2-01	1.000%	* 1,510,000	40,035	119,509
Kentucky Rural Water	5.0%	380,000	380,000	-
United Cumberland	7.5%	31,522	31,522	-
Sewer District				
KIA A20-047	.50%	* 3,568,950	2,730,676	2,795,907
RD Series 2020E	Variable	234,694	199,377	205,898
United Cumberland	5.40%	589,777	-	589,777
RD Series 2012 D	Variable	1,595,000	985,000	1,040,000
		21,472,141	13,286,917	14,119,591
Less current maturities			(1,068,985)	(1,230,575)
Total long-term debt			$12,217,932	$12,889,016

* The original issue of the KIA CD2-01 loan is $1,510,000. As of December 31, 2025, the District had borrowed $1,474,999 of the original amount.

* The original issue of the KIA A20-047 loan is $3,568,950. As of December 31, 2025, the District had borrowed $3,335,282 of the original amount.

NOTE 5 – LONG-TERM DEBT (CONTINUED)

The District's bonded indebtedness and other long-term debt at December 31, 2025 is detailed as follows:

	Principal Balance 12/31/2024	Borrowings	Principal Payments	Principal Balance 12/31/2025	Current	Long-Term
Water District						
RD Series 2020E	$ 465,000	$ -	$ 10,000	$ 455,000	$ 10,000	$ 445,00
RD Series 2020E	899,102	-	28,478	870,624	32,547	838,07
2012 Series D	2,065,000	-	120,000	1,945,000	120,000	1,825,00
2012 Series D1	1,066,000	-	27,000	1,039,000	27,500	1,011,50
2013 Series D	515,500	-	13,500	502,000	13,500	488,50
2013 Series A	370,000	-	100,000	270,000	100,000	170,00
2015 Series	1,035,500	-	20,000	1,015,500	20,500	995,00
KIA F04-03	119,509	-	79,474	40,035	40,035	
BB&T	354,978	-	83,662	271,316	86,963	184,35
RD Series 2020 E	1,241,000	-	22,000	1,219,000	22,500	1,196,50
RD Series 2021	514,000	-	9,500	504,500	10,000	494,50
RD Series 2023	604,500	-	10,500	594,000	11,000	583,00
KIA F21-025	237,920	-	3,553	234,367	4,372	229,99
KY Rural Water	-	380,000	-	380,000	380,000	
UC Bank	-	31,522	-	31,522	31,522	
Lease liabilities	9,990	-	2,788	7,202	2,788	4,41
Sewer District						
KIA A20-047	2,795,907	-	65,231	2,730,676	91,092	2,639,58
Series 2020E	205,898	-	6,521	199,377	7,454	191,92
UC Bank	589,777	-	589,777	-	-	
2012 Series D	1,040,000	-	55,000	985,000	60,000	925,00
	$ 14,129,581	$ 411,522	$ 1,246,984	$13,294,119	$1,071,773	$12,222,34

The District's other long-term liabilities at December 31, 2025 and 2024 are detailed as follows:

	Balance 12/31/2024	Increases	Decreases	Balance 12/31/2025
Net Pension Liability	$ 3,050,913	$ -	$(217,202)	$ 2,833,711
Net OPEB Liability (Asset)	(88,332)	137,271	-	48,939

	Balance 12/31/2023	Increases	Decreases	Balance 12/31/2024
Net Pension Liability	$ 3,314,383	$ -	$(263,470)	$ 3,050,913
Net OPEB Liability (Asset)	(71,314)	(17,018)	-	(88,332)

NOTE 5 – LONG-TERM DEBT (CONTINUED)

The District's bonded indebtedness and other long-term debt at December 31, 2024 is detailed as follows:

	Principal Balance 12/31/2023	Borrowings	Principal Payments	Principal Balance 12/31/2024	Current	Long-Term
Water District						
RD Series 2020E	$ 475,000	$ -	$ 10,000	$ 465,000	$ 10,000	$ 455,000
RD Series 2020E	927,580	-	28,478	899,102	28,478	870,624
2012 Series D	2,175,000	-	110,000	2,065,000	120,000	1,945,000
2012 Series D1	1,092,000	-	26,000	1,066,000	27,000	1,039,000
2013 Series D	528,500	-	13,000	515,500	13,500	502,000
2013 Series A	465,000	-	95,000	370,000	100,000	270,000
2015 Series	1,054,500	-	19,000	1,035,500	20,000	1,015,500
KIA F04-03	198,194	-	78,685	119,509	79,474	40,035
BB&T	435,465	-	80,487	354,978	83,662	271,316
RD Series 2020	1,262,500	-	21,500	1,241,000	22,000	1,219,000
RD Series 2021	523,500	-	9,500	514,000	9,500	504,500
RD Series 2023	615,000	-	10,500	604,500	10,500	594,000
KIA F21-025	241,465	-	3,545	237,920	4,361	233,559
UC Bank	58,431		58,431	-	-	-
Sewer District						
KIA A20-047	3,335,282	-	539,375	2,795,907	50,801	2,745,106
Series 2020E	212,420	-	6,522	205,898	6,522	199,376
UC Bank	589,777	-	-	589,777	589,777	-
2012 Series D	1,095,000	-	55,000	1,040,000	55,000	985,000
	$15,284,614	$ -	$1,165,023	$14,119,591	$1,230,575	$12,889,016

The long-term debt service requirements as of December 31, 2025, are as follows:

	Principal		Interest		Total	
Year	Water	Sewer	Water	Sewer	Water	Sewer
2026	$ 910,439	$ 158,546	$ 198,757	$ 50,642	$ 1,109,196	$ 209,188
2027	419,323	118,765	185,176	47,879	604,499	166,644
2028	427,400	124,022	172,222	44,993	599,622	169,015
2029	344,019	125,212	158,887	41,993	502,906	167,205
2030	357,030	130,472	148,773	38,835	505,803	169,307
2031-2035	1,621,092	680,029	604,537	144,033	2,225,629	824,062
2036-2040	1,641,781	592,307	392,358	60,296	2,034,139	652,603
2041-2045	1,140,996	360,692	234,933	18,516	1,375,929	379,208
2046-2050	1,055,503	290,552	140,950	7,070	1,196,453	297,622
2051-2055	899,235	1,334,456	62,569	726	961,804	1,335,182
2056-2060	429,500	-	19,032	-	448,532	-
2061-2063	125,546	-	1,771	-	127,317	-
	$ 9,371,864	$3,915,053	$2,319,965	$ 454,983	$11,691,829	$4,370,036

NOTE 5 – LONG-TERM DEBT (CONTINUED)

Revenue Bonds

2020 Series E – McCreary County Water and Sewer District Waterworks Revenue Bond, dated September 23, 2020, due in annual installments through February 1, 2050, bearing a variable interest rate. The balance at December 31, 2025 totaled $2,744,001.

2012 Series D – McCreary County Water District Waterworks Revenue Bond, dated May 30, 2012, due in annual installments through January 1, 2040, bearing a variable interest rate. The balance at December 31, 2025 totaled $1,945,000.

2012 Series D1 – McCreary County Water District Waterworks Revenue Bond, dated September 30, 2012, due in annual installments through April 1, 2052, bearing a variable interest rate. The balance at December 31, 2025 totaled $1,039,000.

2013 Series D – McCreary County Water District Waterworks Revenue Bond, dated February 27, 2013, due in annual installments through October 1, 2052, bearing a variable interest rate. The balance at December 31, 2025 totaled $502,000.

2013 Series A – McCreary County Water District Waterworks Revenue Bond, dated February 27, 2013, due in annual installments through July 1, 2030, bearing an interest rate of 1.875%. The balance at December 31, 2025 totaled $270,000.

2012 Series D – McCreary County Water District Sewer System Revenue Bond, dated May 30, 2012, due in annual installments through February 1, 2041, bearing a variable interest rate. The balance at December 31, 2025 totaled $985,000.

Series 2015 – McCreary County Water District Water System Revenue Bond, dated February 5, 2016, due in annual installments through April 1, 2055, bearing an interest rate of 2.5%. The balance at December 31, 2025 totaled $1,015,500.

2021 Series – McCreary County Water District Water System Revenue Bond, dated March 4, 2022, due in annual installments through April 1, 2061, bearing an interest rate of 1.75%. The balance at December 31, 2025 totaled $504,500.

2023 Series – McCreary County Water District Water System Revenue Bond, dated December 14, 2023, due in annual installments through April 1, 2063, bearing an interest rate of 1.875%. The balance at December 31, 2025 totaled $594,000.

Direct Placement

KIA F04-01 – As of December 31, 2005, the District had drawn $1,474,999 on a KIA loan secured by a pledge of revenues. The loan bears an interest rate of 1.00% with a life of twenty years maturing in 2026. The balance at December 31, 2025 totaled $40,035.

KIA A20-047 – As of December 31, 2021, the District had drawn $1,616,376 on a KIA loan secured by a pledge of revenues. The loan bears an interest rate of .50% with a life of thirty years maturing in 2052. The balance at December 31, 2025 totaled $2,730,676.

BB&T Bank – Installment loan dated September 7, 2018, due in annual installments through August 1, 2028, bearing an interest rate of 3.945% The balance at December 31, 2025 totaled $271,316.

KIA F21-025 –Installment loan dated February 22, 2022, due in semi-annual installments through December 1, 2052, bearing an interest rate of .25% The balance at December 31, 2025 totaled $234,367.

United Cumberland Bank – Installment loan dated March 20, 2025, with monthly principal and interest payments due through March 20, 2026, bearing an interest rate of 7.5%. The balance at December 31, 2025 totaled $31,522.

Kentucky Rural Water – Installment loan dated December 1, 2025, with monthly interest payments due December 1, 2026, bearing an interest rate of 5%. The balance at December 31, 2025 totaled $380,000.

NOTE 6 – NET POSITION

GASB Statement No. 34 (as amended by GASB 63) requires the delineation of Net Position as Invested in Property, Plant and Equipment (capital investments), Restricted and Unrestricted.

The balance of capital investments represents funds that have been used to acquire pump stations, storage facilities, meter stations, etc., constructed and operated by the District, net of outstanding debt. The balance was $28,392,101 and $27,788,505 for the years ended December 31, 2025 and 2024, respectively.

The District has the following restricted net position that is reserved in accordance with the District's various bond ordinances (Note 7):

	2025	2024
Construction	$ -0-	$ -0-
Depreciation and Debt Service	388,680	388,680
Treasury MM Fund	482,794	465,882
Total Restricted	$ 871,474	$ 854,562

The District has a balance of $(2,131,364) and $(1,382,192) for unrestricted net position at December 31, 2025 and 2024, respectively.

NOTE 7 – COMPLIANCE WITH BOND ORDINANCES

The District is in compliance with its bond ordinances that require the District to maintain certain reserves and restricted assets as follows:

Bond and Interest Fund - In order to fund the McCreary County Water District and Water Sewer debt, the District makes deposits into these funds to pay for current maturing principal portions and associated interest of bond issues.

Bond Sinking Funds – McCreary County Water District is required by ordinances to transfer funds into various sinking funds for future debt retirement.

Depreciation Fund – The bond resolutions authorizing the bond issues of the water and sewer system require transfers into various depreciation funds to be used for plant acquisitions, extensions and extraordinary repairs and maintenance. Transfers can cease when the fund balance reaches specified levels.

The balance in the depreciation and debt service funds as of December 31, 2025 and 2024 equaled $388,680 and $388,680 respectively. The required balance is $388,680 and $388,680 respectively.

Construction Funds – The District is required to transfer funds into various funds for the use of funding future projects.

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.

NOTE 9 – FAIR VALUE MEASUREMENTS

GASB Statement No. 72, *Fair Value Measurements,* establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The District uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the District measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 or 3 inputs were used by the District.

Level 1 Fair Value Measurements

The fair value of the Federated Treasury Obligations Fund (a money market fund) is based on quoted net asset values of the investments held by the District at year-end.

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value:

Assets at Fair Value as of December 31, 2025

	Level 1	Level 2	Level 3	Total
Treasury MM fund	$482,794	-	-	$482,794
Total assets fair value	$482,794	-	-	$482,794

Assets at Fair Value as of December 31, 2024

	Level 1	Level 2	Level 3	Total
Treasury MM fund	$465,882	-	-	$465,882
Total assets at fair value	$465,882	-	-	$465,882

NOTE 10 – PENSION PLAN

McCreary County Water District (the District) is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute Sections 78.782 and 61.646, the Kentucky Public Pensions Authority (KPPA) oversees the administration and operation of the personnel and accounting systems for the County Employees Retirement System Nonhazardous Pension Plan (CERS Nonhazardous), which is administered by KPPA. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description – 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 the CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – Participating employers are required to contribute an actuarially determined rate for CERS pension contributions, per Kentucky Revised Statute (KRS) Section 78.545(23). The CERS Board of Trustees establishes the employer contribution rate each year following the annual actuarial valuation as of July 1 and prior to July 1 of the succeeding fiscal year. For the periods January 1, 2025 through June 30, 2025, and July 1, 2025 through December 31, 2025, the District contributed 19.71% and 18.62%, respectively, of each employee’s creditable compensation (covered payroll) to the CERS Nonhazardous Pension Plan, which is equal to the actuarially determined rate set by the Board for each period. The District contributed for the years ended December 31, 2025 and 2024, $350,883 and $373,809, respectively, or 100% of the required contribution to the pension plan. Administrative costs of the KPPA are financed through employer contributions and investment earnings.

Plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 and before January 1, 2014 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. Each month, when employer contributions are received, an employer pay credit is deposited to the member’s account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – As of December 31, 2025, the District reported a liability of $2,833,711 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2024, rolled-forward from the valuation date to June 30, 2025, using generally accepted actuarial principles.

NOTE 10 – PENSION PLAN (CONTINUED)

The District's proportion of the net pension liability was determined using the District's actual contributions for the year ended December 31, 2025. This method is expected to be reflective of the District's long-term contribution effort. For the year ended December 31, 2025, the District's proportion was 0.050956 percent, which is equal to its proportion measured as of June 30, 2025. For the year ended December 31, 2024, the District's proportion was 0.051015 percent, which is equal to its proportion measured as of June 30, 2024.

For the year ended December 31, 2025, the District recognized pension expense of $219,261. As of December 31, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Outflow of Resources	Inflows of Resources
Effects of changes of assumptions	$ 0	$ 0
District contributions subsequent to the measurement date	176,023	0
Difference between projected and actual earnings on plan investments	104,578	387,933
Changes in proportion and differences between District contributions and proportionate share of contributions	0	24,436
Differences between expected and actual liability experience	93,943	0
Total	$ 374,544	$ 412,369

The $176,023 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 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:

Year ending December 31,

2026	28,613
2027	(101,948)
2028	(92,076)
2029	(48,437)

Actuarial Assumptions – The total pension liability, net pension liability, and sensitivity information as of June 30, 2025, were based on an actuarial valuation date of June 30, 2024. The total pension liability was rolled-forward from the valuation date (June 30, 2024) to the plan's fiscal year ending June 30, 2025, using generally accepted actuarial principles. There have been no actuarial assumption or method changes since June 30, 2024. Senate Bill 169 passed during the 2021 legislative session and increased the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or because of duty-related disability. The total pension liability as of June 30, 2025, is determined using these updated benefit provisions.

NOTE 10 – PENSION PLAN (CONTINUED)

The actuarial assumptions for CERS nonhazardous employees are as follows:

Inflation	2.50%
Payroll Growth Rate	2.00%
Salary Increases	3.30% - 10.30%, varies by service
Investment Rate of Return	6.50%

The mortality table used for active members was the PUB-2010 General Mortality table for the nonhazardous system, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for non-disabled retired members was a system-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for disabled members was the PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2023.

Assumptions and funding policies are reviewed against actual plan experience at least once every five years through the completion of an actuarial experience study. The actuarial assumptions used in the June 30, 2025, valuation were based on the results of the most recent actuarial experience study for the period July 1, 2013 - June 30, 2018.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Public Equity	45.00%	4.15%
Private Equity	8.00%	7.90%
Specialty Credit	20.00%	3.83%
Core Fixed Income	13.00%	2.70%
Cash	2.00%	1.25%
Real Estate	5.00%	4.75%
Real Return	7.00%	5.20%
Total	100.00%	

Discount Rate – The discount rate used to measure the total pension liability was 6.26 percent as of June 30, 2025. The projection of cash flows used to determine the discount rate assumes that each fund receives the employer required contributions each future year as determined by the current funding policy established in statute, as amended by House Bill 362 (passed in 2018) over the remaining 27 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate does not use a municipal bond rate.

NOTE 10 – PENSION PLAN (CONTINUED)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.26 percent, 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 (5.26 percent) or 1-percentage-point higher (7.26 percent) than the current rate:

	Discount rate	District's proportionate share of net pension liability
1% decrease	5.50%	$ 3,746,356
Current discount rate	6.50%	$ 2,833,711
1% increase	7.50%	$ 2,080,758

Payable to the Pension Plan – As of December 31, 2025 and 2024, the District reported a payable of $32,900 and $31,061, respectively, for the outstanding amount of contributions to the pension plan required for the years then ended. The payable only includes the pension portion of the contribution. Please refer to Note 11 for the amount due to the insurance fund.

NOTE 11 – OTHER POST-EMPLOYMENT BENEFIT PLAN

Under the provisions of Kentucky Revised Statute Section 78.782 and 61.646, the Kentucky Public Pensions Authority (KPPA) oversees the administration and operation of the personnel and accounting systems for the County Employees Retirement System (CERS). McCreary County Water District (the District) is a participating employer of the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description – The Kentucky Retirement Systems' (KRS) Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from CERS, KERS, and SPRS. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan and the administrative costs incurred by those receiving an insurance benefit.

The CERS Non-hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit other post-employment benefits (OPEB) 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 the CERS. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

Membership in the CERS Nonhazardous Insurance Fund consisted of the following as of June 30, 2024, the date of the latest actuarial valuation:

NOTE 11 – OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

Membership Status

Inactive plan members currently receiving benefits:	38,993
Inactive plan members entitled to but not yet receiving benefits:	26,288
Active plan members:	80,072
Total plan members:	145,353

Contributions – Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(23), the CERS Board of Trustees establishes employer and member contribution rates each year following the annual actuarial valuation as of July 1 and prior to July 1 of the succeeding fiscal year.

For the periods January 1, 2025, through June 30, 2025, and July 1, 2025, through December 31, 2025, the District contributed 0% and 0%, respectively, of each employee's covered payroll to the insurance fund, which is equal to the actuarially determined rate set by the Board. The District contributed for the years ended December 31, 2025 and 2024 $0 and $0, respectively, or 100% of the required contribution to the insurance fund. Administrative costs of the KPPA are financed through employer contributions and investment earnings.

Employees hired after September 1, 2008, are required to contribute an additional 1% of their covered payroll to the insurance fund. Contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h). These members are classified in the Tier 2/Tier 3 structure of benefits and the 1% contribution to the 401(h) account is non-refundable.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – As of December 31, 2025, the District reported a liability of $48,939 for its proportionate share of the net OPEB surplus. The net OPEB asset was measured as of June 30, 2025, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2024, rolled-forward to June 30, 2025, using generally accepted actuarial principles. The District's proportion of the net OPEB asset was determined using the District's actual contributions for the year ended June 30, 2025. This method is expected to be reflective of the District's long-term contribution effort. For the year ended December 31, 2025, the District's proportion was 0.050956 percent, which is equal to its proportion measured as of June 30, 2025. For the year ended December 31, 2024, the District's proportion was 0.051065 percent, which is equal to its proportion measured as of June 30, 2024.

For the year ended December 31, 2025, the District recognized a decrease in OPEB expense of $163,001. As of December 31, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

NOTE 11 – OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Effects of changes of assumptions	$ 32,642	$ 28,022
District contributions subsequent to the measurement date (including implicit subsidy)	23,728	-
Differences between projected and actual earnings on plan investments	38,740	149,574
Differences between expected and actual liability experience	158,728	420,737
Changes in proportion and differences between District contributions and proportionate share of contributions	47,857	14,678
Total	$ 301,695	$ 613,011

The $23,728 of deferred outflows of resources resulting from the December 31, 2025 implicit subsidy of $23,728, will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending December 31,

2026	(180,722)
2027	(163,363)
2028	4,600
2029	4,441

Implicit Subsidy - The fully insured premiums KPPA pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for non-Medicare eligible retirees. Participating employers should adjust their contributions by the implicit subsidy to determine the total employer contribution for GASB Statement No. 75 purposes. This adjustment is needed for contributions made during the measurement period and for the purpose of deferred outflows related to contributions made after the measurement date. McCreary County Water District's implicit subsidy for the years ended December 31, 2025 and 2024 was $23,728 and $24,023, respectively.

NOTE 11 – OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

Actuarial Assumptions – The total OPEB asset, net OPEB asset, and sensitivity information as of June 30, 2025, were based on an actuarial valuation date of June 30, 2024. The total OPEB asset was rolled-forward from the valuation date (June 30, 2024) to the plan's fiscal year ending June 30, 2025, using generally accepted actuarial principles. The actuarial assumptions for CERS nonhazardous employees are as follows:

Inflation	2.50%
Payroll Growth Rate	2.00%, CERS Nonhazardous
Salary Increase	3.30-10.30%, varies by service
Investment Rate of Return	6.50%
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 6.80% at January 1, 2025, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post – 65	Initial trend starting at 8.50% at January 1, 2025, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

The mortality table used for active members was the PUB-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for non-disabled retired members was a system-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for disabled members was the PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

Assumptions and funding policies are reviewed against actual plan experience at least once every five years through the completion of an actuarial experience study. The actuarial assumptions used in the June 30, 2025, valuation were based on the results of the most recent actuarial experience study for the period July 1, 2013 - June 30, 2018.

Senate Bill 249, passed during the 2020 legislative session, changed the funding period for the amortization of the asset or unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total OPEB Liability and only impacts the calculation of the contribution rates that were payable starting July 1, 2020.

Senate Bill 169, passed during the 2021 legislative session, increased the disability benefits for certain qualifying members who became "totally and permanently disabled" in the line of duty or as a result of duty-related disability. The total OPEB liability as of June 30, 2021, is determined using these updated benefit provisions.

NOTE 11 – OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

Discount Rate – The single discount rate of 6.26% for CERS Nonhazardous is based on the long-term expected rate of return on OPEB plan investments of 6.50% and a long-term municipal bond rate of 5.20% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2025. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected separately and were sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the plan's actuarially determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the plan's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Public Equity	45.00%	4.15%
Private Equity	8.00%	7.90%
Specialty Credit	20.00%	3.83%
Core Fixed Income	13.00%	2.70%
Cash	2.00%	1.25%
Real Estate	5.00%	4.75%
Real Return	7.00%	5.20%
Total	100.00%	

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following table presents the District's proportionate share of the net OPEB liability calculated using the single discount rate of 6.26 percent, 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 percent) or 1-percentage-point higher (7.26 percent) than the current rate.

	Discount rate	District's proportionate share of net OPEB liability (asset)
1% decrease	5.26%	$ 293,652
Current discount rate	6.26%	$ 48,939
1% increase	7.26%	$ (157,023)

NOTE 11 – OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability (asset) to Changes in the Healthcare Cost Trend Rate – The following table presents the District's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates (see details in *Actuarial Assumptions* above), as well as what the District's proportionate share of the net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current rates.

	District's proportionate share of net OPEB liability (asset)
1% decrease	$ (113,099)
Current healthcare cost trend rate	$ 48,939
1% increase	$ 238,628

Payable to the OPEB Plan – As of December 31, 2025 and 2024, the District reported a payable of $967 and $812, respectively, for the outstanding amount of contributions to the insurance plan required for the years then ended. The payable only includes the insurance portion of the contribution. Please refer to Note 10 for the amount due to the pension plan.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events were evaluated through July 15, 2026, which is the date the financial statements were available to be issued.

Supplemental Information

McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2025

	McCreary County Water	McCreary County Sewer	Eliminations	Total
ASSETS				
Current assets:				
Cash and cash equivalents	$ 486,335	$ 252,601	$	$ 738,936
Unbilled revenues	305,287	125,627		430,914
Accounts receivable, net	344,379	139,513		483,892
Other receivables	3,311	4,825		8,136
Due from associated division	1,670,922	-	(1,670,922)	-
Inventory	169,575	70,098		239,673
Prepaid expenses	1,074	-		1,074
Total current assets	2,980,883	592,664	(1,670,922)	1,902,625
Non-current assets:				
Restricted cash and cash equivalents	244,416	144,264		388,680
Investments	482,794	-		482,794
Net OPEB asset	-	40,588	(40,588)	-
Capital assets:				
Utility plant	50,348,728	26,339,729		76,688,457
Less accumulated depreciation	(22,636,483)	(12,365,754)		(35,002,237)
Construction in process	-	-		-
Total non-current assets	28,439,455	14,158,827		42,557,694
Deferred outflows of resources:				
Deferred outflows - other post-employment benefits	279,313	22,382		301,695
Deferred outflows - pension	362,072	12,472		374,544
Total deferred outflows	641,385	34,854	-	676,239
Total assets and deferred outflows of resources	$ 32,061,723	$ 14,786,345	$ (1,711,510)	$ 45,136,558
LIABILITIES				
Current liabilities:				
Accounts payable	$ 129,828	$ 82,306	$	$ 212,134
Accrued interest	91,287	23,426		114,713
Due to associated division	-	1,670,922	(1,670,922)	-
Taxes payable	25,423	4,203		29,626
Other accrued liabilities	343,986	58,727		402,713
Customer deposits	43,012	-		43,012
Notes payable - current portion	118,485			118,485
Revenue bonds - current portion	791,954	158,546		950,500
Lease liabilities - current portion	2,788	-		2,788
Total current liabilities	1,546,763	1,998,130	(1,670,922)	1,873,971
Non-current liabilities:				
Revenue bonds - net current portion	8,277,072	3,756,507		12,033,579
Notes payable	184,353	-		184,353
Lease liabilities - net current portion	4,414	-		4,414
Net other post-employment benefits liability	89,527		(40,588)	48,939
Net pension liability	2,310,687	523,024		2,833,711
Total non-current liabilities	10,866,053	4,279,531		15,104,996
Deferred inflows of resources:				
Deferred inflows - other post-employment benefits	505,432	107,579		613,011
Deferred inflows - pension	350,918	61,451		412,369
Total deferred inflows	856,350	169,030	-	1,025,380
Total liabilities and deferred inflows of resources	$ 13,269,166	$ 6,446,691	$ (1,711,510)	$ 18,004,347
NET POSITION				
Net investment in capital assets	$ 18,333,179	$ 10,058,922		$ 28,392,101
Restricted for debt service and construction	727,210	144,264		871,474
Unrestricted	(267,832)	(1,863,532)	(40,588)	(2,131,364)
Total net position	18,792,557	8,339,654	(40,588)	27,132,211
Total liabilities, deferred inflows of resources and net position	$ 32,061,723	$ 14,786,345	$ (1,752,098)	$ 45,136,558

See Independent Auditor's Report.

McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2025

	McCreary County		
	Water	**Sewer**	**Total**
Operating revenues			
Residential sales	$ 2,911,841	$ 501,469	$ 3,413,310
Commercial sales	324,339	269,233	593,572
Industrial sales	73,894	104,811	178,705
Governmental sales	1,006,540	923,015	1,929,555
Other sales and fees	269,630	150,558	420,188
Total operating revenues	4,586,244	1,949,086	6,535,330
Operating expenses			
General and administrative costs	275,090	41,505	316,595
Payroll and contractual services	2,702,219	769,700	3,471,919
Repairs and maintenance	-	211,459	211,459
Other supplies and expenses	1,073,272	547,399	1,620,671
Depreciation	1,211,624	737,227	1,948,851
Total operating expenses	5,262,205	2,307,290	7,569,495
Operating loss	(675,961)	(358,204)	(1,034,165)
Nonoperating revenues (expenses)			
Interest income	45,661	18,938	64,599
Other income	182,320	66,143	248,463
Loss on abandoned fixed assets	(74,628)	-	(74,628)
Loss on disposal of fixed assets	475,000	(550)	474,450
Interest expense	(231,599)	(73,301)	(304,900)
Total nonoperating revenues (expenses)	396,754	11,230	407,984
Loss before contributions	(279,207)	(346,974)	(626,181)
Capital grants received	452,271	45,246	497,517
Change in net position	173,064	(301,728)	(128,664)
Total net position on December 31, 2024	18,619,493	8,641,382	27,260,875
Total net position on December 31, 2025	$ 18,792,557	$ 8,339,654	$ 27,132,211

See Independent Auditor's Report

McCREARY COUNTY WATER DISTRICT
WATER AND SEWER DIVISIONS
COMBINING STATEMENT OF CASH FLOWS
DECEMBER 31, 2025

	Water	Sewer	Total
Cash Flows from Operating Activities			
Cash received from customers	$ 4,644,996	$ 2,656,549	$ 7,301,545
Operating expenses:			
General and administrative	(275,090)	(41,505)	(316,595)
Payroll and related expenses	(2,930,510)	(831,967)	(3,762,477)
Repairs and maintenance	-	(211,459)	(211,459)
Other supplies and expenses	(939,548)	(1,317,363)	(2,256,911)
Net cash provided by operating activities	499,848	254,255	754,103
Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of capital assets	(1,392,842)	(399,321)	(1,792,163)
Proceeds from sale of capital assets	475,000	-	475,000
Principal paid on debt	(527,667)	(716,529)	(1,244,196)
Proceeds from debt borrowings	411,522	-	411,522
Interest paid on debt	(238,110)	(73,301)	(311,411)
Capital contributions	452,271	45,246	497,517
Net cash used in capital and related financing activities	(819,826)	(1,143,905)	(1,963,731)
Cash Flows from Investing Activities			
Interest income from investments	45,661	18,938	64,599
Other cash receipts	182,320	66,143	248,463
Net cash provided by investing activities	227,981	85,081	313,062
Net increase (decrease) in cash and cash equivalents	(91,997)	(804,569)	(896,566)
Cash and cash equivalents, at beginning of year	1,305,542	1,201,434	2,506,976
Cash and cash equivalents, at end of year	$ 1,213,545	$ 396,865	$ 1,610,410
Unrestricted cash and cash equivalents	$ 486,335	$ 252,601	$ 738,936
Restricted cash and cash equivalents	727,210	144,264	871,474
Total cash and cash equivalents, at end of year	$ 1,213,545	$ 396,865	$ 1,610,410

See Independent Auditor's Report.

	Water	Sewer	Total
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$ (675,961)	$ (358,204)	$ (1,034,165)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	1,211,624	737,227	1,948,851
Bad debt expense	34,000	11,500	45,500
Change in assets and liabilities:			
Decrease in receivables	24,752	695,963	720,715
(Increase) decrease in inventories	83,391	(16,015)	67,376
Decrease in prepaids	46	-	46
Decrease in accounts payable	(101,902)	(622,496)	(724,398)
Decrease in lease liabilities	(2,788)	-	(2,788)
Decrease in customer deposits	(703)	-	(703)
Increase (decrease) in accrued expenses	25,195	(968)	24,227
Decrease in net OPEB obligation	(128,070)	(34,931)	(163,001)
Decrease in net pension obligation	(100,221)	(27,336)	(127,557)
Net cash provided by operating activities	$ 369,363	$ 384,740	$ 754,103

See Independent Auditor's Report.

McCreary County Water District
Schedule of Proportionate Share of the Net Pension Liability
As of and for the Year Ended December 31, 2025

	2025	2024	2023
District's proportion of the net pension liability	0.050956%	0.051015%	0.051654%
District's proportionate share of the net pension liability	$ 2,833,711	$ 3,050,913	$ 3,314,383
District's covered employee payroll	$ 1,832,504	$ 1,619,766	$ 1,499,390
District's share of the net pension liability as a percentage of its covered employee payroll	154.64%	188.36%	221.05%
Plan fiduciary net position as a percentage of the total pension liability	65.34%	61.61%	57.48%

	2022	2021	2020	2019
District's proportion of the net pension liability	0.046251%	0.044226%	0.041752%	0.044240%
District's proportionate share of the net pension liability	$ 3,343,490	$ 2,819,754	$ 3,202,344	$ 3,111,418
District's covered employee payroll	$ 1,278,938	$ 1,129,658	$ 1,069,480	$ 1,115,926
District's share of the net pension liability as a percentage of its covered employee payroll	261.54%	249.61%	299.43%	278.82%
Plan fiduciary net position as a percentage of the total pension liability	52.42%	57.33%	47.81%	50.45%

	2018	2017	2016	2015
District's proportion of the net pension liability	0.045494%	0.043724%	0.043507%	0.040430%
District's proportionate share of the net pension liability	$ 2,770,845	$ 2,559,300	$ 2,142,121	$ 1,738,371
District's covered employee payroll	$ 1,127,618	$ 1,064,570	$ 1,024,456	$ 949,859
District's share of the net pension liability as a percentage of its covered employee payroll	245.73%	240.41%	209.10%	183.01%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.32%	55.50%	59.97%

Notes:
The amounts presented for each fiscal year were determined (measured) as of June 30, of the fiscal year presented.

McCreary County Water District
Schedule of Pension Contributions
As of and for the Year Ended December 31, 2025

	2025	2024	2023
Contractually required employer contributions	$ 350,883	$ 373,809	$ 350,857
Contributions relative to contractually required employer contributions	350,883	373,809	350,857
Contribution excess (deficiency)	$ -	$ -	$ -
District's covered employee payroll	$ 1,832,504	$ 1,619,766	$ 1,499,390
Employer contributions as a percentage of covered-employee payroll	19.15%	23.08%	23.40%

	2022	2021	2020	2019
Contractually required employer contributions	$ 301,069	$ 240,149	$ 211,472	$ 200,597
Contributions relative to contractually required employer contributions	301,069	240,149	211,472	200,597
Contribution excess (deficiency)	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 1,399,124	$ 1,182,327	$ 1,091,554	$ 1,129,480
Employer contributions as a percentage of covered-employee payroll	21.52%	20.31%	19.37%	17.76%

	2018	2017	2016	2015
Contractually required employer contributions	$ 167,189	$ 160,610	$ 134,208	$ 126,892
Contributions relative to contractually required employer contributions	167,189	160,610	134,208	126,892
Contribution excess (deficiency)	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 1,088,383	$ 1,128,886	$ 1,015,760	$ 1,009,246
Employer contributions as a percentage of covered-employee payroll	15.36%	14.23%	13.21%	12.57%

Notes:
Contractually required employer contributions exclude the portion of contributions paid to the CERS, but allocated to the insurance fund of the CERS.

The above contributions only include those contributions allocated directly to the CERS pension fund.

The amounts presented for each fiscal year were determined (measured) as of December 31, the reporting year end of the District.

McCreary County Water District
Schedule of Proportionate Share of the Net OPEB Liability (Asset)
As of and for the Year Ended December 31, 2025

	2025	2024	2023	2022
District’s proportion of the net OPEB liability (asset)	0.050956%	0.051065%	0.051652%	0.046243%
District’s proportionate share of the net OPEB liability (asset)	$ 48,939	$ (88,332)	$ (71,314)	$ 912,612
District’s covered employee payroll	$ 1,832,504	$ 1,619,766	$ 1,499,390	$ 1,278,938
District’s share of the net OPEB liability (asset) as a percentage of its covered employee payroll	2.67%	-5.45%	-4.76%	71.36%
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	97.66%	104.89%	104.23%	60.95%

	2021	2020	2019	2018
District’s proportion of the net OPEB liability	0.044216%	0.041740%	0.044229%	0.045494%
District’s proportionate share of the net OPEB liability	$ 846,493	$ 1,007,893	$ 743,912	$ 807,737
District’s covered employee payroll	$ 1,129,658	$ 1,069,480	$ 1,115,926	$ 1,127,618
District’s share of the net OPEB liability as a percentage of its covered employee payroll	74.93%	94.24%	66.66%	71.63%
Plan fiduciary net position as a percentage of the total OPEB liability	62.91%	51.67%	60.44%	57.62%

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

The amounts presented for each fiscal year were determined (measured) as of June 30, of the fiscal year presented.

McCreary County Water District
Schedule of OPEB Contributions
As of and for the Year Ended December 31, 2025

	2025	2024	2023	2022
Contractually required employer contributions	$ -	$ -	$ 50,829	$ 53,332
Contributions relative to contractually required employer contributions	-	-	50,829	53,332
Contribution excess (deficiency)	$ -	$ -	$ -	$ -
District’s covered employee payroll	$ 1,832,504	$ 1,619,766	$ 1,499,390	$ 1,399,124
Employer contributions as a percentage of covered-employee payroll	0.00%	0.00%	3.39%	3.81%

	2021	2020	2019	2018
Contractually required employer contributions	$ 62,802	$ 52,156	$ 56,587	$ 54,241
Contributions relative to contractually required employer contributions	62,802	52,156	56,587	54,241
Contribution excess (deficiency)	$ -	$ -	$ -	$ -
District’s covered employee payroll	$ 1,182,327	$ 1,091,554	$ 1,129,480	$ 1,088,383
Employer contributions as a percentage of covered-employee payroll	5.31%	4.78%	5.01%	4.98%

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

Contractually required employer contributions exclude the portion of contributions paid to the CERS, but allocated to the pension fund of the CERS.

The above contributions only include those contributions allocated directly to the CERS insurance fund.

The amounts presented for each fiscal year were determined (measured) as of December 31, the reporting year end of the District.

McCreary County Water District
Schedule of Changes in Benefits and Assumptions
As of and for the Year Ended December 31, 2025

County Employee Retirement System

Changes of benefit terms

During the **2021** legislative session, House Bill 169 was enacted, which updated the disability benefits for certain qualifying members who became "totally and permanently disabled" in the line of duty or as a result of a duty related disability.

During the **2018** legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty.

- Pension - Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.

- Insurance - The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty.

Changes in assumptions

There have been no actuarial assumption or method changes for the year ending **June 30, 2024**. OPEB single discount rate increased from 5.93% to 5.99%

There have been no actuarial assumption or method changes for the year ending **June 30, 2023**. OPEB single discount rate increased from 5.70% to 5.93%

There have been no actuarial assumption or method changes for the year ending **June 30, 2022**. OPEB single discount rate increased from 5.20% to 5.70%

There have been no actuarial assumption or method changes for the year ending **June 30, 2021**, for pension. OPEB single discount rate was decreased from 5.34% to 5.20%.

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2019**:

- The rate of inflation, payroll growth rate, salary increases, and investment rate of return assumptions remain the same as those adopted for the June 30, 2017 valuation.

- The salary increase assumption was increased from an average of 3.05% to a range that varies by service of 3.30% - 10.30%.

- The mortality tables used were updated to the following:

  Active members - PUB 2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

  Healthy retired members - System specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.

  Disabled retired members - PUB 2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality scale using a base year of 2010.

McCreary County Water District
Schedule of Changes in Benefits and Assumptions (continued)
As of and for the Year Ended December 31, 2025

County Employee Retirement System

Changes in Valuations

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2023:**

- The discount rate was increased from 6.25% to 6.5%

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2019:**

- Updated the mortality tables from RP-2000 to Pub-2010
- The salary increase assumption was increased from an average of 3.05% to a range of 3.30% to 10.30%.

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2017:**

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of wage inflation decreased by 0.95%
- The payroll growth assumption was reduced from 4.00% to 2.00%.

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of **June 30, 2015:**

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to 0.75%
- The payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB 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 (set-back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

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

Board of Commissioners
McCreary County Water District
Water and Sewer Divisions
Whitley City, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the business-type activities of the McCreary County Water District, Water and Sewer Divisions (the District), as of and for the year ended December 31, 2025, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated July 15, 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Board of Commissioners
McCreary County Water District
Water and Sewer Divisions
Whitley City, Kentucky

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 the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

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

Faulkner, King & Wenz, PSC

July 15, 2026