

HARDIN COUNTY WATER DISTRICT No. 1
Radcliff, Kentucky

FINANCIAL STATEMENTS
December 31, 2025

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Hardin County Water District No. 1
Radcliff, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of each major fund of the Hardin County Water District No. 1, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Hardin County Water District No. 1's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Hardin County Water District No. 1, as of December 31, 2025, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Hardin County Water District No. 1, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hardin County Water District No. 1'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.

Auditors' 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 auditors' 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 Hardin County Water District No. 1'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 Hardin County Water District No. 1's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and OPEB schedules on pages 4–7 and 27–33 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 financial statements that collectively comprise the Hardin County Water District No. 1's basic financial statements. The budgetary comparison schedules, the combining statements and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules, the combining statements of net position, revenues, expenses and changes in net position and cash flows, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2026, on our consideration of the Hardin County Water District No. 1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hardin County Water District No. 1'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 Hardin County Water District No. 1's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
March 26, 2026

Hardin County Water District No. 1

Serving Hardin County Since 1952

1400 Rogersville Road
Radcliff, KY 40160

March 26, 2026

TO: Hardin County Water District No. 1
Board of Commissioners

SUBJECT: 2025 Annual Report & Management's Discussion and Analysis

This report is a joint effort of our staff and RFH, PLLC, Certified Public Accountants. For the twenty-first year, we have retained RFH to complete our annual audit. This report includes the Management Discussion & Analysis, the Independent Auditor's Report, the basic financial statements of the District and related supplemental information and audit notes.

I would like to recognize the contribution of our Accountant Ms. Jessica Warren, Ms. Sara O'Bryant (Accounting Specialist) and Ms. Megan Probst (Accounting Specialist) for their work assisting the auditors in preparing this information. Mr. Kevin Fisher, CPA was the lead auditor for the firm and field staff to complete the audit.

Financial Performance & Highlights

Consolidated Financial Performance: The financial reports include statements for five distinct enterprise utility funds: County Water, Ft. Knox Water, Ft. Knox Sanitary Sewer, Ft. Knox Storm Sewer and Radcliff Sanitary Sewer. Overall consolidated financial highlights of the year are reviewed first, followed with more specific key items by utility.

For the year, gross plant assets increased by \$3,863,887. Total net position increased by \$16,855,455 (10.28%) ([percent changes in parentheses represent change from 2024]). Total revenues, including interest income, increased by +\$471,354 or +2.26% compared to 2024. This increase is mainly attributable to more interest income in the Water funds and increased revenues in the Radcliff Sewer fund because of the increased number of taps and the inflationary increase in the FK Water fund. Operating income before depreciation was \$7,742,531 (-7.6%) and operating income after depreciation (gross of non-operating income and expenses) was \$1,876,844. This operating income is mainly due to increased revenues in the Radcliff Sewer fund and interest income in the Water funds offset by an increase in depreciation expenses due to completion of County Expansion along unserved roads (phase I), the automatic transfer switch at Fort Knox WWTP, sludge hauling equipment, West Point PAA disinfection equipment, and Radcliff Dewatering Building Phase I. Total Net Income was \$2,484,577. Total net position at the end of the year was \$180,757,960 (+ 10.3%).

Cash used for capital construction was \$6,436,141 (-10.19%), of which 38.2% was provided by government grants. At year-end, consolidated outstanding debt principal and notes payable were \$2,346,909 (- 22.5%) as the result of paying off the 2016 Bond and the Radcliff Intra-Fund loan. Total working capital (unrestricted cash + investments) at year-end increased by +66.7% to \$44,776,187. Of all reserves (cash + investments), 99.6% were unrestricted and available as working capital for capital construction or operations.

Individual Fund Highlights:

County Water: Total operating expenses (excluding debt interest and depreciation) were (+3.6%) or \$174,461 more than budgeted due to the purchase of water to meet demand, along with increased treatment costs due to weather related events. Revenues were (-8.3%) lower than budgeted due to the decreased wholesale sales to the FK Water fund and Meade County Water District. Net income/(loss) after depreciation and interest expense was (-\$792,058) less than budgeted due to buying more water than anticipated and disposal of assets some of which were replaced. Water sales increased by (-0.1%) from 2024 and total net position increased by (+9.7%). The bond coverage ratio was 27.36 (+ 328%) from 2024 which exceeds the required 1.20.

Ft. Knox Water: Total operating revenues were \$3,719,544 (+8.6%) including interest income. Operating income before depreciation was +\$582,503. Net Loss after depreciation and amortized expenses was (-\$1,320,771) mainly due to loss on the demolition of two water tanks that were required as part of the ISDC agreement with the government. Net position at year-end was \$49,099,056 (+26.9%) and construction in progress was valued at \$104,076. Working capital and cash available for capital construction was \$12,112,961 (+785%).

Ft. Knox Sewer (Sanitary and Storm): Total operating revenues including interest income decreased by (-0.18%). Total operating income, before depreciation expense was \$2,133,046 (+ 2.7%). Total net position increased by 3.23%. Total expended for construction was \$482,708. At the beginning of 2026, the fund had a balance of \$15,056,254 (+ 30.19%) available for construction projects and capital improvements.

Radcliff Sewer: Total revenues (including interest income) were \$5,395,622 (+ 2.72%). This increase is attributable to increased sewer taps. Total operating expenses (excluding depreciation) were (-9.92%) less than budgeted. This is due to lower sludge hauling costs and CCTV contractual services were not utilized. Total net position increased 2.34% to \$40,769,010 and at year-end, we had construction in progress assets of \$3,220,296. Of the \$2,611,909 expended for construction, 3.45% was grant funded. At year-end, the total cash & investment reserve balance was \$10,699,195 (+3.99%) of which 100% was unrestricted and available for capital construction or operations. The fund had net operating income before depreciation and debt interest of \$1,991,917 (+ 10.0%) with a net income of \$932,991.

Operational Changes & Statistics

During 2025, a total of 1,811 MG (million gallons) of potable water was treated (+ 2.6%) and a total of 286.1 MG was purchased for resale (+ 3.7%). Total water delivered to customers (County and Ft. Knox combined) was 2,071 MG (+ 6.7%). The maximum demand day was 7.8 MG (+1.3%) and occurred on 17-Feb. The average daily water demand for the year was 5.68 MG (+ 4.13%). A total of 119 new water services were installed in 2025. Wholesale customers purchased 623.9 MG (- 3.1%), which was equivalent to 29.8% of total water produced and purchased volume.

The two wastewater treatment plants (Ft. Knox and Radcliff) treated 1,717 MG (+ 9%). This resulted in an average daily flow of clean, recycled water into streams of 4.71 MG. The maximum day treated was 23.565 MG and occurred on 06-April.

Other Significant Projects / Changes:

County Water System

The District installed a record 119 new water taps; replaced 800 LF of failure prone cast iron pipe with C900 on Maple Ln and Dogwood Dr; cleaned and inspected the Brizendine elevated storage tank and demolished the Longview ground storage tank in 2025.

The District utilized \$1,859,420 of \$2,187,051 KY Cleaner Water Program grant funds to install 43,285 LF of water main along previously unserved roads in 2025. 41 new customers have connected to the newly installed water mains. The District currently provides water service to 96.2% of all public roads in its service territory. The District will install another 12,900 LF of water main in 2026 to exhaust the remaining \$327,631 of KY Cleaner Water Program grant funds. After the completion of this project, 97% of all public roads in HCWD1's service territory will have access to a community water system.

The District completed the fixed base meter reading project in 2025. 99.7% of the District's 12,055 meters are reading each day. The completion of the fixed base meter reading project took six years to complete and was largely made possible by the \$1,594,500 of ARPA grant funding that was awarded to the District to complete the project.

Fort Knox Water System

The District received an \$11.726M Request for Equitable Adjustment in June 2025. Shortly thereafter the District put the demolition of the six old elevated storage tanks out to bid. Two of the six tanks were demolished in 2025 and the remaining four were demolished in early 2026.

The District demolished the Otter Creek raw water pump station and generator building in 2025 at a cost of \$245,069.

The District's request for a CPI-U based annual inflationary adjustment was approved by DLA in Feb. 2026. The District still has a pending request in to DLA for an increase to the monthly utility service charge.

Fort Knox Sewer System

A project to replace the automatic transfer switch at the Fort Knox WWTP was bid and awarded in 2023. The automatic transfer switch was installed in June 2025. In conjunction with this project the District has agreed to take ownership of the onsite generator at the Fort Knox WWTP which is still pending ownership transfer from the government. With government and contractual approval, the District discontinued 24-hour staffing at the facility in December 2025.

Radcliff Sewer System

A record 81 new sewer taps were made to the system in 2025.

Substantial completion of the new screw press inside the new dewatering building at the Radcliff WWTP occurred in November 2025 with the start-up of the cake pump occurring in December 2025. This project was finally completed after 2.5 years at an engineering and construction cost of \$4.5M in early 2026.

The District purchased its own truck and containers to begin hauling sludge in-house as of August 2025. The District reduced sludge disposal cost by \$47,267 within the first six months of in-house sludge hauling and the savings are expected to generate a 100% return on investment within four years.

The District was awarded \$768,100 of ARPA grant funds to renovate the Marvin's lift station. The awarded bid came in at \$1,022,750. Construction started in late 2025 with substantial completion occurring in late March 2026. This project doubled the capacity of the Marvin's lift station and should eliminate reoccurring overflows at upstream manholes during substantial rain events.

The District was awarded \$175,000 of ARPA grant funds in late 2024 to increase the capacity of the Boone Trace lift station force main and to retrofit an abandoned tank at the Radcliff WWTP into a sludge thickener. The installation of 840 LF of 18-inch force main was completed in-house in August 2025. The sludge thickener project was awarded for \$605,000 in May 2025 with installation not starting until March 2026.

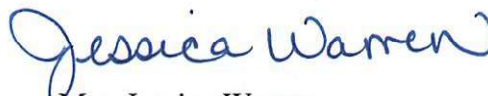
The District was awarded \$630,289 of KY Cleaner Water Program grant funds to eliminate the Beverly's MHP lift station. This project was awarded in February 2026 with substantial completion not expected until the summer of 2026.

The District converted the West Point WWTP to PAA disinfection in 2025 instead of Chlorine gas. This change reduced the water bill at the West Point WWTP from approximately \$3,100 per month to \$0.

Sincerely,



Mr. Justin Metz
General Manager



Mrs. Jessica Warren
Accountant

HARDIN COUNTY WATER DISTRICT No. 1
STATEMENT OF NET POSITION
December 31, 2025

	<u>Water Total</u>	<u>Sewer Total</u>	<u>Storm Water</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 12,433,698	\$ 22,236,744	\$ 3,026,952	\$ 37,697,394
Investments	6,042,970	591,564	444,259	7,078,793
Customer accounts receivable, net	829,655	549,573	39,809	1,419,037
Interest receivable	68,406	6,379	4,794	79,579
Other accounts receivable	27,108	-	-	27,108
Lease receivable - current	18,586	-	-	18,586
Due to (from) other funds	111,367	(105,764)	(5,603)	-
Inventory - materials and supplies	592,308	6,697	-	599,005
Prepaid expenses	103,979	39,375	2,098	145,452
Total current assets	<u>20,228,077</u>	<u>23,324,568</u>	<u>3,512,309</u>	<u>47,064,954</u>
Non-current assets				
Deferred Rate Case Expense	-	66,405	-	66,405
Lease receivable	180,672	-	-	180,672
Restricted investments - reserve funds	172,962	-	-	172,962
Unamortized acquisition costs	-	83,798	-	83,798
Regulatory asset - CERS Pension	5,180,151	3,169,196	-	8,349,347
Regulatory asset - CERS OPEB	706,039	431,952	-	1,137,991
Total non-current assets	<u>6,239,824</u>	<u>3,751,351</u>	<u>-</u>	<u>9,991,175</u>
Capital assets				
Land and easements	338,807	26,326	-	365,133
Construction in progress	2,858,858	3,281,262	-	6,140,120
Plant and lines	91,325,228	148,106,630	7,444,381	246,876,239
Vehicles and equipment	19,832,502	5,076,152	162,643	25,071,297
Leased equipment	30,096	5,733	-	35,829
Total capital assets	114,385,491	156,496,103	7,607,024	278,488,618
Less: accumulated depreciation and amortization	<u>(35,200,399)</u>	<u>(103,239,341)</u>	<u>(1,668,008)</u>	<u>(140,107,748)</u>
Total capital assets, net	<u>79,185,092</u>	<u>53,256,762</u>	<u>5,939,016</u>	<u>138,380,870</u>
Total assets	<u>105,652,993</u>	<u>80,332,681</u>	<u>9,451,325</u>	<u>195,436,999</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources - pension	560,508	342,917	-	903,425
Deferred outflows of resources - OPEB	451,096	275,979	-	727,075
Total deferred outflows of resources	<u>1,011,604</u>	<u>618,896</u>	<u>-</u>	<u>1,630,500</u>
Total assets and deferred outflows of resources	<u>\$ 106,664,597</u>	<u>\$ 80,951,577</u>	<u>\$ 9,451,325</u>	<u>\$ 197,067,499</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 526,373	\$ 908,794	\$ -	\$ 1,435,167
Accrued expenses	249,304	79,590	1,358	330,252
Unearned revenue	15,721	-	-	15,721
Customers' deposits	202,806	203,016	-	405,822
Accrued interest on long-term debt	-	2,770	-	2,770
Current portion of lease liability	9,890	1,883	-	11,773
Current portion of notes payable	33,377	134,532	-	167,909
Reserve for unclaimed funds - escheatment	12,842	-	-	12,842
Liabilities payable from restricted assets:				
Current portion of long-term debt	38,000	-	-	38,000
Accrued interest on long-term debt	28,205	-	-	28,205
Total current liabilities	<u>1,116,518</u>	<u>1,330,585</u>	<u>1,358</u>	<u>2,448,461</u>
Long-term liabilities				
Compensated absences	304,443	82,540	-	386,983
Bonds payable	2,141,000	-	-	2,141,000
Lease liability	13,445	2,554	-	15,999
Net OPEB liability	90,130	55,141	-	145,271
Net pension liability	5,218,808	3,192,847	-	8,411,655
Total long-term liabilities	<u>7,767,826</u>	<u>3,333,082</u>	<u>-</u>	<u>11,100,908</u>
Total liabilities	<u>8,884,344</u>	<u>4,663,667</u>	<u>1,358</u>	<u>13,549,369</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - pension	521,851	319,266	-	841,117
Deferred inflows of resources - OPEB	1,067,005	652,790	-	1,719,795
Deferred inflows of resources - leases	199,258	-	-	199,258
Total deferred inflows of resources	<u>1,788,114</u>	<u>972,056</u>	<u>-</u>	<u>2,760,170</u>
NET POSITION				
Net investment in capital assets	76,865,910	52,910,951	5,939,016	135,715,877
Restricted	172,962	-	-	172,962
Unrestricted	18,953,267	22,404,903	3,510,951	44,869,121
Total net position	<u>95,992,139</u>	<u>75,315,854</u>	<u>9,449,967</u>	<u>180,757,960</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 106,664,597</u>	<u>\$ 80,951,577</u>	<u>\$ 9,451,325</u>	<u>\$ 197,067,499</u>

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

HARDIN COUNTY WATER DISTRICT No. 1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2025

	<u>Water Total</u>	<u>Sewer Total</u>	<u>Storm Water</u>	<u>Total</u>
OPERATING REVENUE				
Metered water sales	\$ 8,888,074	\$ -	\$ -	\$ 8,888,074
Wholesale sales	2,121,969	-	-	2,121,969
Sewer billing contract revenue	112,912	-	-	112,912
Sewer service revenue	-	7,646,358	-	7,646,358
Stormwater service revenue	-	-	477,792	477,792
Penalties, service fees and reimbursements	357,267	216,919	-	574,186
	<u>11,480,222</u>	<u>7,863,277</u>	<u>477,792</u>	<u>19,821,291</u>
Total operating revenue				
OPERATING EXPENSES				
Treatment	2,833,049	1,388,354	-	4,221,403
Transmission and distribution	2,106,533	1,357,814	40,871	3,505,218
Customer service	335,635	773,043	1,083	1,109,761
General and administrative expenses	1,627,924	494,700	-	2,122,624
Purchased water	817,455	-	-	817,455
General maintenance	128,380	119,232	-	247,612
Source of supply	13,678	-	-	13,678
Stormwater	-	-	41,009	41,009
	<u>7,862,654</u>	<u>4,133,143</u>	<u>82,963</u>	<u>12,078,760</u>
Total operating expense				
Operating income before depreciation and amortization	3,617,568	3,730,134	394,829	7,742,531
Depreciation and amortization expense	<u>(2,891,656)</u>	<u>(2,819,873)</u>	<u>(154,158)</u>	<u>(5,865,687)</u>
OPERATING INCOME (LOSS)	725,912	910,261	240,671	1,876,844
Non-operating income (expenses)				
Interest income	491,429	881,414	133,828	1,506,671
Interest expense	(75,209)	(15,297)	-	(90,506)
Transfer in (out)	8,299	(8,299)	-	-
Gain (loss) on disposal of equipment	<u>(886,071)</u>	<u>78,842</u>	<u>(1,203)</u>	<u>(808,432)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	264,360	1,846,921	373,296	2,484,577
Capital contributions				
Grants	2,294,999	90,036	-	2,385,035
Tap fees	187,890	-	-	187,890
Customer contributions	<u>11,797,953</u>	<u>-</u>	<u>-</u>	<u>11,797,953</u>
CHANGE IN NET POSITION	14,545,202	1,936,957	373,296	16,855,455
Net position, beginning of year	<u>81,446,937</u>	<u>73,378,897</u>	<u>9,076,671</u>	<u>163,902,505</u>
NET POSITION, END OF YEAR	<u>\$ 95,992,139</u>	<u>\$ 75,315,854</u>	<u>\$ 9,449,967</u>	<u>\$ 180,757,960</u>

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

HARDIN COUNTY WATER DISTRICT No. 1
STATEMENT OF CASH FLOWS
for the year ended December 31, 2025

	Water Total	Sewer Total	Storm Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 11,423,568	\$ 7,838,383	\$ 477,792	\$ 19,739,743
Payments to suppliers	(4,147,579)	(2,296,999)	(82,766)	(6,527,344)
Payments for employee services and benefits	<u>(3,651,689)</u>	<u>(1,943,005)</u>	<u>-</u>	<u>(5,594,694)</u>
Net cash provided by operating activities	<u>3,624,300</u>	<u>3,598,379</u>	<u>395,026</u>	<u>7,617,705</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Receipts (payments) on interfund loans	<u>(2,273,958)</u>	<u>2,278,347</u>	<u>(4,389)</u>	<u>-</u>
Net cash provided by (used in) non-capital financing activities	<u>(2,273,958)</u>	<u>2,278,347</u>	<u>(4,389)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on long-term debt	(557,260)	(123,981)	-	(681,241)
Payments on leased equipment	(11,235)	(4,712)	-	(15,947)
Interest paid	(77,408)	(17,531)	-	(94,939)
Contributions in aid of construction	11,913,926	-	-	11,913,926
Grants received	2,366,295	90,036	-	2,456,331
Proceeds from sale of equipment	47,896	312,213	-	360,109
Acquisition and construction of capital assets	<u>(3,341,524)</u>	<u>(3,082,744)</u>	<u>(11,873)</u>	<u>(6,436,141)</u>
Net cash provided by (used in) capital and related financing activities	<u>10,340,690</u>	<u>(2,826,719)</u>	<u>(11,873)</u>	<u>7,502,098</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	325,532	854,408	113,547	1,293,487
Redemption of investments	1,773,223	-	-	1,773,223
Purchase of investments	<u>(5,425,245)</u>	<u>-</u>	<u>-</u>	<u>(5,425,245)</u>
Net cash provided by (used in) investing activities	<u>(3,326,490)</u>	<u>854,408</u>	<u>113,547</u>	<u>(2,358,535)</u>
NET INCREASE IN CASH	8,364,542	3,904,415	492,311	12,761,268
Cash and cash equivalents, beginning of year	<u>4,069,156</u>	<u>18,332,329</u>	<u>2,534,641</u>	<u>24,936,126</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 12,433,698</u>	<u>\$ 22,236,744</u>	<u>\$ 3,026,952</u>	<u>\$ 37,697,394</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ 725,912	\$ 910,261	\$ 240,671	\$ 1,876,844
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization expense	2,891,656	2,819,873	154,158	5,865,687
Change in assets and liabilities:				
Accounts receivable	(55,449)	(24,895)	-	(80,344)
Prepaid expenses	(2,060)	(2,267)	(40)	(4,367)
Inventory	(45,155)	5,816	-	(39,339)
Accounts payable	95,949	(104,039)	237	(7,853)
Unearned revenue	(1,201)	-	-	(1,201)
Accrued expenses	26,287	4,408	-	30,695
Compensated absences	(2,316)	(3,271)	-	(5,587)
Other payables	<u>(9,323)</u>	<u>(7,507)</u>	<u>-</u>	<u>(16,830)</u>
Net cash provided by operating activities	<u>\$ 3,624,300</u>	<u>\$ 3,598,379</u>	<u>\$ 395,026</u>	<u>\$ 7,617,705</u>
Supplemental disclosure of cash flow information:				
Noncash capital and related financing activities:				
Capital asset additions included in accounts payable, net	<u>\$ 196,784</u>	<u>\$ 1,391,439</u>	<u>\$ -</u>	<u>\$ 1,588,223</u>

The accompanying notes are an integral part of the financial statements

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Hardin County Water District No. 1 (the District) is organized pursuant to provision of Chapter 74 of the Kentucky Revised Statutes in order to provide a water supply for citizens and residents of Radcliff, Kentucky and parts of Hardin, Meade, and Breckinridge Counties. The District also provides water, sanitary and storm water services to the Fort Knox Army Post adjacent to Radcliff. The District is regulated by the Kentucky Public Service Commission.

Reporting Entity

Hardin County Water District No. 1's financial statements include the operations of all entities for which the District exercises oversight responsibilities. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The only entity included in these financial statements are the general operations of Hardin County Water District No. 1.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

The District reports all revenue and expenses as operating, except interest income and expense, gains and losses on asset sales or disposals and capital contributions.

Fund Accounting

The District reports three major funds: Water, Sewer and Storm Water. The Water Fund consists of the County Water and Ft. Knox Water operations. The Sewer Fund consists of the Ft. Knox Sewer and Radcliff Sewer operations. The Storm Water Fund consists of the Ft. Knox Storm Water operations.

Accounts Receivable

The County Water and Radcliff Sewer Funds' accounts receivable are net of an allowance for uncollectible accounts of \$189,205 and \$164,189 at December 31, 2025, respectively. The allowance is increased by charges to bad debts and decreased by write-offs. Management's periodic evaluation of the adequacy of the allowance is based on the District's aged accounts receivable balances. The Ft. Knox Water Fund, Ft. Knox Sewer Fund and the Storm Water Fund do not carry an allowance for doubtful accounts based upon historical experience.

Pension and OPEB

For purposes of measuring the net pension and OPEB liabilities (assets), deferred outflows/inflows of resources, and regulatory assets, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS except that CERS's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Regulatory Assets

The District's rates are regulated by the Kentucky Public Service Commission. In accordance with GASB Statement No. 62, Paragraphs 476-500, *Regulated Operations*, which requires that the effects of the rate-making process be recorded in the financial statements, the District has elected to record a regulatory asset for the net pension and OPEB liabilities (assets), deferred outflows of resources and deferred inflows of resources related to pensions and OPEB. Accordingly, the District recognizes the actuarially determined contribution as the current year pension and OPEB expense.

Interfund Transactions

The asset "due from other funds" and the liability "due to other funds" represent short-term amounts transferred between the funds owed for personnel and other operating and non-operating expenses. The "due to" and "due from" are offset in the statement of net position.

Inventory

The Water Fund's inventory is composed of chemicals, equipment and supply-type items used for routine maintenance and repairs and new water lines. The Sewer Fund's inventory consists of chemicals. The inventory is stated at the lower of cost (first-in, first-out method) or market.

Restricted Assets

The Water Fund's restricted assets consist of certificates of deposit and non-interest-bearing accounts.

When both restricted and unrestricted resources are available for use, the District's Board of Commissioners makes a determination as to which resource should first be used.

Investments

It is the policy of the District to invest public funds in a manner which will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demands of the District and conforming to all state statutes and District regulations governing the investment of public funds. As of December 31, 2025, all investments of the District were in certificates of deposit or bank accounts restricted for debt service and were valued at cost.

Capital Assets

The Water, Sewer and Storm Water Funds' property and equipment assets are recorded at cost or, if contributed, at donor cost or appraised value at date of acquisition. Depreciation is computed by the straight-line method based on the estimated useful life of the depreciable property. Plant and lines are capitalized with lives ranging from 5-65 years and vehicles and equipment are capitalized with lives ranging from 5-35 years. Land is not subject to depreciation. Expenditures for maintenance and repairs are charged to expense as incurred whereas expenditures, including associated labor, for installation, renewals or betterments are generally capitalized.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortization

The Sewer Fund's City of Radcliff sewer acquisition costs are being amortized using the straight-line method over a period of twenty-five years. The costs are being amortized in the Radcliff Sewer Fund.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. Investments classified as restricted assets are not included as cash and cash equivalents. Short-term certificates of deposit mature during the upcoming year, but do not meet the definition of a cash equivalent and therefore, are not classified as such.

Compensated Absences

The District's policy permits employees to accumulate earned but unused vacation benefits up to a maximum of 240 hours, which are eligible for payment upon separation. Vested or accumulated vacation leave is reported as an expense and a liability of the fund that will pay it. Earned but unused sick leave may be accumulated up to a maximum of 960 hours. Up to 25% of accumulated sick leave hours may be eligible for payment upon separation, depending on years of service. Vested or accumulated sick leave is reported as an expense and a liability of the fund that will pay it.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Accordingly, actual results could differ from those estimates.

Subscription-Based Technology Arrangements (SBITA)

The District follows Governmental Accounting Standards Board (GASB) Statement No. 96, Subscription-based Information Technology Arrangements. GASB Statement No. 96 requires recognition of a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability for subscription-based information technology arrangements (SBITA) that were previously classified as operating expenses. It establishes uniform guidance for SBITA accounting based on the foundational principle that SBITA are financings of the right to use vendor-provided information technology assets. Government entities are required to recognize a subscription liability and an intangible right-to-use subscription asset. As of December 31, 2025, the District did not have any SBITAs.

Management's Review of Subsequent Events

The District has evaluated and considered the need to recognize or disclose subsequent events through March 26, 2026, which represents the date these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2025, have not been evaluated by the District.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

2. CASH AND INVESTMENTS

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which have a physical presence in Kentucky and are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). The Statute also authorizes investment in mutual funds, exchange traded funds, individual equity securities and high-quality corporate bonds that are managed by a professional investment manager and subject to additional requirements outlined in KRS 66.480.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest.

The majority of the District's deposits and investments at December 31, 2025, were covered by federal depository insurance or by collateral held by the custodial banks in the District's name. At December 31, 2025, the District had \$45,306,307 in banks, of which \$6,936,243 was uncollateralized. The entire uncollateralized balance consisted of certificates of deposit held at a single financial institution which is rated in one of the three highest categories by a nationally recognized rating agency.

The following is a detail of the District's deposit coverage at December 31, 2025:

FDIC insured (or equivalent)	\$	753,086
Collateralized by securities held by the bank in the District's name		37,616,978
Uncollateralized certificates of deposit		<u>6,936,243</u>
Total cash and investments in banks	\$	<u>45,306,307</u>

Cash and investments are classified as follows as of December 31, 2025:

Unrestricted:		
Cash and cash equivalents:		
Revenue fund	\$	37,692,605
Other		<u>4,789</u>
		37,697,394
Short-term investments:		
Certificates of deposit		<u>7,078,793</u>
Total unrestricted		<u>44,776,187</u>
Restricted:		
Long-term reserved funds:		
2017 Sinking fund		38,493
2022 Sinking fund		27,019
2017 & 2022 Debt service reserve		<u>107,450</u>
Total restricted		<u>172,962</u>
Total reported cash and investments	\$	<u>44,949,149</u>

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

3. LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES

The District follows Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, which requires recognition of certain assets that previously were classified as operating leases and recognized as revenue based on the payment provisions of the contract. Based on the status of existing lease agreements with Sprint and T-Mobile as of January 1, 2019, the District recognized both a lease receivable and a deferred inflow of resources related to various cell phone tower lease agreements totaling \$610,589. Each lease agreement has an initial term of five years, with various five-year renewal options at the option of the lessee. The District has calculated the present value of future lease payments based on an incremental borrowing rate of 3%. At December 31, 2022, the District reassessed the present value of future lease payments due to modified lease terms for the agreements with Sprint, which terminated effective May 27, 2023 and May 27, 2024. The present value of expected future minimum leases payments are as follows:

Calendar Year	Principal	Interest	Total
2026	\$ 18,586	\$ 2,497	\$ 21,083
2027	19,151	1,932	21,083
2028	19,734	1,349	21,083
2029	20,334	749	21,083
2030	20,578	1,207	21,785
2031-2035	<u>100,875</u>	<u>7,352</u>	<u>108,227</u>
Total	<u>\$ 199,258</u>	<u>\$ 15,086</u>	<u>\$ 214,344</u>

Additionally, the District recognized deferred inflows of resources related to the above leases that totaled \$199,258 as of December 31, 2025. The deferred inflows of resources will be recognized over the term of the lease agreements as lease revenue. During 2025, the District recognized \$1,066 of interest revenue and \$18,858 of lease revenue from the lease agreements.

4. CAPITAL ASSETS

A summary of capital asset activity during the year follows:

	Balance Jan. 1, 2025	Additions	Retirements	Balance Dec. 31, 2025
Capital assets not depreciated:				
Land and easements	\$ 365,133	\$ -	\$ -	\$ 365,133
Construction in process	922,399	6,282,530	(1,064,809)	6,140,120
Capital assets that are depreciated:				
Plant and lines	248,786,374	1,216,312	(3,126,447)	246,876,239
Vehicles and equipment	24,500,458	958,183	(387,344)	25,071,297
Leased equipment	<u>50,370</u>	<u>35,829</u>	<u>(50,370)</u>	<u>35,829</u>
Total plant and equipment	274,624,734	8,492,854	(4,628,970)	278,488,618
Less: accumulated amortization	47,224	12,306	(50,370)	9,160
Less: accumulated depreciation	<u>136,626,272</u>	<u>5,791,155</u>	<u>(2,318,839)</u>	<u>140,098,588</u>
Capital assets, net	<u>\$ 137,951,238</u>	<u>\$ 2,689,393</u>	<u>\$ (2,259,761)</u>	<u>\$ 138,380,870</u>

Depreciation and amortization expense for all combined funds totaled \$5,803,461 for the year ended December 31, 2025.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

5. LONG-TERM LIABILITIES

Publicly issued bonds and notes payable

Some of the construction costs of the District's water and sewer facilities have been financed by issuance of revenue bonds and revolving notes authorized under Kentucky Revised Statutes.

Bonds and notes payable of the County Water and Radcliff Sewer Funds consist of the following at December 31, 2025:

2022 Revenue bonds, various semi-annual principal, and interest payments at 2.25% through January 1, 2064, secured by the revenues of the District.	\$ 979,500
2017 Revenue bonds, various semi-annual principal, and interest payments at 2.75% through January 1, 2059, secured by the revenues of the District.	1,199,500
City of Westpoint note payable, quarterly payments through October 1, 2026. Recorded at the present value of future minimum note payments based on an incremental borrowing rate of 8.25%.	<u>167,910</u>
Total debt	2,346,911
Less: current portion	<u>(205,909)</u>
Total long-term debt	<u>\$ 2,141,000</u>

Debt maturities for the County Water Fund are as follows:

Calendar Year	Principal	Interest	Total
2026	\$ 71,377	\$ 56,281	\$ 127,658
2027	39,000	53,565	92,565
2028	39,500	52,568	92,068
2029	40,500	51,552	92,052
2030	42,000	50,504	92,504
2031-2035	225,000	235,840	460,840
2036-2040	256,000	205,296	461,296
2041-2045	290,000	170,581	460,581
2046-2050	328,000	131,215	459,215
2051-2055	373,000	86,545	459,545
2056-2060	366,500	36,593	403,093
2061-2064	<u>141,500</u>	<u>6,362</u>	<u>147,862</u>
	<u>\$ 2,212,377</u>	<u>\$ 1,136,902</u>	<u>\$ 3,349,279</u>

Debt maturities for the Radcliff Sewer Fund are as follows:

Calendar Year	Principal	Interest	Total
2026	<u>\$ 134,533</u>	<u>\$ 7,008</u>	<u>\$ 141,541</u>
	<u>\$ 134,533</u>	<u>\$ 7,008</u>	<u>\$ 141,541</u>

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

5. LONG-TERM LIABILITIES (CONTINUED)

Lease liability – office phones

During 2025, the District renewed a lease agreement for office phones. The District recorded a leased equipment asset and a related lease liability for the office phones totaling \$35,829. Payments on the lease will be made over a period of three years. The liability and related leased equipment asset have been recorded at the present value of the future minimum lease payments based on an incremental borrowing rate of 7.5%.

Amortization expense for the office phones during 2025 totaled \$12,306.

The annual principal and interest requirements to maturity for the lease liability is as follows:

Calendar Year	Principal	Interest	Total
2026	\$ 11,773	\$ 1,601	\$ 13,374
2027	12,687	687	13,374
2028	<u>3,262</u>	<u>21</u>	<u>2,283</u>
	<u>\$ 27,722</u>	<u>\$ 2,309</u>	<u>\$ 30,031</u>

Changes in long-term liabilities for the District are as follows:

	Balance Jan. 1, 2025	Additions	Retirements	Balance Dec. 31, 2025	Due within one year
Bond and notes payable	\$ 3,028,151	\$ -	\$ (681,241)	\$ 2,346,910	\$ 205,909
Lease liability	3,328	35,829	(12,435)	26,722	11,773
Net pension liability	8,988,217	-	(576,562)	8,411,655	-
Net OPEB liability (asset)	(260,201)	405,472	-	145,271	-
Compensated absences	<u>392,570</u>	<u>-</u>	<u>(5,587)</u>	<u>386,983</u>	<u>-</u>
Total long-term liabilities	<u>\$ 12,152,065</u>	<u>\$ 441,301</u>	<u>\$ (1,275,825)</u>	<u>\$ 11,317,541</u>	<u>\$ 217,682</u>

6. COMPLIANCE WITH BOND INDENTURE

Under covenants of the bond ordinance, certain funds have been established. These funds and their current financial requirements are presented in summary as follows:

Sinking Funds –There is to be a monthly deposit of an amount equal to 1/12 of the next ensuing principal payment due and 1/6 of the next ensuing interest payment due for the 2017 issue. These funds are used to pay maturing bond and interest coupons on the aforementioned issue. The amount held in the Sinking Fund for the 2017 issue as of December 31, 2025, was \$38,493. There is to be a monthly deposit of an amount equal to 1/12 of the next ensuing principal payment due and 1/6 of the next ensuing interest payment due for the 2022 issue. These funds are used to pay maturing bond and interest coupons on the aforementioned issue. The amount held in the Sinking Fund for the 2022 issue as of December 31, 2025, was \$27,019.

Debt Service Reserve Funds –A fund was established for the 2017 bond issue and is required to deposit \$470 a month until the account reaches \$56,400. The amount held in the Debt Service Reserve Fund for the 2017 bond issue as of December 31, 2025, was \$66,519. Additionally, a fund was established for the 2022 bond issue and is required to deposit \$320 a month until the account reaches \$38,400. The amount held in the Debt Service Reserve Fund for the 2022 bond issue as of December 31, 2025, was \$40,931.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

6. COMPLIANCE WITH BOND INDENTURE (CONTINUED)

Operating and Maintenance Fund – This fund receives, on a monthly basis, the remaining balance in the Revenue Fund after the above transfers have been made. This fund is used to pay operating expenditures. Any surplus left, after operating expenses have been met, may be added to the Debt Service Reserve.

The bond ordinance calls for “net annual revenues” to exceed the maximum annual debt requirements of fixed rate bonds by 1.20 for the Water Fund. For the year ended December 31, 2025, the Water Fund ratio was 27.36.

7. 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 worker’s compensation and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three calendar years.

8. RETIREMENT PLAN

Hardin County Water District No. 1 is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Public Pensions Authority administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority’s 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 System. 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 – For the year ended December 31, 2025, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium.

The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2025, participating employers contributed 19.71% through June 30th and 18.62% thereafter, of each non-hazardous employee’s wages, which is equal to the actuarially determined rate set by the Board. The contributions are allocated to both the pension and insurance trust. The insurance trust is more fully described in Note 9. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, are 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% of wages to their own account and 1% to the health insurance fund.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

8. RETIREMENT PLAN (CONTINUED)

The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. 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.

For the year ended December 31, 2025, the District contributed \$1,018,232 or 100% of the required contribution for non-hazardous job classifications.

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

For retirement purposes, employees are grouped into three tiers based on hire date:

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2025, the District reported a liability of \$8,411,655 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 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2025, the District's proportion was .151164 percent, which was an increase of .000870 percent from its proportion measured as of June 30, 2024.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

8. RETIREMENT PLAN (CONTINUED)

For the year ended December 31, 2025, the District would have recognized pension expense of \$615,609; However, this expense was offset by increasing a regulatory asset described further in Note 11. During 2025, the District recognized the actuarially determined contribution of \$1,018,232 as the current year pension expense. At December 31, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 278,863	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on Plan investments	-	841,117
Changes in proportion and differences between District contributions and proportionate share of contributions	112,629	-
District contributions subsequent to the measurement date	511,933	-
Total	\$ 903,425	\$ 841,117

The \$511,933 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	\$ 252,984
2027	\$ (285,503)
2028	\$ (273,321)
2029	\$ (143,785)

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

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

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

The actuarial assumption used in the June 30, 2024, valuation was based on the results of an actuarial experience study for the period July 1, 2018 - June 30, 2022. The total pension liability was rolled-forward from the valuation date (June 30, 2024) to the plan's fiscal year ending June 30, 2025.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

8. RETIREMENT PLAN (CONTINUED)

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	53.00%	
Public Equity	45.00%	4.15%
Private Equity	8.00%	7.90%
Fixed Income	35.00%	
Core Fixed Income	13.00%	2.70%
Specialty Credit	20.00%	3.83%
Cash	2.00%	1.25%
Inflation Protected	12.00%	
Real Estate	5.00%	4.75%
Real Return	7.00%	5.20%
Total	100.00%	4.24%
Long term inflation assumption		2.50%
Expected nominal return for portfolio		6.74%

Discount Rate – The discount rate used to measure the total pension liability was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining closed 24-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.50 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 (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	Discount rate	District's proportionate share of net pension liability
1% decrease	5.50%	\$ 11,120,770
Current discount rate	6.50%	\$ 8,411,655
1% increase	7.50%	\$ 6,176,571

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 8, the District participates in the County Employees’ Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 8, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2025, the employer’s contribution was 0.00% through June 30th and 0.00% thereafter to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

For the year ended December 31, 2025, the District contributed \$0 or 100% of the required contribution for non-hazardous job classifications.

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries.

For retirement purposes, employees are grouped into three tiers based on hire date:

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

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

OPEB Liability, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2025, the District reported an liability for its proportionate share of the net OPEB liability of \$145,271. The net OPEB liability was measured as of June 30, 2025, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2024, and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share at June 30, 2025 was .151257 percent, which was an increase of .000835 percent from its proportion measured as of June 30, 2024.

For the year ended December 31, 2025, the District would have recognized OPEB expense of (\$525,517); However, this expense was offset by recording a regulatory liability described further in Note 10. During 2025, the District recognized the actuarially determined contribution of \$0 as the current year OPEB expense. At December 31, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 471,166	\$ 1,248,908
Changes of assumptions	96,893	83,179
Net difference between projected and actual earnings on Plan investments	-	328,997
Changes in proportion and differences between District contributions and proportionate share of contributions	72,618	58,711
District contributions subsequent to the measurement date	86,398	-
Total	\$ 727,075	\$ 1,719,795

The \$86,398 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2026. This includes an adjustment of \$86,398 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

Year ending December 31,	
2026	\$ (629,969)
2027	\$ (499,929)
2028	\$ 35,520
2029	\$ 15,260

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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

Non-hazardous

Inflation	2.50%
Salary increases	3.30 to 10.30%, varies by service
Investment rate of return	6.50%, net of Plan investment expense, including inflation
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 7.00% at January 1, 2026, and gradually decreasing to an ultimate trend rate of 4.25% over a period of 14 years.
Post – 65	Initial trend starting at 8.00% in January 1, 2026, then gradually decreasing to an ultimate trend rate of 4.25% over a period of 10 years.

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

The actuarial assumption used in the June 30, 2025 valuation was based on the results of an actuarial experience study for the period July 1, 2018 - June 30, 2022. The total OPEB liability was rolled-forward from the valuation date (June 30, 2024) to the plan's fiscal year ending June 30, 2025.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	53.00%	
Public Equity	45.00%	4.15%
Private Equity	8.00%	7.90%
Fixed Income	35.00%	
Core Fixed Income	13.00%	2.70%
Specialty Credit	20.00%	3.83%
Cash	2.00%	1.25%
Inflation Protected	12.00%	
Real Estate	5.00%	4.75%
Real Return	7.00%	5.20%
Total	100.00%	4.24%
Long term inflation assumption		2.50%
Expected nominal return for portfolio		6.74%

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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

Sensitivity of the District’s Proportionate Share of the Net OPEB Liability/Asset to Changes in the Discount Rate – The following presents the District’s proportionate share of the net OPEB liability/asset calculated using the discount rate 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 or 1-percentage-point higher than the current rate:

	Discount rate		Proportionate share of net OPEB liability (asset)
1% decrease	5.26%	\$	871,671
Current discount rate	6.26%	\$	145,271
1% increase	7.26%	\$	(466,105)

Sensitivity of the District’s Proportionate Share of the Net OPEB Liability/Asset to Changes in the Healthcare Cost Trend Rate – The following presents the District’s proportionate share of the net OPEB liability/asset calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

		Proportionate share of net OPEB liability (asset)
1% decrease	\$	(335,721)
Current trend rate	\$	145,271
1% increase	\$	708,340

OPEB plan fiduciary net position – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued financial report.

10. ACCOUNTING FOR THE EFFECTS OF RATE REGULATION

The District is subject to the provisions of GASB Statement No. 62 Paragraph 476-500, *Regulated Operations*, Codification of Accounting and Financial Reporting Guidance in Pre-November 30, 1989 FASB and AICPA Pronouncements. Paragraph 476-500, *Regulated Operations* recognizes the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulating entities. Accordingly, the District records these future economic benefits and obligations as regulatory assets and regulatory liabilities.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2025

10. ACCOUNTING FOR THE EFFECTS OF RATE REGULATION (CONTINUED)

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the ratemaking process.

In order for the District to apply the provisions of GASB Statement No. 62, Paragraph 476-500, *Regulated Operations*, it must meet the following three criteria:

1. The entities' rates for regulated services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers;
2. The regulated rates must be designed to recover the specific entities cost of providing the regulated services;
3. In view of the demand for the regulated services and the level of competition, it is reasonable to assume that the rates set at levels that will recover the entities' cost can be charged to and collected from customers.

Based on the District's management evaluation of the three criteria discussed above in relation to its operations, and the effects of competition on its ability to recover its costs, the District believes that GASB Statement No. 62 applies and has elected to apply the guidance to its pension and OPEB liabilities (assets). The District believes these liabilities will be recovered through rates charged to customers in future periods. As of December 31, 2025, the District had regulatory assets of \$8,349,347 and \$1,137,991, which equates to the net impact of pension and OPEB expense on the balance sheet.

11. CONSTRUCTION COMMITMENTS

Initial System Deficiency Correction Projects

The District has been in contract with the U.S. Government for water system ownership and operations since 2012. An Initial System Deficiency Correction (ISDC) project list was part of the original contract. The ISDC project list was revised in a contract modification in August 2016. The District has been working towards the completion of the Revised ISDC projects list with the Defense Logistics Agency Energy (DLA) since that time. The three substantial projects in the revised ISDC projects list are the construction of two new 1.5-million-gallon elevated water storage tanks and major improvements and complete renovation to the Muldraugh Water Treatment Plant (WTP).

Construction of the two tanks and the Muldraugh WTP Rehabilitation are complete and in service for the District.

The District has one remaining ISDC project to complete which is not funded by the Government and that is the water main extension along Park Road. There are two other projects the District is committed to completing, but those are funded by the government. The two remaining government funded projects are the demolition of the Central Water Treatment Plant and a new water main from the Prichard Pump Station to Park Road.

REQUIRED SUPPLEMENTARY INFORMATION

**HARDIN COUNTY WATER DISTRICT No. 1
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Ten Years**

Reporting Year End (Measurement Date)	December 31, 2016 (June 30, 2016)	December 31, 2017 (June 30, 2017)	December 31, 2018 (June 30, 2018)	December 31, 2019 (June 30, 2019)	December 31, 2020 (June 30, 2020)	December 31, 2021 (June 30, 2021)	December 31, 2022 (June 30, 2022)	December 31, 2023 (June 30, 2023)	December 31, 2024 (June 30, 2024)	December 31, 2025 (June 30, 2025)
District's proportion of the net pension liability (asset)	0.112389%	0.113469%	0.142783%	0.154218%	0.152133%	0.155740%	0.141028%	0.143546%	0.150294%	0.151164%
District's proportionate share of the net pension liability (asset)	\$ 5,533,595	\$ 6,641,690	\$ 8,695,921	\$ 10,846,221	\$ 11,668,472	\$ 9,929,646	\$ 10,194,932	\$ 9,210,641	\$ 8,411,655	\$ 8,411,655
District's covered employee payroll	\$ 2,675,993	\$ 2,758,851	\$ 3,538,859	\$ 3,890,025	\$ 3,896,779	\$ 4,015,112	\$ 3,948,607	\$ 4,229,647	\$ 4,708,702	\$ 5,170,452
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	206.79%	240.74%	245.73%	278.82%	299.44%	247.31%	258.19%	217.76%	178.64%	162.69%
Plan fiduciary net position as a percentage of the total pension liability (asset)	55.50%	53.32%	53.54%	50.45%	47.81%	57.33%	52.42%	57.48%	61.61%	65.34%

HARDIN COUNTY WATER DISTRICT No. 1
REQUIRED SUPPLEMENTARY SCHEDULE OF CONTRIBUTIONS - PENSION
Last Ten Calendar Years

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Contractually required employer contribution	\$ 350,063	\$ 438,748	\$ 586,243	\$ 695,909	\$ 760,991	\$ 835,707	\$ 921,069	\$ 1,069,289	\$ 1,030,581	\$ 1,018,232
Contributions relative to contractually required employer contribution	<u>350,063</u>	<u>438,748</u>	<u>586,243</u>	<u>695,909</u>	<u>760,991</u>	<u>835,707</u>	<u>921,069</u>	<u>1,069,289</u>	<u>1,030,581</u>	<u>1,018,232</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered employee payroll	\$ 2,696,840	\$ 3,066,388	\$ 3,814,416	\$ 3,915,602	\$ 3,942,959	\$ 3,973,535	\$ 3,988,417	\$ 4,575,670	\$ 4,796,764	\$ 5,323,677
Employer contributions as a percentage of covered-employee payroll	12.98%	14.31%	15.37%	17.77%	19.30%	21.03%	23.09%	23.37%	21.48%	19.13%

**HARDIN COUNTY WATER DISTRICT No. 1
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET)
Last Ten Years**

Reporting Year End (Measurement Date)	December 31, 2016 (June 30, 2016)	December 31, 2017 (June 30, 2017)	December 31, 2018 (June 30, 2018)	December 31, 2019 (June 30, 2019)	December 31, 2020 (June 30, 2020)	December 31, 2021 (June 30, 2021)	December 31, 2022 (June 30, 2022)	December 31, 2023 (June 30, 2023)	December 31, 2024 (June 30, 2024)	December 31, 2025 (June 30, 2025)
District's proportion of the net OPEB liability (asset)	0.113469%	0.113469%	0.142777%	0.154177%	0.152089%	0.155704%	0.141004%	0.143541%	0.150422%	0.151257%
District's proportionate share of the net OPEB liability (asset)	\$ 1,789,239	\$ 2,281,115	\$ 2,534,975	\$ 2,593,205	\$ 3,672,487	\$ 2,980,875	\$ 2,782,733	\$ (198,182)	\$ -	\$ 145,271
District's covered employee payroll	\$ 2,675,993	\$ 2,758,851	\$ 3,538,859	\$ 3,890,025	\$ 3,896,779	\$ 4,015,112	\$ 3,948,607	\$ 4,229,647	\$ 4,708,702	\$ 5,170,452
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	66.86%	82.68%	71.63%	66.66%	94.24%	74.24%	70.47%	-4.69%	0.00%	2.81%
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	unavailable	52.39%	57.62%	60.44%	51.67%	62.91%	60.95%	104.23%	104.89%	97.66%

**HARDIN COUNTY WATER DISTRICT No. 1
 REQUIRED SUPPLEMENTARY SCHEDULE OF CONTRIBUTIONS - OPEB
 Last Ten Calendar Years**

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Contractually required employer contribution	\$ 132,117	\$ 147,156	\$ 190,193	\$ 196,108	\$ 187,685	\$ 177,473	\$ 150,583	\$ 75,000	\$ -	\$ -
Contributions relative to contractually required employer contribution	<u>132,117</u>	<u>147,156</u>	<u>190,193</u>	<u>196,108</u>	<u>187,685</u>	<u>177,473</u>	<u>150,583</u>	<u>75,000</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 2,696,840	\$ 3,066,388	\$ 3,814,416	\$ 3,915,602	\$ 3,942,959	\$ 3,973,535	\$ 3,988,417	\$ 4,575,670	\$ 4,796,764	\$ 5,323,677
Employer contributions as a percentage of covered-employee payroll	4.90%	4.80%	4.99%	5.01%	4.76%	4.47%	3.78%	1.64%	0.00%	0.00%

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2025

1. GENERAL INFORMATION

Contributions

Contractually required employer contributions reported on the Schedule of Contributions - Pensions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of Contributions - OPEB.

Payroll

The District's covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability (Asset) and the Schedule of Proportionate Share of the Net OPEB Liability (Asset) is for the corresponding measurement date of the net liabilities and differs from the District's calendar year payroll as reported on the Schedule of Contributions for Pension and OPEB.

2. CHANGES OF ASSUMPTIONS

December 31, 2025 – Pension and OPEB

There were no changes in assumptions in the valuation of pension. The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2025, for OPEB:

- The municipal bond rate used in the discount rate determination increased from 3.97% to 5.20%

December 31, 2024 – Pension and OPEB

There were no changes in assumptions in the valuation of pension. The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2024, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.80% to 7.10%. The initial healthcare trend rate for post-65 was changed from 8.50% to 8.00%.

December 31, 2023 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2023, for Pension:

- The rate of inflation was increased from 2.30% to 2.50%.
- The salary productivity assumption was reduced by .20%, resulting in no change in the salary increase assumption for long-service employees of 3.30% in the non-hazardous funds.
- The individual rates of salary increases were increased during the select period for the CERS funds.
- The investment return assumption was increased from 6.25% to 6.50%.
- The Tier 3 cash balance interest crediting rate assumption was increased to 6.75% for the CERS pension funds.

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2025

2. CHANGES OF ASSUMPTIONS (CONTINUED)

December 31, 2023 – Pension and OPEB (CONTINUED)

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2023, for OPEB:

- The rate of inflation was increased from 2.30% to 2.50%.
- The salary productivity assumption was reduced by .20%, resulting in no change in the salary increase assumption for long-service employees of 3.30% in the non-hazardous funds.
- The individual rates of salary increases were increased during the select period for the CERS funds.
- The investment return assumption was increased from 6.25% to 6.50%.
- The initial healthcare trend rate for pre-65 was changed from 6.20% to 6.8%. The initial healthcare trend rate for post-65 was changed from 9.00% to 8.50%.

December 31, 2022 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.30% to 6.20%. The initial healthcare trend rate for post-65 was changed from 6.30% to 9.00%.

December 31, 2021 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.40% to 6.30%. The initial healthcare trend rate for post-65 was changed from 2.90% to 6.30%.

December 31, 2020 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 7% to 6.40%. The initial healthcare trend rate for post-65 was changed from 5% to 2.90%, which increases to 6.30% in 2023.

December 31, 2019 – Pension and OPEB

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both pension and OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average for non-hazardous and 3.05% to 3.55% to 19.05% on average for hazardous.

December 31, 2018 – Pension and OPEB

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018 for either pension or OPEB

HARDIN COUNTY WATER DISTRICT No. 1
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2025

2. CHANGES OF ASSUMPTIONS (CONTINUED)

December 31, 2017 – Pension and OPEB

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017, for both pension and OPEB:

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

December 31, 2016 – Pension and OPEB

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 for either pension or OPEB.

SUPPLEMENTARY INFORMATION

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
COUNTY WATER FUND
for the year ended December 31, 2025

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Metered water sales	\$ 6,005,900	\$ 6,005,900	\$ 5,460,985	\$ (544,915)
Wholesale sales	2,251,000	2,251,000	2,121,969	(129,031)
Sewer billing contract revenue	112,000	112,000	112,912	912
Penalties, service fees and reimbursements	<u>346,108</u>	<u>346,108</u>	<u>353,605</u>	<u>7,497</u>
Total operating revenue	<u>8,715,008</u>	<u>8,715,008</u>	<u>8,049,471</u>	<u>(665,537)</u>
OPERATING EXPENSES				
Treatment	1,688,551	1,688,551	1,779,334	90,783
Transmission and distribution	1,287,954	1,287,954	1,182,321	(105,633)
Customer service	345,907	345,907	335,635	(10,272)
General and administrative expenses	671,139	671,139	757,603	86,464
Purchased water	665,700	665,700	817,455	151,755
General maintenance	144,994	144,994	128,380	(16,614)
Source of supply	<u>35,700</u>	<u>35,700</u>	<u>13,678</u>	<u>(22,022)</u>
Total operating expense	<u>4,839,945</u>	<u>4,839,945</u>	<u>5,014,406</u>	<u>174,461</u>
Operating income (loss) before depreciation and amortization	3,875,063	3,875,063	3,035,065	(839,998)
Depreciation and amortization expense	<u>(1,549,863)</u>	<u>(1,549,863)</u>	<u>(1,550,027)</u>	<u>(164)</u>
OPERATING INCOME (LOSS)	2,325,200	2,325,200	1,485,038	(840,162)
Non-operating income (expenses)				
Interest income	126,700	126,700	202,636	75,936
Interest expense	(74,711)	(74,711)	(74,829)	(118)
Transfer in (out)	-	-	9,215	9,215
Gain (loss) on sale of equipment	<u>-</u>	<u>-</u>	<u>(36,929)</u>	<u>(36,929)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	2,377,189	2,377,189	1,585,131	(792,058)
Capital contributions				
Grants	2,514,250	2,514,250	2,294,999	(219,251)
Tap fees	157,000	157,000	182,841	25,841
Customer contributions	<u>-</u>	<u>-</u>	<u>71,917</u>	<u>71,917</u>
CHANGE IN NET POSITION	<u>\$ 5,048,439</u>	<u>\$ 5,048,439</u>	<u>\$ 4,134,888</u>	<u>\$ (913,551)</u>

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
FORT KNOX SEWER FUND
for the year ended December 31, 2025

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Sewer service revenue	\$ 2,927,000	\$ 2,927,000	\$ 2,911,570	\$ (15,430)
Penalties, service fees and reimbursements	<u>5,000</u>	<u>5,000</u>	<u>-</u>	<u>(5,000)</u>
Total operating revenue	<u>2,932,000</u>	<u>2,932,000</u>	<u>2,911,570</u>	<u>(20,430)</u>
OPERATING EXPENSES				
Treatment	592,291	592,291	540,244	(52,047)
Transmission and distribution	424,337	424,337	277,703	(146,634)
Sewer administration	10,400	10,400	9,022	(1,378)
Professional services	25,254	25,254	19,253	(6,001)
Insurance	35,300	35,300	35,450	150
Customer service	187,524	187,524	187,302	(222)
Other	<u>115,537</u>	<u>115,537</u>	<u>104,379</u>	<u>(11,158)</u>
Total operating expense	<u>1,390,643</u>	<u>1,390,643</u>	<u>1,173,353</u>	<u>(217,290)</u>
Operating income (loss) before depreciation and amortization	1,541,357	1,541,357	1,738,217	196,860
Depreciation and amortization expense	<u>(1,135,900)</u>	<u>(1,135,900)</u>	<u>(1,119,793)</u>	<u>16,107</u>
OPERATING INCOME (LOSS)	405,457	405,457	618,424	212,967
Non-operating income (expenses)				
Interest income	447,800	447,800	437,499	(10,301)
Interest expense	(1)	(1)	(180)	(179)
Gain (loss) on sale of equipment	<u>-</u>	<u>-</u>	<u>(51,777)</u>	<u>(51,777)</u>
CHANGE IN NET POSITION	<u>\$ 853,256</u>	<u>\$ 853,256</u>	<u>\$ 1,003,966</u>	<u>\$ 150,710</u>

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
RADCLIFF SEWER FUND
for the year ended December 31, 2025

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Sewer service revenue	\$ 5,042,125	\$ 5,042,125	\$ 4,734,788	\$ (307,337)
Penalties, service fees and reimbursements	<u>215,100</u>	<u>215,100</u>	<u>216,919</u>	<u>1,819</u>
Total operating revenue	<u>5,257,225</u>	<u>5,257,225</u>	<u>4,951,707</u>	<u>(305,518)</u>
OPERATING EXPENSES				
Treatment	994,223	994,223	848,110	(146,113)
Transmission and distribution	1,252,377	1,252,377	1,080,111	(172,266)
Professional services	19,686	19,686	17,801	(1,885)
Insurance	46,500	46,500	46,318	(182)
Customer service	585,744	585,744	585,741	(3)
Sewer administration	241,010	241,010	246,403	5,393
Sewer commission	17,880	17,880	16,074	(1,806)
System maintenance	<u>128,387</u>	<u>128,387</u>	<u>119,232</u>	<u>(9,155)</u>
Total operating expense	<u>3,285,807</u>	<u>3,285,807</u>	<u>2,959,790</u>	<u>(326,017)</u>
Operating income (loss) before depreciation and amortization	1,971,418	1,971,418	1,991,917	20,499
Depreciation and amortization expense	<u>(1,700,933)</u>	<u>(1,700,933)</u>	<u>(1,700,080)</u>	<u>853</u>
OPERATING INCOME (LOSS)	270,485	270,485	291,837	21,352
Non-operating income (expenses)				
Interest income	312,300	312,300	443,915	131,615
Interest expense	(15,001)	(15,001)	(15,117)	(116)
Transfer in (out)	-	-	(8,299)	(8,299)
Gain (loss) on sale of equipment	<u>-</u>	<u>-</u>	<u>130,619</u>	<u>130,619</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	567,784	567,784	842,955	275,171
Capital contributions				
Grants	1,399,000	1,399,000	90,036	(1,308,964)
Customer contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	<u>\$ 1,966,784</u>	<u>\$ 1,966,784</u>	<u>\$ 932,991</u>	<u>\$ (1,033,793)</u>

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
STORMWATER FUND
for the year ended December 31, 2025

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Stormwater service revenue	\$ 482,600	\$ 482,600	\$ 477,792	\$ (4,808)
Total operating revenue	<u>482,600</u>	<u>482,600</u>	<u>477,792</u>	<u>(4,808)</u>
OPERATING EXPENSES				
Transmission and distribution	43,157	43,157	40,871	(2,286)
Professional services	5,692	5,692	4,132	(1,560)
Insurance	6,500	6,500	6,255	(245)
Customer service	1,150	1,150	1,083	(67)
Other	<u>33,346</u>	<u>33,346</u>	<u>30,622</u>	<u>(2,724)</u>
Total operating expense	<u>89,845</u>	<u>89,845</u>	<u>82,963</u>	<u>(6,882)</u>
Operating income before depreciation	392,755	392,755	394,829	2,074
Depreciation expense	<u>(154,200)</u>	<u>(154,200)</u>	<u>(154,158)</u>	<u>42</u>
OPERATING INCOME	<u>238,555</u>	<u>238,555</u>	<u>240,671</u>	<u>2,116</u>
Non-operating income (expenses)				
Interest income	136,400	136,400	133,828	(2,572)
Gain (loss) on sale of equipment	<u>-</u>	<u>-</u>	<u>(1,203)</u>	<u>(1,203)</u>
CHANGE IN NET POSITION	<u>\$ 374,955</u>	<u>\$ 374,955</u>	<u>\$ 373,296</u>	<u>\$ (1,659)</u>

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF REVENUES AND EXPENSES - ACTUAL TO BUDGET
FORT KNOX WATER FUND
for the year ended December 31, 2025

	Original Budget	Amended Budget	Actual	Variance
OPERATING REVENUE				
Metered water sales	\$ 3,480,800	\$ 3,480,800	\$ 3,427,089	\$ (53,711)
Penalties, service fees and reimbursements	<u>5,000</u>	<u>5,000</u>	<u>3,662</u>	<u>(1,338)</u>
Total operating revenue	<u>3,485,800</u>	<u>3,485,800</u>	<u>3,430,751</u>	<u>(55,049)</u>
OPERATING EXPENSES				
Treatment	1,184,099	1,184,099	1,053,715	(130,384)
Transmission and distribution	993,139	993,139	924,212	(68,927)
General and administrative expenses	<u>719,717</u>	<u>719,717</u>	<u>870,321</u>	<u>150,604</u>
Total operating expense	<u>2,896,955</u>	<u>2,896,955</u>	<u>2,848,248</u>	<u>(48,707)</u>
Operating income (loss) before depreciation and amortization	588,845	588,845	582,503	(6,342)
Depreciation and amortization expense	<u>(1,389,032)</u>	<u>(1,389,032)</u>	<u>(1,341,629)</u>	<u>47,403</u>
OPERATING INCOME (LOSS)	(800,187)	(800,187)	(759,126)	41,061
Non-operating income				
Interest income	346,800	346,800	288,793	(58,007)
Interest expense	(3)	(3)	(380)	(377)
Transfers in (out)	-	-	(916)	(916)
Gain (loss) on sale of equipment	<u>-</u>	<u>-</u>	<u>(849,142)</u>	<u>(849,142)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(453,390)	(453,390)	(1,320,771)	(867,381)
Capital contributions				
Tap fees	-	-	5,049	5,049
Customer contribution	<u>12,272,000</u>	<u>12,272,000</u>	<u>11,726,036</u>	<u>(545,964)</u>
CHANGE IN NET POSITION	<u>\$ 11,818,610</u>	<u>\$ 11,818,610</u>	<u>\$ 10,410,314</u>	<u>\$ (1,408,296)</u>

COMBINING FUND STATEMENTS

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING WATER STATEMENT OF NET POSITION
December 31, 2025

	County Water	Ft. Knox Water	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 5,380,195	\$ 7,053,503	\$ 12,433,698
Investments	983,512	5,059,458	6,042,970
Customer accounts receivable, net	544,516	285,139	829,655
Interest receivable	11,963	56,443	68,406
Other accounts receivable	27,108	-	27,108
Lease receivable - current	18,586	-	18,586
Due from other funds	373,893	-	373,893
Inventory - materials and supplies	429,491	162,817	592,308
Prepaid expenses	76,687	27,292	103,979
Total current assets	<u>7,845,951</u>	<u>12,644,652</u>	<u>20,490,603</u>
Non-current assets			
Lease receivable	180,672	-	180,672
Restricted investments - reserve funds	172,962	-	172,962
Regulatory asset - CERS Pension	3,113,226	2,066,925	5,180,151
Regulatory asset - CERS OPEB	424,323	281,716	706,039
Total non-current assets	<u>3,891,183</u>	<u>2,348,641</u>	<u>6,239,824</u>
Capital assets			
Land and easements	338,807	-	338,807
Construction in progress	2,754,782	104,076	2,858,858
Plant and lines	60,041,306	31,283,922	91,325,228
Vehicles and equipment	6,223,855	13,608,647	19,832,502
Leased equipment	23,289	6,807	30,096
Total capital assets	69,382,039	45,003,452	114,385,491
Less: accumulated depreciation and amortization	<u>(27,062,951)</u>	<u>(8,137,448)</u>	<u>(35,200,399)</u>
Total capital assets, net	<u>42,319,088</u>	<u>36,866,004</u>	<u>79,185,092</u>
Total assets	<u>54,056,222</u>	<u>51,859,297</u>	<u>105,915,519</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources - pension	336,860	223,648	560,508
Deferred outflows of resources - OPEB	271,105	179,991	451,096
Total deferred outflows of resources	<u>607,965</u>	<u>403,639</u>	<u>1,011,604</u>
Total assets and deferred outflows of resources	<u>\$ 54,664,187</u>	<u>\$ 52,262,936</u>	<u>\$ 106,927,123</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 500,088	\$ 26,285	\$ 526,373
Accrued expenses	194,318	54,986	249,304
Due to other funds	-	262,526	262,526
Unearned revenue	15,721	-	15,721
Customers' deposits	202,806	-	202,806
Current portion of lease liability	7,653	2,237	9,890
Current portion of notes payable	33,377	-	33,377
Reserve for unclaimed funds - escheatment	12,842	-	12,842
Liabilities payable from restricted assets:			
Current portion of long-term debt	38,000	-	38,000
Accrued interest on long-term debt	28,205	-	28,205
Total current liabilities	<u>1,033,010</u>	<u>346,034</u>	<u>1,379,044</u>
Long-term liabilities			
Compensated absences	241,919	62,524	304,443
Lease liability	10,403	3,042	13,445
Bonds payable	2,141,000	-	2,141,000
Net OPEB liability	54,167	35,963	90,130
Net pension liability	3,136,458	2,082,350	5,218,808
Total long-term liabilities	<u>5,583,947</u>	<u>2,183,879</u>	<u>7,767,826</u>
Total liabilities	<u>6,616,957</u>	<u>2,529,913</u>	<u>9,146,870</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension	313,628	208,223	521,851
Deferred inflows of resources - OPEB	641,261	425,744	1,067,005
Deferred inflows of resources - leases	199,258	-	199,258
Total deferred inflows of resources	<u>1,154,147</u>	<u>633,967</u>	<u>1,788,114</u>
NET POSITION			
Net investment in capital assets	40,002,143	36,863,767	76,865,910
Restricted	172,962	-	172,962
Unrestricted	6,717,978	12,235,289	18,953,267
Total net position	<u>46,893,083</u>	<u>49,099,056</u>	<u>95,992,139</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 54,664,187</u>	<u>\$ 52,262,936</u>	<u>\$ 106,927,123</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING WATER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2025

	County Water	Fort Knox Water	Total
OPERATING REVENUE			
Metered water sales	\$ 5,460,985	\$ 3,427,089	\$ 8,888,074
Wholesale sales	2,121,969	-	2,121,969
Sewer billing contract revenue	112,912	-	112,912
Penalties, service fees and reimbursements	<u>353,605</u>	<u>3,662</u>	<u>357,267</u>
Total operating revenue	<u>8,049,471</u>	<u>3,430,751</u>	<u>11,480,222</u>
OPERATING EXPENSES			
Treatment	1,779,334	1,053,715	2,833,049
Transmission and distribution	1,182,321	924,212	2,106,533
Customer service	335,635	-	335,635
General and administrative expenses	757,603	870,321	1,627,924
Purchased water	817,455	-	817,455
General maintenance	128,380	-	128,380
Source of supply	<u>13,678</u>	<u>-</u>	<u>13,678</u>
Total operating expense	<u>5,014,406</u>	<u>2,848,248</u>	<u>7,862,654</u>
Operating income (loss) before depreciation and amortization	3,035,065	582,503	3,617,568
Depreciation and amortization expense	<u>(1,550,027)</u>	<u>(1,341,629)</u>	<u>(2,891,656)</u>
OPERATING INCOME (LOSS)	1,485,038	(759,126)	725,912
Non-operating income (expenses)			
Interest income	202,636	288,793	491,429
Interest expense	(74,829)	(380)	(75,209)
Transfers in (out)	9,215	(916)	8,299
Gain (loss) on sale of equipment	<u>(36,929)</u>	<u>(849,142)</u>	<u>(886,071)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	1,585,131	(1,320,771)	264,360
Capital contributions			
Grants	2,294,999	-	2,294,999
Tap fees	182,841	5,049	187,890
Customer contributions	<u>71,917</u>	<u>11,726,036</u>	<u>11,797,953</u>
CHANGE IN NET POSITION	4,134,888	10,410,314	14,545,202
Net position, beginning of year	<u>42,758,195</u>	<u>38,688,742</u>	<u>81,446,937</u>
NET POSITION, END OF YEAR	<u>\$ 46,893,083</u>	<u>\$ 49,099,056</u>	<u>\$ 95,992,139</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING WATER STATEMENT OF CASH FLOWS
for the year ended December 31, 2025

	County Water	Ft. Knox Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 7,997,728	\$ 3,425,840	\$ 11,423,568
Payments to suppliers	(2,481,684)	(1,665,895)	(4,147,579)
Payments for employee services and benefits	<u>(2,477,895)</u>	<u>(1,173,794)</u>	<u>(3,651,689)</u>
Net cash provided by operating activities	<u>3,038,149</u>	<u>586,151</u>	<u>3,624,300</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Receipts (payments) on interfund loans	<u>(614,511)</u>	<u>(1,659,447)</u>	<u>(2,273,958)</u>
Net cash provided by (used in) non-capital financing activities	<u>(614,511)</u>	<u>(1,659,447)</u>	<u>(2,273,958)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on long-term debt	(557,260)	-	(557,260)
Payments on leased equipment	(8,690)	(2,545)	(11,235)
Interest paid	(77,408)	-	(77,408)
Contributions in aid of construction	182,841	11,731,085	11,913,926
Grants received	2,366,295	-	2,366,295
Proceeds from sale of equipment	29,071	18,825	47,896
Acquisition and construction of capital assets	<u>(3,179,496)</u>	<u>(162,028)</u>	<u>(3,341,524)</u>
Net cash provided by (used in) capital and related financing activities	<u>(1,244,647)</u>	<u>11,585,337</u>	<u>10,340,690</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	152,640	172,892	325,532
Redemption of investments	1,773,223	-	1,773,223
Purchase of investments	<u>(425,245)</u>	<u>(5,000,000)</u>	<u>(5,425,245)</u>
Net cash provided by (used in) investing activities	<u>1,500,618</u>	<u>(4,827,108)</u>	<u>(3,326,490)</u>
NET INCREASE (DECREASE) IN CASH	2,679,609	5,684,933	8,364,542
Cash and cash equivalents, beginning of year	<u>2,700,586</u>	<u>1,368,570</u>	<u>4,069,156</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,380,195</u>	<u>\$ 7,053,503</u>	<u>\$ 12,433,698</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 1,485,038	\$ (759,126)	\$ 725,912
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	1,550,027	1,341,629	2,891,656
Change in assets and liabilities:			
Accounts receivable	(55,592)	143	(55,449)
Prepaid expenses	(3,424)	1,364	(2,060)
Inventory	(25,688)	(19,467)	(45,155)
Accounts payable	80,828	15,121	95,949
Unearned revenue	3,848	(5,049)	(1,201)
Accrued expenses	22,054	4,233	26,287
Compensated absences	(9,619)	7,303	(2,316)
Other payables	<u>(9,323)</u>	<u>-</u>	<u>(9,323)</u>
Net cash provided by operating activities	<u>\$ 3,038,149</u>	<u>\$ 586,151</u>	<u>\$ 3,624,300</u>
Supplemental disclosure of cash flow information:			
Noncash capital and related financing activities:			
Capital asset additions included in accounts payable, net	<u>\$ 114,000</u>	<u>\$ 82,784</u>	<u>\$ 196,784</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING SEWER STATEMENT OF NET POSITION
December 31, 2025

	Ft. Knox Sewer	Radcliff Sewer	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 12,029,302	\$ 10,207,442	\$ 22,236,744
Investments	99,811	491,753	591,564
Customer accounts receivable, net	242,496	307,077	549,573
Interest receivable	1,077	5,302	6,379
Inventory - material and supplies	2,052	4,645	6,697
Due from other funds	(38,189)	(67,575)	(105,764)
Prepaid expenses	16,657	22,718	39,375
Total current assets	<u>12,353,206</u>	<u>10,971,362</u>	<u>23,324,568</u>
Non-current assets			
Deferred Rate Case	-	66,405	66,405
Unamortized Radcliff acquisition costs, net	-	83,798	83,798
Regulatory asset - CERS Pension	1,123,930	2,045,266	3,169,196
Regulatory asset - CERS OPEB	153,188	278,764	431,952
Net OPEB asset (liability)	(19,555)	(35,586)	(55,141)
Total other assets	<u>1,257,563</u>	<u>2,438,647</u>	<u>3,696,210</u>
Capital assets			
Land and easements	-	26,326	26,326
Construction in progress	60,966	3,220,296	3,281,262
Plant and lines	93,782,880	54,323,750	148,106,630
Vehicles and equipment	1,949,055	3,127,097	5,076,152
Leased equipment	3,225	2,508	5,733
Total capital assets	<u>95,796,126</u>	<u>60,699,977</u>	<u>156,496,103</u>
Less: accumulated depreciation and amortization	(73,520,348)	(29,718,993)	(103,239,341)
Total capital assets, net	<u>22,275,778</u>	<u>30,980,984</u>	<u>53,256,762</u>
Total assets	<u>35,886,547</u>	<u>44,390,993</u>	<u>80,277,540</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources - pension	121,613	221,304	342,917
Deferred outflows of resources - OPEB	97,874	178,105	275,979
Total deferred outflows of resources	<u>219,487</u>	<u>399,409</u>	<u>618,896</u>
Total assets and deferred outflows of resources	<u>\$ 36,106,034</u>	<u>\$ 44,790,402</u>	<u>\$ 80,896,436</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 8,853	\$ 899,941	\$ 908,794
Accrued expenses	33,014	46,576	79,590
Customers' deposits	-	203,016	203,016
Accrued interest on long-term debt	-	2,770	2,770
Current portion of lease liability	1,060	823	1,883
Current portion of notes payable	-	134,532	134,532
Total current liabilities	<u>42,927</u>	<u>1,287,658</u>	<u>1,330,585</u>
Long-term liabilities			
Compensated absences	37,774	44,766	82,540
Lease liability	1,439	1,115	2,554
Net pension liability	1,132,318	2,060,529	3,192,847
Total long-term liabilities	<u>1,171,531</u>	<u>2,106,410</u>	<u>3,277,941</u>
Total liabilities	<u>1,214,458</u>	<u>3,394,068</u>	<u>4,608,526</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension	113,225	206,041	319,266
Deferred inflows of resources - OPEB	231,507	421,283	652,790
Total deferred inflows of resources	<u>344,732</u>	<u>627,324</u>	<u>972,056</u>
NET POSITION			
Net investment in capital assets	22,274,718	30,636,233	52,910,951
Unrestricted	12,272,126	10,132,777	22,404,903
Total net position	<u>34,546,844</u>	<u>40,769,010</u>	<u>75,315,854</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 36,106,034</u>	<u>\$ 44,790,402</u>	<u>\$ 80,896,436</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING SEWER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2025

	Ft. Knox Sewer	Radcliff Sewer	Total
OPERATING REVENUE			
Sewer service revenue	\$ 2,911,570	\$ 4,734,788	\$ 7,646,358
Penalties, service fees and reimbursements	<u>-</u>	<u>216,919</u>	<u>216,919</u>
Total operating revenue	<u>2,911,570</u>	<u>4,951,707</u>	<u>7,863,277</u>
OPERATING EXPENSES			
Treatment	540,244	848,110	1,388,354
Transmission and distribution	277,703	1,080,111	1,357,814
Customer service	187,302	585,741	773,043
General and administrative expenses	168,104	326,596	494,700
General maintenance	<u>-</u>	<u>119,232</u>	<u>119,232</u>
Total operating expenses	<u>1,173,353</u>	<u>2,959,790</u>	<u>4,133,143</u>
Operating income before depreciation and amortization	1,738,217	1,991,917	3,730,134
Depreciation and amortization expense	<u>(1,119,793)</u>	<u>(1,700,080)</u>	<u>(2,819,873)</u>
OPERATING INCOME (LOSS)	618,424	291,837	910,261
Non-operating income (expenses)			
Interest income	437,499	443,915	881,414
Interest expense	(180)	(15,117)	(15,297)
Transfers in (out)	-	(8,299)	(8,299)
Gain (loss) on sale of equipment	<u>(51,777)</u>	<u>130,619</u>	<u>78,842</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,003,966	842,955	1,846,921
Capital Contributions			
Grants	<u>-</u>	<u>90,036</u>	<u>90,036</u>
CHANGE IN NET POSITION	1,003,966	932,991	1,936,957
Net position, beginning of year	<u>33,542,878</u>	<u>39,836,019</u>	<u>73,378,897</u>
NET POSITION, END OF YEAR	<u>\$ 34,546,844</u>	<u>\$ 40,769,010</u>	<u>\$ 75,315,854</u>

HARDIN COUNTY WATER DISTRICT No. 1
COMBINING SEWER STATEMENT OF CASH FLOWS
for the year ended December 31, 2025

	Ft. Knox Sewer	Radcliff Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,912,073	\$ 4,926,310	\$ 7,838,383
Payments to suppliers	(568,088)	(1,728,911)	(2,296,999)
Payments for employee services and benefits	(601,779)	(1,341,226)	(1,943,005)
Net cash provided by operating activities	<u>1,742,206</u>	<u>1,856,173</u>	<u>3,598,379</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Receipts (payments) on interfund loans	1,811,965	466,382	2,278,347
Net cash provided by (used in) non-capital financing activities	<u>1,811,965</u>	<u>466,382</u>	<u>2,278,347</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on long-term debt	-	(123,981)	(123,981)
Payments on leased equipment	(1,202)	(3,510)	(4,712)
Interest paid	-	(17,531)	(17,531)
Grants received	-	90,036	90,036
Proceeds from sale of equipment	2,475	309,738	312,213
Acquisition and construction of capital assets	(470,835)	(2,611,909)	(3,082,744)
Net cash (used in) capital and related financing activities	<u>(469,562)</u>	<u>(2,357,157)</u>	<u>(2,826,719)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	432,942	421,466	854,408
Redemption of investments	-	-	-
Purchase of investments	-	-	-
Net cash provided by investing activities	<u>432,942</u>	<u>421,466</u>	<u>854,408</u>
NET INCREASE (DECREASE) IN CASH			
Cash and cash equivalents, beginning of year	8,511,751	9,820,578	18,332,329
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 12,029,302</u>	<u>\$ 10,207,442</u>	<u>\$ 22,236,744</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 618,424	\$ 291,837	\$ 910,261
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization expense	1,119,793	1,700,080	2,819,873
Change in assets and liabilities:			
Accounts receivable	500	(25,395)	(24,895)
Prepaid expenses	(808)	(1,459)	(2,267)
Inventory	1,418	4,398	5,816
Accounts payable	2,996	(107,035)	(104,039)
Accrued expenses	3,698	710	4,408
Compensated absences	(3,815)	544	(3,271)
Other payables	-	(7,507)	(7,507)
Net cash provided by operating activities	<u>\$ 1,742,206</u>	<u>\$ 1,856,173</u>	<u>\$ 3,598,379</u>
Supplemental disclosure of cash flow information:			
Noncash capital and related financing activities:			
Capital asset additions included in accounts payable, net	<u>\$ 438,545</u>	<u>\$ 952,894</u>	<u>\$ 1,391,439</u>



**INDEPENDENT AUDITORS' 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
Hardin County Water District No. 1
Radcliff, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund of the Hardin County Water District No. 1, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Hardin County Water District No. 1's basic financial statements and have issued our report thereon dated March 26, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hardin County Water District No. 1'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 Hardin County Water District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hardin County Water District No. 1's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hardin County Water District No. 1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

RFH

RFH, PLLC
Lexington, Kentucky
March 26, 2026



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Commissioners
Hardin County Water District No. 1
Radcliff, Kentucky

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Hardin County Water District No. 1's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Hardin County Water District No. 1's major federal programs for the year ended December 31, 2025. Hardin County Water District No. 1's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Hardin County Water District No. 1 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Hardin County Water District No. 1 and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Hardin County Water District No. 1's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Hardin County Water District No. 1's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Hardin County Water District No. 1's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Hardin County Water District No. 1's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Hardin County Water District No. 1's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Hardin County Water District No. 1's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Hardin County Water District No. 1's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
March 26, 2026

HARDIN COUNTY WATER DISTRICT No. 1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended December 31, 2025

GRANTOR/PROGRAM TITLE	Federal AL Number	Pass Through Grantor's Number	Expenditures
U.S. Department of the Treasury			
Passed through the Kentucky Infrastructure Authority			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	22CWW319	\$ 1,430,000
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	22CWW320	425,333
Passed through Hardin County Fiscal Court			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	No. 2024-223	40,036
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	No. 2024-227	7,263
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	No. 2024-271	50,000
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	Note 4	<u>432,403</u>
Total expenditures of federal awards			<u>\$ 2,385,035</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Hardin County Water District No.1 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in, or used, in the preparation of, the basic financial statements may differ from those numbers.

Note 2 - Hardin County Water District No.1 did not pass through any funds to subrecipients.

Note 3 - Indirect Cost Rates

Hardin County Water District No.1 did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

Note 4 - Passthrough grantor numbers are presented when available.

**HARDIN COUNTY WATER DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended December 31, 2025**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified	___ Yes	<u>X</u> No
Significant deficiencies identified that are not considered to be material weaknesses	___ Yes	<u>X</u> None reported

Noncompliance material to financial statements noted	___ Yes	<u>X</u> No
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Federal Awards:

Internal control over major programs:

Material weaknesses identified	___ Yes	<u>X</u> No
Significant deficiencies identified that are not considered to be material weaknesses	___ Yes	<u>X</u> None reported

Type of auditors' report issued on compliance for major programs:

Unmodified for all major programs.

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ Yes	<u>X</u> No
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Major Programs:

AL Number	Name of Federal Program or Cluster
21.027	Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between type A and type B programs:	\$ 1,000,000
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Auditee qualified as a low-risk auditee?	<u>X</u> Yes	___ No
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II. FINDINGS RELATED TO FINANCIAL STATEMENTS

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

IV. PRIOR AUDIT FINDINGS

None