

HARDIN COUNTY WATER DISTRICT No. 2
Elizabethtown, Kentucky

FINANCIAL STATEMENTS
December 31, 2024 and 2023

HARDIN COUNTY WATER DISTRICT NO. 2
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YEARS ENDED DECEMBER 31, 2024 AND 2023

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INDEPENDENT AUDITOR'S REPORT



INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Hardin County Water District No. 2
Elizabethtown, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Hardin County Water District No. 2, as of and for the years ended December 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Hardin County Water District No. 2'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 Hardin County Water District No. 2, as of December 31, 2024, and 2023, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by 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. 2, 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 opinion.

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. 2'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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the 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. 2'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. 2'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 4–8 and 35–40 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 an opinion on the financial statements that collectively comprise the Hardin County Water District No. 2's basic financial statements. The accompanying Schedules I, II, IV, V, VI, VII, VIII, and IX, 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, Schedules I, II, IV, V, VI, VII, VIII, and IX, 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 Information

Management is responsible for the other information included in the annual report. The other information comprises Schedule III but does not include the basic financial statements and our auditors' report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2025, on our consideration of the Hardin County Water District No. 2'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. 2'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. 2's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
March 26, 2025

REQUIRED SUPPLEMENTARY INFORMATION

**HARDIN COUNTY WATER DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2024**

The discussion and analysis of Hardin County Water District No. 2's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2024. The intent of this discussion and analysis is to review the District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- The ending cash and investment balance for the District was \$24.9 million. The balance at December 31, 2023, was \$24.7 million. This reflects an increase in cash and investments during the year of \$200,000.
- The District continued capital construction projects to improve the water system and ensure the future water supply.
- The District invested approximately \$6.8 million in capital assets during the year.

USING THIS ANNUAL REPORT

The basic financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. The basic financial statements include a statement of net position; a statement of revenues, expenses, and changes in fund net position; a statement of cash flows; and notes to the basic financial statements.

The ***statement of net position*** presents the financial position of the District on a full accrual historical cost basis. The statement presents information on all of the District's assets, deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the District is improving or deteriorating.

While the statement of net position provides information about the nature and amount of resources and obligations at year end, the ***statement of revenues, expenses, and changes in fund net position*** presents the results of the District's activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The ***statement of cash flows*** present changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The ***notes to the basic financial statements*** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

ENTITY-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$111.4 million and \$105.6 million as of December 31, 2024 and 2023.

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

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

(Table 1)
Summary of Net Position
as of December 31,

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Assets			
Current and			
Other Assets	\$ 43,900,744	\$ 42,520,115	\$ 43,635,260
Capital Assets	95,498,197	92,394,248	88,835,630
Total Assets	<u>139,398,941</u>	<u>134,914,363</u>	<u>132,470,890</u>
Deferred Outflows of Resources	3,323,705	2,647,509	3,244,241
Liabilities			
Long-term liabilities	22,672,173	23,411,863	28,453,954
Other Liabilities	4,043,400	3,653,877	3,031,176
Total Liabilities	<u>26,715,573</u>	<u>27,065,740</u>	<u>31,485,130</u>
Deferred Inflows of Resources	4,576,392	5,151,521	3,232,592
Net Position			
Net investment in capital assets	82,333,538	77,912,857	73,176,802
Restricted	7,690,871	8,273,197	10,134,277
Unrestricted	21,406,272	19,158,557	17,686,330
Total Net Position	<u>\$ 111,430,681</u>	<u>\$ 105,344,611</u>	<u>\$ 100,997,409</u>

Unrestricted net position, the portion of net position that can be used to finance day-to-day operations (without constraints established by debt covenants, enabling legislation or other legal requirements), increased \$2.2 million (11.7%) at December 31, 2024. Restricted net position decreased \$0.6 million (7.0%). Net investment in capital assets increased by \$4.4 million (5.7%).

Operating revenue increased 9.4% as compared to the prior year. This increase is largely due to a rate increase that was approved by the Public Service Commission on July 29, 2024. Total operating expenses increased 6.1%, which was due to increased labor and benefit costs and depreciation. The District continues to receive capital contributions through the State of Kentucky, the Federal government, other governments and individual developers.

(Table 2)
Changes in Net Position
Years Ended December 31,

	2024	2023	2022
OPERATING REVENUES:			
Water sales	\$ 15,820,338	\$ 14,542,058	\$ 14,685,398
Sewer sales	580,650	212,229	212,813
Other operating income	823,552	983,307	790,890
Total operating revenues	17,224,540	15,737,594	15,689,101
OPERATING EXPENSES:			
Power purchased	1,067,254	1,015,060	992,768
Purchased water	1,153,404	987,973	981,789
Pumping and treatment labor	2,065,158	2,008,528	1,842,679
Purification supplies and expense	817,809	781,159	678,241
Transmission and distribution labor	3,251,684	3,119,226	2,819,865
Transmission and distribution supplies and expense	607,425	472,558	487,843
Transmission and distribution maintenance and repairs	103,039	76,378	97,843
Equipment rental	21,786	11,694	20,003
Transportation expense	296,553	280,403	294,402
Water treatment maintenance and expense	321,836	279,773	306,702
General and administrative expenses	3,863,687	3,664,262	3,356,726
Depreciation	3,664,313	3,552,920	3,505,363
Total operating expenses	17,233,948	16,249,934	15,384,224
OPERATING INCOME (LOSS)	(9,408)	(512,340)	304,877
NON-OPERATING REVENUES (EXPENSES):			
Investment income (loss)	1,056,929	880,257	(2,324,645)
Other income	212,170	206,984	293,280
Gain on disposal of capital assets	71,251	74,500	15,000
Bond issuance costs	-	-	(65,450)
Interest expense on long-term debt	(408,924)	(442,298)	(573,162)
Amortization of bond discount and utility acquisition	5,324	(933)	(5,440)
TOTAL NON-OPERATING REVENUES (EXPENSES)	936,750	718,510	(2,660,417)
Capital contributions	5,158,728	4,141,032	655,105
Change in net position	6,086,070	4,347,202	(1,700,435)
Net position, beginning, as restated	105,344,611	100,997,409	102,697,844
Net position, ending	\$ 111,430,681	\$ 105,344,611	\$ 100,997,409

Capital Assets and Debt Administration

Capital Assets

At December 31, 2024 and 2023, the District had \$95.5 million and \$92.4 million invested in a variety of capital assets, as reflected in the following table:

(Table 3)
Capital Assets (Net of Depreciation)
as of December 31,

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Non-Depreciable Assets:			
Land and land rights	\$ 2,196,794	\$ 2,191,194	\$ 2,038,253
Depreciable Assets:			
Structures and improvements	17,119,945	16,663,386	17,427,426
Supply mains	11,770,834	11,520,966	11,709,486
Treatment plant	9,624,352	9,700,500	9,844,487
Standpipes, tanks and foundations	6,380,194	6,693,047	7,005,900
Transmission and distribution mains	36,019,485	33,613,086	31,794,358
Services and meters	7,004,561	5,797,579	5,479,642
Hydrants	223,914	140,683	85,506
Office furniture and fixtures	609,165	726,353	691,405
Transportation equipment	1,351,662	984,241	689,895
Other property and equipment	731,343	769,742	500,632
Capital assets in service	93,032,249	88,800,777	87,266,990
Construction in progress	2,465,948	3,593,471	1,568,640
Total capital assets, net of depreciation	<u>\$ 95,498,197</u>	<u>\$ 92,394,248</u>	<u>\$ 88,835,630</u>

Changes in capital assets for the years ended December 31, 2024, 2023 and 2022, are in the following table:

(Table 4)
Changes in Capital Assets
Years Ended December 31,

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Beginning balance	\$ 92,394,248	\$ 88,835,630	\$ 88,770,613
Additions	6,768,262	7,774,694	12,282,889
Retirements	-	(663,156)	(8,712,509)
Depreciation	(3,664,313)	(3,552,920)	(3,505,363)
Ending balance	<u>\$ 95,498,197</u>	<u>\$ 92,394,248</u>	<u>\$ 88,835,630</u>

Debt

At December 31, 2024 and 2023, the District had \$9.5 million and \$10.5 million, in revenue bonds outstanding and \$3.5 million and \$3.8 million of notes payable. A total of \$1.4 million is due within the 2025 calendar year.

(Table 5)
Outstanding Debt
as of December 31,

	2024	2023	2022
Revenue bonds	\$ 9,460,000	\$ 10,525,700	\$ 11,546,400
Notes payable	3,456,917	3,753,873	4,042,895
Unamortized premium (discount)	(4,325)	21,256	44,727
	<u>\$ 12,912,592</u>	<u>\$ 14,300,829</u>	<u>\$ 15,634,022</u>

District Challenges for the Future

The District continues to be financially sound. However, the current state and national financial climate requires the District to remain prudent.

The District will continue to use careful planning and monitoring of finances to provide quality services to its customers.

Contacting the District's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact Shaun Youravich, General Manager, 1951 West Park Road, Elizabethtown, Kentucky 42701, (270) 737-1056.

BASIC FINANCIAL STATEMENTS

HARDIN COUNTY WATER DISTRICT NO. 2
STATEMENTS OF NET POSITION
DECEMBER 31,

	<u>ASSETS</u>	2024	2023
CURRENT ASSETS:			
Cash and cash equivalents		\$ 4,038,641	\$ 3,862,555
Investments		13,220,372	12,563,494
Accounts receivable, net		2,081,868	1,651,853
Interest receivable		56,813	55,602
Prepaid expenses		182,148	122,349
Stop loss receivable		10,433	-
Federal grants receivable		938,618	862,767
Lease receivable, current		112,278	80,114
Capital contribution receivable		738,636	-
Materials and supplies		2,511,751	2,271,268
TOTAL CURRENT ASSETS		23,891,558	21,470,002
NONCURRENT ASSETS:			
Restricted cash and cash equivalents		6,483,477	7,065,803
Restricted investments		1,207,394	1,207,394
Lease receivable, noncurrent		269,451	247,770
Regulatory asset - deferred rate case expense		170,132	-
Regulatory asset on CERS pension		9,801,421	9,854,763
Regulatory asset on CERS OPEB		1,747,843	2,431,287
Net OPEB asset - CERS		310,181	218,691
SBITA asset, net of accumulated amortization		19,287	24,405
Non-depreciable capital assets		4,662,742	5,784,665
Depreciable capital assets, net of accumulated depreciation		90,835,455	86,609,583
TOTAL NONCURRENT ASSETS		115,507,383	113,444,361
TOTAL ASSETS		139,398,941	134,914,363
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on debt refundings		47,239	57,766
Deferred amount on CERS pension		2,229,663	1,575,976
Deferred amount on CERS OPEB		949,499	906,733
Utility acquisition adjustments		97,304	107,034
TOTAL DEFERRED OUTFLOWS OF RESOURCES		3,323,705	2,647,509
	<u>LIABILITIES</u>		
CURRENT LIABILITIES:			
Accounts payable		425,003	239,792
Construction projects payable		401,961	345,957
Unearned revenue		106,019	106,164
Elizabethtown sewer payable		720,780	665,975
Accrued taxes		86,456	58,881
Accrued liabilities		122,999	185,414
Accrued compensated absences (see Note 1)		570,279	526,619
Customer deposits, current		33,761	34,431
Customer advances for construction		165,338	88,100
Bonds payable, current		1,089,900	1,065,700
Notes payable, current		305,108	296,956
SBITA liability, current		7,138	23,810
Self-insurance payable		8,658	16,078
TOTAL CURRENT LIABILITIES		4,043,400	3,653,877
NONCURRENT LIABILITIES:			
Customer deposits		303,847	309,877
SBITA liability		6,798	-
Net pension liability - CERS		10,843,944	10,163,813
Bonds payable		8,365,775	9,481,256
Notes payable		3,151,809	3,456,917
TOTAL NONCURRENT LIABILITIES		22,672,173	23,411,863
TOTAL LIABILITIES		26,715,573	27,065,740
DEFERRED INFLOWS OF RESOURCES			
Deferred amount on tank lease receivable		381,729	327,884
Deferred amount on CERS pension		1,187,140	1,266,926
Deferred amount on CERS OPEB		3,007,523	3,556,711
TOTAL DEFERRED INFLOWS OF RESOURCES		4,576,392	5,151,521
	<u>NET POSITION</u>		
Net investment in capital assets		82,333,538	77,912,857
Restricted for debt service		2,574,241	2,536,456
Restricted for capital projects		4,762,476	5,355,300
Restricted for customers		354,154	381,441
Unrestricted		21,406,272	19,158,557
TOTAL NET POSITION		\$ 111,430,681	\$ 105,344,611

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

HARDIN COUNTY WATER DISTRICT NO. 2
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31,

	2024	2023
OPERATING REVENUES:		
Water sales	\$ 15,820,338	\$ 14,542,058
Sewer sales	580,650	212,229
Other operating income	823,552	983,307
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	17,224,540	15,737,594
OPERATING EXPENSES:		
Power purchased	1,067,254	1,015,060
Purchased water	1,153,404	987,973
Pumping and treatment labor	2,065,158	2,008,528
Purification supplies and expense	817,809	781,159
Transmission and distribution labor	3,251,684	3,119,226
Transmission and distribution supplies and expense	607,425	472,558
Transmission and distribution maintenance and repairs	103,039	76,378
Equipment rental	21,786	11,694
Transportation expense	296,553	280,403
Water treatment maintenance and expense	321,836	279,773
General and administrative expenses (see Note 1)	3,863,687	3,664,262
Depreciation	3,664,313	3,552,920
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	17,233,948	16,249,934
OPERATING (LOSS)	(9,408)	(512,340)
NON-OPERATING REVENUES (EXPENSES):		
Investment income	1,056,929	880,257
Other income	212,170	206,984
Gain on disposal of capital assets	71,251	74,500
Interest expense on long-term debt	(408,924)	(442,298)
Amortization of bond items and utility acquisition	5,324	(933)
	<hr/>	<hr/>
TOTAL NON-OPERATING REVENUES (EXPENSES)	936,750	718,510
CAPITAL CONTRIBUTIONS	5,158,728	4,141,032
	<hr/>	<hr/>
CHANGE IN NET POSITION	6,086,070	4,347,202
NET POSITION, beginning of year, as restated	105,344,611	100,997,409
	<hr/>	<hr/>
NET POSITION, end of year	<u>\$ 111,430,681</u>	<u>\$ 105,344,611</u>

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

HARDIN COUNTY WATER DISTRICT NO. 2
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31,

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 16,787,680	\$ 15,988,237
Payments to suppliers	(5,210,606)	(4,624,476)
Payments for employee services and benefits	(8,323,931)	(7,892,062)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,253,143	3,471,699
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on bonds	(1,065,700)	(1,020,700)
Principal payments on notes	(296,956)	(289,022)
Principal payments on SBITA liability	(38,805)	(25,000)
Acquisition of capital assets	(6,952,738)	(7,527,322)
Contributions in aid of construction	4,421,479	3,295,365
Interest on long-term debt	(408,924)	(442,298)
Proceeds from the sale of capital assets	71,251	74,500
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,270,393)	(5,934,477)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(656,878)	(3,457,180)
Proceeds from investments	1,055,718	824,655
Other income	212,170	206,984
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	611,010	(2,425,541)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(406,240)	(4,888,319)
CASH AND CASH EQUIVALENTS, beginning of year	10,928,358	15,816,677
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 10,522,118</u>	<u>\$ 10,928,358</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating (loss)	\$ (9,408)	\$ (512,340)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,698,362	3,577,325
(Increase) decrease in accounts receivable	(430,015)	264,862
(Increase) decrease in prepaid expenses	(59,799)	50,978
(Increase) decrease in stop loss receivable	(10,433)	79,283
(Increase) decrease in deferred rate case expenses	(170,132)	-
Increase (decrease) in accounts payable	185,208	(22,693)
Increase (decrease) in unearned revenue	(145)	7,860
Increase (decrease) in Elizabethtown sewer payable	54,805	16,643
Increase (decrease) in customer deposits	(6,700)	(22,073)
Increase (decrease) in accrued taxes payable	27,575	4,539
Increase (decrease) in accrued liabilities	(62,415)	30,027
Increase (decrease) in accrued compensated absences	43,660	71,908
Increase (decrease) in self-insurance payable	(7,420)	(74,620)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 3,253,143</u>	<u>\$ 3,471,699</u>
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 4,038,641	\$ 3,862,555
Restricted cash and cash equivalents	6,483,477	7,065,803
Total cash and cash equivalents	<u>\$ 10,522,118</u>	<u>\$ 10,928,358</u>
SCHEDULE OF NON-CASH CAPITAL AND FINANCING ACTIVITIES		
Net change in construction projects payable	\$ 56,004	\$ 248,711
Acquisition of SBITA asset and liability	<u>\$ 28,931</u>	<u>\$ 48,810</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

HARDIN COUNTY WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brief history - The Hardin County Water District No. 2 was organized pursuant to the provisions of Kentucky Revised Statutes KRS 74.010 and KRS 44.020 in order to provide a water supply for the residents of Hardin County, Kentucky. During the year ended December 31, 2017, the District established a sewer division. The District began supplying sewer service in 2020.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The District follows the accounting policies and procedures set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in *Water Utility Accounting* and is regulated by the Kentucky Public Service Commission. The more significant accounting policies established in GAAP and used by the District are discussed below.

A. REPORTING ENTITY

These financial statements present the District's financial activities. As defined by GASB No. 14, *The Financial Reporting Entity*, as amended by GASB No. 39, *Determining Whether Certain Organizations Are Component Units* the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, the District does not include any component units in its reporting entity.

B. BASIC FINANCIAL STATEMENTS

All activities of the District are accounted for within a single proprietary (enterprise) fund. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The GAAP applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

C. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The proprietary fund financial statements are presented on the accrual basis of accounting. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred. Because the District's rates are regulated by the Kentucky Public Service Commission the District accounts for the financial effects of regulation in accordance with

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HARDIN COUNTY WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Governmental Accounting Standards Board (GASB) Statement No. 62, Paragraphs 476-500, Regulated Operations. Accordingly, certain costs and income may be capitalized as a regulatory asset or liability that would otherwise be charged to expense or revenues. Regulatory assets and liabilities are recorded when it is probable that future rates will permit recovery.

D. FINANCIAL STATEMENT AMOUNTS

1. Cash and investments – The District’s cash balances are held at multiple financial institutions. Investments are stated at fair value based on quoted market prices. Certificates of deposit are valued at cost.
2. Cash and cash equivalents – The District has defined cash and cash equivalents to include cash on hand and demand deposits. The District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.
3. Restricted Assets – Restricted assets consist of demand deposit savings accounts and certificates of deposit. The cost basis approximates market value.
4. Materials and supplies – Materials and supplies are composed of items used in the capital construction process and are stated at cost.
5. Accounts Receivable – The allowance method is used to record uncollectible accounts. At December 31, 2024 and 2023, accounts receivable was stated net of an allowance for uncollectible accounts of \$85,000. Bad debt for 2024 and 2023 was \$88,367 and \$86,992, respectively, and is reported as a contra revenue. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.
6. Capital Assets – Capital assets in service and construction in progress with an original cost of \$5,000 or more are recorded at historical cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers’ estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Source of supply equipment	15-50
Water treatment plant	10-40
Transmission and distribution systems	10-50
Equipment	3-20
Structures and improvements, including buildings	10-50
Office furniture, equipment and vehicles	3-20
Meters	10-20

7. Compensated absences – The District accrues unpaid vacation and sick leave when earned by the employee.

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HARDIN COUNTY WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

8. Defining Operating Revenues and Expenses – The District distinguishes between operating and non-operating revenue and expenses. Operating revenues and expenses consist of charges for services and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.
9. Net Position – Net position is divided into three components:
 - a. Net investment in capital assets – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
 - b. Restricted net position – consist of net position that is restricted by the District's creditors (for example, through debt covenants), by grantors (federal, state and local) and by other contributors.
 - c. Unrestricted – all other net position is reported in this category.
10. Use of Restricted Resources – When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.
11. Amortization – Bond discounts/premiums and deferred amounts on refundings are being amortized using the interest method over the life of each respective bond issue.
12. Capital Contributions – Contributions are recognized in the Statement of Revenues, Expenses and Changes in Fund Net Position when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.
13. Long-term Obligations – Long-term obligations are reported at face value, net of applicable premiums and discounts.
14. Use of Estimates – 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 reporting period. Actual results could differ from those estimates.
15. Pensions and OPEB – For purposes of measuring the net pension liability, net OPEB liability, deferred outflows/inflows of resources, and pension and OPEB expense, 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.

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HARDIN COUNTY WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

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 liability, net OPEB liability, 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.

16. Impact Of Recently Issued Accounting Principles

Recently Issued And Adopted Accounting Principles

In March 2020, the GASB issued Statement 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This adoption did not have an effect on the financial statements.

In May 2020, the GASB issued Statement 96, *Subscription-Based Information Technology Arrangements (SBITA)*. This adoption resulted in the recognition of a SBITA asset and a corresponding SBITA liability on the financial statements. See note 7 for more information.

In June 2022, the GASB issued Statement 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. This adoption resulted in the restatement of net position as of January 1, 2023, that was required for the adoption of GASB Statement No. 101, as described below.

In June 2022, the GASB issued Statement 101, *Compensated Absences*. This statement was adopted by the District during the year ended December 31, 2024. As a result of the adoption of this statement, the District accrued an additional compensated absences liability to reflect sick leave that is more likely than not to be used, even though it is not paid out upon termination of employment, as well as the employer share of payroll taxes on accrued vacation and sick leave. The adoption of this statement resulted in restatements of beginning net position and accrued compensated absences as of December 31, 2023 and 2022, of \$284,546 and \$248,690, respectively, as well as an increase in general and administrative expenses for the year ended December 31, 2023 of \$35,856.

	<u>2023</u>	<u>2022</u>
Net position, as previously reported	\$ 105,629,157	\$ 101,246,099
Restatement for GASB 101	<u>(284,546)</u>	<u>(248,690)</u>
Net position, as restated	<u>\$ 105,344,611</u>	<u>\$ 100,997,409</u>

Recently Issued Accounting Pronouncements

In January 2024, the GASB issued Statement 102, *Certain Risk Disclosures*. This statement is effective for periods beginning after June 15, 2024. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

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HARDIN COUNTY WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE 2 – ELIZABETHTOWN WATER SYSTEM ACQUISITION

On October 23, 2014, the Kentucky Public Service Commission approved an asset purchase agreement between the District and the City of Elizabethtown, Kentucky, for the District's purchase of certain water system assets of the City. The transaction closed on October 31, 2014. The agreement requires the District to pay a note to the City of \$8,000,000 in twenty annual installments of \$400,000 beginning in 2015.

The note carries no specified interest rate, but interest was imputed at a rate of 2.745 percent resulting in a net principal amount of \$6,093,748 and a resulting interest amount of \$1,906,252 over the life of the note (See note 6). The assets acquired were recorded at cost as well as the corresponding accumulated depreciation (See note 5). The transaction resulted in a \$1,000,000 capital contribution from the City and a utility acquisition adjustment of \$194,608 which is presented as a deferred outflow of resources in the Statement of Net Position. This amount is being amortized over 20 years at \$9,730 per year. The unamortized amounts at December 31, 2024 and 2023, were \$97,304 and \$107,034, respectively.

NOTE 3 – DEPOSITS AND INVESTMENTS

DEPOSITS – Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2024, \$24,124,408 of the District's bank balance of \$25,374,408 was exposed to custodial credit risk. For 2024, the amount entire amount exposed to custodial credit risk was collateralized by securities held by the pledging financial institution.

INVESTMENTS

At December 31, 2024, the District had the following investments and maturities:

	<u>12/31/2024 Value</u>	<u>Average Credit Quality/Ratings</u>	<u>Maturities</u>
Certificates of Deposit	<u>\$ 13,220,372</u>	Unrated	< 1 Year
Total investments	<u>\$ 13,220,372</u>		
Certificates of Deposit	<u>\$ 1,207,394</u>	Unrated	1.75 Years
Total restricted investments	<u>\$ 1,207,394</u>		

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HARDIN COUNTY WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

At December 31, 2023, the District had the following investments and maturities:

	<u>12/31/2023</u> <u>Value</u>	<u>Average Credit</u> <u>Quality/Ratings</u>	<u>Maturities</u>
U.S. Treasury Notes	\$ 1,145,867	AAA	< 1 Year
Certificates of Deposit	<u>11,417,627</u>	Unrated	< 1 Year
Total investments	<u>\$ 12,563,494</u>		
Certificates of Deposit	<u>\$ 1,207,394</u>	Unrated	2.75 Years
Total restricted investments	<u>\$ 1,207,394</u>		

Investment Policies

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the District's investing activities are under the custody of the District Commissioners. Investing policies comply with the State Statutes. Kentucky Revised Statute 66.480 defines the following items as permissible investments:

- Obligations of the United States and of its agencies and instrumentalities;
- Obligations of any corporation of the United States Government;
- Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency;
- Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4);
- Commercial paper rated in the highest category by a nationally recognized rating agency;
- Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;
- Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one (1) of the three (3) highest categories by a nationally recognized rating agency; and
- Shares of mutual funds, each of which shall have the following characteristics:
 1. The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;
 2. The management company of the investment company shall have been in operation for at least five (5) years; and
 3. All of the securities in the mutual fund shall be eligible investments pursuant to this section.

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HARDIN COUNTY WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District policy provides that, to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. **Concentration of Credit Risk** is the risk of loss attributed to the magnitude of the District's investment in a single issuer. U.S. Government securities and investments in mutual funds are excluded from this risk. The District does not have more than 5% or more of investments subject to the concentration of credit risk disclosure in any one issuer. **Custodial Credit Risk** is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. No investments are reported at amortized cost. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investments, excluding certificates of deposit that are not valued at fair value, are level 2 inputs.

NOTE 4 - RESTRICTED CASH

The District has restricted cash for various purposes at December 31, 2024 and 2023, as follows:

<u>Restricted For</u>	<u>December 31, 2024</u>	<u>December 31, 2023</u>
Debt service	\$ 2,574,241	\$ 2,536,456
Depreciation fund	372,064	303,862
Escrow	194,353	109,280
Construction	4,196,059	4,942,158
Customer deposits	354,154	381,441
	<u>\$ 7,690,871</u>	<u>\$ 8,273,197</u>

For the years ended December 31, 2024 and 2023, the restricted cash includes \$1,207,394 and which represents a debt certificate of deposit which is reported in the Statements of Net Position as a restricted investment due to presentation differences between GASBS 3 and 9.

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HARDIN COUNTY WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2024:

	Balance at December 31, 2023	Additions	Retirements	Balance at December 31, 2024
Non-Depreciable Assets:				
Land and land rights	\$ 2,191,194	\$ 5,600	\$ -	\$ 2,196,794
Construction in progress	3,593,471	3,578,282	(4,705,805)	2,465,948
Total Capital Assets Not Being Depreciated	5,784,665	3,583,882	(4,705,805)	4,662,742
Capital Assets Being Depreciated:				
Structures and improvements	25,209,026	1,220,769	-	26,429,795
Supply mains	13,947,847	497,292	-	14,445,139
Treatment plant	12,436,262	78,875	-	12,515,137
Standpipes, tanks and foundations	12,305,416	-	-	12,305,416
Transmission and distribution mains	56,363,399	3,537,881	-	59,901,280
Services and meters	12,361,561	1,809,429	(478,679)	13,692,311
Hydrants	440,790	101,152	-	541,942
Office furniture and fixtures	1,558,324	-	-	1,558,324
Transportation equipment	2,638,173	583,058	(240,070)	2,981,161
Other property and equipment	1,607,956	61,729	-	1,669,685
Total Capital Assets Being Depreciated at historical cost	138,868,754	7,890,185	(718,749)	146,040,190
Less accumulated depreciation:				
Structures and improvements	8,545,640	764,210	-	9,309,850
Supply mains	2,426,881	247,424	-	2,674,305
Treatment plant	2,735,762	155,023	-	2,890,785
Standpipes, tanks and foundations	5,612,369	312,853	-	5,925,222
Transmission and distribution mains	22,750,313	1,131,482	-	23,881,795
Services and meters	6,563,982	602,447	(478,679)	6,687,750
Hydrants	300,107	17,921	-	318,028
Office furniture and fixtures	831,971	117,188	-	949,159
Transportation equipment	1,653,932	215,637	(240,070)	1,629,499
Other property and equipment	838,214	100,128	-	938,342
Total accumulated depreciation	52,259,171	3,664,313	(718,749)	55,204,735
Total other capital assets, net	86,609,583	4,225,872	-	90,835,455
Capital assets, net	<u>\$ 92,394,248</u>	<u>\$ 7,809,754</u>	<u>\$ (4,705,805)</u>	<u>\$ 95,498,197</u>

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HARDIN COUNTY WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Capital asset activity for the year ended December 31, 2023:

	Balance at December 31, 2022	Additions	Retirements	Balance at December 31, 2023
Non-Depreciable Assets:				
Land and land rights	\$ 2,038,253	\$ 152,941	\$ -	\$ 2,191,194
Construction in progress	1,568,640	2,687,987	(663,156)	3,593,471
Total Capital Assets Not Being Depreciated	3,606,893	2,840,928	(663,156)	5,784,665
Capital Assets Being Depreciated:				
Structures and improvements	25,209,026	-	-	25,209,026
Supply mains	13,889,909	57,938	-	13,947,847
Treatment plant	12,419,562	16,700	-	12,436,262
Standpipes, tanks and foundations	12,305,416	-	-	12,305,416
Transmission and distribution mains	53,457,992	2,905,407	-	56,363,399
Services and meters	11,668,989	927,537	(234,965)	12,361,561
Hydrants	372,136	68,654	-	440,790
Office furniture and fixtures	1,404,340	153,984	-	1,558,324
Transportation equipment	2,392,610	440,251	(194,688)	2,638,173
Other property and equipment	1,244,661	363,295	-	1,607,956
Total Capital Assets Being Depreciated at historical cost	134,364,641	4,933,766	(429,653)	138,868,754
Less accumulated depreciation:				
Structures and improvements	7,781,600	764,040	-	8,545,640
Supply mains	2,180,423	246,458	-	2,426,881
Treatment plant	2,575,075	160,687	-	2,735,762
Standpipes, tanks and foundations	5,299,516	312,853	-	5,612,369
Transmission and distribution mains	21,663,634	1,086,679	-	22,750,313
Services and meters	6,189,347	609,600	(234,965)	6,563,982
Hydrants	286,630	13,477	-	300,107
Office furniture and fixtures	712,935	119,036	-	831,971
Transportation equipment	1,702,715	145,905	(194,688)	1,653,932
Other property and equipment	744,029	94,185	-	838,214
Total accumulated depreciation	49,135,904	3,552,920	(429,653)	52,259,171
Total other capital assets, net	85,228,737	1,380,846	-	86,609,583
Capital assets, net	<u>\$ 88,835,630</u>	<u>\$4,221,774</u>	<u>\$ (663,156)</u>	<u>\$ 92,394,248</u>

During the years ended December 31, 2024 and 2023, the District capitalized no interest in either year and expensed \$408,924 and \$442,298 of interest costs, respectively.

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HARDIN COUNTY WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE 6 – LONG-TERM OBLIGATIONS

The construction costs of the District's water facilities have been financed by issuance of revenue bonds authorized under Kentucky Revised. All assets of the District are pledged as collateral for these bonds. Information relating to the outstanding bond issues is summarized below:

<u>Issue</u>	<u>Interest Rate</u>	<u>Face Amount</u>	<u>Bonds Due 12/31/2024</u>	<u>Bonds Due 12/31/2023</u>
2012 Series	1.0% - 3.75%	\$ 6,070,000	\$ 3,630,000	\$ 3,860,000
2016 Series A	3.875%	3,400,000	3,201,500	3,244,500
2016 Series B	2.0% - 3.0%	2,180,000	485,000	720,000
2016 Series C	2.0% - 3.0%	2,430,000	320,000	630,000
2022 Series A	1.450%	2,310,400	1,823,500	2,071,200
Unamortized bond premiums (discounts)			(4,325)	21,256
			<u>\$ 9,455,675</u>	<u>\$ 10,546,956</u>

Long-term liability activity for the year ended December 31, 2024, was as follows:

	<u>Balance at December 31, 2023</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2024</u>	<u>Amount Due Within One Year</u>
Bonds and notes payable:					
Revenue bonds	\$ 10,525,700	\$ -	\$ (1,065,700)	\$ 9,460,000	\$ 1,089,900
Notes payable	3,753,873	-	(296,956)	3,456,917	305,108
Unamortized bond premium (discount)	21,256	-	(25,581)	(4,325)	-
Total bonds and notes payable	14,300,829	-	(1,388,237)	12,912,592	1,395,008
Other liabilities:					
SBITA liability	23,810	28,931	(38,805)	13,936	7,138
Customer deposits	344,308	157,605	(164,305)	337,608	33,761
Accrued compensated absences	526,619	43,660	-	570,279	570,279
Customer advances for construction	88,100	178,297	(101,059)	165,338	165,338
Total other liabilities	982,837	408,493	(304,169)	1,087,161	776,516
Long-term liabilities	<u>\$ 15,283,666</u>	<u>\$ 408,493</u>	<u>\$ (1,692,406)</u>	<u>\$ 13,999,753</u>	<u>\$ 2,171,524</u>

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HARDIN COUNTY WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Long-term liability activity for the year ended December 31, 2023, was as follows:

	Balance at December 31, 2022	Additions	Reductions	Balance at December 31, 2023	Amount Due Within One Year
Bonds and notes payable:					
Revenue bonds	\$ 11,546,400	\$ -	\$ (1,020,700)	\$ 10,525,700	\$ 1,065,700
Notes payable	4,042,895	-	(289,022)	3,753,873	296,956
Unamortized bond premium (discount)	44,727	-	(23,471)	21,256	-
Total bonds and notes payable	15,634,022	-	(1,333,193)	14,300,829	1,362,656
Other liabilities:					
SBITA liability	48,810	-	(25,000)	23,810	23,810
Customer deposits	366,381	146,817	(168,890)	344,308	34,431
Accrued compensated absences	454,711	71,908	-	526,619	526,619
Customer advances for construction	71,000	99,000	(81,900)	88,100	88,100
Total other liabilities	940,902	317,725	(275,790)	982,837	672,960
Long-term liabilities	<u>\$ 16,574,924</u>	<u>\$ 317,725</u>	<u>\$ (1,608,983)</u>	<u>\$ 15,283,666</u>	<u>\$ 2,035,616</u>

Accrued compensated absences in the previous tables were restated for the effects of the adoption of GASB 101, as described in more detail in Note 1. In addition, the change in accrued compensated absences is shown as a net amount.

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

Revenue Fund

All receipts for services are deposited into this fund and, subsequently, disbursed into the following required funds:

Bond and Interest Redemption 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 2012 Series, 2016 Series A, 2016 Series B, 2016 Series C and 2022 Series A and 1/12 of the next ensuing principal and interest payment on the note payable.

Depreciation Fund

The District is required to transfer \$20,295 per month until the fund balance reaches \$272,400 (the fund was fully funded at December 31, 2024). Also, \$4,000 per month is deposited for replacement or purchase of short-term assets. This fund also receives the proceeds from the sale of any property or equipment. This fund may be used to purchase new or replacement property and equipment.

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Operation and Maintenance Fund

This fund receives, on a monthly basis, sufficient amounts to pay current expenses from the Revenue Fund after the above transfers have been made. This fund is used to pay operating expenditures. This account is funded until it reaches two months of forecasted operating expenses. Any surplus left may be added to the Bond and Interest Redemption Fund.

The District requires new customers to provide a \$60 deposit for initial water service. Current customers in good standing who add additional service locations are not required to pay an additional deposit.

Bond and note maturities and Sinking Fund requirements in each of the next five years and in five year increments thereafter are as follows at December 31, 2024:

Year	Revenue Bonds			Notes		
	Principal	Interest	Totals	Principal	Interest	Totals
2025	\$ 1,089,900	\$ 278,715	\$ 1,368,615	\$ 305,108	\$ 94,892	\$ 400,000
2026	788,900	254,901	1,043,801	313,483	86,517	400,000
2027	552,400	238,915	791,315	322,088	77,912	400,000
2028	570,000	226,625	796,625	330,929	69,071	400,000
2029	577,200	213,328	790,528	340,013	59,987	400,000
2030-2034	2,190,100	863,106	3,053,206	1,845,296	154,704	2,000,000
2035-2039	1,384,000	576,415	1,960,415	-	-	-
2040-2044	455,500	409,678	865,178	-	-	-
2045-2049	545,500	312,199	857,699	-	-	-
2050-2054	668,000	193,368	861,368	-	-	-
2055-2058	638,500	51,498	689,998	-	-	-
Total	<u>\$ 9,460,000</u>	<u>\$3,618,748</u>	<u>\$ 13,078,748</u>	<u>\$3,456,917</u>	<u>\$ 543,083</u>	<u>\$ 4,000,000</u>
Year	Sinking Fund					
	Requirements					
2025	\$	1,768,615				
2026		1,443,801				
2027		1,191,315				
2028		1,196,625				
2029		1,190,528				
2030-2034		5,053,206				
2035-2039		1,960,415				
2040-2044		865,178				
2045-2049		857,699				
2050-2054		861,368				
2055-2058		689,998				
Total	<u>\$</u>	<u>17,078,748</u>				

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NOTE 7 – SBITA LIABILITY

On May 7, 2024, the District entered into a SBITA for an app for smartphones. The agreement calls for annual payments of \$7,495. The District recognized a subscription liability and subscription asset related to the agreement totaling \$28,931. On February 17, 2022, the District entered into a SBITA for GIS software. The agreement calls for annual payments of \$25,000 over a period of 3 years. The District recognized a subscription liability and a subscription asset related to the agreement totaling \$48,810. The District calculated the present value of future payments based on an incremental borrowing rate of 5.00%. The balance of the SBITA liability as of December 31, 2024 and 2023, totaled \$13,936 and \$23,810, respectively.

Annual requirements to maturity for long-term SBITA obligations are as follows:

Year	Principal	SBITA	
		Interest	Totals
2025	\$ 7,138	\$ 357	\$ 7,495
2026	6,798	697	7,495
Total	<u>\$ 13,936</u>	<u>\$ 1,054</u>	<u>\$ 14,990</u>

The balance of the corresponding SBITA asset as of December 31, 2024 and 2023, totaled \$77,741 and \$48,810, net of accumulated amortization of \$58,454 and \$24,405, respectively.

NOTE 8 - RETIREMENT PLAN

Plan Description

The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which is a cost-sharing multiple-employer defined benefit plan. CERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Public Pensions Authority (KPPA) administers the CERS. The CERS issues a publicly available financial report that includes financial statements, required supplementary information and detailed information about CERS' fiduciary net position. CERS' report may be obtained at www.kyret.ky.gov.

Benefits Provided

The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly has the authority to increase, suspend or reduce COLAs. Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100% funded or (2) the Legislature appropriates sufficient funds to pay the increased liability for the COLA. No COLA has been granted since July 1, 2011.

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Contributions

For the calendar year ended December 31, 2024, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were 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 preceding 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 bases adopted by the Board.

The District's contractually required contribution rate for the calendar year ended December 31, 2023, was 23.34 percent for the period January 1 to June 30 and 19.71 percent for the period July 1 through December 31. Contributions to the pension plan for the years ended December 31, 2024 and 2023, from the District were \$1,142,064 and \$1,063,966, respectively. At December 31, 2024 and 2023, the District owed \$117,081 and \$184,414, respectively, to the plan for employer and member contributions for the year ended December 31, 2023. The payable includes both the pension and insurance contribution allocation.

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

At December 31, 2024, the District reported a liability of \$10,843,944 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2023 using standard roll-forward techniques. 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, actuarially determined. At June 30, 2024, the District's proportion was 0.181324 percent, which was an increase of .022923 percent from its proportion measured as of June 30, 2023.

For the year ended December 31, 2024, the District recognized pension expense of \$1,278,724. At December 31, 2024, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 524,867	\$ -
Changes in actuarial assumptions	-	489,933
Difference between projected and actual investment earnings	-	697,207
Changes in proportion and proportionate share of contributions	1,154,057	-
District contributions subsequent to the measurement date	550,739	-
	<u>\$ 2,229,663</u>	<u>\$ 1,187,140</u>

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The \$550,739 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, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources as of December 31, 2024 will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	
2025	\$ 356,686
2026	\$ 558,492
2027	\$ (268,014)
2028	\$ (155,380)

The total pension liability in the June 30, 2024, actuarial valuation using standard roll-forward techniques was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2024
Actuarial Cost Method	Entry Age Normal

Actuarial Assumptions:

Discount Rate	6.50 percent
Inflation	2.50 percent
Salary increases	3.30 percent to 10.30 percent, including inflation
Investment rate of return	6.50 percent, net of pension 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-2014 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, 2023) to the plan's fiscal year ending June 30, 2024.

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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 table below.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Public Equity	50.00%	4.15%
Private Equity	10.00%	9.10%
Core Fixed Income	10.00%	2.85%
Specialty Credit	10.00%	3.82%
Cash	0.00%	1.70%
Real Estate	7.00%	4.90%
Real Return	13.00%	5.35%
Total	<u>100.00%</u>	

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 27-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 determination 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:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
District's proportionate share of the net pension liability	\$ 13,979,615	\$ 10,843,944	\$ 8,242,163

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. CERS' report may be obtained at www.kyret.ky.gov.

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Payable to the Pension Plan

At December 31, 2024 and 2023, the District reported a payable of \$117,081 and \$152,405, respectively, for the outstanding amount of contributions to the pension plan required for the years then ended, respectively. The payable includes both the pension and insurance contribution allocation.

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS PLAN

Plan Description

The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky and is a cost-sharing multiple-employer defined benefit plan. CERS provides other post-employment benefits to plan members and beneficiaries. The Board of Trustees of Kentucky Public Pensions Authority (KPPA) administers CERS. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained at www.kyret.ky.gov. The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KPPA submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

Benefits provided

For members participating prior to July 1, 2003, KPPA pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003, and before September 1, 2008, are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 per month for each year of earned service increased by the CPI prior to July 1, 2009, and by 1.5% annually from July 1, 2009.

Contributions

For the calendar year ended December 31, 2024, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. Participating employers were 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 preceding 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 bases adopted by the Board.

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OPEB Assets, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At December 31, 2024, the District reported an asset of \$310,181 for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2024, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2023 using standard roll-forward techniques. The District's proportion of the net OPEB asset was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participants, actuarially determined. At June 30, 2024, the District's proportion was 0.179316 percent, which was an increase of .020921 percent from its proportion measured as of June 30, 2023.

For the years ended December 31, 2024 and 2023, the District recognized OPEB expense of \$(575,507) and \$154,139, respectively. At December 31, 2024, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 172,085	\$ 2,440,514
Changes in actuarial assumptions	281,061	218,866
Difference between projected and actual investment earnings	-	283,059
Changes in proportion and proportionate share of contributions	412,271	65,084
District contributions subsequent to the measurement date	<u>84,082</u>	<u>-</u>
	<u>\$ 949,499</u>	<u>\$ 3,007,523</u>

The \$84,082 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, 2024. This includes an adjustment of \$84,082 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:

<u>Year Ending December 31,</u>	
2025	\$ (899,871)
2026	\$ (687,612)
2027	\$ (570,376)
2028	\$ 15,753

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The total OPEB asset in the June 30, 2024 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.30% to 10.30%, including inflation
Inflation rate	2.50%
Real Wage Growth	2.00%
Healthcare Trend Rate:	
Pre-65	Initial trend starting at 7.10% at January 1, 2026, and gradually decreasing to an ultimate trend rate of 4.25% over a period of 14 years.
Post-65	Initial trend starting at 8.00% at January 1, 2026, and gradually decreasing to an ultimate trend rate of 4.25% over a period of 14 years.
Municipal Bond Index Rate	3.97%
Discount Rate	5.99%

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 OPEB liability was rolled-forward from the valuation date (June 30, 2023) to the plan's fiscal year ending June 30, 2024.

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.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Public Equity	50.00%	4.15%
Private Equity	10.00%	9.10%
Core Fixed Income	10.00%	2.85%
Specialty Credit	10.00%	3.82%
Cash	0.00%	1.70%
Real Estate	7.00%	4.90%
Real Return	13.00%	5.35%
Total	<u>100.00%</u>	

Benefits provided

The projection of cash flows used to determine the discount rate of 5.99% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 22 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.50%, and a municipal bond rate of 3.97%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2023. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy was not included in the calculation of the 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. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the ACFR.

The projection of cash flows used to determine the single discount rate must include an assumption regarding future employer contributions made each year. Future contributions are projected assuming that each participating employer in each insurance plan contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy, as most recently revised by House Bill 8, passed during the 2021 legislative session. The assumed future employer contributions reflect the provisions of House Bill 362 (passed during the 2018 legislative session) which limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30, 2028, for the CERS plans.

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Sensitivity Of The District's Proportionate Share Of The Net OPEB Liability To Changes In The Discount Rate

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.99%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.99%) or 1-percentage-point higher (6.99%) than the current rate:

	1% Decrease (4.99%)	Current Discount Rate (5.99%)	1% Increase (6.99%)
District's proportionate share of the net OPEB asset (liability)	\$ (419,400)	\$ 310,181	\$ 923,614

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the healthcare cost trend rates that are 1 percentage-point lower or higher than the current healthcare cost trend rates.

	1% Decrease	Current Discount Rate	1% Increase
District's proportionate share of the net OPEB asset (liability)	\$ 746,258	\$ 310,181	\$ (197,818)

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. CERS' report may be obtained at www.kyret.ky.gov.

NOTE 10 - SELF-INSURANCE

In January 2017, the District implemented a self-insured health insurance plan. Revenues are recognized from payroll deductions for employee dependent coverage and from contributions for employee coverage. Liabilities for unpaid claims are estimated based on a review of claims incurred during the fiscal year but not paid until the following fiscal year. Changes in claims liability during the years ended December 31, 2024 and 2023, were as follows:

Year Ended December 31,	Balance at beginning of year	Current-year claims and changes in estimates	Claim payments and transfers	Balance at end year
2024	\$ 16,078	\$ 1,391,702	\$ 1,399,122	\$ 8,658
2023	\$ 90,698	\$ 1,122,603	\$ 1,197,223	\$ 16,078

Claims due within one year at December 31, 2024 and 2023, were \$8,658 and \$16,078, respectively. The health care coverage program maintains a policy with a commercial insurance company that covers any claims greater than \$35,000 per year per employee and also covers any aggregate claims greater than \$946,819 per year. For the years ended December 31, 2024, 2023 and 2022, no settlements exceeded insurance coverage.

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NOTE 11 – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the years ended December 31:

<u>Source</u>	<u>2024</u>	<u>2023</u>
Federal Government	\$ 900,770	\$ 3,006,430
State of Kentucky	494,980	26,377
Relocation	1,476,079	158,790
Tap fees	886,225	928,275
New lines	1,400,674	21,160
	<u>\$ 5,158,728</u>	<u>\$ 4,141,032</u>

NOTE 12 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES

During 2022, the District implemented 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 as of January 1, 2023, the District restated assets and deferred inflows of resources to recognize both a lease receivable and a deferred inflow of resources related to space on its water towers totaling \$412,003. During the year ended December 31, 2024, the District entered into a new lease agreement that resulted in the recognition of a lease receivable and deferred inflows of resources of \$171,737. Each lease agreement has an initial term of five years, with five-year renewal periods at the option of the lessee. The District has determined that it is not reasonably certain that the lessee will exercise their renewal options, and as a result, the periods covered by those options are not included in the lease receivable balance. The District has calculated the present value of future lease payments based on an incremental borrowing rate of 5%. As of December 31, 2024 and 2023, the District has recognized a lease receivable of \$381,729 and \$327,884, respectively. The present value of expected future minimum leases payments are as follows:

<u>Year</u>	<u>Lease Receivable</u>		<u>Totals</u>
	<u>Principal</u>	<u>Interest</u>	
2025	\$ 112,278	\$ 9,620	\$ 121,898
2026	106,931	14,966	121,897
2027	101,839	20,058	121,897
2028	60,681	14,876	75,557
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 381,729</u>	<u>\$ 59,520</u>	<u>\$ 441,249</u>

Additionally, the District recognized deferred inflows of resources related to the above leases that totaled \$381,279 and \$327,884 as of December 31, 2024 and 2023, respectively. The deferred inflows of resources will be recognized over the term of the lease agreements as lease revenue. During 2024 and 2023, the District recognized \$119,962 and \$102,250, respectively, of revenue from the lease agreements.

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HARDIN COUNTY WATER DISTRICT NO. 2
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NOTE 13 – COMMITMENTS AND CONTINGENCIES

The District is contingently liable with respect to lawsuits and other claims which arise in the ordinary course of its operations. Management of the District and its legal counsel do not anticipate that there will be any material effect on the basic financial statements as a result of any suits or claims against the District.

The District has construction commitments for ongoing projects totaling approximately \$15,200,000, as of December 31, 2024.

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss.

NOTE 14 – 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; and natural disasters. The District was insured for workers' compensation, general liability and automobile liability coverage under a retrospectively rated commercial policy.

NOTE 15 – MANAGEMENT'S REVIEW OF SUBSEQUENT EVENTS

The District has evaluated and considered the need to recognize or disclose subsequent events through March 26, 2025, 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, 2024, have not been evaluated by the District.

REQUIRED SUPPLEMENTARY INFORMATION

HARDIN COUNTY WATER DISTRICT NO. 2**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY**

December 31, 2024

Last 10 Years

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Proportion of the net pension liability	0.181324%	0.158401%	0.147261%	0.155384%	0.150811%
Proportionate share of the net pension liability	\$ 10,843,944	\$ 10,163,813	\$ 10,645,518	\$ 9,906,949	\$ 11,567,079
Covered payroll	\$ 5,348,024	\$ 4,694,277	\$ 4,204,813	\$ 4,068,643	\$ 3,896,841
Proportionate share of the net pension liability as percentage of covered payroll	202.8%	216.5%	253.2%	243.5%	296.8%
Plan fiduciary net position as a percentage of the total pension liability	61.61%	57.48%	52.42%	57.33%	47.81%
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.144962%	0.133757%	0.129145%	0.119917%	0.104554%
Proportionate share of the net pension liability	\$ 10,195,242	\$ 8,146,209	\$ 7,559,254	\$ 5,904,253	\$ 4,495,343
Covered payroll	\$ 3,712,766	\$ 3,313,033	\$ 3,233,237	\$ 2,993,522	\$ 2,638,530
Proportionate share of the net pension liability as percentage of covered payroll	274.6%	245.9%	233.8%	197.2%	170.4%
Plan fiduciary net position as a percentage of the total pension liability	50.45%	53.54%	53.30%	55.50%	59.97%

HARDIN COUNTY WATER DISTRICT NO. 2**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET OPEB LIABILITY**

December 31, 2024

Last 10 Years *

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Proportion of the net OPEB liability	0.179316%	0.158395%	0.147235%	0.155348%
Proportionate share of the net OPEB liability (asset)	\$ (310,181)	\$ (218,691)	\$ 2,905,703	\$ 2,974,060
Covered payroll	\$ 5,348,024	\$ 4,694,277	\$ 4,204,813	\$ 4,068,643
Proportionate share of the net OPEB liability (asset) as percentage of covered payroll	-5.8%	-4.7%	69.1%	73.1%
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	104.89%	104.23%	60.95%	62.91%
	<u>2020</u>	<u>2019</u>	<u>2018</u>	
Proportion of the net OPEB liability	0.150767%	0.144924%	0.133752%	
Proportionate share of the net OPEB liability (asset)	\$ 3,640,565	\$ 2,437,556	\$ 2,374,740	
Covered payroll	\$ 3,896,841	\$ 3,712,766	\$ 3,313,033	
Proportionate share of the net OPEB liability (asset) as percentage of covered payroll	93.4%	65.7%	71.7%	
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	51.67%	60.44%	57.62%	

* Calendar year 2018 was the year of implementation, therefore, only seven years are shown.

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE OF CONTRIBUTIONS TO CERS PENSION
December 31, 2024

Last 10 Years

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Contractually required contribution (actuarially determined)	\$ 1,142,064	\$ 1,063,966	\$ 983,871	\$ 837,969	\$ 778,089
Contribution in relation to the actuarially determined contributions	<u>1,142,064</u>	<u>1,063,966</u>	<u>983,871</u>	<u>837,969</u>	<u>778,089</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 5,575,593	\$ 4,964,732	\$ 4,397,392	\$ 4,130,437	\$ 4,031,549
Contributions as a percentage of covered payroll	20.48%	21.43%	22.37%	20.29%	19.30%
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 686,443	\$ 539,096	\$ 456,294	\$ 412,832	\$ 312,163
Contribution in relation to the actuarially determined contributions	<u>686,443</u>	<u>539,096</u>	<u>456,294</u>	<u>412,832</u>	<u>312,163</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,855,138	\$ 3,501,613	\$ 3,208,084	\$ 3,117,060	\$ 2,939,133
Contributions as a percentage of covered payroll	17.81%	15.40%	14.22%	13.24%	10.62%

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE OF CONTRIBUTIONS TO CERS OPEB
 December 31, 2024

Last 10 Years *

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Contractually required contribution (actuarially determined)	\$ -	\$ 154,139	\$ 197,427	\$ 218,861
Contribution in relation to the actuarially determined contributions	<u>-</u>	<u>154,139</u>	<u>197,427</u>	<u>218,861</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Covered payroll	\$ 5,575,593	\$ 4,964,732	\$ 4,397,392	\$ 4,130,437
Contributions as a percentage of covered payroll	0.00%	3.10%	4.49%	5.30%
	<u>2020</u>	<u>2019</u>	<u>2018</u>	
Contractually required contribution (actuarially determined)	\$ 191,902	\$ 192,855	\$ 174,895	
Contribution in relation to the actuarially determined contributions	<u>191,902</u>	<u>192,855</u>	<u>174,895</u>	
Contribution deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	
Covered payroll	\$ 4,031,549	\$ 3,855,138	\$ 3,501,613	
Contributions as a percentage of covered payroll	4.76%	5.00%	5.00%	

* Calendar year 2018 was the year of implementation, therefore, only seven years are shown.

HARDIN COUNTY WATER DISTRICT NO. 2
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2024

CERS PENSION

Changes of benefit terms. There were no changes in benefit terms from 2015 through 2024.

Changes of assumptions (as of June 30 of the year measurement date):

2015 – The assumed investment rate of return was decreased from 7.75% to 7.50%. The assumed rate of inflation was reduced from 3.50% to 3.25%. The assumed rate of wage inflation was reduced from 1.00% to 0.75%. Payroll growth assumption was reduced from 4.50% to 4.00%. The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

2016 and 2017 – No changes.

2018 – The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

2019 – Annual salary increases and annual rates of retirement, disability, withdrawal and mortality were updated based on the 2018 experience study and the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members.

2020, 2021 and 2022 – No changes.

2023 – The price inflation assumption was increased from 2.30% to 2.50%. The assumed investment return was increased from 6.25% to 6.50%.

2024 – No changes.

HARDIN COUNTY WATER DISTRICT NO. 2
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2024

CERS OPEB

Changes of benefit terms. There were no changes in benefit terms for 2018 through 2024

Changes of assumptions (as of June 30 of the year measurement date):

2018 – The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%. The municipal bond rate increased from 3.56% to 3.62%.

2019 – The discount rate was changed from 5.85% to 5.68%. Annual salary increases and annual rates of retirement, disability, withdrawal and mortality were updated based on the 2018 experience study and the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members. The municipal bond rate decreased from 3.62% to 3.13%.

2020 – The discount rate used to calculate the total OPEB liability decreased from 5.68% to 5.34%. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. Also, the June 30, 2020 actuarial information reflects the anticipated savings from the repeal of the “Cadillac Tax” and “Health Insurer Fee”, which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee. The municipal bond rate decreased from 3.13% to 2.45%.

2021 – The discount rate used to calculate the total OPEB liability decreased from 5.34% to 5.20%. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2020 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. The municipal bond rate decreased from 2.45% to 1.92%

2022 – The discount rate used to calculate the total OPEB liability increased from 5.20% to 5.70%. The municipal bond rate increased from 1.92% to 3.69%.

2023 – The discount rate used to calculate the total OPEB liability increased from 5.70% to 5.93%. The municipal bond rate increased from 3.69% to 3.86%. The price inflation assumption was increased from 2.30% to 2.50%. The assumed investment return was increased from 6.25% to 6.50%.

2024 – 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%.

OTHER SUPPLEMENTARY INFORMATION

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE I - BOND AND INTEREST REQUIREMENTS
DECEMBER 31, 2024

	\$ 6,070,000 2012 SERIES		\$ 3,400,000 2016 SERIES A	
	BOND	INTEREST	BOND	INTEREST
2025	\$ 235,000	\$ 113,425	\$ 44,500	\$ 124,914
2026	245,000	107,119	46,500	123,127
2027	245,000	100,381	48,500	121,261
2028	255,000	93,506	50,500	119,641
2029	265,000	86,356	52,500	117,294
2030	270,000	78,663	54,500	115,192
2031	280,000	70,063	57,000	113,002
2032	295,000	60,719	59,500	111,014
2033	300,000	50,675	62,000	108,328
2034	210,000	41,750	64,500	105,843
2035	220,000	34,225	67,000	103,260
2036	230,000	26,063	70,000	100,841
2037	235,000	17,344	72,500	97,770
2038	250,000	8,250	75,500	94,864
2039	85,000	1,969	79,000	91,829
2040	10,000	188	82,000	88,906
2041			85,500	85,377
2042			89,000	81,949
2043			92,500	78,385
2044			96,500	74,872
2045			100,500	70,804
2046			104,500	66,777
2047			109,000	62,585
2048			113,500	58,367
2049			118,000	53,667
2050			123,000	48,934
2051			128,000	44,004
2052			133,500	38,967
2053			139,000	33,516
2054			144,500	27,947
2055			150,500	22,153
2056			156,500	16,159
2057			163,000	9,849
2058			168,500	3,337
	<u>\$ 3,630,000</u>	<u>\$ 890,696</u>	<u>\$ 3,201,500</u>	<u>\$ 2,614,735</u>

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE I - BOND AND INTEREST REQUIREMENTS
DECEMBER 31, 2024
(CONTINUED)

	\$ 2,180,000 2016 SERIES B		\$ 2,430,000 2016 SERIES C	
	<u>BOND</u>	<u>INTEREST</u>	<u>BOND</u>	<u>INTEREST</u>
2025	\$ 240,000	\$ 10,950	\$ 320,000	\$ 4,800
2026	245,000	3,675		
2027				
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	<u>\$ 485,000</u>	<u>\$ 14,625</u>	<u>\$ 320,000</u>	<u>\$ 4,800</u>

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE I - BOND AND INTEREST REQUIREMENTS
DECEMBER 31, 2024
(CONTINUED)

	\$ 2,430,000 2022 SERIES A		TOTAL ALL ISSUES	
	BOND	INTEREST	BOND	INTEREST
2025	\$ 250,400	\$ 24,626	\$ 1,089,900	\$ 278,715
2026	252,400	20,980	788,900	254,901
2027	258,900	17,273	552,400	238,915
2028	264,500	13,477	570,000	226,624
2029	259,700	9,678	577,200	213,328
2030	264,400	5,878	588,900	199,733
2031	273,200	1,981	610,200	185,046
2032			354,500	171,733
2033			362,000	159,003
2034			274,500	147,593
2035			287,000	137,485
2036			300,000	126,904
2037			307,500	115,114
2038			325,500	103,114
2039			164,000	93,798
2040			92,000	89,094
2041			85,500	85,377
2042			89,000	81,949
2043			92,500	78,385
2044			96,500	74,872
2045			100,500	70,804
2046			104,500	66,777
2047			109,000	62,585
2048			113,500	58,367
2049			118,000	53,667
2050			123,000	48,934
2051			128,000	44,004
2052			133,500	38,967
2053			139,000	33,516
2054			144,500	27,947
2055			150,500	22,153
2056			156,500	16,159
2057			163,000	9,849
2058			168,500	3,337
	<u>\$ 1,823,500</u>	<u>\$ 93,893</u>	<u>\$ 9,460,000</u>	<u>\$ 3,618,749</u>

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE II - GENERAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED DECEMBER 31,

	2024	2023
Salaries	\$ 1,925,244	\$ 1,724,733
Commissioner's salaries	30,203	28,996
Employee benefits	1,042,609	1,085,860
Materials and supplies	58,041	38,233
Professional fees and contractual services	330,866	332,714
Insurance	157,402	145,393
Advertising	-	5,860
Amortization	34,049	24,405
Other general and administrative	<u>285,273</u>	<u>278,068</u>
	<u>\$ 3,863,687</u>	<u>\$ 3,664,262</u>

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE III - ORGANIZATION DATA
DECEMBER 31, 2024

WATER COMMISSIONERS

Michael Bell – Chairman
Brian Woosley – Secretary/Treasurer
Cordell Tabb – Member
Tim Davis – Member
Daniel Feeser – Member

GENERAL MANAGER

Shaun Youravich

ATTORNEY

Stoll, Keenon, Ogden, PLLC

CALENDAR YEAR

January 1 to December 31

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE IV - COMBINING SCHEDULE OF NET POSITION - WATER & SEWER DIVISIONS

DECEMBER 31, 2024

<u>ASSETS</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CURRENT ASSETS:			
Cash and cash equivalents	\$ 3,720,500	\$ 318,141	\$ 4,038,641
Investments	13,220,372	-	13,220,372
Accounts receivable, net	2,017,954	63,914	2,081,868
Interest receivable	56,813	-	56,813
Prepaid expenses	182,148	-	182,148
Stop loss receivable	10,433	-	10,433
Interdivision balances	328,135	(328,135)	-
Federal grants receivable	406,878	531,740	938,618
Lease receivable, current	112,278	-	112,278
Capital contribution receivable	738,636	-	738,636
Materials and supplies	2,001,486	510,265	2,511,751
TOTAL CURRENT ASSETS	22,795,633	1,095,925	23,891,558
NONCURRENT ASSETS:			
Restricted cash and cash equivalents	6,217,813	265,664	6,483,477
Restricted investments	1,207,394	-	1,207,394
Lease receivable, noncurrent	269,451	-	269,451
Regulatory asset - deferred rate case expense	170,132	-	170,132
Regulatory asset on CERS pension	9,801,421	-	9,801,421
Regulatory asset on CERS OPEB	1,747,843	-	1,747,843
Net OPEB asset - CERS	310,181	-	310,181
SBITA asset, net of accumulated amortization	19,287	-	19,287
Non-depreciable capital assets	4,156,266	506,476	4,662,742
Depreciable capital assets, net of accumulated depreciation	74,880,058	15,955,397	90,835,455
TOTAL NONCURRENT ASSETS	98,779,846	16,727,537	115,507,383
TOTAL ASSETS	121,575,479	17,823,462	139,398,941
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on debt refundings	47,239	-	47,239
Deferred amount on CERS pension	2,229,663	-	2,229,663
Deferred amount on CERS OPEB	949,499	-	949,499
Utility acquisition adjustments	97,304	-	97,304
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 3,323,705	\$ -	\$ 3,323,705

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE IV - COMBINING SCHEDULE OF NET POSITION - WATER & SEWER DIVISIONS

DECEMBER 31, 2024

	Water	Sewer	Total
CURRENT LIABILITIES:			
Accounts payable	\$ 414,733	\$ 10,270	\$ 425,003
Construction projects payable	391,961	10,000	401,961
Unearned revenue	106,019	-	106,019
Elizabethtown sewer payable	720,780	-	720,780
Accrued taxes	75,863	10,593	86,456
Accrued liabilities	122,999	-	122,999
Accrued compensated absences	570,279	-	570,279
Customer deposits, current	33,761	-	33,761
Customer advances for construction	165,338	-	165,338
Bonds payable, current	1,089,900	-	1,089,900
Notes payable, current	305,108	-	305,108
SBITA liability, current	7,138	-	7,138
Self-insurance payable	8,658	-	8,658
TOTAL CURRENT LIABILITIES	4,012,537	30,863	4,043,400
NONCURRENT LIABILITIES:			
Customer deposits	303,847	-	303,847
SBITA liability	6,798	-	6,798
Net pension liability - CERS	10,843,944	-	10,843,944
Bonds payable	8,365,775	-	8,365,775
Notes payable	3,151,809	-	3,151,809
TOTAL NONCURRENT LIABILITIES	22,672,173	-	22,672,173
TOTAL LIABILITIES	26,684,710	30,863	26,715,573
DEFERRED INFLOWS OF RESOURCES			
Deferred amount on tank lease receivable	381,729	-	381,729
Deferred amount on CERS pension	1,187,140	-	1,187,140
Deferred amount on CERS OPEB	3,007,523	-	3,007,523
TOTAL DEFERRED INFLOWS OF RESOURCES	4,576,392	-	4,576,392
NET POSITION			
Net investment in capital assets	65,881,665	16,451,873	82,333,538
Restricted for debt service	2,574,241	-	2,574,241
Restricted for capital projects	4,496,812	265,664	4,762,476
Restricted for customers	354,154	-	354,154
Unrestricted	20,331,210	1,075,062	21,406,272
TOTAL NET POSITION	\$ 93,638,082	\$ 17,792,599	\$ 111,430,681

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE IV - COMBINING SCHEDULE OF NET POSITION - WATER & SEWER DIVISIONS

DECEMBER 31, 2023

<u>ASSETS</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CURRENT ASSETS:			
Cash and cash equivalents	\$ 3,404,903	\$ 457,652	\$ 3,862,555
Investments	12,563,494	-	12,563,494
Accounts receivable, net	1,650,939	914	1,651,853
Interest receivable	55,602	-	55,602
Prepaid expenses	122,349	-	122,349
Stop loss receivable	-	-	-
Interdivision balances	(20,201)	20,201	-
Federal grants receivable	862,767	-	862,767
Lease receivable, current	80,114	-	80,114
Capital contribution receivable	-	-	-
Materials and supplies	2,271,268	-	2,271,268
TOTAL CURRENT ASSETS	20,991,235	478,767	21,470,002
NONCURRENT ASSETS:			
Restricted cash and cash equivalents	6,719,943	345,860	7,065,803
Restricted investments	1,207,394	-	1,207,394
Lease receivable, noncurrent	247,770	-	247,770
Regulatory asset - deferred rate case expense	-	-	-
Regulatory asset on CERS pension	9,854,763	-	9,854,763
Regulatory asset on CERS OPEB	2,431,287	-	2,431,287
Net OPEB asset - CERS	218,691	-	218,691
SBITA asset, net of accumulated amortization	24,405	-	24,405
Non-depreciable capital assets	4,650,627	1,134,038	5,784,665
Depreciable capital assets, net of accumulated depreciation	72,058,031	14,551,552	86,609,583
TOTAL NONCURRENT ASSETS	97,412,911	16,031,450	113,444,361
TOTAL ASSETS	118,404,146	16,510,217	134,914,363
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on debt refundings	57,766	-	57,766
Deferred amount on CERS pension	1,575,976	-	1,575,976
Deferred amount on CERS OPEB	906,733	-	906,733
Utility acquisition adjustments	107,034	-	107,034
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 2,647,509	\$ -	\$ 2,647,509

HARDIN COUNTY WATER DISTRICT NO. 2

SCHEDULE IV - COMBINING SCHEDULE OF NET POSITION - WATER & SEWER DIVISIONS

DECEMBER 31, 2023

	Water	Sewer	Total
CURRENT LIABILITIES:			
Accounts payable	\$ 235,347	\$ 4,445	\$ 239,792
Construction projects payable	180,944	165,013	345,957
Unearned revenue	106,164	-	106,164
Elizabethtown sewer payable	665,975	-	665,975
Accrued taxes	57,877	1,004	58,881
Accrued liabilities	185,414	-	185,414
Accrued compensated absences	526,619	-	526,619
Customer deposits, current	34,431	-	34,431
Customer advances for construction	88,100	-	88,100
Bonds payable, current	1,065,700	-	1,065,700
Notes payable, current	296,956	-	296,956
SBITA liability, current	23,810	-	23,810
Self-insurance payable	16,078	-	16,078
TOTAL CURRENT LIABILITIES	3,483,415	170,462	3,653,877
NONCURRENT LIABILITIES:			
Customer deposits	309,877	-	309,877
SBITA liability	-	-	-
Net pension liability - CERS	10,163,813	-	10,163,813
Bonds payable	9,481,256	-	9,481,256
Notes payable	3,456,917	-	3,456,917
TOTAL NONCURRENT LIABILITIES	23,411,863	-	23,411,863
TOTAL LIABILITIES	26,895,278	170,462	27,065,740
DEFERRED INFLOWS OF RESOURCES			
Deferred amount on tank lease receivable	327,884	-	327,884
Deferred amount on CERS pension	1,266,926	-	1,266,926
Deferred amount on CERS OPEB	3,556,711	-	3,556,711
TOTAL DEFERRED INFLOWS OF RESOURCES	5,151,521	-	5,151,521
NET POSITION			
Net investment in capital assets	62,392,280	15,520,577	77,912,857
Restricted for debt service	2,536,456	-	2,536,456
Restricted for capital projects	5,009,440	345,860	5,355,300
Restricted for customers	381,441	-	381,441
Unrestricted	18,685,239	473,318	19,158,557
TOTAL NET POSITION	\$ 89,004,856	\$ 16,339,755	\$ 105,344,611

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE V - COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - WATER & SEWER DIVISIONS
YEAR ENDED DECEMBER 31, 2024

	Water	Sewer	Total
OPERATING REVENUES:			
Water sales	\$ 15,820,338	\$ -	\$ 15,820,338
Sewer sales	-	580,650	580,650
Other operating income	806,271	17,281	823,552
TOTAL OPERATING REVENUES	16,626,609	597,931	17,224,540
OPERATING EXPENSES:			
Power purchased	1,042,157	25,097	1,067,254
Purchased water	1,153,404	-	1,153,404
Pumping and treatment labor	2,065,158	-	2,065,158
Purification supplies and expense	793,601	24,208	817,809
Transmission and distribution labor	3,251,684	-	3,251,684
Transmission and distribution supplies and expense	494,923	112,502	607,425
Transmission and distribution maintenance and repairs	103,039	-	103,039
Equipment rental	21,786	-	21,786
Transportation expense	296,553	-	296,553
Water treatment maintenance and expense	321,836	-	321,836
General and administrative expenses	3,834,978	28,709	3,863,687
Depreciation	3,367,469	296,844	3,664,313
TOTAL OPERATING EXPENSES	16,746,588	487,360	17,233,948
OPERATING INCOME (LOSS)	(119,979)	110,571	(9,408)
NON-OPERATING REVENUES (EXPENSES):			
Investment income	1,031,926	25,003	1,056,929
Other income	211,810	360	212,170
Gain on disposal of capital assets	71,251	-	71,251
Interest expense on long-term debt	(408,924)	-	(408,924)
Amortization of bond discount and utility acquisition	5,324	-	5,324
TOTAL NON-OPERATING REVENUES (EXPENSES)	911,387	25,363	936,750
CAPITAL CONTRIBUTIONS	3,841,818	1,316,910	5,158,728
CHANGE IN NET POSITION	4,633,226	1,452,844	6,086,070
NET POSITION, beginning of year, as restated	89,004,856	16,339,755	105,344,611
NET POSITION, end of year	\$ 93,638,082	\$ 17,792,599	\$ 111,430,681

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE V - COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - WATER & SEWER DIVISIONS
YEAR ENDED DECEMBER 31, 2023

	Water	Sewer	Total
OPERATING REVENUES:			
Water sales	\$ 14,542,058	\$ -	\$ 14,542,058
Sewer sales	-	212,229	212,229
Other operating income	982,758	549	983,307
TOTAL OPERATING REVENUES	15,524,816	212,778	15,737,594
OPERATING EXPENSES:			
Power purchased	1,004,258	10,802	1,015,060
Purchased water	987,973	-	987,973
Pumping and treatment labor	2,008,528	-	2,008,528
Purification supplies and expense	756,355	24,804	781,159
Transmission and distribution labor	3,119,226	-	3,119,226
Transmission and distribution supplies and expense	422,464	50,094	472,558
Transmission and distribution maintenance and repairs	76,378	-	76,378
Equipment rental	11,694	-	11,694
Transportation expense	280,403	-	280,403
Water treatment maintenance and expense	279,773	-	279,773
General and administrative expenses	3,637,792	26,470	3,664,262
Depreciation	3,257,042	295,878	3,552,920
TOTAL OPERATING EXPENSES	15,841,886	408,048	16,249,934
OPERATING INCOME (LOSS)	(317,070)	(195,270)	(512,340)
NON-OPERATING REVENUES (EXPENSES):			
Investment income	853,825	26,432	880,257
Other income	206,984	-	206,984
Gain on disposal of capital assets	74,500	-	74,500
Interest expense on long-term debt	(442,298)	-	(442,298)
Amortization of bond discount and utility acquisition	(933)	-	(933)
TOTAL NON-OPERATING REVENUES (EXPENSES)	692,078	26,432	718,510
CAPITAL CONTRIBUTIONS	4,114,655	26,377	4,141,032
CHANGE IN NET POSITION	4,489,663	(142,461)	4,347,202
NET POSITION, beginning of year, as restated	84,515,193	16,482,216	100,997,409
NET POSITION, end of year	\$ 89,004,856	\$ 16,339,755	\$ 105,344,611

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE VI - SCHEDULES OF NET POSITION - WATER DIVISION
DECEMBER 31,

<u>ASSETS</u>	2024	2023
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,720,500	\$ 3,404,903
Investments	13,220,372	12,563,494
Accounts receivable, net	2,017,954	1,650,939
Interest receivable, net	56,813	55,602
Prepaid expenses	182,148	122,349
Stop loss receivable	10,433	-
Due from sewer division	328,135	-
Federal grants receivable	406,878	862,767
Lease receivable, current	112,278	80,114
Capital contribution receivable	738,636	-
Materials and supplies	2,001,486	2,271,268
TOTAL CURRENT ASSETS	22,795,633	21,011,436
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	6,217,813	6,719,943
Restricted investments	1,207,394	1,207,394
Lease receivable, noncurrent	269,451	247,770
Regulatory asset - deferred rate case expense	170,132	-
Regulatory asset on CERS pension	9,801,421	9,854,763
Regulatory asset on CERS OPEB	1,747,843	2,431,287
NET OPEB asset - CERS	310,181	218,691
SBITA asset, net of accumulated amortization	19,287	24,405
Non-depreciable capital assets	4,156,266	4,650,627
Depreciable capital assets, net of accumulated depreciation	74,880,058	72,058,031
TOTAL NONCURRENT ASSETS	98,779,846	97,412,911
TOTAL ASSETS	121,575,479	118,424,347
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt refundings	47,239	57,766
Deferred amount on CERS pension	2,229,663	1,575,976
Deferred amount on CERS OPEB	949,499	906,733
Utility acquisition adjustments	97,304	107,034
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,323,705	2,647,509
<u>LIABILITIES</u>		
CURRENT LIABILITIES:		
Accounts payable	414,733	235,347
Construction projects payable	391,961	180,944
Due to sewer division	-	20,201
Unearned revenue	106,019	106,164
Elizabethtown sewer payable	720,780	665,975
Accrued taxes	75,863	57,877
Accrued liabilities	122,999	185,414
Accrued compensated absences	570,279	526,619
Customer deposits, current	33,761	34,431
Customer advances for construction	165,338	88,100
Bonds payable, current	1,089,900	1,065,700
Notes payable, current	305,108	296,956
SBITA liability, current	7,138	23,810
Self-insurance payable	8,658	16,078
TOTAL CURRENT LIABILITIES	4,012,537	3,503,616
NONCURRENT LIABILITIES:		
Customer deposits	303,847	309,877
SBITA liability	6,798	-
Net pension liability - CERS	10,843,944	10,163,813
Bonds payable	8,365,775	9,481,256
Notes payable	3,151,809	3,456,917
TOTAL NONCURRENT LIABILITIES	22,672,173	23,411,863
TOTAL LIABILITIES	26,684,710	26,915,479
DEFERRED INFLOWS OF RESOURCES		
Deferred amount on tank lease receivable	381,729	327,884
Deferred amount on CERS pension	1,187,140	1,266,926
Deferred amount on CERS OPEB	3,007,523	3,556,711
TOTAL DEFERRED INFLOWS OF RESOURCES	4,576,392	5,151,521
<u>NET POSITION</u>		
Net investment in capital assets	65,881,665	62,392,280
Restricted for debt service	2,574,241	2,536,456
Restricted for capital projects	4,496,812	5,009,440
Restricted for customers	354,154	381,441
Unrestricted	20,331,210	18,685,239
TOTAL NET POSITION	\$ 93,638,082	\$ 89,004,856

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE VII - SCHEDULES OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - WATER DIVISION
YEARS ENDED DECEMBER 31,

	2024	2023
OPERATING REVENUES:		
Water sales	\$ 15,820,338	\$ 14,542,058
Other operating income	806,271	982,758
TOTAL OPERATING REVENUES	16,626,609	15,524,816
OPERATING EXPENSES:		
Power purchased	1,042,157	1,004,258
Purchased water	1,153,404	987,973
Pumping and treatment labor	2,065,158	2,008,528
Purification supplies and expense	793,601	756,355
Transmission and distribution labor	3,251,684	3,119,226
Transmission and distribution supplies and expense	494,923	422,464
Transmission and distribution maintenance and repairs	103,039	76,378
Equipment rental	21,786	11,694
Transportation expense	296,553	280,403
Water treatment maintenance and expense	321,836	279,773
General and administrative expenses	3,834,978	3,637,792
Depreciation	3,367,469	3,257,042
TOTAL OPERATING EXPENSES	16,746,588	15,841,886
OPERATING (LOSS)	(119,979)	(317,070)
NON-OPERATING REVENUES (EXPENSES):		
Investment income	1,031,926	853,825
Other income	211,810	206,984
Gain on disposal of capital assets	71,251	74,500
Interest expense on long-term debt	(408,924)	(442,298)
Amortization of bond discount and utility acquisition	5,324	(933)
TOTAL NON-OPERATING REVENUES (EXPENSES)	911,387	692,078
CAPITAL CONTRIBUTIONS	3,841,818	4,114,655
CHANGE IN NET POSITION	4,633,226	4,489,663
NET POSITION, beginning of year, as restated	89,004,856	84,515,193
NET POSITION, end of year	<u>\$ 93,638,082</u>	<u>\$ 89,004,856</u>

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE VIII - SCHEDULES OF NET POSITION - SEWER DIVISION
DECEMBER 31,

	<u>ASSETS</u>	2024	2023
CURRENT ASSETS:			
Cash and cash equivalents		\$ 318,141	\$ 457,652
Accounts receivable, net		63,914	914
Materials and supplies		531,740	-
Federal grants receivable		510,265	-
Due from water division		-	20,201
		<hr/>	<hr/>
TOTAL CURRENT ASSETS		1,424,060	478,767
NONCURRENT ASSETS:			
Restricted cash and cash equivalents		265,664	345,860
Non-depreciable capital assets		506,476	1,134,038
Depreciable capital assets, net of accumulated depreciation		15,955,397	14,551,552
		<hr/>	<hr/>
TOTAL NONCURRENT ASSETS		16,727,537	16,031,450
		<hr/>	<hr/>
TOTAL ASSETS		18,151,597	16,510,217
		<hr/>	<hr/>
	<u>LIABILITIES</u>		
CURRENT LIABILITIES:			
Accounts payable		10,270	4,445
Construction projects payable		10,000	165,013
Due to water division		328,135	-
Accrued taxes		10,593	1,004
		<hr/>	<hr/>
TOTAL CURRENT LIABILITIES		358,998	170,462
		<hr/>	<hr/>
TOTAL LIABILITIES		358,998	170,462
		<hr/>	<hr/>
	<u>NET POSITION</u>		
Net investment in capital assets		16,451,873	15,520,577
Restricted for capital projects		265,664	345,860
Unrestricted		1,075,062	473,318
		<hr/>	<hr/>
TOTAL NET POSITION		\$ 17,792,599	\$ 16,339,755
		<hr/> <hr/>	<hr/> <hr/>

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE IX - SCHEDULES OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - SEWER DIVISION
YEARS ENDED DECEMBER 31,

	2024	2023
OPERATING REVENUES:		
Sewer sales	\$ 580,650	\$ 212,229
Other operating income	17,281	549
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	597,931	212,778
OPERATING EXPENSES:		
Power purchased	25,097	10,802
Purification supplies and expense	24,208	24,804
Transmission and distribution supplies and expense	112,502	50,094
General and administrative expenses	28,709	26,470
Depreciation	296,844	295,878
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	487,360	408,048
OPERATING INCOME (LOSS)	110,571	(195,270)
NON-OPERATING REVENUES (EXPENSES):		
Investment income	25,003	26,432
Other income	360	-
	<hr/>	<hr/>
TOTAL NON-OPERATING REVENUES (EXPENSES)	25,363	26,432
CAPITAL CONTRIBUTIONS	1,316,910	26,377
	<hr/>	<hr/>
CHANGE IN NET POSITION	1,452,844	(142,461)
NET POSITION, beginning of year	16,339,755	16,482,216
	<hr/>	<hr/>
NET POSITION, end of year	\$ 17,792,599	\$ 16,339,755
	<hr/>	<hr/>

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2024

GRANTOR/PROGRAM TITLE	FEDERAL AL NUMBER	PASS- THROUGH NUMBER	PASSED THROUGH TO SUBRECIPIENTS	EXPENDITURES
U.S. DEPARTMENT OF THE TREASURY				
Passed through Hardin County Fiscal Court				
COVID-19 - Downtown Transmission Main	21.027	2022-262	\$ -	\$ 15,455
COVID-19 - Southern Hardin County Wastewater Study	21.027	2024-022	-	185,000
Passed through Kentucky Infrastructure Authority				
COVID-19 - Mulberry Tank	21.027	21CWW076	-	55,950
COVID-19 - Glendale Tank	21.027	22KFW012	-	297,625
COVID-19 - BOSC SEWER	21.027	22CWS162	-	346,740
			<u>\$ -</u>	<u>\$ 900,770</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. 2, 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 these numbers.

Note 2 - Indirect Cost Rates

The District did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.



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**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. 2
Elizabethtown, 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 Hardin County Water District No. 2, as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the Hardin County Water District No. 2's basic financial statements and have issued our report thereon dated March 26, 2025.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hardin County Water District No. 2'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hardin County Water District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hardin County Water District No. 2'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. 2'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, 2025



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**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. 2
Elizabethtown, Kentucky

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Hardin County Water District No. 2'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. 2's major federal programs for the year ended December 31, 2024. Hardin County Water District No. 2'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. 2 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, 2024.

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. 2 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. 2'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. 2'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. 2'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 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. 2's compliance with the requirements of each major federal program as a whole.

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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. 2'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. 2'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. 2'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 Auditor's 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, 2025

HARDIN COUNTY WATER DISTRICT NO. 2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended December 31, 2024

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified	___ Yes	_X_ No
Significant deficiencies identified that are not considered to be material weaknesses	___ Yes	_X_ None reported

Noncompliance material to financial statements noted	___ Yes	_X_ No
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Federal Awards:

Internal control over major programs:		
Material weaknesses identified	___ Yes	_X_ No
Significant deficiencies identified that are not considered to be material weaknesses	___ Yes	_X_ 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	_X_ 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:	\$ 750,000
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Auditee qualified as a low-risk auditee?	___ Yes	_X_ 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

2023-001 – 21.027 – CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS - PROCUREMENT, SUSPENSION AND DEBARMENT

The District did not have a process in place for ensuring that parties it contracts with have not been suspended or debarred.

Status: Resolved during the year ended December 31, 2024.