

JONATHAN CREEK WATER DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

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JESSICA K. DANIEL, CPA PSC
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Jonathan Creek Water District
Benton, Kentucky

Opinions

We have audited the accompanying financial statements of the business-type activities of the Jonathan Creek Water District as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective position of the business-type activities of the Jonathan Creek Water District as of December 31, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Jonathan Creek Water District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. 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 GAAS 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 Jonathan Creek Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting, estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Jonathan Creek Water District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, schedule of pension contributions, schedule of other postemployment benefits contributions, schedule of proportionate share of net pension liability, and schedule of proportionate share of other postemployment benefits liability be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information is comprised of the detailed schedule of operating expenses but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do 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 a report dated September 8, 2026, on our consideration of the Jonathan Creek Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Handwritten signature of Jessica K. Dail, CPA, PSC. The signature is written in cursive and includes the text "Jessica K Dail CPA PSC" in a fluid, connected script.

Eddyville, Kentucky
September 8, 2026

**JONATHAN CREEK WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2025
(UNAUDITED)**

The Jonathan Creek Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the years ended December 31, 2025. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statement provided in this document.

FINANCIAL HIGHLIGHTS

- The District's total assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources as of December 31, 2025, by \$4,042,280 (Net Position).
- The District's total net position increased by \$105,156 during the year compared to a \$281,885 increase in the prior year.
- The District's operating revenues decreased by \$21,392 over the prior year from \$1,203,182 to \$1,181,790.
- The District's operating expenses increased by \$43,981 over the prior year from \$1,062,815 to \$1,106,796.

OVERVIEW OF THE FINANCIAL STATEMENTS

Jonathan Creek Water District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows, and notes to the financial statements.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Statement of net position. The statement of net position presents the financial position of the District. It presents information on the District's assets, deferred outflows, liabilities, and deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of net position can be found on page 9 of this report.

Statement of revenues, expenses and changes in net position. The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal 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 related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. The statement of revenues, expenses and changes in net position is on page 10 of this report.

Statement of cash flows. The statement of cash flows presents information on the effects the changes in assets and liabilities have on cash during the course of the fiscal year and can be found on page 11 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District's financial statements. The notes to the financial statements can be found on pages 12-29 of this report.

Required Supplementary Information. In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information which can be found on pages 30-38.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$4,042,280 as of December 31, 2025.

The District's overall financial position and operations for the past two years are summarized as follows:

JONATHAN CREEK WATER DISTRICT'S NET POSITION

Assets	<u>2025</u>	<u>2024</u>
Current and other assets	\$ 495,708	\$ 421,774
Capital assets	4,574,915	4,525,057
Other assets	<u>-</u>	<u>19,391</u>
Total Assets	<u>5,070,623</u>	<u>4,966,222</u>
Deferred Outflows of Resources	<u>137,316</u>	<u>112,690</u>
Liabilities		
Other liabilities	183,273	141,584
Current portion of long-term debt	113,841	57,570
Long-term liabilities	<u>672,390</u>	<u>683,827</u>
Total Liabilities	<u>969,504</u>	<u>882,981</u>
Deferred Inflows of Resources	<u>196,155</u>	<u>258,807</u>
Net Position		
Net investment in capital assets	4,458,344	4,467,487
Restricted	101,969	-
Unrestricted	<u>(518,033)</u>	<u>(530,363)</u>
Total Net Position	<u>\$ 4,042,280</u>	<u>\$ 3,937,124</u>

The District's investments in capital assets (e.g., land and construction in progress, buildings, plants and facilities, machinery and equipment, system studies and mapping and infrastructure), less any debt used to acquire those assets that is still outstanding is \$4,458,344. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets are 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 unrestricted net assets as of December 31, 2025, is a deficit of \$518,033.

Analysis of the District's Operations – Overall the District had an increase in net position of \$105,156.

The following table provides a summary of the District's operations for the year ended December 31, 2025 and 2024.

**JONATHAN CREEK WATER DISTRICT
CHANGES IN NET POSITION**

	<u>2025</u>	<u>2024</u>
Revenues		
Operating revenues	\$ 1,181,790	\$ 1,203,182
Investment income	1,072	323
Gain (loss) on sale of assets	900	715
Capital grants and contributions	<u>37,330</u>	<u>144,458</u>
Total revenues	<u>1,221,092</u>	<u>1,348,678</u>
Expenses		
Transmission and distribution expenses	417,355	396,961
Administrative and general expenses	326,043	297,110
Depreciation	211,363	199,081
Pumping expenses	91,843	113,262
Water treatment expenses	25,063	23,954
Payroll and other taxes	35,129	32,447
Interest expenses	<u>9,140</u>	<u>3,978</u>
Total Expenses	<u>1,115,936</u>	<u>1,066,793</u>
Change in net position	105,156	281,885
Net position - January 1	<u>3,937,124</u>	<u>3,655,239</u>
Net position - December 31	<u><u>\$ 4,042,280</u></u>	<u><u>\$ 3,937,124</u></u>

BUDGETARY HIGHLIGHTS

The original and final budget passed by the board anticipated an increase in the fund balance of \$281,464. The budgeted operating revenue was less than actual revenue by \$122,678. Actual expenditures exceeded budgeted expenditures by \$34,792. The budgetary figures and actual amounts are reported in the supplementary information on page 39.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The District's investment in capital assets for business-type activities as of December 31, 2025, amounts to \$4,574,915 (net of accumulated depreciation). This investment in capital assets includes land, buildings, plants and facilities, machinery and equipment, and infrastructure.

	<u>2025</u>	<u>2024</u>
Business-type activities		
Capital assets, not being depreciated		
Land	\$ 212,170	\$ 212,170
Construction in progress	<u>130,639</u>	<u>215,794</u>
Total capital assets, not being depreciated	<u>342,809</u>	<u>427,964</u>
Capital assets, being depreciated		
Transmission and distribution	3,042,957	3,023,551
Distribution reservoirs	47,149	50,753
Transportation equipment	78,328	109,099
Land rights	44	44
Hydrants	816	816
Meters and meter installations	470,979	451,058
Pumping equipment	104,603	117,813
Water treatment equipment	6,591	7,840
Tools and shop equipment	2,453	2,492
Office furniture and equipment	4,341	1,792
Miscellaneous equipment	2,789	4,967
Power equipment	238,959	175,129
Communication equipment	14,486	19,122
Structures and improvements	111,606	22,997
Wells and springs	92,062	95,177
Services	<u>13,943</u>	<u>14,443</u>
Total capital assets, being depreciated	<u>4,232,106</u>	<u>4,097,093</u>
Business-type activities capital assets, net	<u>\$ 4,574,915</u>	<u>\$ 4,525,057</u>

During the year ended December 31, 2025, the District placed in service assets totaling \$346,376. This included \$103,013 in new lines and replacements lines, \$110,000 for a trackhoe, \$38,851 in new meters, \$91,144 for plant upgrades and roofing, and \$3,368 for office equipment. The District also reported \$130,639 as construction in progress for new lines and replacement lines.

Additional information on the District's capital assets can be found in Note 4 of this report.

Long-term and other debt

The District maintains a line of credit with Community Financial Services Bank (CFSB) with an interest rate of 8.5%. The District acquired new debt of \$99,000 to purchase a trackhoe. The loan is with Community Financial Services Bank and matures during 2027. At the end of the current year, the Jonathan Creek Water District had total debt of \$116,571.

	<u>2025</u>	<u>2024</u>
<u>Line of Credit</u>		
CFSB Line of Credit	\$ 57,232	\$ 49,821
<u>Notes Payable</u>		
CFSB Loan - RAM	-	7,749
CFSB Loan - Trackhoe	<u>59,339</u>	<u>-</u>
Total Loans	<u>59,339</u>	<u>7,749</u>
Total Debt	\$ <u>116,571</u>	\$ <u>57,570</u>

Interest expense of \$9,140 was incurred during the year ended December 31, 2025.

Additional information on the District's long-term debt can be found in Note 5 of this report.

REQUEST FOR INFORMATION

This financial report is designated to provide a general overview of the Jonathan Creek Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to David Lovett, Superintendent, Jonathan Creek Water District, 7564 US Highway 68 E, Benton, Kentucky 42025.

Jonathan Creek Water District
Statement of Net Position
December 31, 2025

Assets

Current Assets

Cash equivalents	\$ 81,316
Customer accounts receivable (less allowance for uncollectible accounts of \$14,770)	57,964
Unbilled revenue	101,478
Inventory	115,103
Prepayments	37,878
Restricted assets	
Cash equivalents	101,969
Total Current Assets	<u>495,708</u>

Noncurrent Assets

Capital assets, net of depreciation	4,574,915
Total Noncurrent Assets	<u>4,574,915</u>
Total Assets	<u>5,070,623</u>

Deferred Outflows of Resources

Related to pensions	79,237
Related to other postemployment benefits	58,079
Total Deferred Outflows of Resources	<u>137,316</u>
Total Assets and Deferred Outflows of Resources	<u>5,207,939</u>

Liabilities

Current Liabilities

Accounts payable	38,502
Accrued liabilities	26,433
Compensated absences	16,726
Customers' deposits	101,612
Line of credit	57,232
Long-term debt due in one year	56,609
Total Current Liabilities	<u>297,114</u>

Noncurrent Liabilities

Long-term debt	2,730
Net pension liability	658,291
Net OPEB liability	11,369
Total Noncurrent Liabilities	<u>672,390</u>
Total Liabilities	<u>969,504</u>

Deferred Inflows of Resources

Related to pensions	65,890
Related to other postemployment benefits	130,265
Total Deferred Inflows of Resources	<u>196,155</u>

Net Position

Net investment in capital assets	4,458,344
Restricted for	
Customer deposits	101,969
Unrestricted	(518,033)
Total Net Position	<u>\$ 4,042,280</u>

See accompanying notes to financial statements.

Jonathan Creek Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2025

Operating Revenue

Water revenues	\$ 1,172,177
Other operating income	<u>9,613</u>
Total Operating Revenues	<u>1,181,790</u>

Operating Expenses

Transmission and distribution expenses	417,355
Administrative and general expenses	326,043
Depreciation	211,363
Pumping expenses	91,843
Payroll and other taxes	35,129
Water treatment expenses	<u>25,063</u>
Total Operating Expenses	<u>1,106,796</u>

Operating Income (Loss)

74,994

Nonoperating Revenues (Expenses)

Gain on sale of assets	900
Investment income	1,072
Interest on debt	<u>(9,140)</u>
Total Nonoperating Revenue (Expenses)	<u>(7,168)</u>

Net Income Before Capital Contributions

67,826

Capital Contributions

Tap-on fees	<u>37,330</u>
Total Capital Contributions	<u>37,330</u>

Change in Net Position

105,156

Net Position-Beginning of Year

3,937,124

Net Position-End of Year

\$ 4,042,280

See accompanying notes to financial statements.

Jonathan Creek Water District
Statement of Cash Flows
For the Year Ended December 31, 2025

Cash Flows from Operating Activities

Cash received from customers	\$ 1,170,115
Cash payments to suppliers for goods and services	(445,135)
Cash payments to employees for services	<u>(522,933)</u>
Net Cash Provided By Operating Activities	<u>202,047</u>

Cash Flows From Capital and Related Financing Activities

Contributed capital	37,330
Proceeds from capital debt	198,000
Gain from disposal of assets	900
Interest paid on debt	(9,140)
Principal paid on capital debt	(138,999)
Acquisition of property, plant, and equipment	<u>(260,872)</u>
Net Cash Used By Capital and Related Financing Activities	<u>(172,781)</u>

Cash Flows From Investing Activities

Income received on investments	<u>1,072</u>
Net Cash Provided By Investing Activities	<u>1,072</u>

Net Increase (Decrease) in Cash Equivalents

30,338

Cash Equivalents-Beginning of Year

152,947

Cash Equivalents-End of Year

\$ 183,285

Reconciliation of Operating Income to Net Cash Provided

By Operating Activities

Operating Income (Loss)	\$ 74,994
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	211,363
Change in assets and liabilities	
Accounts receivable	(18,140)
Inventory	(19,829)
Prepayments	(5,627)
Deferred outflows of resources	(24,626)
Accounts payable	26,876
Customer deposits	6,465
Accrued liabilities	(4,824)
Deferred pension and OPEB liabilities	18,047
Deferred inflows of pensions	<u>(62,652)</u>
Net Cash Provided By Operating Activities	<u><u>\$ 202,047</u></u>

Reconciliation of Total Cash

Current Assets - Cash	\$ 81,316
Restricted Assets - Cash	<u>101,969</u>
Total Cash	<u><u>\$ 183,285</u></u>

Non-cash Investing, Capital and Related Financing Activities - None

See accompanying notes to financial statements.

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Jonathan Creek Water District, (the District), was organized to provide water service to the residents of Benton, Kentucky and the surrounding areas. The District is supported by funds derived from the sale of water and is governed by a five member Board, appointed by the County Judge of Marshall County. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky.

The accounting and reporting policies of the District relating to the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards board (when applicable). The District follows GASB pronouncements as codified under GASB 62. The more significant accounting policies of the District are described below:

Principles Determining Scope of Reporting Entity

The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement.

Basis of Presentation

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. The operations of each fund are summarized by providing a separate set of self balancing accounts which include its assets, liabilities, net position, revenues and expenses. The following funds are used by the District:

Proprietary Fund Types

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets and liabilities are included on the Statement of Net Position.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting and financial statements for a proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and all liabilities (whether current or non-current) are included on the statement of net position, and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water services which are accrued. Expenses are recognized at the time the liability is incurred.

Reclassifications

Prior period financial statement amounts have been reclassified to conform to current period presentation. Operating income and net earnings for the prior period were not impacted by the reclassifications.

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2025

Sales of Water

Charges to customers for the sale of water are based on rates approved by the Kentucky Public Service Commission (PSC).

Budget

The District is required to follow budgetary guidelines established by the Public Service Commission and the Department of Rural Development. Those guidelines require:

- 1) The District to submit a proposed budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) The District is required to submit a budget to the Department of Rural Development for each fiscal year as stipulated in the bond agreement.

For the year ended December 31, 2025, the District has complied with budgetary guidelines.

Cash Equivalents/ Investments

Cash and cash equivalents are deposited with Community Financial Services Bank. District ordinances authorize the District to invest in obligations of the U.S. Government and its instrumentalities, mutual funds, repurchase agreements, and demand deposits. All investments must be purchased through brokers/dealers or deposited with local financial institutions.

For the purpose of the statement of cash flows, the District considers all cash in banks and certificates of deposit with stated maturities of three months or less or available for withdrawal by management to be cash and cash equivalents.

Accounts Receivable

The District uses an allowance of uncollectible accounts method to account for bad debts. Accounts receivable is shown net of this allowance. The allowance is based on past history and management's analysis of the current accounts.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2025 are recorded as prepaid items.

Capital Assets

Capital assets are stated at original cost as defined for regulatory purposes. The costs of additions to capital assets and replacement of retirement units are capitalized. Replacement of minor items of property is charged to expense as incurred. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized.

Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as income when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense. Capital assets are depreciated over the following useful lives:

Utility plant	20 to 62.50 years
Equipment	5 to 13 years

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2025

Unearned Revenue

The District recognizes certain revenue transactions as unearned revenue. Revenue cannot be recognized until it has been earned and is available to finance expenditures of the current fiscal period. Revenue that is earned but not available is reported as a current liability or deferred inflow of resources until such time as the revenue becomes available.

Inventory

Inventories are generally used for repair and replacement of infrastructure and connection of new services and are stated at average cost.

Compensated Absences

Full-time employees earn vacation leave based on years of service, ranging from 80 hours annually (1–4 years of service) to 200 hours annually (15 or more years of service). Employees may carry forward up to 40 hours of unused vacation leave into the following year; hours in excess of that limit are paid out at the employee's regular hourly rate, and all unused vacation leave is paid upon termination. Because payment of vacation leave is not contingent on any event other than the passage of time already worked, the District recognizes a liability for the entire unused vacation balance, measured at employees' pay rates in effect at year end.

Full-time employees also earn 8 hours of sick leave for each 30-day period worked, up to a maximum accrual of 288 hours. Unused sick leave carries no cash value upon termination except at retirement, at which time a retiring employee is paid for one-half of the accumulated balance; the District recognizes a liability for this retirement-eligible portion.

These liabilities are recognized and measured in accordance with GASB Statement No. 101, *Compensated Absences*. At December 31, 2025, the total liability for compensated absences was \$16,726, consisting of \$13,718 for vacation leave and \$3,008 for sick leave.

Use of Restricted Funds

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

Estimates

The preparation of the District's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During the year ended December 31, 2025, the District contracted with commercial insurance carriers for coverage of all risks mentioned above. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There were no significant reductions in coverage during the past three years.

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2025

Pensions and Other Postemployment Benefits

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

Net Position

In the financial statements, equity is classified as net position and displayed in three components.

- **Net investment in capital assets** - Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any borrowings that are attributable to the acquisition, construction, or improvement of those assets net of unspent financing proceeds.
- **Restricted net position** - Net position with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents the consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in the category, deferred charges - pension, and deferred charges - other postemployment benefits (OPEB).

The deferred related pension and OPEB outflows results from pension and OPEB contributions subsequent to the measurement date of the pension plan and OPEB and various changes resulting from actuarial pension and OPEB measurements. The pension and OPEB contribution amounts are deferred and recognized as a component of the change in pension and OPEB plan liabilities in the next measurement period. The various changes resulting from actuarial pension and OPEB measurements are deferred and amortized in future periods as a component of the pension and OPEB expense.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items reported in this category, inflows related to the District's pension and OPEB plans that qualify for reporting in this category - deferred pension and OPEB related inflows. The various changes resulting from actuarial pension and OPEB measurements are deferred and amortized in future periods as a component of the pension and OPEB expense.

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2025

Recent Accounting Pronouncements

As of December 31, 2025, the GASB has issued the following statements required to be adopted by the District.

GASB Statement No. 102, *Certain Risk Disclosures*, was issued December 2023. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement has no effect on the District's current financial statements.

Recent Accounting Pronouncements

As of December 31, 2025, the GASB has issued the following pronouncements not yet required to be adopted by the District.

GASB Statement No. 103, *Financial Reporting Model Improvements*, was issued April 2024. The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The District's management has not determined the effect this will have on the District's financial statements.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, was issued September 2024. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by GASB Statement 34. This Statement also requires additional disclosures for capital assets held for sale. The District's management has not determined the effect this will have on the District's financial statements.

GASB Statement No. 105, *Subsequent Events*, was issued December 2025. The requirements of this statement are effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter. The objective of this statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. The District's management has not determined the effect this will have on the District's financial statements.

Subsequent Events

The District has evaluated subsequent events through September 8, 2026, the date which the financial statements were available to be issued.

2. LEGAL COMPLIANCE

Deficit Net Position

There was not a deficit net position for the year ended December 31, 2025.

Budgets

Excess of Expenditures Over Appropriations

The District has an excess of actual expenditures over budget for the year ended December 31, 2025, of \$34,792.

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2025

3. DEPOSITS AND INVESTMENTS

A. Net Position

The captions on the statement of net position for cash, investments, and restricted assets enumerated as to deposits and investments and the amounts in total are as follows:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash equivalents	\$ 81,316	\$ -	\$ 81,316
Restricted assets			
Cash equivalents	<u>101,969</u>	<u>-</u>	<u>101,969</u>
Total	<u><u>\$ 183,285</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 183,285</u></u>

B. Deposits

At year-end, the carrying amount of the District's deposits in financial institutions were \$183,285, and the bank balances were \$200,826. The bank balances totaling \$200,826 were covered by federal depository insurance.

4. RESTRICTED NET POSITION

The District has restricted assets totaling \$101,969. These assets are restricted meter deposits. They are released from restriction when applied to the customers final bill.

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2025

5. CAPITAL ASSETS

A summary of proprietary fund property, plant, and equipment at December 31, 2025, for business-type activities follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
<u>Capital assets, not being depreciated</u>				
Land	\$ 212,170	\$ -	\$ -	\$ 212,170
Construction in progress	215,794	348	(85,503)	130,639
Total capital assets, not being depreciated	<u>427,964</u>	<u>348</u>	<u>(85,503)</u>	<u>342,809</u>
<u>Capital assets, being depreciated</u>				
Transmission and distribution	5,587,207	103,013	-	5,690,220
Distribution reservoirs	700,034	-	-	700,034
Transportation equipment	236,614	-	(19,950)	216,664
Land rights	6,225	-	-	6,225
Commercial equipment	92,720	-	-	92,720
Hydrants	83,165	-	-	83,165
Meters and meter installation	867,268	38,851	-	906,119
Pumping equipment	403,875	-	-	403,875
Water treatment equipment	389,268	-	-	389,268
Tools and shop equipment	24,886	-	-	24,886
Office furniture and equipment	34,826	3,368	-	38,194
Miscellaneous equipment	193,929	-	-	193,929
Power equipment	468,422	110,000	-	578,422
Communication equipment	25,136	-	-	25,136
Structures and improvements	43,486	91,144	-	134,630
Wells and springs	170,646	-	-	170,646
Organization	5,702	-	-	5,702
Services	75,751	-	-	75,751
Total capital assets, being depreciated	<u>9,409,160</u>	<u>346,376</u>	<u>(19,950)</u>	<u>9,735,586</u>
<u>Less accumulated depreciation for</u>				
Transmission and distribution	(2,563,656)	(83,608)	-	(2,647,264)
Distribution reservoirs	(649,281)	(3,605)	-	(652,886)
Transportation equipment	(127,515)	(30,773)	19,950	(138,338)
Land rights	(6,181)	(1,494)	-	(7,675)
Commercial equipment	(92,720)	-	-	(92,720)
Hydrants	(82,349)	-	-	(82,349)
Meters and meter installation	(416,210)	(18,930)	-	(435,140)
Pumping equipment	(286,062)	(13,210)	-	(299,272)
Water treatment equipment	(381,428)	(1,249)	-	(382,677)
Tools and shop equipment	(22,394)	(40)	-	(22,434)
Office furniture and equipment	(33,034)	(818)	-	(33,852)
Miscellaneous equipment	(188,962)	(2,177)	-	(191,139)
Power equipment	(293,293)	(46,170)	-	(339,463)
Communication equipment	(6,014)	(4,636)	-	(10,650)
Structures and improvements	(20,489)	(1,040)	-	(21,529)
Wells and springs	(75,469)	(3,114)	-	(78,583)
Organization	(5,702)	-	-	(5,702)
Services	(61,308)	(499)	-	(61,807)
Total accumulated depreciation	<u>(5,312,067)</u>	<u>(211,363)</u>	<u>19,950</u>	<u>(5,503,480)</u>
Total capital assets, being depreciated, net	<u>4,097,093</u>	<u>135,013</u>	<u>-</u>	<u>4,232,106</u>
Business-type activities capital assets, net	<u>\$ 4,525,057</u>	<u>\$ 135,361</u>	<u>\$ (85,503)</u>	<u>\$ 4,574,915</u>

Depreciation charged to income was \$211,363.

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2025

6. DEBT OBLIGATIONS

Line of Credit

On August 20, 2024, the District renewed a line of credit with Community Financial Services Bank to be used to help fund operating expenses. The line of credit has an interest rate of 8.5% and matures on September 10, 2026. The line of credit has a credit limit of \$400,000. During 2025 draws totaling \$99,000 were taken and principal payments of \$91,589 were made. The balance as of December 31, 2025, was \$57,232.

Note Payable

On September 27, 2023, the District entered into a loan agreement with Community Financial Southern Bank (CFSB) to purchase a Dodge RAM. The loan amount was \$20,955 and has an interest rate of 5.759%. Monthly payments are \$929. The loan was paid in full during August 2025.

On March 19, 2025, the District entered into a loan agreement with Community Financial Services Bank (CFSB) to purchase a trackhoe. The loan amount was \$99,000 and has an interest rate of 5.50%. Monthly payments are \$4,370 and is scheduled to mature on March 19, 2027. The loan balance as of December 31, 2025, is \$59,339.

Changes in Business-Type Activities Debt

A summary of changes in the business-type activities debt for the year ended December 31, 2025, follows:

	<u>Balance</u> <u>12/31/2024</u>	<u>Debt</u> <u>Proceeds</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>12/31/2025</u>	<u>Due Within</u> <u>One Year</u>
<u>Business-Type Activities</u>					
<u>Line of Credit</u>					
Line of Credit - CFSB	\$ <u>49,821</u>	\$ <u>99,000</u>	\$ <u>91,589</u>	\$ <u>57,232</u>	\$ <u>57,232</u>
<u>Note Payable</u>					
Note Payable - RAM	\$ 7,749	\$ -	\$ 7,749	\$ -	\$ -
Note Payable - Trackhoe	<u>-</u>	<u>99,000</u>	<u>39,661</u>	<u>59,339</u>	<u>56,609</u>
Total Notes Payable	\$ <u>7,749</u>	\$ <u>99,000</u>	\$ <u>47,410</u>	\$ <u>59,339</u>	\$ <u>56,609</u>

Principal and interest requirements of the notes payable as of December 31, 2025, are:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 56,609	\$ 1,826	\$ 58,435
2027	<u>2,730</u>	<u>13</u>	<u>2,743</u>
	\$ <u>59,339</u>	\$ <u>1,839</u>	\$ <u>61,178</u>

Interest expense for the year was \$9,140.

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2025

7. EMPLOYEES' RETIREMENT PLAN

County Employees' Retirement System

Plan description. The District is a participant in the Commonwealth of Kentucky's County Employees' Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Public Pensions Authority (KPPA). The KPPA is the successor to Kentucky Retirement Systems and was created by state statute under Kentucky Revised Statute ("KRS") Sections 61.645, as amended by House Bill 484 and House Bill 9 of the 2020 and 2021 regular sessions, respectively, of the Kentucky General Assembly. These amendments transferred governance of the CERS to a separate nine member board of trustees. The CERS Board of Trustees is responsible for the proper operation and administration of the CERS. The KPPA issues a publicly available annual comprehensive financial report containing CERS information that can be obtained from <https://kyret.ky.gov>.

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

Nonhazardous members

Tier 1	Participation date	Prior to September 1, 2008
	Unreduced retirement	27 years of service or 65 years old Minimum 5 years of service and 55 years old
	Reduced retirement	Minimum 25 years of service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87
	Reduced retirement	Minimum 10 years of service and 60 years old
Tier 3	Participation date	After January 1, 2014
	Unreduced retirement	Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87
	Reduced retirement	Not available

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2025

Plan Funding. State statute requires active members to contribute a percentage of creditable compensation based on the tier:

	<u>Required Contributions</u>
Tier 1	5%
Tier 2	5% plus 1% for insurance
Tier 3	5% plus 1% for insurance

Employers are required by state statute (KRS 78.545(33)) to contribute the remaining amounts necessary to pay benefits when due. These contribution rates are determined by the Board of Trustees annually based upon actuarial valuations. For the year ended December 31, 2025, the employer contribution rate was 19.71% for the period January 1, 2025 to June 30, 2025; and 18.62% for the period July 1, 2025 to December 31, 2025, respectively of members' nonhazardous salaries. The employer contributions, when combined with employee contributions, are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The contribution requirements and the amounts contributed to CERS for the year ending December 31, 2025, were \$74,877. Of this amount, \$74,877 is considered contributed to the pension requirement.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At December 31, 2025, the District reported a liability of \$658,291 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2024, and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2025, the District's proportion was .011830%.

Pension expense. As a result of its requirement to contribute to CERS, the District recognized pension expenses of \$48,538 for the year ended December 31, 2025. At December 31, 2025, the District reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirements to contribute to CERS:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between expected and actual experience	\$ 21,824	\$ -
Net differences between projected and actual investment earnings	-	-
Change of assumption	-	65,825
Changes in proportion and differences between employer contributions and share of contributions	22,405	65
Contributions subsequent to the measurement date	<u>35,008</u>	<u>-</u>
Totals	<u>\$ 79,237</u>	<u>\$ 65,890</u>

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2025

Deferred Outflows of Resources. The \$35,008 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending</u>	<u>Amortization/ (Accretion)</u>
December 31, 2026	\$ 25,187
December 31, 2027	(14,206)
December 31, 2028	(21,390)
December 31, 2029	<u>(11,252)</u>
Total	<u>\$ (21,661)</u>

Actuarial assumptions. The actuarial valuation as of June 30, 2025, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2025, were based on an actuarial valuation date of June 30, 2024. The total pension liability was rolled-forward from the valuation date (June 30, 2024) to the plan's fiscal year ending June 30, 2025, using generally accepted actuarial principles.

There have been no assumption, method or plan provision changes that would materially impact the total pension liability since June 30, 2024.

Inflation	2.50%
Payroll growth rate	2.00% for CERS nonhazardous
Salary increases	3.30% to 10.30%, varies by service for CERS nonhazardous
Investment rate of return	6.50% for CERS nonhazardous

The mortality table used for active members was Pub-2010 General Mortality Table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for non-disabled retired members was a system-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from 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 assumptions used in the June 30, 2025, valuation are based on the most recent actuarial experience study performed as of June 30, 2022, submitted, and adopted by the Boards in May 2023.

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

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2025

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

Source: Kentucky Public Pensions Authority

Discount Rate. The projection of cash flows used to determine the discount rate of 6.50% for CERS nonhazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute, as amended by House Bill 362, (passed in 2018) over the remaining 27 years (closed) amortization period of the unfunded actuarial accrued liability. 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%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50%) or 1-percentage-point higher (7.50%) than the current rate:

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
The District's proportionate share of the net pension liability	\$ 870,305	\$ 658,291	\$ 483,375

Payables to the pension plan. At December 31, 2025, the financial statements include \$7,196 in contractually required employee and employer contributions primarily for the month ended December 31, 2025. The obligation was paid within prescribed time limits.

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued comprehensive annual financial report issued by the Kentucky Public Pensions Authority and can be found at <https://kyret.ky.gov>.

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2025

Other Postemployment Benefit Plan (OPEB)

Plan description. The District is a participant in the Commonwealth of Kentucky's County Employees' Retirement System (CERS), a cost-sharing multiple-employer defined benefit postemployment benefit plan (OPEB) administered by the Kentucky Public Pensions Authority (KPPA). The KPPA is the successor to Kentucky Retirement Systems and was created by state statute under Kentucky Revised Statute ("KRS") Sections 61.645, as amended by House Bill 484 and House Bill 9 of the 2020 and 2021 regular sessions, respectively, of the Kentucky General Assembly. These amendments transferred governance of the CERS to a separate nine member board of trustees. The CERS Board of Trustees is responsible for the proper operation and administration of the CERS. The KPPA issues a publicly available annual comprehensive financial report containing CERS information that can be obtained from <https://kyret.ky.gov>.

Benefits provided. The CERS Nonhazardous Insurance Fund is a cost-sharing multiple-employer defined benefit OPEB plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

Contributions. Per Kentucky Revised Statutes 78.545 (33), contribution requirements are established and may be amended by the KRS Board. The District's required contribution rate for non-hazardous employees was 0.00% for the period January 1, 2025 to December 31, 2025.

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

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

OPEB (Asset)/Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources. At December 31, 2025, the District reported a net OPEB liability of \$11,369 for its proportionate share of the CERS net OPEB liability. The net OPEB liability was measured as of June 30, 2025, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2024, rolled forward using generally accepted actuarial procedures. At June 30, 2025, the District's proportion was .011837% for nonhazardous classified employees.

For the year ended December 31, 2025, the District recognized a negative OPEB expense of \$35,873. At December 31, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2025

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between expected and actual experience	\$ 36,872	\$ 97,736
Changes of assumptions	7,583	6,509
Net difference between projected and actual earnings on plan investments	-	25,747
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,863	273
Contributions subsequent to the measurement date, including implicit subsidy	6,761	-
Totals	<u>\$ 58,079</u>	<u>\$ 130,265</u>

The \$6,761 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date and the December 31, 2025, implicit subsidy will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2026.

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

Fiscal Year Ending June 30,	Amortization/ (Accretion)
2026	\$ (44,740)
2027	(39,557)
2028	3,151
2029	2,199
	<u>\$ (78,947)</u>

Implicit Subsidy. The fully-insured premiums paid for Kentucky Employee's Health Plan are blended rates based on the combined experience of the active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for non-Medicare eligible retirees. GASB Statement No. 75 requires that the liability associated with this implicit subsidy be included in the calculation of the Total OPEB Liability. The District's implicit subsidy for the year ended December 31, 2025, was \$6,761.

Actuarial Assumptions. The actuarial valuation as of June 30, 2025, was performed by Gabriel Roeder Smith(GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2025, were based on an actuarial valuation date of June 30, 2024. The total OPEB liability was rolled-forward from the valuation date (June 30, 2024) to the plan's fiscal year ending June 30, 2025, using generally accepted actuarial principles. The following actuarial assumptions were:

Inflation	2.50%
Payroll Growth Rate	2.00% CERS Non-hazardous
Salary Increase	3.30% - 10.30%, varies by service for CERS nonhazardous
Investment Rate of Return	6.50%

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2025

Healthcare Trend Rates	
Pre-65	Initial trend starting at 7.10% at January 1, 2026, and gradually decreasing to an ultimate trend rate of 4.25% over a period of 14 years.
Post-65	Initial trend starting at 8.00% in 2026, and gradually decreasing to an ultimate trend rate of 4.25% over a period of 10 years.

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

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

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

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

Source: Kentucky Public Pensions Authority

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2025

Discount Rate. Single discount rate of 6.26% for CERS Nonhazardous was used to measure the total OPEB liability as of June 30, 2025. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.50%, and a municipal bond rate of 5.20%, as reported in Bond Buyer's "20-Year Municipal GO AA Index" as of June 30, 2025. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected separately and were sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy was not included in the calculation of the plans' actuarially determined contributions, and any cost associated with the implicit subsidy will not be paid out of the plan trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic real 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.

The discount rate used to calculate the total OPEB liability increased from 5.99% to 6.26% for the nonhazardous plan and from 6.02% to 6.24% for the hazardous plan. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2024, valuation process and was updated to better reflect the plan's anticipated long-term healthcare cost increases. In general, the updated assumption is assuming higher future increases in pre-Medicare health care costs. The Total OPEB Liability as of June 30, 2025, is determined using these updated assumptions.

Senate Bill 10 passed during the 2025 legislative session and increased the insurance benefit for members who began participation on or after July 1, 2003, to \$40 a month for nonhazardous CERS service, effective January 1, 2026. These increases are only payable when a member is not eligible for Medicare benefits and only if they have met certain service thresholds at retirement. Additionally, this legislation increases the insurance member contribution rate for hazardous members from 1% of pay to 2% of pay, effective July 1, 2026, and extended the required member contribution to CERS members hired on or after July 1, 2003, but prior to September 1, 2008, for both funds. There have been no other plan provision changes that would materially impact the total OPEB liability since June 30, 2024.

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2025

Sensitivity of the District's proportionate share of the net OPEB (asset)/liability to changes in the discount rate. The following presents the District's proportionate share of the net OPEB (asset)/liability calculated using the discount rate of present, as well as what the plan's net position liability would be if it were calculated using a discount rate that is one percentage point lower (5.26%) or one percentage point higher (7.26%) than the current rate (6.26%):

	1% Decrease 5.26%	Current Discount Rate 6.26%	1% Increase 7.26%
The District's proportionate share of the net OPEB (asset)/liability	\$ 68,215	\$ 11,369	\$ (36,476)

Sensitivity of the net OPEB (asset)/liability to changes in the healthcare cost trend rate. The following presents the Board's proportionate share of the net OPEB (asset)/liability calculated using the current healthcare cost trend rates (see details in Actuarial Assumptions above), as well as, what the Service's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The District's proportionate share of the net OPEB (asset)/ liability	\$ (26,273)	\$ 11,369	\$ 55,433

Payables to the OPEB plan. As of December 31, 2025, all employer OPEB contributions were paid in full.

8. COMPENSATED ABSENCES

The District's compensated absences policies for vacation and sick leave are described below, along with the related liabilities recognized in accordance with GASB Statement No. 101, *Compensated Absences*.

Vacation Leave

Full-time employees earn vacation leave based on years of service, according to the following schedule.

1 to 4 years	80 hours
5 to 9 years	120 hours
10 to 14 years	160 hours
15 and up	200 hours

Employees may carry forward up to 40 hours of unused vacation leave into the following year. Hours in excess of the 40-hour carryforward limit are paid out at the employee's regular hourly rate. Upon termination of employment, an employee is paid for all unused vacation leave. Because payment of vacation leave is not contingent on any future event other than the passage of time already worked, the District recognizes a liability for the full balance of unused vacation leave, measured at employees' pay rates in effect at year end. The liability for unused vacation time at December 31, 2025 was \$13,718.

Jonathan Creek Water District
Notes to the Financial Statements
For the Year Ended December 31, 2025

Sick Leave

Full-time employees are credited with 8 hours of sick leave at the end of each 30-day period worked, up to a maximum accrual of 288 hours (36 days). Once an employee reaches the 288-hour maximum, no additional sick leave accrues until the balance is reduced through use. Unused sick leave does not carry a cash value upon termination except at retirement, at which time a retiring employee is paid for one-half of the accumulated, unused sick leave balance. The liability for unused sick time at December 31, 2025 was \$3,008.

	Balance 12/31/2024	Change	Balance 12/31/2025
Vacation time	\$ 4,602	\$ 9,116	\$ 13,718
Sick time	12,823	(9,815)	3,008
Total compensated absences	<u>\$ 17,425</u>	<u>\$ (699)</u>	<u>\$ 16,726</u>

9. PUBLIC SERVICE COMMISSION REGULATIONS

The District is required to file with the Public Service Commission (PSC) a report of its gross earnings or receipts derived from intra-state business for the preceding calendar year. The District has satisfied this requirement. The District has also filed the 2025 annual PSC Report as required. Further, the PSC requires that all customer deposit refunds be paid with interest. This requirement has been fulfilled.

10. ECONOMIC DEPENDENCIES

The majority of the District's revenue consists of charges for water-related services to customers in Jonathan Creek, Kentucky. For the year ended December 31, 2025, the revenues from these sources totaled \$1,172,177. The District also receives monies from the United States Department of Agriculture and the Kentucky Infrastructure Authority whenever funds are available.

11. CONTINGENCIES

The District participates in federal and state assisted grant programs for construction of water lines. These programs are subject to review by grantors or their representatives. As of December 31, 2025, there have been no material questioned or disallowed costs as a result of grant audits. As construction is completed, amounts due from grant funds are recognized and are recorded as revenue.

12. LITIGATION

The District is not aware of any pending or threatened litigation in which it is involved which would have a material effect on these financial statements.

13. COMMITMENTS

The District entered into a contract with City of Hardin, Kentucky on May 17, 2024, for the sale of treated water. The initial term is a period of two (2) years from the effective date with an automatic renewal for a one (1) year period unless notice is given at least sixty (60) days prior to the renewal date. Usage is not to exceed 6 million gallons per month. There is no minimum usage. The wholesale rate is set at \$3.40 per 1,000 gallons.

REQUIRED SUPPLEMENTARY INFORMATION

Jonathan Creek Water District
Schedule of Revenues, Expenses, and
Changes in Net Position - Budget and Actual
For the Year Ended December 31, 2025

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
<u>Revenues</u>	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Water revenues	\$ 1,304,468	\$ 1,304,468	\$ 1,172,177	\$ (132,291)
Other operating income	-	-	9,613	9,613
Total Operating Revenues	<u>1,304,468</u>	<u>1,304,468</u>	<u>1,181,790</u>	<u>(122,678)</u>
<u>Operating Expenses</u>				
Transmission and distribution expenses	-	-	417,355	-
General and administrative expenses	-	-	326,043	-
Depreciation	-	-	211,363	-
Pumping expenses	-	-	91,843	-
Payroll and other taxes	-	-	35,129	-
Water treatment expenses	-	-	25,063	-
Total Operating Expenses	<u>1,072,004</u>	<u>1,072,004</u>	<u>1,106,796</u>	<u>(34,792)</u>
<u>Operating Income (Loss)</u>	<u>232,464</u>	<u>232,464</u>	<u>74,994</u>	<u>(157,470)</u>
<u>Nonoperating Revenues (Expenses)</u>				
Proceeds from sale of assets	-	-	900	900
Investment income	-	-	1,072	1,072
Interest on debt	-	-	(9,140)	(9,140)
Total Nonoperating Revenue (Expenses)	<u>-</u>	<u>-</u>	<u>(7,168)</u>	<u>(7,168)</u>
<u>Net Income before Capital Contributions</u>	<u>232,464</u>	<u>232,464</u>	<u>67,826</u>	<u>(164,638)</u>
<u>Capital Contributions</u>				
Tap-on fees	<u>49,000</u>	<u>49,000</u>	<u>37,330</u>	<u>(11,670)</u>
Total Capital Contributions	<u>49,000</u>	<u>49,000</u>	<u>37,330</u>	<u>(11,670)</u>
<u>Change in Net Position</u>	<u>\$ 281,464</u>	<u>\$ 281,464</u>	105,156	<u>\$ (176,308)</u>
<u>Net Position-Beginning of Year</u>			<u>3,937,124</u>	
<u>Net Position-End of Year</u>			<u>\$ 4,042,280</u>	

Jonathan Creek Water District
Schedule of the Proportionate Share of the Net Pension Liability
For the Years Ended December 31
Last Ten Measurement Dates (1)

<u>Year Ended</u>	<u>Employer's proportion of the net pension liability</u>	<u>Employer's proportionate share of the net pension liability (asset)</u>	<u>Employer's covered employee payroll</u>	<u>Employer's share of the net pension liability (asset) as a percentage of its covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability (2)</u>
<u>CERS Nonhazardous</u>					
2025	0.011830%	\$ 658,291	\$ 390,293	168.67%	65.34%
2024	0.011220%	671,004	364,020	184.33%	61.61%
2023	0.011171%	716,788	342,735	209.14%	57.48%
2022	0.010997%	794,975	310,554	255.99%	52.42%
2021	0.010660%	679,659	286,799	236.98%	57.33%
2020	0.010082%	773,281	261,306	295.93%	47.81%
2019	0.012726%	895,025	297,706	300.64%	50.45%
2018	0.013799%	840,401	319,931	262.68%	53.54%
2017	0.011333%	663,355	324,982	204.12%	53.32%
2016	0.009940%	489,593	341,265	143.46%	55.50%

Note to Schedule:

(1) The amounts presented were determined as of the measurement date June 30. District payroll is reported for its covered employees on a calendar year ending December 31.

(2) This will be the same percentage for all participant employers in the CERS plan.

Jonathan Creek Water District
Schedule of Pension Contributions
For the Years Ended December 31
Last Ten Years (1)

<u>Year Ended</u>	<u>Contractually required contribution</u>	<u>Contributions relative to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered employee payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
<u>CERS Nonhazardous</u>					
2025	\$ 74,877	\$ 74,877	\$ -	\$ 390,293	19.71% / 18.62%
2024	78,001	78,001	-	364,020	23.34% / 19.71%
2023	80,098	80,098	-	342,735	23.40% / 23.34%
2022	71,783	71,783	-	310,554	22.78% / 23.40%
2021	58,357	58,357	-	286,799	19.30% / 22.78%
2020	50,296	50,296	-	261,306	19.30% / 19.30%
2019	52,665	52,665	-	297,706	16.22% / 19.30%
2018	49,129	49,129	-	319,931	14.48% / 16.22%
2017	48,772	48,772	-	324,982	13.95% / 14.48%
2016	63,974	63,974	-	341,265	12.42% / 13.95%

Note to Schedule:

(1) Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of CERS. The above contributions only include those allocated directly to the CERS pension fund.

Jonathan Creek Water District
Schedule of Changes in Benefits and Assumptions Pension
For the Year Ended December 31, 2025

Note A - Changes of Assumptions:

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, listed below:

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.

2017: The actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017, which were also used to determine the Total Pension Liability and Net Pension Liability as of June 30, 2017.

Inflation	2.30%
Salary increases	3.05%, average
Investment rate of return	6.25%, net of pension plan investment expense including inflation

2018: There have been no changes in actuarial assumption since June 30, 2017.

2019: Payroll growth rate was reduced to 2.00% from 4.00%.

The assumed salary increases were increased to 3.30% to 11.55%, from 3.05% to 18.55%.

2020: There have been no changes in actuarial assumptions since June 30, 2019.

2021: The assumed salary increases were decreased to 3.30% to 10.30%, from 3.30% to 11.55%.

2022: There have been no changes in actuarial assumptions since June 30, 2021.

2023: New actuarial assumptions were adopted on May 9, 2023, and include a change in the investment return assumption from 6.25% to 6.50%.

2024: There were no changes in assumptions in the valuation pension.

2025: There were no changes in assumptions in the valuation pension.

Note B - Method and assumptions used in calculations of actuarially determined contributions

The total pension liability, net pension liability, and sensitivity information as of June 30, 2025, were based on an actuarial valuation date of June 30, 2023. The total pension liability was rolled forward from the valuation date of June 30, 2024, to the plan's fiscal year ending June 30, 2025, using the generally accepted actuarial principles.

Jonathan Creek Water District
Schedule of Changes in Benefits and Assumptions Pension
For the Year Ended December 31, 2025

The following actuarial methods and assumptions used to calculate the required contributions are below.

Valuation date	June 30, 2023
Experience study	July 1, 2019 - June 30, 2023
Actual cost method	Entry age normal
Amortization method	Level percent of pay
Amortization period	30-year closed period at June 30, 2019. <i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases.</i>
Payroll growth rate	2.00%
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.50%
Salary increases	3.30% to 10.30%, varies by service for CERS
Investment Rate of Return	6.50%
Mortality	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.
Phase-In provision	Board certified rate is phased into the actuarially determined rate in accordance with HB362 enacted in 2018.

Note C - Changes in benefits:

2009: A new benefit tier for members who first participate on or after September 1, 2008, was introduced which included the following changes:

1. Tiered structure for benefit accrual rates.
2. New retirement eligibility requirements.
3. Different rules for the computation of final average compensation.

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

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

2019: House Bill 1 passed during the 2019 legislative session and allowed certain agencies in the KERS Nonhazardous plan to elect to cease participating in the fund as of June 30, 2020, under different provisions than were previously established.

2020: Senate Bill 249 passed during the 2020 legislative session delayed the effective date of cessation for these provisions to June 30, 2021.

2021: Senate Bill 169 passed during 2021 legislative session increased the disability benefits for certain qualifying members who become "total and permanently disabled" in the line of duty or as a result of a duty-related disability.

House Bill 8 passed during the 2021 legislative session changed how employer contributions are allocated and collected from the participating employer in the KERS Nonhazardous plan.

2022: House Bill 1 passed during the 2022 legislative session and included a provision that provided an approximate 8% across-the-board salary increase for KERS members effective July 1, 2022, for eligible State employees.

2023: House Bill 506 passed during the 2023 legislative session reinstated the partial lump-sum option form of payment for member who retire on or after January 1, 2024, and also adjusted the minimum required separation period before a retiree may become reemployed and continue to receive their retirement allowance to one month under all circumstances.

2024: House Bill 99 passed and was signed into law on April 4, 2024. The bill included limited changes involving death benefits, disability procedures, military service credit and restored employment/service.

Jonathan Creek Water District
Schedule of the Proportionate Share of the Net OPEB (Asset)/Liability
For the Years Ended December 31
Last Ten Measurement Dates (1)

<u>Year Ended</u>	<u>District's proportion of the net OPEB liability</u>	<u>District's proportionate share of the net OPEB liability (asset)</u>	<u>District's covered employee payroll</u>	<u>District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total OPEB liability (2)</u>
<u>CERS Nonhazardous</u>					
2025	0.011837%	\$ 11,369	\$ 390,293	2.91%	97.66%
2024	0.011210%	(19,391)	364,020	(5.33)%	104.89%
2023	0.011171%	(15,423)	342,735	(4.46)%	104.23%
2022	0.010995%	216,988	310,554	69.87%	60.95%
2021	0.010658%	204,042	286,799	71.14%	62.91%
2020	0.010079%	243,377	261,306	93.14%	51.67%
2019	0.012723%	213,995	297,706	71.88%	60.44%
2018	0.013803%	245,070	319,931	76.60%	57.62%
2017	0.011333%	227,832	324,982	70.11%	52.40%

Note to Schedule:

(1) The amounts presented were determined as of the measurement date June 30. District payroll is reported for its covered employees on calendar years ending December 31.

(2) This will be the same percentage for all participant employers in the CERS plan.

Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

Jonathan Creek Water District
Schedule of OPEB Contributions
For the Years Ended December 31
Last Ten Years (1)

<u>Year Ended</u>	<u>Contractually required contribution</u>	<u>Contributions relative to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered employee payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
<u>CERS Nonhazardous</u>					
2025	\$ -	\$ -	\$ -	\$ 390,293	0.00% / 0.00%
2024	-	-	-	364,020	0.00% / 0.00%
2023	5,691	5,691	-	342,735	3.39% / 0.00%
2022	11,654	11,654	-	310,554	4.17% / 3.39%
2021	15,109	15,109	-	286,799	4.76% / 4.17%
2020	12,574	12,574	-	261,306	4.76% / 4.76%
2019	14,813	14,813	-	297,706	5.26% / 4.76%
2018	15,918	15,918	-	319,931	4.70% / 5.26%
2017	16,257	16,257	-	324,982	4.73% / 4.70%

Note to Schedule:

Contributions in relation to statutorily required OPEB contributions are the contributions an employer actually made to the OPEB Plan, as distinct from the statutorily required contributions.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the pension fund of CERS. The above contributions only include those allocated directly to the CERS insurance fund.

(1) Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

Jonathan Creek Water District
Schedule of Changes in Benefits and Assumptions OPEB
For the Year Ended December 31, 2025

Note A - Changes of Assumptions:

2017: The actuarial valuation was performed as of June 30, 2016. Gabriel Roeder Smith Retirement Consulting rolled forward from the valuation date to the plan's fiscal year end of June 30, 2017, using generally accepted actuarial principles. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017, which were also used to determine the Total Pension Liability and Net Pension Liability as of June 30, 2017. Specifically, a 2.30% price inflation assumption and an assumed rate of return of 6.25%.

2018: There have been no changes in actuarial assumptions since June 30, 2017.

2019: The payroll growth rate was reduced to 2.0% from 4.0%.

The inflation rate was reduced to 2.30% from 3.25%.

The investment rate of return was reduced to 6.25% from 7.50%.

2020: There have been no changes in actuarial assumptions since June 30, 2019.

2021: Salary increases were reduced to 3.30% to 10.30%, from 3.30% to 11.55%.

2022: There have been no changes in actuarial assumptions since June 30, 2021.

2023: New actuarial assumptions were adopted on May 9, 2023.

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%.

2025: The discount rate used to calculate the total OPEB liability increased from 5.99% to 6.26% for the nonhazardous plan.

Note B - Method and assumptions used in calculations of actuarially determined contributions.

The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2025, were based on an actuarial valuation date of June 30, 2023. The total OPEB liability was rolled forward from the valuation date of June 30, 2024, to the plan's fiscal year ending June 30, 2025, using generally accepted actuarial principles. The actuarial methods and assumptions used to calculate the required contributions are below.

Valuation date	June 30, 2023
Actual cost method	Entry age normal
Amortization method	Level percent of pay
Amortization period	30-year closed period at June 30, 2019. <i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases.</i>
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Inflation	2.50%
Salary increases	3.30% to 10.30%, varies by service for CERS
Payroll growth rate	2.00%
Investment Return	6.50%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 6.80% at January 1, 2025, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2024 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Post-65	Initial trend starting at 8.50% at January 1, 2025, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years. The 2024 premiums were known at the time of the valuation and were incorporated into the liability measurement.

Jonathan Creek Water District
Schedule of Changes in Benefits and Assumptions OPEB
For the Year Ended December 31, 2025

Mortality

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.

Notes C - Changes of Benefits:

2019: House Bill 1 passed during the 2019 legislative session and allowed certain agencies in the KERS Nonhazardous plan to elect to cease participating in the fund as of June 30, 2020, under different provisions than were previously established.

2020: Senate Bill 249 passed during the 2020 legislative session delayed the effective date of cessation for these provisions to June 30, 2021.

2021: Senate Bill 249 passed during the 2020 legislative session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases.

Senate Bill 169 passed during 2021 legislative session increased the disability benefits for certain qualifying members who become "total and permanently disabled" in the line of duty or as a result of a duty-related disability.

House Bill 8 passed during the 2021 legislative session changed how employer contributions are allocated and collected from the participating employer in the KERS Nonhazardous plan.

2022: Senate Bill 209 passed during the 2022 legislative session increased the insurance dollar contribution for members hired on or after July 1, 2023, by \$5 for each year of service a member attains over certain thresholds, depending on a member's retirement eligibility requirement.

2023: House Bill 506 passed during the 2023 legislative session and reinstated the partial lump-sum option form of payment for members who retire on and after January 1, 2024, and adjusted the minimum required separation period before a retiree may become reemployed and continue to receive their retirement allowance to one month for all circumstances.

2025: Senate Bill 10 passed during the 2025 legislative session and increased the insurance benefit for members who began participation on or after July 1, 2003, to \$40 a month for non-hazardous CERS service and \$50 a month for hazardous CERS service, effective January 1, 2026. These increases are only payable when a member is not eligible for Medicare benefits and only if they have met certain service thresholds at retirement. Additionally, this legislation increases the insurance member contribution rate for hazardous members from 1% of pay to 2% of pay, effective July 1, 2026, and extended the required member contribution to CERS members hired on or after July 1, 2003, but prior to September 1, 2008, for both funds.

OTHER INFORMATION

Jonathan Creek Water District
Detail Schedule of Operating Expenses
For the Year Ended December 31, 2025

General operating expenses

Salaries and wages	\$ 171,105
Employee insurance and benefits	51,596
Monthly billing expenses	32,150
Office supplies	11,438
Workers' comp and bond insurance	10,743
Legal and professional	9,817
Telephone and internet	9,623
Uniforms	6,599
Miscellaneous	6,488
Retirement	5,367
Training and education	5,119
Travel	4,113
Registration expenses	1,001
Bank charges	884
Total general operating expenses	<u>326,043</u>

Transmission and distribution expenses

Salaries & wages	294,865
Insurance expenses	51,876
Vehicle expenses	38,206
Supplies & materials	29,533
Telephone expenses	2,790
Repairs & maintenance	85
Total water expenses	<u>417,355</u>

Depreciation expense 211,363

Pumping expenses 91,843

Payroll and other taxes 35,129

Water treatment

Chemicals	17,814
Testing	7,249
Total water treatment	<u>25,063</u>

Total operating expenses \$ 1,106,796

JESSICA K. DANIEL, CPA PSC
CERTIFIED PUBLIC ACCOUNTANT

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

To the Board of Commissioners
Jonathan Creek Water District
Benton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Jonathan Creek Water District, as of and for the year ended December 31, 2025 and the related notes to the financial statements, which collectively comprise the Jonathan Creek Water District's basic financial statements, and have issued our report thereon dated September 8, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Jonathan Creek Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. (2025-1 and 2025-2).

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Jonathan Creek Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 that are required to be reported under *Government Auditing Standards*.

Jonathan Creek Water District's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the Jonathan Creek Water District's response to findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

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.

Handwritten signature of Jessica K Dail CPA PSC in black ink.

Eddyville, Kentucky
September 8, 2026

Jonathan Creek Water District
Schedule of Findings and Responses
For The Year Ended December 31, 2025

2025-1 Segregation of Duties

Criteria: A sound system of internal control requires that incompatible duties — such as authorizing transactions, recording them in the accounting records, and maintaining custody of the related assets — be assigned to different individuals so that no one person can both perpetrate and conceal an error or irregularity in the normal course of their duties.

Condition: The District's accounting and financial functions are performed by a small number of employees, resulting in an absence of adequate segregation of duties among the functions of authorizing, recording, and reconciling transactions and safeguarding assets.

Cause: The size of the District's accounting staff limits management's ability to segregate incompatible duties among different employees.

Effect: Although no misstatements attributable to this condition were identified during the audit, the lack of segregation of duties increases the risk that errors or irregularities could occur and not be prevented, or detected and corrected, in the normal course of business.

Recommendation: We recommend that management continue to evaluate its accounting processes for opportunities to separate incompatible duties. Where segregation cannot be fully achieved because of the size of the staff, management should remain aware of the limitation and rely on compensating controls, such as management review and oversight, to mitigate the risk.

Response: We agree with the finding and have put in place certain compensating controls to help mitigate this risk.

2025-2: Audit Adjustments

Criteria: Internal control over financial reporting should be designed to enable management to identify, calculate, and record all material amounts required to be reported under generally accepted accounting principles, including the District's proportionate share of the net pension liability and net OPEB liability and the related deferred outflows and inflows of resources.

Condition: During the audit, the District required auditor assistance to record the adjustments necessary to comply with GASB Statement No. 68, Accounting and Financial Reporting for Pensions, and GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This was the only proposed audit adjustment of a non-reclassifying nature identified during the audit; all other proposed entries were reclassifications among financial statement captions that did not affect total assets, total liabilities, net position, or the change in net position.

Cause: The calculations required by GASB 68 and GASB 75 are based on complex actuarial information provided by the Kentucky Public Pensions Authority (KPPA) and require specialized accounting knowledge to translate into journal entries. The District, like many local governments of its size, does not employ personnel with this specialized technical expertise.

Effect: Without the auditor's assistance, the pension and OPEB liabilities, related deferred outflows and inflows of resources, and pension/OPEB expense would not have been recorded in accordance with generally accepted accounting principles. We consider this a significant deficiency rather than a material weakness because: (1) it is limited to these two specific, non-routine actuarial estimates; (2) the District independently maintains its capital asset subsidiary ledger and records depreciation expense without audit assistance; (3) all other adjustments proposed during the audit were reclassifications with no effect on the District's reported net position; and (4) management reviewed, understood, and approved the pension and OPEB entries once proposed.

Jonathan Creek Water District
Schedule of Findings and Responses
For The Year Ended December 31, 2025 (cont'd)

Recommendations: We recommend the District continue to review the pension and OPEB journal entries with us each year to ensure management understands and agrees with the amounts recorded. Given the highly specialized nature of GASB 68 and 75 reporting, reliance on external audit assistance in this area is a common and cost-effective practice for governments of the District's size, provided management continues to exercise oversight over, and understanding of, the entries recorded.

Response: We agree with the finding. Management will continue to review the pension and OPEB journal entries in detail each year and understands its obligation to recognize pension and OPEB expense and report the related deferred outflows of resources, deferred inflows of resources, net pension liability, and net OPEB liability associated with its proportionate share of the County Employees Retirement System.

Jonathan Creek Water District
Schedule of Prior Year Findings and Responses
For The Year Ended December 31, 2024

2024-1 Segregation of Duties

Condition

There is an absence of appropriate segregation of duties consistent with appropriate control objectives.

Criteria

A prudent control environment requires various functions of internal control to be allocated among various employees.

Effect

Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded and errors and irregularities may go undetected.

Cause

Lack of personnel.

Recommendation

We recommend that management review its financial operation for opportunities to separate incompatible functions. Where segregation of duties cannot be achieved due to the size of the staff, management should maintain its awareness of the weakness and compensate with other controls.

Response

We agree with the finding and have put in place certain compensating controls to help alleviate exposure.

2024-2: Audit Adjustments

Criteria: Audit adjustments were indicative of a deficiency in the internal controls over financial reporting.

Condition: During our audit, we identified material adjustments resulting in significant changes to the District's financial statements.

Context: The inability to make all necessary accrual adjustments related to the GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* reporting requirements increases the likelihood that the financial statements would not be fairly presented.

Cause: During our audit, we made recommendations for journal entries that were necessary to comply with the GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, reporting requirements.

Effect: The audit adjustment to record deferred outflows of resources, net pension liability, net OPEB liability, and deferred inflows of resources related to the District's involvement with the County Employees Retirement System was reviewed and approved by the District's management and is reflected in the financial statements.

Recommendations: We recommend that the District review the trial balance and journal entries with us to ensure they understand and are in agreement with the entries. The District should establish internal controls necessary to determine that all adjusting entries are made to ensure the District's financial statements are reported in accordance with generally accepted accounting principles.

Response: The District's management will review the trial balance and journal entries in detail. The District understands their obligation to recognize pension expense and report deferred outflows of resources, deferred inflows of resources, net pension liability, and net OPEB liability related to their proportionate share of the County Employees Retirement System.