# DAVIESS COUNTY WATER DISTRICT

## FINANCIAL STATEMENTS
## AND
## SUPPLEMENTAL INFORMATION

## DECEMBER 31, 2025 AND 2024

**DAVIESS COUNTY WATER DISTRICT**
**Contents**
**December 31, 2025 and 2024**

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Since 1921

ALEXANDER
& COMPANY CPAS PSC

# INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Daviess County Water District

## Opinion

We have audited the accompanying financial statements of the Daviess County Water District, a component unit of the Daviess County Fiscal Court, Kentucky as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise Daviess County Water 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 financial position of the Daviess County Water District, as of December 31, 2025 and 2024, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Basis for Opinion

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

## Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Daviess County Water 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.

## Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Daviess County 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 Daviess County 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 on pages 4 - 9 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Budgetary Comparison Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report May 20, 2026, on our consideration of the Daviess County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Daviess County Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Daviess County Water District's internal control over financial reporting and compliance.

Alexander & Company CPAs PSC

Owensboro, Kentucky
May 20, 2026

DAVIESS COUNTY
WATER DISTRICT
*Safe and Reliable*

**MANGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2025. Please read it in conjunction with the District's financial statements, which begin on page 10.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts: Management's Discussion and Analysis, the Financial Statements, and Supplementary Information.

Management's Discussion and Analysis (MD&A) serves an introduction to the basic financial statements. The MD&A represents management's examination and analysis of the District's financial condition and performance.

The financial statements report information using accounting methods similar to those used by private sector companies. The financial statements include a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position presents the financial position of the District and thus provides information about the nature and amount of resources and obligations at year-end.

The Statement of Revenues, Expenses, and Changes in Net Position presents the results of the business activities over the course of the year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of the related cash flow.

The Statement of Cash Flows present changes in cash and cash equivalents resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursements information, without consideration of the earnings event or when an obligation arises.

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

The Supplementary Information includes the District's budget to actual comparison schedule.

## FINANCIAL SUMMARY

The following table summarizes the financial condition of the District as of December 31, 2025 and 2024:

| | 2025 | 2024 | $ Change | % Change |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Current assets | $ 11,799,512 | $ 10,934,400 | $ 865,112 | 7.91% |
| Restricted assets | 1,077,060 | 1,027,820 | 49,240 | 4.79% |
| Net capital assets | 21,280,045 | 17,300,042 | 3,980,003 | 23.01% |
| Total assets | $ 34,156,617 | $ 29,262,262 | 4,894,355 | 16.73% |
| **LIABILITIES AND NET ASSETS** | | | | |
| Current liabilities | $ 1,956,121 | $ 1,528,676 | 427,445 | 27.96% |
| Noncurrent liabilities | 349,785 | 347,570 | 2,215 | 0.64% |
| Total liabilities | 2,305,906 | 1,876,246 | 429,660 | 22.90% |
| **NET POSITION** | | | | |
| Net investment in capital assets | 21,280,045 | 17,300,042 | 3,980,003 | 23.01% |
| Unrestricted | 10,570,666 | 10,085,974 | 484,692 | 4.81% |
| Total net position | 31,850,711 | 27,386,016 | 4,464,695 | 16.30% |
| Total liabilities and net position | $ 34,156,617 | $ 29,262,262 | $ 4,894,355 | 16.73% |

The following table summarizes the revenues, expenses, and changes in net position of the District for the years ended December 31, 2025 and 2024:

| | 2025 | 2024 | $ Change | % Change |
|---|---|---|---|---|
| Operating revenues | $ 7,495,222 | $ 7,429,181 | $ 66,041 | 0.89% |
| Operating expenses | 7,046,365 | 6,682,232 | 364,133 | 5.45% |
| Income from operations | 448,857 | 746,949 | (298,092) | -39.91% |
| Interest income | 440,044 | 415,029 | 25,015 | 6.03% |
| Unrealized gain on investments | 1,990 | 72,005 | (70,015) | -97.24% |
| Interest expense | (14,850) | (19,020) | 4,170 | -21.92% |
| Gain (loss) on disposal of capital assets | (34,625) | 6,685 | (41,310) | -617.95% |
| Insurance recoveries - hailstorm | 306,883 | - | 306,883 | NA |
| Net nonoperating revenue | 699,442 | 474,699 | 224,743 | 47.34% |
| Income before capital contributions | 1,148,299 | 1,221,648 | (73,349) | -6.00% |
| Capital contributions | 3,316,396 | 684,541 | 2,631,855 | 384.47% |
| Change in net position | 4,464,695 | 1,906,189 | 2,558,506 | 134.22% |
| Net position, beginning of year | 27,386,016 | 25,479,827 | 1,906,189 | 7.48% |
| Net position, end of year | $ 31,850,711 | $ 27,386,016 | $ 4,464,695 | 16.30% |

## FINANCIAL HIGHLIGHTS

- In 2025, the District’s net position increased by $4,464,695. The increase in net position was comprised of income from operations of $448,857, nonoperating revenue of $699,442, and capital contributions of $3,316,396.

- In 2025, the District's operating revenues were $7,495,222. In 2024, the District's operating revenues were $7,429,181. Therefore, the District’s operating revenues increased $66,041 or 0.89%. In 2025, the District’s total gallons sold to customers were 1,032,820,300. In 2024, the District’s total gallons sold to customers were 1,031,024,100. Therefore, the District’s total gallons sold to customers increased 1,796,200 or 0.17%. During 2025, there were no customer rate increases.

- In 2025, the District's operating expenses were $7,046,365. In 2024, the District's operating expenses were $6,682,232. Therefore, the District’s operating expenses increased $364,133 or 5.45%. The most significant increases and decreases in operating expenses during 2025 when compared to 2024 were as follows:

    - Depreciation increased $111,854 or 12.94%
    - Employee benefits increased $52,423 or 13.16%
    - Materials, supplies, and repairs increased $60,501 or 22.76%.
    - Salaries and wages increased $83,895 or 9.17%.
    - Transportation increased $32,991 or 42.56%.

Depreciation increased due to the significance of capital asset additions placed into service in 2025. During 2025, capital assets placed into service were $5,068,904. 2025 capital assets placed into service increased depreciation expense by $110,055.

Employee benefits consist of health insurance and District retirement contributions. Employee health insurance and retirement contributions increased $38,239 and $14,184, respectively.

Material, supplies, and repairs increased due to a leak repair on East Parrish Avenue with a total cost to repair of approximately $25,000. There were non-recurring costs related to a water line switchover and line abandonment on Highway 1554 for approximately $20,000.

Salaries and wages increased due to the hiring of two new employees in February and March. One new employee hire was to anticipate an employee retirement and to fill the position to train and familiarize the employee with their job duties. The other new hire was to fill an open position created from reassigning a current employee to a new position. The new hires contributed to an increase in salaries and wages of $67,085. The residual increase was related to general employee raises.

Transportation increased due to non-recurring expenses to repair vehicles damaged by a severe hailstorm that occurred during March 2025. Costs to repair the damaged vehicles were $30,768.

## CAPITAL ASSETS

As of December 31, 2025, the District had $21.3 million of net capital assets. The table below summarizes the District's capital asset activity during 2025.

| | Balance 1/1/2025 | Additions | Deletions | Balance 12/31/2025 |
|---|---|---|---|---|
| Capital assets not depreciated: | | | | |
| Land | $ 94,582 | $ - | $ - | $ 94,582 |
| Construction in progress | 1,128,478 | 3,683,157 | 3,761,381 | 1,050,254 |
| Total capital assets not depreciated: | 1,223,060 | 3,683,157 | 3,761,381 | 1,144,836 |
| Capital assets depreciated: | | | | |
| Buildings | 405,614 | - | - | 405,614 |
| Pumping stations | 2,407,495 | 269,676 | - | 2,677,171 |
| Equipment | 3,058,065 | 182,749 | 26,168 | 3,214,646 |
| Tanks, lines, meters and hydrants | 24,487,949 | 4,616,476 | 153,259 | 28,951,166 |
| Total capital assets depreciated | 30,359,123 | 5,068,901 | 179,427 | 35,248,597 |
| Less accumulated depreciation: | | | | |
| Buildings | 315,074 | 9,063 | - | 324,137 |
| Pumping stations | 1,092,488 | 60,199 | - | 1,152,687 |
| Equipment | 1,158,907 | 208,149 | 26,168 | 1,340,888 |
| Tanks, lines, meters and hydrants | 11,715,672 | 698,638 | 118,634 | 12,295,676 |
| Total accumulated depreciation | 14,282,141 | 976,049 | 144,802 | 15,113,388 |
| Total capital assets depreciated, net | 16,076,982 | 4,092,852 | 34,625 | 20,135,209 |
| Total capital assets, net | $ 17,300,042 | $ 7,776,009 | $ 3,796,006 | $ 21,280,045 |

Significant capital asset additions were as follows:

- Pumping stations:

  – The Reid Road generator was placed into service for $40,958.

  – Gate and check valves were placed into service at the Highway 431 pumpstation for $24,155.

  – The hydraulic study was placed into service for $43,250.

  – The master meter program was placed into service for $161,313.

- Equipment:

  – Three 2025 Ford F-150s were placed into service for $144,690.

  – Communication equipment for meter reading (radios) was placed into service for $33,300.

**CAPITAL ASSETS (continued)**

- Tanks, lines, meters, and hydrants:

  – Lines placed into service were $3,684,356, (includes noncash capital contributions of $2,586,498).

  - Highway 81 / Burns Road line replacement - $307,811.
  - Highway 54-line installation (Phases 1 & 2) - $2,962,196 (includes noncash portion of $2,053,119).
  - Subdivision water line additions - $154,280 (all noncash).
  - Highway 258-line replacement - $245,853
  - Highway 231-creek bore line replacement - $14,216

  – Meter installation charges and meters placed into service were $522,386. During 2025, new meter sets and meters replaced were 179 and 1,538, respectively.

  – Hydrants placed into service were $409,736 (includes noncash capital contributions of $379,100).

  - Daviess County Hydrant Program - $325,100 (all noncash).
  - Hydrants installed by the District - $30,636.
  - Subdivision hydrant additions - $54,000 (all noncash).

Construction in Progress

As of December 31, 2025, the District had seven ongoing construction projects, which are summarized below.

| Project Name | Estimated Total Project Cost | Costs Incurred as of 12/31/2025 | Estimated Cost-to-Complete | Grant or Other Reimbursement |
|---|---|---|---|---|
| Highway 54 Waterline Relocation Project (Phase 3) | $ 2,100,000 | $ 172,219 | $ 1,927,781 | $ 2,100,000 |
| Wing Avenue Waterline Relocation Project | 4,500,000 | 368,986 | 4,131,014 | 3,548,560 |
| Office Renovation | Unknown | 31,682 | NA | NA |
| Daniels Lane Waterline Upgrade Project | 2,186,200 | 52,579 | 2,133,621 | 640,000 |
| Wimsatt Court Fire Protection Upgrade Project | 424,000 | 304,855 | 119,145 | 108,737 |
| Town & Country Project | 800,000 | 40,000 | 760,000 | NA |
| SCADA Project | 500,000 | 79,933 | 420,067 | NA |
| | $ 10,510,200 | $ 1,050,254 | $ 9,491,628 | $ 6,397,297 |

## 2026 OPERATING & CAPITAL BUDGET AND PURCHASED WATER RATES

<u>2026 Operating Budget</u>

Revenue:

With the District continuing to experience growth in both residential and commercial meters, revenues are expected to increase accordingly. Commercial development along Highway 54 remains strong, particularly with the continued expansion of Gateway Commons. During the current year, the District added 142 residential meters, representing a 1.1% increase. A similar level of growth is anticipated in 2026, and the revenue forecast has been adjusted to reflect this expected increase.

Expenses:

Most operating expenses are not expected to fluctuate significantly in 2026. However, certain categories are projected to increase. Salaries and employee benefits will rise due to a full year of expense related to two employees hired in 2025. Purchased water expense is expected to increase as a result of higher rates from Owensboro Municipal Utilities. Additionally, depreciation expense will increase following the completion and capitalization of several major infrastructure projects.

<u>2026 Capital Budget</u>

The District's 2026 capital budget includes several significant infrastructure projects. The primary project is the remaining local funding portion of the Wing Avenue waterline replacement, estimated at approximately $1,000,000 after available grant funds have been exhausted.

Additional planned capital expenditures include completion of the SCADA controls and telemetry system ($450,000), interior painting of the West Louisville facility ($130,000), interior and exterior painting of the Panther tank ($210,000), and installation of replacement waterlines on Ben Ford Road and Todd Bottoms Road ($430,000).

The budget also includes $700,000 for the installation of control valves. However, this expenditure is not expected to occur in 2026, as management intends to evaluate at least six months of operational data from the SCADA telemetry system before determining the necessity and optimal placement of such valves.

<u>Funding for Capital Projects:</u>

- Wing Avenue Waterline Relocation Project: The District has secured approximately $3.2 million in grant funding to offset the total estimated remaining project costs of $4.2 million associated with the Wing Avenue waterline installation.

- Wimsatt Court Fire Protection Upgrade Project: A total of $361,814 in unused Kentucky Infrastructure Authority (KIA) grant funds were reallocated to this project, increasing the total KIA award to $470,551.

- Daniels Lane Waterline Upgrade Project: In addition to the District's $640,000 Environmental Protection Agency (EPA) award, the District has been awarded an additional $1.546 million in funding from the Commonwealth of Kentucky through House Bill 900 in April 2026 to support this project.

<u>Purchased Water Rates</u>

The District has received notice from Owensboro Municipal Utilities of an increase in the wholesale water rate for its Southeast Division of $0.28 per 1,000 gallons. As a result, preliminary calculations indicate that a purchased water adjustment will be necessary. The District estimates this adjustment will increase customer billing rates by approximately $0.20 per 1,000 gallons, with implementation anticipated in July 2026.

**DAVIESS COUNTY WATER DISTRICT**
**Statements of Net Position**
**December 31, 2025 and 2024**

| | 2025 | 2024 |
|---|---|---|
| **Assets** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 1,342,450 | $ 926,273 |
| Accounts receivable | 1,092,185 | 1,003,719 |
| Other receivable | 13,171 | 8,790 |
| Grants receivable | 119,660 | 63,212 |
| Investments | 8,553,106 | 8,288,671 |
| Interest receivable | 25,113 | 41,374 |
| Prepaid insurance | 35,201 | 30,395 |
| Inventory | 618,626 | 571,966 |
| **TOTAL CURRENT ASSETS** | 11,799,512 | 10,934,400 |
| **RESTRICTED ASSETS** | | |
| Cash - meter setting fund | 228,112 | 185,839 |
| Cash - medical reimbursement fund | 61,866 | 76,992 |
| Investments - customer deposits | 349,785 | 347,570 |
| Investments - medical reimbursement | 436,073 | 416,043 |
| Interest receivable | 1,224 | 1,376 |
| **TOTAL RESTRICTED ASSETS** | 1,077,060 | 1,027,820 |
| **CAPITAL ASSETS** | | |
| Land | 94,582 | 94,582 |
| Water plant | 35,248,597 | 30,359,123 |
| Construction in progress | 1,050,254 | 1,128,478 |
| | 36,393,433 | 31,582,183 |
| Less accumulated depreciation | (15,113,388) | (14,282,141) |
| **NET CAPITAL ASSETS** | 21,280,045 | 17,300,042 |
| **TOTAL ASSETS** | $ 34,156,617 | $ 29,262,262 |

See accompanying notes.

**DAVIESS COUNTY WATER DISTRICT**
**Statements of Net Position**
**December 31, 2025 and 2024**

| | 2025 | 2024 |
|---|---|---|
| **Liabilities and Net Assets** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ 1,836,664 | $ 1,162,771 |
| Accrued retirement | 48,042 | 42,074 |
| Accrued school and sales taxes | 23,280 | 21,140 |
| Payroll taxes and withholding | 14,325 | 12,198 |
| Accrued payroll | 20,580 | 16,635 |
| Refundable grant advances | - | 266,808 |
| Current liabilities payable from restricted assets: | | |
| Accounts payable | 13,230 | 7,050 |
| **TOTAL CURRENT LIABILITIES** | 1,956,121 | 1,528,676 |
| **NONCURRENT LIABILITIES** | | |
| Customer deposits payable from restricted assets | 349,785 | 347,570 |
| **TOTAL LIABILITIES** | 2,305,906 | 1,876,246 |
| **NET POSITION** | | |
| Net investment in capital assets | 21,280,045 | 17,300,042 |
| Unrestricted | 10,570,666 | 10,085,974 |
| **TOTAL NET POSITION** | 31,850,711 | 27,386,016 |
| **TOTAL LIABILITIES AND NET POSITION** | $ 34,156,617 | $ 29,262,262 |

See accompanying notes.

**DAVIESS COUNTY WATER DISTRICT**
**Statements of Revenues, Expenses, and Changes in Net Position**
**For the Years Ended December 31, 2025 and 2024**

| | 2025 | 2024 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Water sales | $ 6,941,056 | $ 6,923,249 |
| Tap on fees | 268,157 | 232,881 |
| Miscellaneous service revenues | 286,009 | 273,051 |
| **TOTAL OPERATING REVENUES** | 7,495,222 | 7,429,181 |
| **OPERATING EXPENSES** | | |
| Advertising | - | 1,590 |
| Audit, accounting, and legal | 23,859 | 24,286 |
| Bad debts | 11,376 | 6,355 |
| Contract services | 6,155 | 15,030 |
| Depreciation | 976,049 | 864,195 |
| Education and seminars | 11,793 | 7,020 |
| Employee benefits | 450,789 | 398,366 |
| Insurance | 68,379 | 57,627 |
| Materials, supplies, and repairs | 326,330 | 265,829 |
| Miscellaneous | 15,741 | 15,854 |
| Office supplies and expense | 175,242 | 172,444 |
| Payroll taxes | 79,014 | 72,304 |
| Phone and communication | 25,438 | 23,018 |
| PSC assessment | 11,478 | 10,801 |
| Rent of real estate | 12,862 | 12,862 |
| Salaries and wages | 998,539 | 914,644 |
| Transportation | 110,506 | 77,515 |
| Uniforms | 13,312 | 12,270 |
| Utilities | 128,170 | 132,169 |
| Water purchased | 3,581,746 | 3,576,916 |
| Water tests and meter service | 19,587 | 21,137 |
| **TOTAL OPERATING EXPENSES** | 7,046,365 | 6,682,232 |
| **INCOME FROM OPERATIONS** | 448,857 | 746,949 |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Interest income | 440,044 | 415,029 |
| Unrealized gain on investments | 1,990 | 72,005 |
| Interest expense | (14,850) | (19,020) |
| Gain (loss) on disposal of capital assets | (34,625) | 6,685 |
| Insurance recoveries - hailstorm | 306,883 | - |
| **TOTAL NONOPERATING REVENUES (EXPENSES)** | 699,442 | 474,699 |
| **INCOME BEFORE CAPITAL CONTRIBUTIONS** | 1,148,299 | 1,221,648 |

See accompanying notes.

**DAVIESS COUNTY WATER DISTRICT**
**Statements of Revenues, Expenses, and Changes in Net Position**
**For the Years Ended December 31, 2025 and 2024**

| | 2025 | 2024 |
|---|---|---|
| **CAPITAL CONTRIBUTIONS** | $ 3,316,396 | $ 684,541 |
| **CHANGE IN NET POSITION** | 4,464,695 | 1,906,189 |
| **NET POSITION, BEGINNING OF YEAR** | 27,386,016 | 25,479,827 |
| **NET POSITION, END OF YEAR** | $ 31,850,711 | $ 27,386,016 |

See accompanying notes.

**DAVIESS COUNTY WATER DISTRICT**
**Statements of Cash Flows**
**For the Years Ended December 31, 2025 and 2024**

| | 2025 | 2024 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash receipts from customers | $ 7,408,971 | $ 7,349,062 |
| Cash payments to employees for services | (1,437,288) | (1,320,261) |
| Cash payments for goods and services | (4,734,965) | (4,612,011) |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | 1,236,718 | 1,416,790 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Purchase of capital assets | (1,659,455) | (1,228,963) |
| Proceeds from disposals | - | 34,435 |
| Interest paid | (14,850) | (19,020) |
| Capital contributions | 402,261 | 913,642 |
| Insurance recoveries | 306,883 | - |
| **NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES** | (965,161) | (299,906) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Change in investments - net | 171,767 | (741,898) |
| **NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES** | 171,767 | (741,898) |
| **NET INCREASE IN CASH** | 443,324 | 374,986 |
| **CASH AND RESTRICTED CASH AT BEGINNING OF YEAR** | 1,189,104 | 814,118 |
| **CASH AND RESTRICTED CASH AT END OF YEAR** | $ 1,632,428 | $ 1,189,104 |

See accompanying notes.

**DAVIESS COUNTY WATER DISTRICT**
**Statements of Cash Flows**
**For the Years Ended December 31, 2025 and 2024**

| | 2025 | 2024 |
|---|---|---|
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| Net income from operations | $ 448,857 | $ 746,949 |
| Adjustments to reconcile net income from operations to net cash provided by operating activities: | | |
| Depreciation | 976,049 | 864,195 |
| (Increase) decrease in: | | |
| Accounts receivable | (88,466) | (93,894) |
| Prepaid insurance | (4,806) | (1,802) |
| Inventory | (46,660) | (80,760) |
| Increase (decrease) in: | | |
| Accounts payable | (64,651) | (26,554) |
| Accrued retirement | 5,968 | (1,426) |
| Accrued school and sales tax | 2,140 | 2,132 |
| Accrued payroll | 3,945 | (5,512) |
| Payroll taxes and withholding | 2,127 | (313) |
| Customer deposits | 2,215 | 13,775 |
| Total adjustments | 787,861 | 669,841 |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | $ 1,236,718 | $ 1,416,790 |

See accompanying notes.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Daviess County Water District (District) is a component unit of the Daviess County Fiscal Court, Kentucky and, therefore, is part of the financial reporting entity of the Daviess County Fiscal Court. The District is a water utility which operates in the rural section of Southeast and West Daviess County, Kentucky, and its sales are primarily to residential customers. As of December 31, 2025 and 2024 there were 14,014 and 13,857 active meters, respectively.

Proprietary Fund

The District is classified as a proprietary fund type. Proprietary funds are accounted for using the economic resources measurement focus; the accounting objectives are the determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary funds' activities are included on its statement of net position.

Basis of Accounting

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Government Accounting Standards Board (GASB) pronouncements.

The accrual basis of accounting is used for proprietary fund types. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred.

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.

Regulation

The District's utility operations are subject to regulation with respect to rates, service, maintenance of accounting records and various other matters by the Commonwealth of Kentucky, Public Service Commission. The District's accounting policies recognize the financial effects of the rate making and accounting practices and policies of the Public Service Commission.

Management Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash Flows Information

For the purposes of the Statements of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Noncash financing activities for 2025 and 2024, representing water lines and hydrants donated to the District were $2,586,498 and $149,331, respectively.

Investments

The District's investments are stated at fair value, except for highly liquid marketable investments with maturities of one year of less at the time of purchase and non-negotiable CDs held at local financial institutions, which are stated at amortized costs.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Accounts Receivable

The District follows a monthly billing cycle. When meter reading is delayed, estimated bills are rendered based on the average of the three previous bills in order to promote consistency of water revenue. The District considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If an account becomes more than sixty days overdue, it's charged to operations using the direct write-off method.

### Inventory

Inventory consists of materials and supplies and is stated at lower of cost (determined on the first-in, first-out basis) or net realizable value.

### Water Plant

Water plant is stated at original cost (cost of the property to whoever first devoted it to public service). The cost of labor for additions to the water plant constructed by the District's employees is not capitalized.

### Capital Assets

Utility plant assets are stated at cost. The cost of current repairs and maintenance is charged to expense, while the cost of replacements or betterments are capitalized. The District's capitalizes assets over $5,000 when the useful life is greater than one year (with exception to meters and radios, which all costs are capitalized). Depreciation is provided on the basis of the estimated useful lives of assets using the straight-line method. Depreciation expense was $976,049 and $864,195 for the years ended December 31, 2025 and 2024, respectively. Estimated useful lives of major class of the water plant in service are as follows:

| | Years |
|---|---|
| Land improvements | 10-25 |
| Buildings | 10-40 |
| Building Improvements | 10-40 |
| Machinery and Equipment | 5-20 |
| Infrastructure | 10-75 |
| Pump Stations / Tanks | 35-40 |
| Water Lines | 50-75 |
| Meter Installations | 40-50 |
| Meters | 15-20 |
| Hydrants | 40-60 |

### Operating Revenue

Operating revenue is recognized upon completion of monthly meter readings or when a service charge is incurred. At the end of each month approximately five to ten days of unbilled revenue may exist (depending on when meters are read). The impact of unbilled revenue is not material to the financial statements and as such, no accrual has been recorded in these financial statements.

### Nonoperating Revenues and Expenses

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering water in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of New Accounting Standards

In June 2022, the Governmental Accounting Standards Board issued Statement No. 100, *Accounting Changes and Error Corrections*, which enhances the accounting and financial reporting requirements for accounting changes and error corrections. The District implemented this new standard on January 1, 2024 and it did not have an impact on the financial statements other than additional disclosure.

In June 2022, the Governmental Accounting Standards Board issued Statement No. 101, *Compensated Absences*, which updates the recognition and measurement guidance for compensated absences under a unified model. This statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means and establishes guidance for measuring a liability for leave that has not been used. It also updates disclosure requirements for compensated absences. The District implemented this new standard on January 1, 2024 and it did not have an impact on the financial statements.

## NOTE B – DEPOSITS AND INVESTMENTS

Authorized Investments

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United State government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds. The District has incorporated the requirements of KRS 66.480 into its deposit and investment policies.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District has incorporated the requirements of KRS 66.480 into its investment policies, which addresses credit risk. The District places no limit on the amount the District may invest in any one issuer. However, management is not aware of any credit risks. Investments are certificates of deposits and brokerage certificate of deposits and all amounts are either FDIC insured or collateralized by pledged securities.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a custodian failure, the District's deposits or investments may not be returned to it. The District has incorporated the requirements of KRS 66.480 into its investment policies, which addresses custodial credit risk. As of December 31, 2025 and 2024, the amount of insured and uninsured deposits not covered by federal deposit insurance or collateralized by securities was as follows:

| | 2025 | 2024 |
|---|---|---|
| Bank balances | $ 7,862,340 | $ 5,749,739 |
| Amount held at brokers | 3,053,000 | 4,482,928 |
| FDIC insured | (3,303,000) | (4,732,928) |
| Collateralized by pledged securities | (7,465,688) | (5,499,739) |
| Total custodial credit risk | $ 146,652 | $ - |

**NOTE B – DEPOSITS AND INVESTMENTS (continued)**

Interest Rate Risk

To limit exposure to fair value losses resulting from an increase in interest rates, the District manages term to maturity for its investments.

Cash is shown on the Statement of Net Position as follows:

| | 2025 | 2024 |
|---|---|---|
| Cash | $ 1,342,450 | $ 926,273 |
| Restricted Cash: | | |
| Cash - Meter Setting Fund | 228,112 | 185,839 |
| Cash - Medical Reimbursement Fund | 61,866 | 76,992 |
| Cash and Restricted Cash | $ 1,632,428 | $ 1,189,104 |

Financial Statement Presentation

Investments are shown on the Statement of Net Position as follows:

| | 2025 | 2024 |
|---|---|---|
| Investments | $ 8,553,106 | $ 8,288,671 |
| Restricted Investments: | | |
| Investments - customer deposits | 349,785 | 347,570 |
| Investments - medical reimbursements | 436,073 | 416,043 |
| | $ 9,338,964 | $ 9,052,284 |

As of December 31, 2025 and 2024, the District had the following investments:

| | 2025 | | 2024 | |
|---|---|---|---|---|
| Investments: | Cost | Carrying Value | Cost | Carrying Value |
| Cash held at brokers | $ - | $ - | $ 17 | $ 17 |
| Brokerage CDs | 3,053,000 | 3,086,970 | 4,457,006 | 4,482,910 |
| CDs held at local financial institutions | 6,251,994 | 6,251,994 | 4,569,357 | 4,569,357 |
| Total Investments | $ 9,304,994 | $ 9,338,964 | $ 9,026,380 | $ 9,052,284 |

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The inputs or methodology used for valuing securities are not an indication of risk associated with those securities.

**NOTE B – DEPOSITS AND INVESTMENTS (continued)**

Fair Value Measurements (continued)

The District had the following recurring fair value measurements as of December 31, 2025 and 2024:

| | | Fair Value Measurements at Reporting Date Using: | | |
|---|---|---|---|---|
| Recurring fair value measurements: | Fair Value | Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| *December 31, 2025* | | | | |
| Investments: | | | | |
| Brokerage CDs | $ 3,086,970 | $ - | $ 3,086,970 | $ - |
| Total recurring fair value measurements | $ 3,086,970 | $ - | $ 3,086,970 | $ - |
| *December 31, 2024* | | | | |
| Investments: | | | | |
| Brokerage CDs | $ 4,482,910 | $ - | $ 4,482,910 | $ - |
| Total recurring fair value measurements | $ 4,482,910 | $ - | $ 4,482,910 | $ - |

Certificates of deposits classified in Level 2 are valued using consensus pricing. Investments in nonparticipating interest-earning investment contracts, money market funds, and certificates of deposit having a maturity of one year or less from the fiscal year end are not subject to GASB Statement No. 72.

**NOTE C – CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2025 was as follows:

| | 2024 | Additions | Deletions | 2025 |
|---|---|---|---|---|
| Capital assets not depreciated: | | | | |
| Land | $ 94,582 | $ - | $ - | $ 94,582 |
| Construction in progress | 1,128,478 | 3,683,157 | 3,761,381 | 1,050,254 |
| Total capital assets not depreciated: | 1,223,060 | 3,683,157 | 3,761,381 | 1,144,836 |
| Capital assets depreciated: | | | | |
| Buildings | 405,614 | - | - | 405,614 |
| Pumping stations | 2,407,495 | 269,676 | - | 2,677,171 |
| Equipment | 3,058,065 | 182,749 | 26,168 | 3,214,646 |
| Tanks, lines, meters and hydrants | 24,487,949 | 4,616,476 | 153,259 | 28,951,166 |
| Total capital assets depreciated | 30,359,123 | 5,068,901 | 179,427 | 35,248,597 |
| Less accumulated depreciation: | | | | |
| Buildings | 315,074 | 9,063 | - | 324,137 |
| Pumping stations | 1,092,488 | 60,199 | - | 1,152,687 |
| Equipment | 1,158,907 | 208,149 | 26,168 | 1,340,888 |
| Tanks, lines, meters and hydrants | 11,715,672 | 698,638 | 118,634 | 12,295,676 |
| Total accumulated depreciation | 14,282,141 | 976,049 | 144,802 | 15,113,388 |
| Total capital assets depreciated, net | 16,076,982 | 4,092,852 | 34,625 | 20,135,209 |
| Total capital assets, net | $ 17,300,042 | $ 7,776,009 | $ 3,796,006 | $ 21,280,045 |

**NOTE C – CAPITAL ASSETS (continued)**

2025 Construction in Progress

*Highway 54 Waterline Relocation Project (Phase 3)*

At December 31, 2025, the District had incurred $172,219 in construction in progress for a project to relocate waterlines on Highway 54 by the Kentucky Department of Transportation. The project's total estimated cost is $2,100,000. At December 31, 2025, the District's estimated cost-to-complete was $1,927,781. The District is expected to be reimbursed by the Kentucky Department of Transportation for all project costs.

*Wing Avenue Waterline Relocation Project*

At December 31, 2025, the District had incurred $368,986 in construction in progress for a project to upgrade a waterline located at Wing Avenue. The project's total estimated cost is $4,500,000 at completion. At December 31, 2025, the District's estimated cost-to-complete was $4,131,014. The District was awarded KIA grants under the Kentucky Cleaner Water Program from funds provided through the American Rescue Plan Act of 2021, Coronavirus State Fiscal Recovery Fund to fund project costs. As of December 31, 2025, the KIA amended award totaled $2,348,560.The District is also expecting a state allocation passed through the Daviess County Fiscal Court in the amount of $1,200,000, which was included in Senate Bill 91 and passed in the 2024 regular session. Any remaining project costs will be funded from the District's cash reserves.

*Daniels Lane Waterline Upgrade Project*

At December 31, 2025, the District had incurred $52,579 in construction in progress for a project to upgrade a waterline line beginning at the Daniels Lane Pump Station along Daniels Lane, then along Hayden Road to the intersection with Fairview Drive/KY 603. The project's total estimated cost is $2,186,200 at completion. At December 31, 2025, the District's estimated cost-to-complete was $2,133,621. The District was awarded a grant from the U.S. Environmental Protection Agency in the amount of $640,000 to fund the project. The District is expecting a KIA grant of $1,546,000 funded by a State Budget line item passed through the Kentucky House Bill 900 of 2026.

*Wimsatt Court Fire Protection Upgrade Project*

At December 31, 2025, the District had incurred $304,855 in construction in progress for a project to upgrade a waterline line and install hydrants located through the Wimsatt Court Subdivision. The project's total estimated cost is $424,000 at completion. At December 31, 2025, the District's estimated cost-to-complete was $119,145. The District was awarded a grant of $108,737 (#22CWW382) under the Kentucky Cleaner Water Program from funds provided through the American Rescue Plan Act of 2021, Coronavirus State Fiscal Recovery Fund to fund project costs. Supplemental KIA funds of $361,814 were awarded in 2026 bringing the total KIA award to $470,551. Any remaining project costs will be funded from the District's cash reserves.

*Town & Country Project*

At December 31, 2025, the District had incurred $40,000 in construction in progress for a project to install 2,297 linear feet of 6-inch PVC water line, 1,166 linear feet of 4-inch PVC water line and 2,434 linear feet of 3-inch PVC water line. The project's total estimated cost is $800,000 at completion. At December 31, 2025, the District's estimated cost-to-complete was $760,000. As of December 31, 2025, the project costs are expected to be funded from the District's cash reserves.

**NOTE C – CAPITAL ASSETS (continued)**

2025 Construction in Progress (continued)

*SCADA Project*

At December 31, 2025, the District had incurred $79,933 in construction in progress for a project to install transmitters at all pump stations and tanks for monitoring purposes. The project's total estimated cost is $500,000 at completion. At December 31, 2025, the District's estimated cost-to-complete was $420,067. As of December 31, 2025, the project costs are expected to be funded from the District's cash reserves.

Capital Asset Held for Sale

As of December 31, 2025, the District had a vehicle held for sale. The vehicle has a cost basis and accumulated depreciation of $26,168, respectively.

Capital assets activity for the year ended December 31, 2024 was as follows:

| | 2023 | Additions | Deletions | 2024 |
|---|---|---|---|---|
| Capital assets not depreciated: | | | | |
| Land | $ 94,582 | $ - | $ - | $ 94,582 |
| Construction in progress | 657,186 | 910,699 | 439,407 | 1,128,478 |
| Total capital assets not depreciated: | 751,768 | 910,699 | 439,407 | 1,223,060 |
| Capital assets depreciated: | | | | |
| Buildings | 405,614 | - | - | 405,614 |
| Pumping stations | 1,965,174 | 442,321 | - | 2,407,495 |
| Equipment | 3,025,047 | 79,981 | 46,963 | 3,058,065 |
| Tanks, lines, meters and hydrants | 24,083,068 | 438,448 | 33,567 | 24,487,949 |
| Total capital assets depreciated | 29,478,903 | 960,750 | 80,530 | 30,359,123 |
| Less accumulated depreciation: | | | | |
| Buildings | 305,052 | 10,022 | - | 315,074 |
| Pumping stations | 1,045,396 | 47,092 | - | 1,092,488 |
| Equipment | 1,006,640 | 188,244 | 35,977 | 1,158,907 |
| Tanks, lines, meters and hydrants | 11,113,618 | 618,837 | 16,783 | 11,715,672 |
| Total accumulated depreciation | 13,470,706 | 864,195 | 52,760 | 14,282,141 |
| Total capital assets depreciated, net | 16,008,197 | 96,555 | 27,770 | 16,076,982 |
| Total capital assets, net | $ 16,759,965 | $ 1,007,254 | $ 467,177 | $ 17,300,042 |

2024 Construction in Progress

The 2024 construction in progress information has been presented below for comparative purposes. The reader should be aware the information presented below was as of December 31, 2024. Estimated project costs, funding, and other information changed during 2025. The reader should refer to the 2025 Construction in Progress disclosures for the most recent information.

**NOTE C – CAPITAL ASSETS (continued)**

2024 Construction in Progress (continued)

*Highway 54 Waterline Relocation Project (Phases 1 & 2)*

At December 31, 2024, the District had incurred $373,573 in construction in progress for a project to relocate waterlines on Highway 54 by the Kentucky Department of Transportation. The District's share of the project cost is estimated at $549,925 at completion. While the Kentucky Department of Transportation is responsible for substantially all commitments, the District is responsible for betterment costs of $549,925. At December 31, 2024, the District's estimated cost-to-complete was $177,352 for its share of the betterment costs. The District was awarded grants of $275,000 (#21CWW044) and $275,000 (#22CWW135) under the Kentucky Cleaner Water Program from funds provided through the American Rescue Plan Act of 2021, Coronavirus State Fiscal Recovery Fund to fund project costs.

*Master Meter Installation Project*

At December 31, 2024, the District had incurred $160,812 in construction in progress for its master meter installation project. The project's total estimated cost is $200,000 at completion. At December 31, 2024, the District's estimated cost-to-complete was $39,188. The District was awarded a grant of $200,000 (#21CWW046) under the Kentucky Cleaner Water Program from funds provided through the American Rescue Plan Act of 2021, Coronavirus State Fiscal Recovery Fund to fund project costs to fund project costs.

*Wing Avenue Waterline Relocation Project*

At December 31, 2024, the District had incurred $313,802 in construction in progress for a project to upgrade a waterline located at Wing Avenue. The project's total estimated cost is $2,900,000 at completion. At December 31, 2024, the District's estimated cost-to-complete was $2,586,198. A portion of the commitment is expected to be funded by KIA grants and from a state allocation to be passed through the Daviess County Fiscal Court. The District was awarded KIA grants of $1,310,000 (#21CWW045) and $476,093 (#22CWW136) under the Kentucky Cleaner Water Program from funds provided through the American Rescue Plan Act of 2021, Coronavirus State Fiscal Recovery Fund to fund project costs. The District is also expecting a state allocation passed through the Daviess County Fiscal Court in the amount of $1,200,000, which was included in Senate Bill 91 and passed in the 2024 regular session.

*Highway 81 and Highway 554 Water Main Replacement Project*

At December 31, 2024, the District had incurred $175,701 in construction in progress for a project to replace a water main on Highway 81 and Highway 554. The project's total estimated cost is $313,000 at completion. At December 31, 2024, the District's estimated cost-to-complete was $137,299. The District will fund the project from its cash reserves.

*Daniels Lane Waterline Upgrade Project*

At December 31, 2024, the District had incurred $229 in construction in progress for a project to upgrade a waterline line beginning at the Daniels Lane Pump Station along Daniels Lane, then along Hayden Road to the intersection with Fairview Drive/KY 603. The project's total estimated cost is $800,000 at completion. At December 31, 2024, the District's estimated cost-to-complete was $799,771. The District was awarded a grant from the U.S. Environmental Protection Agency in the amount of $640,000 to fund the project. The remaining project costs will be funded from the District's cash reserves.

**NOTE C – CAPITAL ASSETS (continued)**

2024 Construction in Progress (continued)

*Wimsatt Court Fire Protection Upgrade Project*

At December 31, 2024, the District had incurred $19,296 in construction in progress for a project to upgrade a waterline line and install hydrants located through the Wimsatt Court Subdivision. The project's total estimated cost is $344,000 at completion. At December 31, 2024, the District's estimated cost-to-complete was $324,704. A portion of the commitment is expected to be funded by a grant. The District was awarded a grant of $108,737 (#22CWW382) under the Kentucky Cleaner Water Program from funds provided through the American Rescue Plan Act of 2021, Coronavirus State Fiscal Recovery Fund to fund project costs. The remaining project costs will be funded from the District's cash reserves.

**NOTE D – REFUNDABLE GRANT ADVANCES**

As of December 31, 2024, the District's statement of net position included refundable grant advances of $266,808. All of the amounts reported relate to KIA funding advanced to the District for the Wing Avenue Waterline Relocation Project. These advances have been reported as refundable grant advances due to the terms of the grant assistance agreement with the KIA. The terms of the agreement note that any amounts received before the project is advertised for bid are subject to full and immediate repayment. The Wing Avenue Waterline Relocation Project had not been advertised for bid as of December 31, 2024.

**NOTE E – RETIREMENT PLANS**

The District has a money-purchase retirement plan (Plan) covering all full-time employees that is a Defined Contribution plan. The fair value of investments is determined by the quoted market prices for each investment at the close of the market. The District makes a contribution equal to eleven percent of the employee's earned annual base salary. Employees become eligible after reaching the age of twenty and a half and after six months of full-time employment. Employees become fully vested after five years of service from enrollment date. Employer contributions to the Plan for 2025 and 2024 was $97,307 and $86,451, respectively. Accrued retirement expense for the Plan as of December 31, 2025 and 2024 was $48,042 and $42,074, respectively. Pentegra Services, Inc. is the administrator of the funds. Empower is the custodian of the funds. During 2025 and 2024, there were no forfeitures under this plan.

In addition to the Plan, the District's employees are also eligible to participate in a deferred compensation plan. The plan is organized as a Section 457(b) plan under the Internal Revenue Code. The plan permits employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, age sixty-two if still working or financial hardship. The District's policy is to match the employee's contribution up to three percent of the employee's gross salary.

Employer contribution to the deferred compensation plan for 2025 and 2024 was $27,055 and $23,727, respectively. Pentegra Services, Inc. is the administrator of this retirement plan. Empower is the custodian of the fund.

**NOTE F – RESTRICTED ASSETS**

Cash and investments held for the purpose of medical reimbursement and meter setting deposits are classified as restricted funds and liabilities to be paid by the District are classified as liabilities payable from restricted funds.

## NOTE G – RWRA ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

The District bills and performs collections for sewer charges on behalf of the Regional Water Resource Agency (RWRA), a regional provider of comprehensive wastewater services for Daviess County, Kentucky. Accounts receivable and accounts payable related to the District and RWRA as December 31, 2025 and 2024 was as follows:

| | 2025 | 2024 |
|---|---|---|
| Accounts receivable - RWRA | $ 569,394 | $ 526,264 |
| Accounts receivable - District | 522,791 | 477,455 |
| Total accounts receivable | $ 1,092,185 | $ 1,003,719 |
| Accounts payable - RWRA | $ 533,233 | $ 489,630 |
| Accounts payable - District | 1,303,431 | 673,141 |
| Total accounts payable | $ 1,836,664 | $ 1,162,771 |

## NOTE H – CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction represent additions to the water plant through extensions of the water distribution system. These additions are funded (or donated) by individual users, independent contractors or governmental agencies. For the years ended December 31, 2025 and 2024 contributions to the water distribution system amounted were $3,316,396 and $684,541, respectively.

## NOTE I – INCOME TAX STATUS

The District is exempt from federal and state income taxes and, accordingly, no provision for such taxes has been made.

## NOTE J – SUPPLIER

The District purchases most of its water for resale from the City Utility Commission of the City of Owensboro, Kentucky operating as Owensboro Municipal Utilities (OMU). The purchases from OMU for 2025 and 2024 were $3,547,763 and $3,538,253, respectively. Amounts payable to OMU for purchased water at year-end for 2025 and 2024 were $268,164 and $266,401, respectively.

## NOTE K – COMPENSATED ABSENCES

Employees are entitled to paid vacation and paid sick days, depending on job classification, length of service, and other factors. The District does not accrue compensation for paid vacation because the amount is considered immaterial. The District’s policy is to record compensated absences when actually paid to employees.

## NOTE L – NET POSITION

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets; restricted and unrestricted net assets. Invested in capital assets consists of all capital assets, net of accumulated depreciation. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net assets not included in the above categories.

**NOTE L – NET POSITION (continued)**

The following was included in restricted net position as of December 31, 2025 and 2024:

| | 2025 | 2024 |
|---|---|---|
| Investments - Customer Deposits | $ 349,785 | $ 347,570 |
| Less: Restricted Liabilities | (349,785) | (347,570) |
| Restricted Net Position | $ - | $ - |

**NOTE M – COMMITMENTS AND CONTINGENCIES**

Medical Expense Reimbursement Plan

The District provides a medical reimbursement plan (MERP) to its employees. The plan reimburses employees for medical and hospital expenses incurred by themselves and their dependents from January 1 to December 31, but not to exceed $6,500 for single employee or $13,000 for family plan (or current health plan's out-of-pocket maximum less $1,000 for single plan and $2,000 for family plan) per plan year. The reimbursements exclude insurable and eligible medical and hospital expenses available to employees under the District's group insured health plan. This plan also excludes employee dental expenses and expenses for prescription and non-prescription drugs. The District has established a reserve consisting of cash and cash equivalents to cover future medical reimbursements which as of December 31, 2025 and 2024, totaled $497,939 and $493,035, respectively. For the years ended December 31, 2025 and 2024, medical reimbursements paid to employees were $17,198 and $17,545, respectively. There were no significant outstanding medical reimbursements to employees as December 31, 2025 and 2024.

Water Purchases

The District purchases water monthly from Owensboro Municipal Utilities. The amount OMU charges the District for water purchases is based on an estimated rate. The supplier will retroactively compare the actual cost and estimated costs charged to the District and the difference (either the amount overpaid or underpaid) is communicated to the District. The District has the option to request a rate change or otherwise the rate remains unchanged. As of May 31, 2025 and 2024, the total amount overpaid by the District was $70,447 and $55,207, respectively.

Highway 54 Waterline Relocation Project (Phases 1 & 2)

The Highway 54 Waterline Relocation Project (Phases 1 & 2) were completed during 2025. As of December 31, 2025, the District had an accounts payable to the Kentucky Department of Transportation of $493,679 with no remaining commitment.

Land Purchase Option

As of October 23, 2025, the District had an option to purchase land for the purchase of 5 acres of land for an exercise price $200,000. The term of the option is six months.

Purchase Commitments - Meters

On September 27, 2024, the District entered into a purchase commitment for 3,240 water meters at a total cost of $508,356 to support meter changeout activities. As of December 31, 2024, the District had received 1,080 meters, with a recorded accounts payable of $169,452. The remaining 2,160 meters, represented a commitment of $338,904 as of December 31, 2024.

**NOTE N – RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2024, a board member provided investment advisory services to the employees participating in the District's retirement plan. The board member does not receive a direct payment from the District for the investment advisory fee. The investment advisory fee is deducted from plan assets. The investment advisory fee is determined based on the market value of the plan's assets. As of December 31, 2024, the annual fee was 0.60% per year.

**NOTE O – INSURANCE RECOVERIES**

During 2025, the Daviess County area experienced a severe hailstorm that caused damage to the District's structures and vehicles. The District received insurance recoveries totaling $306,883 during the year.

**NOTE P – SUBSEQUENT EVENTS**

At its April 2026 meeting, the board approved a six-month extension of the land option discussed in Note M.

The District did not have any other subsequent events through May 20, 2026, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2025.

## SUPPLEMENTARY INFORMATION

**DAVIESS COUNTY WATER DISTRICT**
**Budgetary Comparison Schedule**
**Year Ended December 31, 2025**

| | Budgeted Amounts | | | Variance with Final Budget Favorable |
|---|---|---|---|---|
| | Original | Final | Actual | (Unfavorable) |
| **OPERATING REVENUES** | $ 7,874,000 | $ 7,874,000 | $ 7,495,222 | $ (378,778) |
| **OPERATING EXPENSES** | | | | |
| Operation and maintenance expense | 6,448,900 | 6,448,900 | 6,058,838 | 390,062 |
| Depreciation expense | 925,000 | 925,000 | 976,049 | (51,049) |
| Taxes other than income | 12,000 | 12,000 | 11,478 | 522 |
| **TOTAL OPERATING EXPENSES** | 7,385,900 | 7,385,900 | 7,046,365 | 339,535 |
| **INCOME FROM OPERATIONS** | 488,100 | 488,100 | 448,857 | (39,243) |
| **NONOPERATING REVENUES (EXPENSES)** | | | | |
| Interest income | 400,000 | 400,000 | 440,044 | 40,044 |
| Unrealized gain on investments | - | - | 1,990 | 1,990 |
| Interest expense | (18,000) | (18,000) | (14,850) | 3,150 |
| Loss on disposal of capital assets | - | - | (34,625) | (34,625) |
| Insurance recoveries - hailstorm | - | - | 306,883 | 306,883 |
| **TOTAL NONOPERATING REVENUES (EXPENSES)** | 382,000 | 382,000 | 699,442 | 317,442 |
| **INCOME BEFORE CONTRIBUTIONS** | 870,100 | 870,100 | 1,148,299 | 278,199 |
| **CONTRIBUTED CAPITAL REVENUE** | 3,900,000 | 3,900,000 | 3,316,396 | (583,604) |
| **CHANGE IN NET POSITION** | $ 4,770,100 | $ 4,770,100 | $ 4,464,695 | $ (305,405) |

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

To the Board of Commissioners
Daviess County Water District

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 Daviess County Water District, a component unit of the Daviess County Fiscal Court, Kentucky, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 20, 2026.

**Report on Internal Control over Financial Reporting**

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

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

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

**Report on Compliance and Other Matters**

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

## Purpose of This Report

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

Alexander & Company CPAs PSC

Owensboro, Kentucky
May 20, 2026