

UNION COUNTY WATER DISTRICT

REPORT ON AUDIT OF FINANCIAL STATEMENTS

For the years ended December 31, 2025 and 2024

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Union County Water District
Morganfield, Kentucky

Opinions

We have audited the accompanying financial statements of the business-type activities of the Union County Water District (District) as of and for the years ended December 31, 2025 and 2024, and the related notes to the 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 business-type activities of the Union County Water District as of December 31, 2025 and 2024 and the changes in financial position and cash flows for the years 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 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.

UNION COUNTY WATER DISTRICT
Statement of Net Position
December 31, 2025 and 2024

ASSETS

	<u>2025</u>	<u>2024</u>
Current assets:		
Cash and cash equivalents	\$ 533,119	\$ 427,912
Certificates of deposit	209,101	200,000
Accounts receivable, consumers	267,350	229,019
Other receivables	0	649
Other assets	<u>59,187</u>	<u>57,241</u>
Total current assets	<u>1,068,757</u>	<u>914,821</u>
Restricted assets:		
Certificates of deposit	108,602	103,875
Cash and cash equivalents	<u>237,623</u>	<u>171,945</u>
Total restricted assets	<u>346,225</u>	<u>275,820</u>
Capital assets:		
Non-depreciable	14,175	14,175
Depreciable	14,515,744	14,428,965
Less: accumulated depreciation	<u>(8,855,526)</u>	<u>(8,576,374)</u>
Total capital assets	<u>5,674,393</u>	<u>5,866,766</u>
Total assets	<u>7,089,375</u>	<u>7,057,407</u>

DEFERRED OUTFLOW OF RESOURCES

Deferred outflow related to pension/OPEB	<u>135,195</u>	<u>164,772</u>
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LIABILITIES

	<u>2025</u>	<u>2024</u>
Current liabilities:		
Current portion of long-term debt	\$ 8,272	\$ 7,996
Accrued interest payable	121	144
Accounts payable	135,909	17,590
Other accrued liabilities	<u>87,728</u>	<u>205,321</u>
Total current liabilities	<u>232,030</u>	<u>231,051</u>
Non-current liabilities:		
Long-term debt, net of current portion	34,541	42,814
Net pension liability	550,171	573,523
Net OPEB liability (asset)	<u>(9,501)</u>	<u>(16,606)</u>
Total non-current liabilities	<u>575,211</u>	<u>599,731</u>
Total liabilities	<u>807,241</u>	<u>830,782</u>

DEFERRED INFLOW OF RESOURCES

Deferred inflows related to pension/OPEB	<u>195,289</u>	<u>282,750</u>
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NET POSITION

Net invested in capital assets	5,631,580	5,815,956
Restricted for capital projects	346,225	275,820
Unrestricted	<u>244,235</u>	<u>16,871</u>
Total net position	<u>\$ 6,222,040</u>	<u>\$ 6,108,647</u>
Total liabilities and net position	<u>\$ 7,224,570</u>	<u>\$ 7,222,179</u>

UNION COUNTY WATER DISTRICT
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the years ended December 31, 2025 and 2024

	2025	2024
Operating revenues:		
Water sales	\$ 2,358,817	\$ 2,610,253
Other revenues	140,430	157,692
Total operating revenues	2,499,247	2,767,945
Operating expenses:		
Water purchased	1,363,514	1,380,778
Fuel and power purchased for pumping	105,301	100,094
Water transmission and distribution	58,121	37,944
Customer account expense	33,690	33,210
General and administrative	596,354	556,155
Depreciation and amortization	279,152	281,669
Total operating expenses	2,436,132	2,389,850
Operating income (loss)	63,115	378,095
Non-operating revenues (expenses):		
Interest income	13,917	3,923
Gain on sale of assets	1,000	-
Interest expense	(1,581)	(1,855)
Total non-operating revenues (expenses)	13,336	2,068
Income (Loss) before contributions	76,451	380,163
Capital contributions	36,942	38,951
Change in net position	113,393	419,114
Net Position:		
Beginning of year, as previously stated	6,108,647	5,722,630
Effect of adoption of GASB Statement No. 101	-	(33,097)
Beginning of year, as restated	6,108,647	5,689,533
Total net position- end of year	\$ 6,222,040	\$ 6,108,647

The accompanying notes are an integral part of the financial statements

UNION COUNTY WATER DISTRICT
Statement of Cash Flows
For the years ended December 31, 2025 and 2024

	2025	2024
Cash flows from operating activities:		
Receipts from customers	\$ 2,461,069	\$ 2,758,567
Other operating receipts	496	32,589
Payments to suppliers	(1,693,007)	(1,644,185)
Payments to employees	(539,347)	(561,823)
	<u>229,211</u>	<u>585,148</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(86,779)	(46,880)
Principal payments on bond indebtedness	(7,996)	(7,471)
Interest payments on bond indebtedness	(1,581)	(1,877)
Proceeds from contributed capital	36,942	75,058
	<u>(59,414)</u>	<u>18,830</u>
Cash flows from investing activities:		
Purchase of investment securities	(12,829)	(203,875)
Investment income	13,917	3,923
	<u>1,088</u>	<u>(199,952)</u>
Net increase(decrease) in cash and cash equivalents	170,885	404,026
Cash and cash equivalents, beginning of year	<u>599,857</u>	<u>195,831</u>
Cash and cash equivalents, end of year	<u><u>\$ 770,742</u></u>	<u><u>\$ 599,857</u></u>

The accompanying notes are an integral part of the financial statements

UNION COUNTY WATER DISTRICT
Statement of Cash Flows, Continued
For the years ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 63,115	\$ 378,095
Items to reconcile net operating income (loss) to net cash provided by operations:		
Depreciation and amortization	279,152	281,669
Changes in operation assets and liabilities:		
Accounts receivable- consumers	(37,682)	23,211
Other assets	(1,946)	1,252
Deferred outflows	29,577	54,396
Accounts payable	118,319	2,738
Accrued interest payable	(23)	(22)
Other accrued liabilities	(117,593)	10,326
Net pension liability	(23,352)	(25,715)
Net OPEB liability	7,105	(29,500)
Deferred inflows	<u>(87,461)</u>	<u>(111,302)</u>
Net cash provided by operating activities	<u>\$ 229,211</u>	<u>\$ 585,148</u>
Reconciliation of cash and cash equivalents:		
Unrestricted cash and cash equivalents	\$ 533,119	\$ 427,912
Restricted cash and cash equivalents	<u>237,623</u>	<u>171,945</u>
Total cash and cash equivalents	<u>\$ 770,742</u>	<u>\$ 599,857</u>

The accompanying notes are an integral part of the financial statements

UNION COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025 and 2024

1. Summary of Significant Accounting Policies

The Union County Water District's ("District") financial statements are prepared in accordance to generally accepted accounting principles (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. The following summary of the more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

a. Reporting Entity

In evaluating how to define the entity for financial reporting purposes, management considered whether the District is a component unit of another primary government and all potential component units of the District. The District is a special-purpose district organized to construct, operate, and maintain water service facilities and supply water to customers in Union County, Kentucky. The District is governed by three appointed Commissioners who are nominated and approved by the Union County Fiscal Court. The District purchases its water supply from the City of Morganfield, Kentucky. All of the water purchased by the District has been filtered and treated. The District operates and maintains the distribution system that supplies its end users. The District's basic financial statements include the financial position and the results of operations of the District. A review of other units of local government, using the criteria set forth in generally accepted accounting principles, indicates there are no additional entities or funds for which the District has reporting responsibilities. Management has determined the District should not be considered a part of any unit of local government for reporting purposes for the following reasons:

1. The District has separate legal standing from all other units of government.
2. A primary government appoints the voting majority of the District's Board of Commissioners. However, the primary government is not able to impose its will on the District and there is no potential for the District to provide benefits to or burdens on the primary government.
3. The District is fiscally independent of all other units of local government. The District's Board of Commissioners has the sole authority to determine financial programs, establish rates (subject to Public Service Commission approval) and issue bonded debt.
4. The financial statements of other units of local government would not be misleading or incomplete without the inclusion of the District's financial statements.

b. Basis of Accounting and Presentation

The District is a single-enterprise proprietary fund and uses the accrual basis of accounting. Proprietary funds are used to account for activities that are operated and financed in a manner similar to private business enterprise and that a periodic determination of revenues earned, expenses incurred and/or change in position is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Under the accrual method, revenues are recognized when earned, and expenses are recognized as soon as they result in liabilities for the benefits provided.

1. **Summary of Significant Accounting Policies, Continued**

b. **Basis of Accounting and Presentation, Continued**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principle ongoing operations. The principle operating revenues of the District are charges to customers for water usage. Operating expenses include the cost of providing water service, administrative expenses and depreciation on capital assets. Other revenues and expenses are reported as non-operating in the financial statements.

Charges for services include revenues based on exchange or exchange-like transactions, namely water and sewer use. Program-specific grants and contributions (operating and capital), include revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program, are accrued when all related eligibility requirements have been met.

c. **Measurement Focus**

The District's enterprise fund is accounted for on an "economic resources" measurement focus. Accordingly, determination of operating income, changes in net position, financial position and cash flows are the primary focus of fund measurement.

d. **Cash and Cash Equivalents**

The District considers all highly liquid investments with an original maturity of ninety days or less to be cash equivalents.

e. **Investments**

KRS 66.480 permits the District to invest in U.S. Treasury obligations, U.S. Agency obligations, certain Federal instruments, repurchase agreements, commercial bank certificates of deposit, savings and loan deposits, and the Commonwealth of Kentucky investment pool. Investments are recorded at fair market value. Certificates of deposit are reported at cost since the redemption terms do not consider market rates. These investments are required to be fully collateralized in accordance with provisions of KRS 66.480.

f. **Accounts Receivable**

Accounts receivable consists of a large number of small balances. Inactive accounts are accounts where a final bill has been issued and the balance due has not been collected. These balances are accumulated by the billing system and are not shown as a receivable (only active account balances). The District's active receivable balances are expected to be fully collectible; therefore an allowance for uncollectible accounts has not been recorded. Customer receivables are as follows:

UNION COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025 and 2024

1. **Summary of Significant Accounting Policies, Continued**

f. **Accounts Receivable, Continued**

Customer receivables as of:

1/1/2024	\$	218,083
12/31/2024	\$	229,019
12/31/2025	\$	267,350

g. **Restricted Assets**

Restricted assets are cash, cash equivalents and certificates of deposit whose use is limited by legal requirements. Restricted assets represent amounts required by debt covenants to be segregated for future debt payments and accrued interest on long-term debt obligations or for the future expansion/acquisition of property, plant and equipment.

h. **Capital Assets**

Capital assets represent the cumulative amount of capital assets owned by the District. Capital assets purchased or acquired are reported at historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. All capital assets except land and construction in progress are depreciated. Depreciation is provided for by using the straight-line method over the following estimated useful lives of the assets:

Structures, lines, mains and accessories, and system improvements	50 years
Equipment, including hydrants, pumps and meters	5-30 years
Transportation equipment	5 years

i. **Unearned Revenues**

The District reports unearned revenue on its statement of net position. Unearned revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for the unearned revenue is removed from the statement of net position and revenue is recognized.

j. **Compensated Absences**

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the District and its employees is accrued as employees earn the rights to the benefits. The District’s policy is to accrue up to 40 days of unused vacation, which is payable upon termination of employment. Employees can accrue up to 30 days of sick leave, which upon termination of employment has no monetary value. The District estimates that approximately 50% of accrued sick leave will be used and therefore payable. Compensated absence activity for the year ended December 31, 2025 was as follows:

UNION COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025 and 2024

1. Summary of Significant Accounting Policies, Continued

j. Compensated Absences, Continued

	Balance			Balance
	Jan. 1, 2025	Additions	Deductions	Dec. 31, 2025
Compensated absences	\$ 55,140	19,150	(19,150)	\$ 55,140

k. Net Position

Net position presents the difference between assets and liabilities in the statement of net position. Proprietary fund net position is divided into three components:

- Net investment in capital assets- consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted- consist of net position that is restricted by the District's creditors (for example, through debt covenants), by state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors less related liabilities and deferred inflows of resources.
- Unrestricted- all other net position is reported in this category.

l. Use of Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted resources (net position) are available, the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

m. Pensions/OPEB

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

n. Deferred Outflows / Deferred Inflows

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 a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District has two items that qualify for reporting in this category: the pension-related deferred outflows and OPEB-related deferred outflows reported in the statement of net position totaling \$135,195 and \$164,772 for the years ended December 31, 2025 and 2024, respectively, as described in Note 7 and 8 to financial statements.

UNION COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025 and 2024

1. Summary of Significant Accounting Policies, Continued

n. Deferred Outflows / Deferred Inflows, Continued

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 a future period and so will not be recognized as revenue until then. The District has two items that meet this criteria: the pension-related deferred inflows and OPEB-related deferred inflows reported in the statement of net position totaling \$195,289 and \$282,750 for the years ended December 31, 2025 and 2024, respectively, as described in Note 7 and 8 to financial statements.

2. Deposits

At December 31, 2025, the Union County Water District maintained deposits of \$1,087,994 at one financial institution. Of this bank balance, \$250,000 was covered by federal depository insurance and \$837,994 was fully collateralized by pledged securities in addition to FDIC coverage.

3. Restricted Assets

The Union County Water District had certain assets restricted for capital improvements and maintenance by Board designation as December 31, 2025 and 2024:

<u>Assets Restricted for:</u>	<u>2025</u>	<u>2024</u>
Capital improvements and maintenance	\$ 346,225	\$ 275,820
Total restricted assets	<u>\$ 346,225</u>	<u>\$ 275,820</u>

4. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District carries commercial insurance for these types of risk of loss, including workers compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

5. Long-Term Debt

Long-term debt of the District consisted of the following as of December 31, 2025 and 2024:

	<u>December 31, 2025 and 2024</u>				
	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>Dec. 31, 2024</u>	<u>Additions</u>	<u>Deductions</u>	<u>Dec. 31, 2025</u>	<u>One Year</u>
Net Pension Liability	\$ 573,523	\$ -	\$ (23,352)	\$ 550,171	\$ -
Net OPEB Liability(Asset)	(16,606)	7,105	-	(9,501)	-
N/P - United Comm Bank	50,809	-	(7,996)	42,813	8,272
Total long-term debt	<u>\$ 607,726</u>	<u>\$ 7,105</u>	<u>\$ (31,348)</u>	<u>\$ 583,483</u>	<u>\$ 8,272</u>

UNION COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025 and 2024

5. Long-Term Debt, Continued

Other information on the District's long-term indebtedness is summarized below:

	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Monthly Payment</u>	<u>Security</u>
N/P - United Comm Bank	3.40%	9/1/2031	\$ 800	Real Estate

Debt service requirements at December 31, 2025 to retire the District's long-term obligations were:

Year ended December 31,	<u>Notes from Direct Borrowings</u>	
	<u>Principal</u>	<u>Interest</u>
2026	8,272	1,328
2027	8,558	1,042
2028	8,854	746
2029	9,159	441
2030	7,970	124
Total	<u>\$ 42,813</u>	<u>\$ 3,681</u>

6. Capital Assets

Capital asset activity consisted of the following for the year ended December 31, 2025:

	<u>December 31, 2024</u>	<u>Additions</u>	<u>Disposals</u>	<u>December 31, 2025</u>
Capital assets not depreciated:				
Land and land rights	\$ 14,175	\$ -	\$ -	\$ 14,175
Construction in progress	-	-	-	-
	<u>14,175</u>	<u>-</u>	<u>-</u>	<u>14,175</u>
Capital assets depreciated:				
Transport and distribution mains	4,268,518	-	-	4,268,518
Other transport and distribution plant	25,354	-	-	25,354
Distribution reservoirs and standpipe	7,024,759	17,239	-	7,041,998
Meters	1,372,628	29,245	-	1,401,873
Hydrants	34,523	-	-	34,523
Electric pumping equipment	1,207,994	-	-	1,207,994
Structures and improvements	80,810	-	-	80,810
Equipment	177,816	-	-	177,816
Transportation equipment	198,843	40,295	-	239,138
Office equipment and software	26,820	-	-	26,820
Other tangible property	10,900	-	-	10,900
	<u>14,428,965</u>	<u>86,779</u>	<u>-</u>	<u>14,515,744</u>
Total assets at historical cost	14,443,140	86,779	-	14,529,919
Less accumulated depreciation	<u>(8,576,374)</u>	<u>(279,152)</u>	<u>-</u>	<u>(8,855,526)</u>
Total capital assets, net	<u>\$ 5,866,766</u>	<u>\$ (192,373)</u>	<u>\$ -</u>	<u>\$ 5,674,393</u>

UNION COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025 and 2024

6. Capital Assets, Continued

Depreciation expense amounted to \$279,152 and \$281,669 for the years ended December 31, 2025 and 2024, respectively.

7. Pension Plan

Plan Description

The District participates in the County Employees Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by Kentucky Retirement Systems (KRS), an agency of the Commonwealth of Kentucky. CERS covers all full-time and eligible part-time employees employed in nonhazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. Kentucky Revised Statute Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of Kentucky Retirement Systems (Board). KRS issues a publicly available financial report that includes audited financial statements and audited required supplementary information for CERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or it may be found at the KRS website at www.kyret.ky.gov.

Benefits Provided

CERS provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Retirement benefits are determined using a formula which considers the member's final compensation; benefit factors set by statute which vary depending upon the type/amount of service, participation date, retirement date and years of service. The information below summarizes the major retirement benefit provisions of CERS. For retirement and benefit purposes, employees are grouped into three tiers. The following summaries are not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

Tier 1:

For members whose participation began before September 1, 2008, the following provisions are in force:

Age and service requirement:

- | | |
|--------------------|---|
| Unreduced Benefit: | Age 65, with at least 48 months of service credit.
Age 65, with at least one month of non-hazardous duty service credit.
Any age with 27 or more years of service credit. |
| Reduced Benefit: | Age 55, with at least five (5) years of service credit.
Any age with at least 25 and up to 27 years of service credit. |

Benefit Amount:

For members whose participation began before August 1, 2004, if a member has at least 48 months of service, the monthly benefit is 2.2% times final average compensation times years of service. For members whose participation began on or after August 1, 2004, the benefit factor is 2.0%. Benefits are reduced by varying percentage based on years of age or service from full retirement criteria.

UNION COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025 and 2024

7. Pension Plan, Continued

Benefits Provided, Continued

If a member has at least one month but less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

Compensation:

Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used.

Tier 2:

For members whose participation began on or after September 1, 2008, but before January 1, 2014, the following provisions are in force:

Age and service requirement:

- Unreduced Benefit: Age 65, with at least 60 months of service credit.
 Age 57, if members age and years of service equal 87 (Rule of 87)
- Reduced Benefit: Age 60, with at least 120 months of service credit

Benefit Amount:

The monthly benefit is the following benefit factor based on service credit at retirement multiplied by final average compensation, multiplied by years of service.

<u>Service Credit</u>	<u>Benefit Factor</u>
120 months or less	1.10%
121 - 240 months	1.30%
241 - 312 months	1.50%
313 - 360 months	1.75%
Over 360 months	2.00%

Benefits are reduced by varying percentage based on years of age or service from full retirement criteria.

Compensation:

Final compensation is calculated by taking the average of the last (not highest) five (5) complete fiscal years of salary. Each fiscal year used to determine final compensation must contain twelve (12) months of service credit.

Tier 3:

For members whose participation began on or after January 1, 2014, the following provisions are in force:

UNION COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025 and 2024

7. Pension Plan, Continued

Benefits Provided, Continued

Age and service requirement:

Unreduced Benefit: Age 65, with at least 60 months of service credit.
Age 57, if members age and years of service equal 87 (Rule of 87)

Reduced Benefit: Not available

Benefit Amount:

Plan members in Tier 3 participate in and contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a Defined Benefit Plan and a Defined Contribution Plan. Each year that a member is an active contributing member to the System, the member and the member's employer will contribute 5.00% and 4.00%, respectively, of creditable compensation into a hypothetical account. The hypothetical account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4%. If the System's geometric average net investment return for the previous five years exceeds 4%, then the hypothetical account will be credited with an additional amount of interest equal to 75% of the amount of the return which exceeds 4%. All interest credits will be applied to the hypothetical account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement the hypothetical account which includes member contributions, employer contributions and interest credits can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

For all tiers, cost of living adjustments (COLA) are provided only if authorized by the Legislature and are at the discretion of the General Assembly. Please refer to the Summary Plan Description, available from KRS, for a complete description of all Plan benefits and provisions.

Contributions

Per Kentucky Revised Statutes Sections 78.545 (33), contribution requirements of the active employees and the participating employers are established and may be amended by the KRS Board. Plan members, are required to contribute a percentage of their annual creditable compensation based on their benefit tier as follows:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for health insurance fund
Tier 3	5% + 1% for health insurance fund

The District's actuarially determined contribution rate for the year ended December 31, 2025, was 19.71% (for the months of January through June) and 18.62% (for the months of July through December) of annual creditable compensation. Of these determined contribution rates, 19.71% was contributed solely to the Pension fund and 18.62% was contributed solely to the Pension fund. Contributions to CERS Pension Fund and OPEB Fund by the District were \$64,500 and \$0, respectively, for the year ended December 31, 2025 and were \$68,294 and \$0, respectively, for the year ended December 31, 2024.

UNION COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025 and 2024

7. Pension Plan, Continued

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

At December 31, 2025, the District reported a liability of \$550,171 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 that date. The District's proportion of the net pension liability was based on a projection of the District's long term share 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 0.00989%, an increase of 0.0003% from its proportion measured as of June 30, 2024 of 0.00959%.

For the years ended December 31, 2025 and 2024, the District recognized pension expenses of \$64,500 and \$68,294, respectively. At December 31, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected & actual experience	\$ 18,239	\$ -
Net difference between projected & actual investment earnings on pension plan investments.	20,304	75,318
Changes of assumptions	-	-
Changes in proportion & differences between employer contributions & proportionate share of contributions.	13,714	-
District contributions subsequent to the measurement date.	31,092	-
Total	<u>\$ 83,349</u>	<u>\$ 75,318</u>

The \$31,092 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending December 31,	
2026	\$ 19,290
2027	(15,068)
2028	(17,877)
2029	(9,405)
2030	-
Thereafter	-
	<u>\$ (23,060)</u>

UNION COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025 and 2024

7. Pension Plan, Continued

Actuarial Assumptions

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

Inflation	2.30%
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.25% net of Plan investment expense, including inflation

The mortality table used for active members was Pub-2010 General Mortality table, for the Nonhazardous Plans, and the Pub-2010 Public Safety Mortality table for the Hazardous Plans, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for non-disabled retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019.

The actuarial assumptions used in the June 30, 2025, valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018.

Discount rate: The discount rate used to measure the total pension liability was 6.50%.

Projected cash flows: The projection of cash flows used to determine the discount rate assumed 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 30 years (closed) amortization period of the unfunded actuarial accrued liability.

Long term rate of return: 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.

UNION COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025 and 2024

7. Pension Plan, Continued

Actuarial Assumptions, Continued

Municipal bond rate: The discount rate determination does not use a municipal bond rate.

Periods of projected benefit payments: Projected future benefit payments for all current plan members were projected through 2118.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	45.00%	4.15%
Private Equity	8.00%	7.90%
Core Fixed Income	13.00%	2.70%
Specialty Credit	20.00%	3.83%
Cash	2.00%	1.25%
Real Estate	5.00%	4.75%
Real Return	7.00%	5.20%
Expected Real Return	100%	4.24%
Long Term Inflation Assumption		2.50%
Expected Nominal Return for Portfolio		6.74%

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:

	Discount Rate	District's Proportionate Share of Net Pension Liability
1% decrease	5.50%	\$739,364
Current discount rate	6.50%	\$573,523
1% increase	7.50%	\$435,918

UNION COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025 and 2024

7. **Pension Plan, Continued**

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined by and actuarial valuation as of June 30, 2024. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	30 years, closed
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 increase	3.30 % to 10.30%, varies by service
Investment rate of return	6.50 %

Changes in Assumptions and Benefit Terms

There were no changes in assumptions or benefit terms since the prior measurement date.

Changes Since Measurement Date

There were no changes between the measurement date of the collective net pension liability and the employer's reporting date.

Plan Fiduciary Net Position

Detailed information about the CERS fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan

At December 31, 2025 and 2024, the District reported a legally required payable of \$4,779 and \$5,125, respectively, for the outstanding amount of contributions due to CERS Pension Fund for the year.

8. **Other Post-Employment Benefits**

In addition to the pension benefits described above, the Kentucky Retirement Systems (KRS) provides post-retirement healthcare benefits, in accordance with Kentucky Revised Statutes. The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from KRS, including those in the County Employees Retirement System (CERS), which the District participates. The fund and members receiving benefits pay prescribed portions of the aggregate premiums paid by the Fund. The allocation of insurance premiums paid by the Fund and amounts withheld from member benefits is based on years of service with the Systems.

UNION COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025 and 2024

8. Other Post-Employment Benefits, Continued

For member participating prior to July 1, 2003, years of service and respective percentage of the maximum contribution are as follows:

<u>Service Period</u>	<u>% Paid by Insurance Fund</u>
20 or more years	100%
15-19 years	75%
10-14 years	50%
4-9 years	25%
Less than 4 years	0%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of ten years, nonhazardous employees whose participation began on, or after, July 1, 2003 earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is at the discretion of the Kentucky General Assembly who reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20 year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

On August 6, 2012, the Retirement System Board voted to cease self-funding of healthcare benefits for most KRS Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully-insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502-564-4646).

Contribution Policy

The District's actuarially determined contribution rate for the year ended December 31, 2025, was 19.71% (for the months of January through June) and 18.62% (for the months of July through December) of annual creditable compensation. The 19.71% and 18.62% was fully contributed to the Pension fund. Contributions to CERS Pension Fund and OPEB Fund by the District were \$64,500 and \$0, respectively, for the year ended December 31, 2025.

UNION COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025 and 2024

8. Other Post-Employment Benefits, Continued

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

At December 31, 2025, the District reported an asset of \$9,501 for its proportionate share of the 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 that date. The District's proportion of the net OPEB liability was based on a projection of the District's long term share contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2025, the district's proportion was 0.009893%, an increase of 0.000293% from its proportion measured as of June 30, 2024 of 0.009600%.

For the year ended December 31, 2025 and 2024, the District recognized OPEB expenses of \$0 and \$0, respectively. At December 31, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected & actual experience	\$ 30,817	\$ 81,685
Net difference between projected & actual investment earnings on pension plan investments.	7,521	29,039
Changes of assumptions	6,337	5,440
Changes in proportion & differences between employer contributions & proportionate share of contributions.	7,171	3,807
District contributions subsequent to the measurement date	-	-
Total	<u>\$ 51,846</u>	<u>\$ 119,971</u>

The \$0 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2026	\$ (40,419)
2027	(31,663)
2028	2,531
2029	1,425
2030	-
Thereafter	-
	<u>\$ (68,126)</u>

UNION COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025 and 2024

8. Other Post-Employment Benefits, Continued

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB, Continued

Actuarial Assumptions

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

Inflation	2.30%
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.25% net of Plan investment expense, including inflation

The mortality table used for active members was Pub-2019 General Mortality table, for the Nonhazardous Plans, and the Pub-2010 Public Safety Mortality table for the Hazardous Plans, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for non-disabled retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2019 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019.

The actuarial assumptions used in the June 30, 2025, valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018.

Discount rate: The discount rate used to measure the total OPEB liability was 6.26%.

Projected cash flows: The projection of cash flows used to determine the discount rate assumed the local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 20-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

Long term rate of return: 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.

Municipal bond rate: The discount rate determination was 5.20%.

UNION COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025 and 2024

8. Other Post-Employment Benefits, Continued

Actuarial Assumptions, Continued

Periods of projected benefit payments: Projected future benefit payments for all current plan members were projected through 2117.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	45.00%	4.15%
Private Equity	8.00%	7.90%
Core Fixed Income	13.00%	2.70%
Specialty Credit	20.00%	3.83%
Cash	2.00%	1.25%
Real Estate	5.00%	4.75%
Real Return	7.00%	5.20%
Expected Real Return	100.00%	4.24%
Long Term Inflation Adjustment		2.50%
Expected Nominal Return for Portfolio		6.74%

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 6.26%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.26%) or 1-percentage-point higher (7.26%) than the current rate:

	Discount Rate	District's Proportionate Share of Net OPEB Liability
1% decrease	5.26%	\$57,012
Current discount rate	6.26%	\$9,501
1% increase	7.26%	(\$30,486)

UNION COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025 and 2024

8. Other Post-Employment Benefits, Continued

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rate selected by each OPEB system, as well as what the District's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	District's Proportionate Share of Net OPEB Liability
1% decrease	(\$21,958)
Current healthcare cost trend rate	\$9,501
1% increase	\$46,329

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined by and actuarial valuation as of June 30, 2025. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	30 years, Closed
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 increase	3.30% to 10.30%, varies by service
Investment rate of return	6.50%
Mortality	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
Health Care Trend Rates (Pre-65)	Initial trend starting at 6.80% and gradually decreasing to an ultimate trend rate of 4.05% over 14 year period.
Health Care Trend Rates (Post-65)	Initial trend starting at 8.5% and gradually decreasing to an ultimate trend rate of 4.05% over 13 year period.

Changes in Assumptions and Benefit Terms

There were no changes in benefit terms since the prior measurement date. The following changes of assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2025 as follows:

- The assumed discount rate changed from 5.99% to 6.26%

UNION COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025 and 2024

8. Other Post-Employment Benefits, Continued

Changes Since Measurement Date

There were no changes between the measurement date of the collective net OPEB liability and the employer's reporting date.

Plan Fiduciary Net Position

Detailed information about the CERS fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report.

Payables to the OPEB Plan

At December 31, 2025 and 2024, the District reported a payable of \$0 and \$0, respectively, for the outstanding amount of contributions due to CERS for the year.

9. Deferred Compensation

The District allows all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

11. Commitments

The District entered into an agreement dated December 19, 1986 with the City of Morganfield, Kentucky whereby the City agrees to sell and deliver to the District and the District agrees to purchase and receive from the City all of the water required by the District up to a maximum of 1,000,000 gallons per day. The District can purchase water from other suppliers only in the event of an emergency. The agreement outlines a specific method of determining the City's cost of water produced during the previous fiscal year which is the rate charged to the District for the next year. The agreement covers a period of 42 years which expires December 19, 2028.

On July 3, 2013, the District and the City of Morganfield amended the contract to increase the maximum amount of water which the City must furnish to the District during any twenty-four (24) hour period by 1,000,000 gallons to a maximum of 2,000,000 gallons per day.

UNION COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2025 and 2024

12. Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through September 18, 2026 the date the financial statements were available to be issued.

UNION COUNTY WATER DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
County Employees Retirement System

Last 10 Fiscal Years *

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
District's proportion of the net pension liability	0.00989%	0.00959%	0.00934%	0.00888%	0.00997%	0.00959%	0.00950%	0.00930%	0.00919%	0.00929%
District's proportionate share of the net pension liability	\$ 550,171	\$ 573,523	\$ 599,238	\$ 641,575	\$ 635,729	\$ 735,315	\$ 667,788	\$ 566,216	\$ 537,802	\$ 457,239
District's covered-employee payroll	\$ 336,480	\$ 317,464	\$ 279,865	\$ 249,900	\$ 259,689	\$ 250,295	\$ 242,086	\$ 236,897	\$ 228,611	\$ 221,751
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	163.51%	180.66%	214.12%	256.73%	244.80%	293.78%	275.85%	239.01%	235.25%	206.19%
Plan fiduciary net position as a percentage of the total pension liability.	65.34%	61.61%	57.48%	52.42%	57.33%	47.81%	50.45%	53.54%	53.30%	55.50%

* The amounts presented for each fiscal year were determined as of one half-year prior to the fiscal year end.

UNION COUNTY WATER DISTRICT
Schedule of Contributions
County Employees Retirement System - Pension

Last 10 Fiscal Years *

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contributions	\$ 64,500	\$ 68,294	\$ 65,402	\$ 55,907	\$ 52,205	\$ 47,631	\$ 42,651	\$ 36,354	\$ 32,503	\$ 29,231
Contributions in relation to the contractually required contributions	<u>(64,500)</u>	<u>(68,294)</u>	<u>(65,402)</u>	<u>(55,907)</u>	<u>(52,205)</u>	<u>(47,631)</u>	<u>(42,651)</u>	<u>(36,354)</u>	<u>(32,503)</u>	<u>(29,231)</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 336,480	\$ 317,464	\$ 279,865	\$ 249,900	\$ 259,689	\$ 250,295	\$ 242,086	\$ 236,897	\$ 228,611	\$ 221,751
Contributions as a percentage of covered-employee payroll	19.17%	21.51%	23.37%	22.37%	20.10%	19.03%	17.62%	15.35%	14.22%	13.18%

* The amounts presented for each fiscal year were determined as of one half-year prior to the fiscal year end.

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

2014:

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

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

UNION COUNTY WATER DISTRICT
Schedule of Proportionate Share of the Net OPEB Liability
County Employees Retirement System

Last 10 Fiscal Years *

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
District's proportion of the net OPEB liability	0.00989%	0.00960%	0.00934%	0.00887%	0.00997%	0.00958%	0.00949%	0.00930%	0.00919%	0.00929%
District's proportionate share of the net OPEB liability	\$ (9,501)	\$ (16,606)	\$ 12,894	\$ 175,110	\$ 190,832	\$ 231,424	\$ 159,668	\$ 165,066	\$ 184,710	\$ 144,881
District's covered-employee payroll	\$ 336,480	\$ 317,464	\$ 279,865	\$ 249,900	\$ 259,689	\$ 250,295	\$ 242,086	\$ 236,897	\$ 228,611	\$ 221,751
District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	-2.82%	-5.23%	4.61%	70.07%	73.48%	92.46%	65.96%	69.68%	80.80%	65.33%
Plan fiduciary net position as a percentage of the total OPEB liability.	97.66%	104.89%	104.23%	60.95%	62.91%	51.67%	60.44%	57.62%	52.40%	55.24%

* The amounts presented for each fiscal year were determined as of one half-year prior to the fiscal year end. Fiscal year 2018 was the first year of implementation.

UNION COUNTY WATER DISTRICT
Schedule of Contributions
County Employees Retirement System - OPEB

Last 10 Fiscal Years *

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contributions	\$ -	\$ -	\$ 4,625	\$ 11,226	\$ 13,062	\$ 12,590	\$ 12,457	\$ 11,794	\$ 10,779	\$ 10,389
Contributions in relation to the contractually required contributions	-	-	(4,625)	(11,226)	(13,062)	(12,590)	(12,457)	(11,794)	(10,779)	(10,389)
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 336,480	\$ 317,464	\$ 279,865	\$ 249,900	\$ 259,689	\$ 250,295	\$ 242,086	\$ 236,897	\$ 228,611	\$ 221,751
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	1.65%	4.49%	5.03%	5.03%	5.15%	4.98%	4.71%	4.68%

* The amounts presented for each fiscal year were determined as of one half-year prior to the fiscal year end. Fiscal year 2018 was the first year of implementation.

Changes of benefit terms:

None

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

2017:

- The assumed investment rate of return was decreased from 7.50% to 6.25%
- The assumed rate of inflation was reduced from 3.25% to 2.30%
- The assumed rate of wage inflation decreased by 0.95%
- Payroll growth assumption was reduced from 4.00% to 2.00%
- The single discount rate changed from 6.85% to 5.85%

2019:

- The single discount rate changed from 5.85% to 5.68%

2020:

- The single discount rate changed from 5.68% to 5.34%

2021:

- The single discount rate changed from 5.34% to 5.20%

2022:

- The single discount rate changed from 5.20% to 5.70%

2023:

- The single discount rate changed from 5.70% to 5.93%

2024:

- The single discount rate changed from 5.93% to 5.99%

2025:

- The single discount rate changed from 5.99% to 6.26%



**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 Commissioners
Union County Water District
Morganfield, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the 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 Union County Water District, as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 18, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Union County Water District's internal control over financial reporting (internal control) to determine the auditing 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses. [A-1 and A-2]

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Union 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Union County Water District's Response to Findings

The Union County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's responses were 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.

Kemper CPA Group LLP

Kemper CPA Group LLP
Certified Public Accountants and Consultants

Morganfield, Kentucky
September 18, 2026

Schedule of Findings & Responses

A-1 Control Risk Related to Lack of Segregation of Duties:

Due to a limited number of personnel employed at the District, incompatible work functions are often performed by the same individual and a high degree of trust is necessitated. This was also a prior year material weakness.

Criteria: Each key step of an accounting system should be segregated among employees. Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition.

Effect: The staff size of the District limits the ability to rotate duties and implement some checking procedures. This limitation may affect the ability to record, process, summarize and report financial data.

Recommendation: We recommend that management always be mindful of key functions assigned to employees and provide oversight in all steps of the accounting system.

Response: Management concurs with the recommendation and has taken steps to separate functions and provide oversight where needed.

A-2 Control Risk Related to Lack of Qualifications to Fulfill Assigned Functions

The auditor, from the District's books of original entry, prepares the financial statements and notes for the Union County Water District. This was also a prior year material weakness.

Criteria: Internal controls should be put in place for the District to review and approve generally accepted accounting principles (GAAP) financial statements and notes. The District is to accept full responsibility for the accuracy of the GAAP financial statements and notes.

Effect: Based upon the entity's present financial statements, the client's auditor is currently preparing the audit financial statements and disclosures.

Recommendation: Procedures should be implemented to allow the District to prepare their own GAAP financial statements and notes.

Response: Management is aware of the situation regarding the preparation of GAAP financial statements and is continuing to determine the best way to handle the situation.