REPORT OF THE AUDIT OF THE BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS

For The Year Ended
December 31, 2025

BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
REPORT OF THE AUDIT
FOR THE YEAR ENDED DECEMBER 31, 2025

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Independent Auditor's Report

To the Board of Commissioners
Breathitt County Water District

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the Breathitt County Water District as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Breathitt 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 respective financial position of the business-type activities of the Breathitt County Water District, as of December 31, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 Breathitt 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 Breathitt 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 Breathitt 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 and pension and OPEB supplemental reporting as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2026, on our consideration of the Breathitt 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 Breathitt 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 Breathitt County Water District's internal control over financial reporting and compliance.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

May 11, 2026

BREATHITT COUNTY WATER DISTRICT COMMISSION OFFICIALS

For The Year Ended December 31, 2025

Water District Board Members:

Bobby Thorpe	Chairman
Sammie Turner	Vice Chairman
Cheryl S. Campbell	Treasurer
Eva Fugate	Secretary
David Ingram	Board Member

Appointed Personnel:

Estill McIntosh	Superintendent
Cheryl Campbell	Office Clerk & Recorder

BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2025

As management of the Breathitt County Water District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2025. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was $1,323,562. The ending cash balance for the District was $1,243,920.

- As of December 31, 2025 the District had 2,041 customers, up from 2,040 the previous year.

- The District continues to extend water lines to various locations in Breathitt County.

Management's Discussion and Analysis (MD & A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their *Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999.

Our discussion and analysis of the Breathitt County Water District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2025. Please read the MD & A in conjunction with the District's financial statements.

For accounting purposes, the District is classified as an enterprise fund: Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indicator.

Overview of the Financial Statements

This annual report includes this Management Discussion and Analysis report, the Basic Financial Statements and the Notes to the Financial Statements. The District's financial statements are presented as fund level financial statements because the District only has proprietary funds. In addition, reports and schedules required by Government Auditing Standards are included.

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about the District's activities.

The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to the District's creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Fund Net Position. The statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2025

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operation, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

The District's basic financial statements are the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position. The Statement of Net Position provides a summary of the District's assets and liabilities as of the close of business on December 31, 2025. The Statement of Changes in Fund Net Position summarizes the revenues and sources of those revenues generated during the year ended December 31, 2025 and the expenses incurred in operating the District for the year ended December 31, 2025.

Our analysis below focuses on the net position and the change in net position of the District as a whole and not the individual operations or projects.

	12/31/2025	12/31/2024
Net Position:		
Current Assets	$ 1,548,070	$ 1,897,015
Noncurrent Assets	33,706,804	34,369,691
Deferred Outflows of Resources	166,932	234,809
Total Assets and Deferred Outflows of Resources	35,421,806	36,501,515
Current Liabilities	207,060	485,574
Noncurrent Liabilities	1,619,760	1,709,665
Deferred Inflows of Resources	236,010	297,016
Total Liabilities and Deferred Inflows of Resources	2,062,830	2,492,255
- Net Position -		
Net Investment in Capital Assets	32,410,631	33,047,676
Restricted	640,930	852,013
Unrestricted	307,415	109,571
Total Net Position	33,358,976	34,009,260
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 35,421,806	$ 36,501,515

- Decrease in current assets is due to a decrease in cash.
- Decrease in non-current assets due to depreciation expense.
- Decrease in current liabilities due to decrease in construction payable.

BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2025

Changes in Fund Net Position	**12/31/2025**	**12/31/2024**
Revenues	$ 1,631,644	$ 1,474,242
Operating Expenses:		
General	1,451,784	1,685,511
Depreciation Expense	1,180,360	1,146,018
Total Operating Expenses	2,632,144	2,831,529
Other Income (Expenses)	70,341	148,608
Increase (Decrease) in Net Position	$ (930,159)	$ (1,208,679)

- Water Revenue and Tap Fees had an increase from prior year due to increase in water rates.
- Decrease in several General Operating expenses that included repairs and supplies due to the flood in prior year.

Questions regarding this report should be directed to the District Office at (606) 666-3800.

BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF NET POSITION

DECEMBER 31, 2025

BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF NET POSITION-DRAFT
December 31, 2025

	Totals
ASSETS:	
Current Assets:	
Cash and cash equivalents	$ 602,990
Accounts Receivable (net of allowance for doubtful accounts)	155,190
Inventory	50,414
Note Receivable	69,809
Other Receivable	5,818
Prepaid Expense	22,919
Restricted Assets:	
Cash and cash equivalents	640,930
Total Current Assets	1,548,070
Noncurrent Assets:	
Capital Assets:	
Capital Assets, not being depreciated	2,287,093
Capital Assets, net of accumulated depreciation	31,407,059
Funded OPEB Assets	12,652
Total Noncurrent Assets	33,706,804
DEFERRED OUTFLOWS:	
Deferred outlaws - pension/OPEB resources	166,932
Total assets and deferred outflows of resources	35,421,806
LIABILITIES:	
Current Liabilities:	
Accounts Payable	58,712
Accrued Payroll and Withheld Taxes Payable	13,401
Accrued Compensated Absences Payable	30,349
Sales and Utility Taxes Payable	3,847
Current Portion of Bond/Lease Obligations	100,751
Total Current Liabilities	207,060
Long-term Liabilities:	
Lease Liabilities	180,169
Net Pension	436,990
Bond/Note Obligations	1,103,352
Less: Current portion	(100,751)
Total Long-Term Liabilities	1,619,760
Total Liabilities	1,826,820
DEFERRED INFLOWS:	
Deferred inflows - pension/OPEB related	236,010
NET POSITION:	
Net Investment in Capital Assets	32,410,631
Restricted	640,930
Unrestricted(deficit)	307,415
Total Net Position	33,358,976
Total liabilities, deferred inflows of resources and net position	$ 35,421,806

The accompanying notes are an integral part of this financial statement.

BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2025

BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2025

Operating Revenues:	
Water Sales	$ 1,619,056
Tap Fees	12,588
Total Operating Revenues	1,631,644
Operating Expenses:	
Cost of Goods Sold	382,302
Salaries	363,201
Payroll Taxes	26,396
Retirement Expense	62,259
Repairs and Maintenance	62,137
Auto and Truck Expense	40,885
Dues and Subscriptions	2,715
Insurance	116,751
Professional Fees	29,825
Office Expense	9,509
Postage	12,836
Rents	2,400
Supplies	73,451
Telephone	4,635
Travel	3,611
Uniforms	961
Utilities	165,764
Other Taxes	45,833
Miscellaneous Operating Expenses	1,186
Contract Labor	12,642
Interest Expense	32,485
Depreciation Expense	1,180,360
Total Operating Expense	2,632,144
Net Operating Income (Loss)	(1,000,500)
Non-Operating Revenues (Expenses):	
Net Employee Pension/OPEB gain(loss)	56,123
Other Income	10,118
Interest Income	4,100
Total Non-Operating Revenues (Expenses)	70,341
Net Income (Loss)	(930,159)
Net Position, Beginning of Year, Restated	33,991,089
Add: Capital Contribution	298,046
Net Position, End of Year	$33,358,976

The accompanying notes are an integral part of this financial statement.

BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2025

BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2025

Cash Flows from Operating Activities:	
Receipts from Customers	$ 1,637,202
Payments to Suppliers	(1,094,826)
Payments to Employees	(372,778)
Net Cash Provided (Used) by Operating Activities	169,598
Cash Flows From Capital and Related Financing Activities:	
Capital Contributions	298,046
Nonoperating - income/(loss)	10,118
Purchase of Capital Assets	(461,553)
Payment on Leases	(3,617)
Payment on Long-term Debt	(96,334)
Net Cash Provided (Used) for Capital and Related Financing Activities	(253,340)
Cash Flows from Investing Activities:	
Interest revenue	4,100
Net Increase (Decrease) in Cash	(79,642)
Cash and restricted cash, Beginning of Year	1,323,562
Cash and restricted cash, End of Year	1,243,920
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	(1,000,500)
Adjustments to reconcile operating net cash provided by operating activities:	
Depreciation	1,180,360
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	2,711
(Increase) decrease in grants related receivables	296,509
(Increase) decrease in notes receivable	2,847
(Increase) decrease in other receivable	(5,818)
(Increase) decrease in inventories	(22,939)
(Increase) decrease in prepaid expenses	(3,989)
Increase (decrease) in accounts payable	(695)
Increase (decrease) in construction related payables	(296,509)
Increase (decrease) in accrued payroll and withheld taxes payable	2,968
Increase (decrease) in accrued compensated absences payable	13,851
Increase (decrease) in sales and utility taxes payable	802
Net Cash Provided (Used) by Operations	$ 169,598

The accompanying notes are an integral part of this financial statement.

**INDEX FOR NOTES
TO FINANCIAL STATEMENTS**

BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS

December 31, 2025

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of the Breathitt County Water District Board of Commissioners (the "Commission") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below.

B. Reporting Entity

The Breathitt County Water District was formed pursuant to KRS 74.010 et. seq. by the formal vote of the Breathitt County Fiscal Court on August 28, 2003 adopting ordinance 8-21-23A. The governing body of the Breathitt County Water District is a Board of Commissioners that is appointed pursuant to KRS 74.020.

The Commission shall be governed by and have all the powers listed in KRS 74.010 et. seq. and have full and complete supervision, management, and control of the sources of supply of water as provided in the ordinances of resolutions for acquiring and operating them and in their maintenance, operation, and extension.

The accompanying financial statements comply with the provisions of GASB Statement 14, the Financial Reporting Entity, in that the financial statements include all organizations, activities, and functions for which the Commission is financially accountable. This report includes all activities considered by management to be part of the Commission by virtue of Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of a) the primary government, b) organizations for which the primary government is financially accountable, and c) other organizations for which the nature and significance of their relationship with the primary government are such, that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's government body and whether it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent upon it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government a) is entitled to the organization's resources, b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or c) is obligated in some manner for the debt of the organization. Based on the application of these criteria, the Commission has no component units.

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation

The Commission's basic financial statements consist of a statement of net position, a statement of revenue, expenses and changes in fund net position, and a statement of cash flows.

D. Fund Accounting

The Commission uses the proprietary fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Funds are classified into three categories: governmental, proprietary and fiduciary. The Commission uses the proprietary category for its programs.

E. Proprietary Fund Types

Proprietary funds are used to account for the Commission's ongoing activities, which are similar to those found in the private sector. The following is the proprietary fund type:

> Enterprise Fund – This fund is used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

F. Measurement Focus/Basis of Accounting

The proprietary funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period incurred. Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

G. Allowance for Doubtful Accounts

Breathitt County Water District's financial statements reflect an allowance account for its customer accounts receivable based on management's estimate of probable losses. An allowance expense in the amount of $322,016 was recognized in the financial statements for the year ended December 31, 2025. All receivables are considered short term and collectible in less than one year.

Note 1. Summary of Significant Accounting Policies (Continued)

H. Description of Program

The Commission is designed to construct waterlines, and supporting infrastructure for those waterlines, that will provide clean water to the citizens of Breathitt County.

I. Capital Assets

Capital assets are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of three years to forty years. Expenditures for repairs and maintenance are charged directly to expenses as they are incurred. Expenditures determined to represent additions or betterments and have a cost in excess of $500 are capitalized.

J. Net Position

GASB 63, implemented for fiscal year 2013, has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources. Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets" consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations on its use either through the enabling legislation adopted by the District or through external restrictions imposed by the creditors, grantors or laws or regulations of other governments.

K. Operating Revenues and Expenses

Operating revenues and expenses are those revenues that are generated directly from the primary activities of the proprietary fund and expenses incurred for the day to day operation. For the Commission, operating revenues are water sales and tap-on fees and other miscellaneous revenues.

L. Leases

Lessee

The District has a policy to recognize a lease liability and a right-to-use asset (lease asset) in the financial statements with an initial, individual value of $5,000 or more with a lease term greater than one year. Variable payments based on future performance or usage of the underlying assets are not included in the measurement of the lease liability.

At the commencement of a lease, the lease liability is measured at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2025
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

L. Leases (Continued)

Lease assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the lease assets into service. Lease assets are amortized using the straight–line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the District has determined is reasonably certain of being exercised. In this case, the lease asset is amortized over the useful life of the underlying asset.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease, plus any option periods that are reasonably certain to be exercised.
- Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise. The District monitors changes in circumstances that would require a remeasurement of a lease and will remeasure any lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported as right-to-use along with other capital assets and lease liabilities are reported on the statement of net position

Lessor

When the District is a lessor for leases of buildings and land it recognizes a lease receivable and deferred inflows of resources in the financial statements. The District has a policy to recognize a lease receivable in the financial statements with an initial, individual value of $5,000 or more with a lease term greater than one year.

At the commencement of a lease, the lease receivable is measured at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflows of resources are initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources are recognized as revenue over the life of the lease term in a systematic and rational method.

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2025
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

L. Leases (Continued)

Key estimates and judgments include how the District determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease plus any option periods that are likely to be exercised.
- Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

M. Subscription Based Technology Arrangements

The District recognizes a subscription liability and an intangible right-to-use subscription asset (subscription asset) in the financial statements. The District recognizes individual qualifying subscription liabilities which meet the criteria for recognition and is considered material to its financial statement presentation.

At the commencement of a subscription, the District initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is initially measured as the initial amount of the subscription liability, adjusted for subscription payments made at or before the subscription commencement date, plus certain initial direct costs. Subsequently, the subscription asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to subscriptions include how the District determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The District uses the interest rate charged by the vendor as the discount rate. When the interest rate charged by the vendor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for subscriptions.
- The subscription term includes the noncancellable period of the subscription. Subscription payments included in the measurement of the subscription liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its subscription and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability. Subscription assets are reported with other capital assets and subscription liabilities are reported with long-term debt on the statement of net position. Based on management's assessment of materiality and criteria for recognition, the District did not have any subscription-based technology arrangements meeting criteria for recognition.

Note 1. Summary of Significant Accounting Policies (Continued)

N. Capital Contributions

This represents contributions made available from a variety of sources including but not limited to Community Development Block Grants, Kentucky Infrastructure Authority Grants, Coal Severance Tax Funds, Abandoned Mine Lands Grants, U.S. Department of Agriculture Grants, and contributions from the Breathitt County Fiscal Court.

O. Budgetary Accounting

The Treasurer/Superintendent shall prepare and submit to the Commission's Budget Committee proposals for the annual Commission budget based on a Calendar Year. The proposed budget will be reviewed and passed to the Commission for tentative adoption. Following this action, the budget will be submitted to the Kentucky Department for Local Government in accordance with KRS 65A.

P. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Q. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the Commission to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for the future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposits issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2025
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

R. Accounting for Pensions and Other Post-Employment Benefits (OPEB)

GASB Statements Nos. 67 and 68, *Accounting and Financial Reporting for Pensions* – an *amendment* of GASB Statement 27 and GASB Statement No. 71 improves accounting and financial reporting by state and local governments for pensions and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, improves information provided by state and local governmental employers about financial support for pensions and OPEB that is provided by other entities. These Statements result from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions/OPEB with regard to providing decisions-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. These Statements were effective for fiscal years beginning after June 15, 2014 for pension reporting and fiscal year beginning after June 15, 2017 for OPEB, each have been implemented by the Breathitt County Water District.

S. Recently Issued Accounting Pronouncements

The District adopted the following new accounting pronouncement during the year ending December 31, 2025.

- GASB Statement No.102 – Certain Risk Disclosures, effective for fiscal years beginning after June 15, 2024.

Implementation for this Statement did not have significant effect on the District's financial statement for the year ended December 31, 2025.

The District will adopt the following new accounting pronouncements in future years:

- GASB Statement No. 103—*Financial Reporting Model Improvements*, effective for fiscal years beginning after June 15, 2025.
- GASB Statement No. 104 – *Disclosure of Certain Capital Assets,* effective for fiscal years beginning after June 15, 2025.

The impact of these pronouncements on the District's financial statements has not been determined.

T. Compensated Absences

Full time employees with 1-2 years of service receive 5 working days paid vacation, 2-10 years of service receive 10 working days paid vacation, 10-15 years of service receive 15 working days paid vacation, and 15 years or more receive 20 working days paid vacation. A maximum of 5 vacation days may be carried over to the next calendar year. Upon termination employees shall be compensated for a maximum of 2 weeks of unused vacation leave.

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2025
(Continued)

Note 2. Deposits and Investments

The Commission maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the District and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and (c) an official record of the depository institution. These requirements were met.

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned. The District deposits at December 31, 2025 exceeded the amount of the Federal Deposit Insurance Corporation insurance (FDIC). At December 31, 2025 $273,332 was insured by FDIC and $970,588 was collateralized with securities held by the pledging financial institution's in the District's name.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. Breathitt County Water District does not have any investments other than its interest bearing checking accounts. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District's investments in a single issuer. All of the District's cash at December 31, 2025 is held at local financial institutions. Foreign currency risk is the risk of changes in exchange rates effecting foreign investments. The District does not hold any foreign investments.

Cash consisted of the following at December 31, 2025:

	Book Balance	Bank Balance	Interest Rate
Sinking Fund	$ 92,927	$ 92,927	0.35%
Short Lived Assets	27,510	27,510	0.35%
Reserve Account	110,982	110,982	0.35%
Operations & Maintenance	130,036	139,597	0.35%
Repair & Maintenance	462,053	462,053	0.35%
AML Mult Site Flood Repair	83	83	0.00%
HWY 30 East/Wolfe Creek	194	194	0.35%
Five Mile Project	23,332	23,332	0.05%
Water Assistance Fund	10,901	10,901	0.35%
Waterline Ext Phase 3	150,493	150,493	0.35%
System Improvements	100,321	100,321	0.35%
Waterline Ext Phase 4	135,088	135,088	0.35%
Totals	$ 1,243,920	$ 1,253,481	

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2025
(Continued)

Note 3. Capital Assets

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

Primary Government	12/31/2024 Balance	Additions	Reductions	12/31/2025 Balance
Capital Assets Not Being Depreciated:				
Land and Land Improvements	$ 47,581	$ -	$ -	$ 47,581
Right-to-use lease	186,458	-	-	186,458
Construction in Progress	3,873,541	455,525	(2,276,012)	2,053,054
Total Capital Assets Not Being Depreciated	4,107,580	455,525	(2,276,012)	2,287,093
Capital Assets Being Depreciated:				
Vehicles	223,023	-	-	223,023
Office Equipment	11,421	3,050	-	14,471
Other Equipment	137,681	2,978	-	140,659
Water Improvements	44,928,727	2,276,012	-	47,204,739
Total Capital Assets Being Depreciated:	45,300,852	2,282,040	-	47,582,892
Less Accumulated Depreciation For:				
Vehicles	(171,575)	(23,372)	-	(194,947)
Office Equipment	(11,423)	(356)	-	(11,779)
Other Equipment	(127,589)	(3,663)	-	(131,252)
Water Improvements	(14,684,886)	(1,152,969)	-	(15,837,855)
Total Accumulated Depreciation	(14,995,473)	(1,180,360)	-	(16,175,833)
Total Capital Assets Being Depreciated, Net	30,305,379	1,101,680	-	31,407,059
Total Capital Assets, Net	$ 34,412,959	$ 1,557,205	$ (2,276,012)	$ 33,694,152

Total depreciation expense for the year ended December 31, 2025 was $1,180,360.

Note 4. Long-Term Liabilities

The following is a summary of changes in long-term obligations for the year ended December 31, 2025:

	Balance 12/31/2024	Additions	Deductions	Balance 12/31/2025	Due Within One Year
General obligation bonds	$ 260,000	$ -	$ (8,000)	$ 252,000	$ 8,000
Notes from direct borrowing	939,686	-	(88,334)	851,352	89,220
	$ 1,199,686	$ -	$ (96,334)	$ 1,103,352	$ 97,220

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2025
(Continued)

Note 4. Long-Term Liabilities (Continued)

The District's outstanding notes from direct borrowing contains provision that in the event of default, outstanding balances become immediately due, with interest rate increases and accrued fees.

If the District defaults on the Revenue Bonds, the lenders may assign a receiver to administer on behalf of the District to charge and collect rates sufficient to provide for payment of operating and maintenance expenses and for the payment of principal and interest on the outstanding balances.

Principal and interest requirements to retire the District's long-term obligations are as follows:

	Notes from direct borrowing		Bonds	
	Principal	Interest	Principal	Interest
2026	$ 89,220	$ 10,212	$ 8,000	$ 6,799
2027	90,115	9,130	8,500	6,589
2028	91,018	8,035	8,500	6,379
2029	91,931	6,931	8,500	6,156
2030	85,564	5,815	9,000	5,933
2031-2035	403,504	13,976	48,000	24,914
2036-2040	-	-	55,500	18,260
2041-2045	-	-	63,500	10,647
2046-2048	-	-	42,500	2,311
	$ 851,352	$ 54,099	$ 252,000	$ 87,988

A. Waterworks Revenue Bonds, Series 2009

On September 24, 2009, the Breathitt County Water District issued $350,000 in Waterworks Revenue Bonds, Series 2009. The bonds were sold at par to the U.S. Department of Agriculture, acting though Rural Development. The proceeds from these bonds were used for the construction of water lines.

The bonds are scheduled to mature in 2048 and carry an interest rate of 2.625%. Annual interest payments are required with annual principal payments beginning in 2011. As of December 31, 2025, the principal balance outstanding on these bonds was $252,000.

B. Kentucky Infrastructure Authority

In December 2009 the Breathitt County Water District requested $572,000 from the Kentucky Infrastructure Authority's Drinking Water State Revolving Fund Loan Program. During 2010 the District received the funds and made the first payment on the loan balance. The loan was funded by the American Recovery and Reinvestment Act. As part of the agreement $309,452 was forgiven. Semi-annual principal and interest payments are due in June and December of each year. The debt is scheduled to mature in 2030 and carry an interest rate of 1%. The agreement calls for the District to deposit $1,000 per year into a reserve account until a balance of $10,000 is reached.

BREATHITT COUNTY WATER DISTRICT
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NOTES TO FINANCIAL STATEMENTS
December 31, 2025
(Continued)

Note 4. Long-Term Liabilities (Continued)

C. Kentucky Infrastructure Authority

In April 2012 the Breathitt County Water District began drawing down funds from the Kentucky Infrastructure Authority's (KIA) Drinking Water State Revolving Fund Loan Program in relation to waterline projects. Total loan approved for the project is $2,500,000. As part of the agreement $1,000,000 will be forgiven. Interest payments began six months after the first draw of funds. Full principal and interest payments started in June 2016. Semi-annual principal and interest payments will be due in June and December of each year. The debt has a term of 20 years and carries an interest rate of 1%. The agreement calls for the District to deposit $6,250 per year into a reserve account until a balance of $62,500 is reached.

D. Changes in long-term debt

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

Description	Collateral	Rate	12/31/2024 Balance	Additions	Reductions	12/31/2025 Balance	Current Portion
Rural Development Revenue Bonds	Revenue	2.625%	$ 260,000	$ -	$ (8,000)	$ 252,000	$ 8,000
Kentucky Infrastructure Authority	Revenue	1.000%	861,879	-	(74,504)	787,375	75,250
Kentucky Infrastructure Authority	Revenue	1.000%	77,807	-	(13,830)	63,977	13,970
Total			$ 1,199,686	$ -	$ (96,334)	$ 1,103,352	$ 97,220

E. Other Liabilities

The following changes occurred in other liabilities during the year.

The net change in compensated absences is as follows:

At December 31, 2024	$ 16,498
At December 31, 2025	30,349
Net Increase (Decrease)	$ 13,851

Note 5. Lease Liabilities and Right to Use Leased Assets

The District has two tower lease agreements. In March 2010, the District entered into a tower lease at Coays Creek calling for monthly payments of $100 over a period of 60 months with option to extend for nine consecutive 5 year terms. The balance of the lease liability as of December 31, 2025 totaled $37,318. In February 2005, the District entered into a tower lease at Town Hill calling for monthly payments of $250 over a period of 60 months, with an adjustment based on the Consumer Price Index and option to extend for nine consecutive 5 year terms. The balance of the lease liability as of December 31, 2025 totaled $142,851. In July 2023, the rent for Town Hill lease increase per agreement to $335 per month.

BREATHITT COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2025
(Continued)

Note 5. Lease Liabilities and Right to Use Leased Assets (continued)

A summary of changes in lease liabilities for the governmental activities for the year ended June 30, 2025 is as follows:

	Rate	Due	Balance 12/31/2024	Additions	Reductions	Balance 12/31/2025	Current
Tower lease-Coays Creek	1.00%	Monthly	$ 38,240	$ -	$ (922)	$ 37,318	$ 931
Tower lease-Town Hill	1.00%	Monthly	145,546	-	(2,695)	142,851	2,600
			$ 183,786	$ -	$ (3,617)	$ 180,169	$ 3,531

Annual requirements to maturity for all proprietary long-term lease obligation are as follows:

Year ended June 30,	Principal	Interest	Total Payment
2026	$ 3,531	$ 1,685	$ 5,216
2027	3,567	1,649	5,216
2028	3,605	1,614	5,219
2029	3,639	1,577	5,216
2030	4,193	1,538	5,731
2031 - 2035	22,381	7,043	29,424
2036 - 2040	26,947	5,817	32,764
2041 - 2045	32,166	4,353	36,519
2046 - 2050	38,202	2,593	40,795
2051 - 2055	36,929	656	37,585
2056 - 2060	5,009	-	5,009
	$ 180,169	$ 28,525	$ 208,694

Note 6. Employee Retirement System

Plan Description: Substantially all full-time employees of the District participate in the County Employees Retirement System (CERS). CERS is a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (502) 564-4646 or at https://kyret.ky.gov.

Benefits Provided - Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions - Funding for the plan is provided through payroll withholdings of 5.00% and a District contribution of 19.71% for the first half of the year and 18.62% for the second half of the year of the employee's total compensation subject to contributions.

Note 6. Employee Retirement System (Continued)

At December 31, 2025, the District reported the following for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2024. The total pension liability used was based on an actuarial valuation as of June 30, 2024. At June 30, 2024 the District's proportion of the net pension liability based on contributions to CERS during fiscal year ended June 30, 2024 was .007307% for nonhazardous.

District's proportionate share of the net CERS nonhazardous pension liability	$ 436,990

For the year ended December 31, 2025, the District's financial statements reflect CERS pension expense of $53,539 for nonhazardous. For the year ended December 31, 2025 the District recognized deferred outflows of resources for nonhazardous of $129,623 and deferred inflows of resources for nonhazardous of $98,414. These contributions will be recognized as a reduction of the net pension liability in subsequent fiscal years.

The District previously reported deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of ($35,778).

Year	Nonhazardous Total
2026	$ (18,838)
2027	122
2028	(10,800)
2029	(6,262)
2030	-
Thereafter	-
	$ (35,778)

	Nonhazardous	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 21,151	$ -
Changes of assumptions	-	19,743
Net difference between projected and actual earnings on pension plan investments	30,011 -	58,107
Changes in proportion and differences between District contributions and proportionate share of contributions	11,474	20,564
District contributions subsequent to the measurement date	66,987	-
Total	$ 129,623	$ 98,414

Note 6. Employee Retirement System (Continued)

Actuarial Methods and Assumptions - The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2024. The financial reporting actuarial valuation as of June 30, 2024, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

- Valuation date, June 30, 2023
- Actuarial Cost method – Entry Age Normal
- Asset Valuation method – 5 year smoothed market
- Amortization Method – Level percentage of pay
- Amortization Period – 30 years, closed
- Payroll growth rate – 2%
- Investment return – 6.5%
- Inflation – 2.50%
- Salary increases, 3.30% to 10.30%, varies by service for non-hazardous; 3.55% to 19.05%, varies by service for hazardous
- System-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023.

The target asset allocation and best estimates of arithmetic real rate of return for each major asset class, as provided by CERS's investment consultant, are summarized as follows:

Asset Class	Target Allocation	Non-hazardous & Hazardous Long-term Expected Nominal Return
Equity	**60.00%**	
Public Equity	50.00%	4.15%
Private Equity	10.00%	9.10%
Fixed Income	**20.00%**	
Core Fixed Income	10.00%	2.85%
Specialty Credit	10.00%	3.82%
Cash	0.00%	1.70%
Inflation Protected	**20.00%**	
Real Estate	7.00%	4.90%
Real Return	13.00%	5.35%

Discount Rate – The discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumed contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Note 6. Employee Retirement System (Continued)

Deferred inflows and outflows and pension expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability is based on the June 30, 2024 actuarial valuations. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a five year period.

The following presents the District's proportionate share of net pension liability calculated using the discount rate of 6.50% as well as the District's share if calculated using a rate 1% higher and 1% lower:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
District's proportionate share of net nonhazardous pension liability	$ 563,351	$ 436,990	$ 332,143

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publicly available at https://kyret.ky.gov.

Payable to the pension plan by the District at December 31, 2025 was $5,962.

Note 7. OPEB Plans

General Information about the OPEB Plan

Plan description – Substantially all full-time employees of the District are provided OPEBs through the County Employees Retirement System of the State of Kentucky (CERS)—a cost-sharing multiple-employer defined benefit OPEB plan. CERS was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 78.520.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (800)928-4646 or at https://kyret.ky.gov.

The State reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the KRS Insurance Fund. The following information is about the KRS plans:

Note 7. OPEB Plans (Continued)

Medical Insurance Plan

Plan description – In addition to the OPEB benefits described above, KRS provides post-employment healthcare benefits to eligible members and dependents. The KRS Insurance benefit is a cost-sharing multiple employer defined benefit plan.

Benefits provided – Benefits under the plan will vary based on years of service and other factors as fully described in the plan documents.

Contributions – In order to fund the post-retirement healthcare benefit, participants hired on or after September 1, 2008 contribute 1% of total compensation subject to contribution for non-hazardous and hazardous duty positions. Also, the premiums collected from retirees as described in the plan documents and investment interest help meet the medical expenses of the plan.

OPEB Liabilities/(Funded Asset), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At December 31, 2025, the District reported a funded asset of $12,652 for its proportionate share of the collective net CERS non-hazardous OPEB funded asset. The collective net OPEB funded asset was measured as of June 30, 2024, and the total OPEB funded asset used to calculate the collective net OPEB funded asset was based on a projection of the District's long-term share of contributions to the OPEB funded asset plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2024, the District's proportion was .007314% for non-hazardous employees. The previous year proportion was 0.007762%.

The amount recognized by the District as its proportionate share of the OPEB funded asset was as follows:

District's proportionate share of the net CERS non-hazardous OPEB funded asset	$ 12,652

For the year ended December 31, 2025, the District recognized OPEB expense of ($26,574). At June 30, 2024, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

Note 7. OPEB Plans (Continued)

	Non-hazardous	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 7,019	$ 99,544
Changes of assumptions	11,464	8,927
Net difference between projected and actual earnings on plan investments	11,121	22,667
Changes in proportion and differences between District contributions and proportionate share of contributions	7,705	6,458
District contributions subsequent to the measurement date	-	-
Total	$ 37,309	$ 137,596

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year	Non-hazardous Total
2026	$ (39,332)
2027	(31,130)
2028	(27,624)
2029	(2,202)
3030	-
Thereafter	-
	$ (100,288)

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

- Valuation date – June 30, 2023
- Actuarial Cost method – Entry Age Normal
- Amortization Method – Level percentage of payroll
- Amortization Period – 30 years, closed period at June 30, 2019
- Asset Valuation method – 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
- Payroll growth rate – 2%
- Investment return – 6.5%
- Inflation – 2.50%
- Salary increases, 3.30% to 10.30%, varies by service for non-hazardous; 3.55% to 19.05%, varies by service for hazardous

Note 7. OPEB Plans (Continued)

- System-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023.
- Healthcare cost trend rates

Under 65	Initial trend starting at 6.40% at January 1, 2025 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Ages 65 and Older	Initial trend starting at 6.30% at January 1, 2025 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2024 valuation were based on a review of recent plan experience done concurrently with the June 30, 2024 valuation.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined by weighting the expected future real rates of return by the target asset allocation percentage.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KRS's investment consultant, are summarized in the following table:

	Non-hazardous & Hazardous	
Asset Class	Target Allocation	Long-term Expected Nominal Return
Equity	**60.00%**	
Public Equity	50.00%	4.15%
Private Equity	10.00%	9.10%
Fixed Income	**20.00%**	
Core Fixed Income	10.00%	2.85%
Specialty Credit	10.00%	3.82%
Cash	0.00%	1.70%
Inflation Protected	**20.00%**	
Real Estate	7.00%	4.90%
Real Return	13.00%	5.35%

Discount rate - The discount rate used to measure the total OPEB liability was 5.99% for non-hazardous personnel. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Note 7. OPEB Plans (Continued)

Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability/ (funded asset).

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

	1% Decrease (4.99%)	Current Discount Rate (5.99%)	1% Increase (6.99%)
District's proportionate share of net non-hazardous OPEB liability/(funded asset)	$ 17,107	$ (12,652)	$ (37,673)

Sensitivity of the District's proportionate share of the collective net OPEB liability/(funded asset) to changes in the healthcare cost trend rates – The following presents the District's proportionate share of the collective net OPEB liability/(funded asset), as well as what the District's proportionate share of the collective net OPEB liability/(funded asset) would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

		1% Decrease		Current Healthcare Cost Trend Rate		1% Increase
District's proportionate share of net non-hazardous OPEB liability/(funded asset)	$	(30,439)	$	(12,652)	$	8,069

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

Note 8. Insurance

For the year ended December 31, 2025, the Commission was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Contingencies

The District receives funding from local, state, and federal government agencies. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

Note 10. Restatement

The District restated beginning net position by $18,171, due to the recalculation of the Town Hill lease for the consumer price index increase per the lease agreement.

BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS

For The Year Ended December 31, 2025

BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS

For The Year Ended December 31, 2025

Employer's Proportionate Share of Net Pension Liability

	2025 CERS Nonhazardous	2024 CERS Nonhazardous	2023 CERS Nonhazardous	2022 CERS Nonhazardous	2021 CERS Nonhazardous	2020 CERS Nonhazardous	2019 CERS Nonhazardous	2018 CERS Nonhazardous	2017 CERS Nonhazardous	2016 CERS Nonhazardous
Employer's proportion of the net pension liability	0.007307%	0.007762%	0.007200%	0.007167%	0.006752%	0.006633%	0.006611%	0.00576%	0.00521%	0.00622%
Employer's proportionate share of the net pension liability	436,990	498,049	520,489	456,952	517,873	466,643	402,630	337,326	256,687	267,500
Employer's covered employee payroll	251,056	226,085	213,388	195,245	171,101	166,024	167,724	163,404	144,185	148,094
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	174%	220%	244%	234%	303%	281%	240%	206%	178%	218%
Plan fiduciary net position as a percentage of the total pension liability	61.61%	57.48%	52.42%	57.33%	47.81%	50.45%	53.54%	53.30%	55.50%	59.97%

Employer's Contributions

	2025 CERS Nonhazardous	2024 CERS Nonhazardous	2023 CERS Nonhazardous	2022 CERS Nonhazardous	2021 CERS Nonhazardous	2020 CERS Nonhazardous	2019 CERS Nonhazardous	2018 CERS Nonhazardous	2017 CERS Nonhazardous	2016 CERS Nonhazardous
Contractually required contribution	$ 53,539	$ 52,723	$ 45,351	$ 35,332	$ 33,381	$ 27,147	$ 23,724	$ 19,575	$ 14,812	$ 18,576
Contributions in relation to the contractually required contribution	53,539	52,723	45,351	35,332	33,381	27,147	23,724	19,575	15,446	18,508
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	(634)	68
District's covered employee payroll	$ 339,864	$ 251,056	$ 226,085	$ 213,388	$ 195,245	$ 171,101	$ 166,024	$ 167,724	$ 163,404	$ 144,185
Contributions as a percentage of covered employee payroll	15.75%	21.00%	20.06%	16.56%	17.10%	15.87%	14.29%	11.67%	9.45%	12.84%

Ten years of data presented.

See notes to financial statements and independent auditor's report.

BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY/(FUNDED ASSET)
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS

For The Year Ended December 31, 2025

Employer's Proportionate Share of Net OPEB Liability

	2025 OPEB Nonhazardous	2024 OPEB Nonhazardous	2023 OPEB Nonhazardous	2022 OPEB Nonhazardous	2021 OPEB Nonhazardous	2020 OPEB Nonhazardous	2019 OPEB Nonhazardous	2018 OPEB Nonhazardous
Employer's proportion of the net OPEB (funded asset)/liability	0.007314%	0.007762%	0.007198%	0.007165%	0.006830%	0.006633%	0.00661%	0.00576%
Employer's proportionate share of the net OPEB (funded asset)/liability	(12,652)	(10,717)	142,054	137,170	164,924	111,564	117,359	115,856
Employer's covered employee payroll	251,056	226,085	213,388	195,245	171,101	166,024	167,724	163,404
Employer's proportionate share of the net OPEB (funded asset)/liability as a percentage of its covered employee payroll	-5%	-5%	67%	70%	96%	67%	71%	71%
Plan fiduciary net position as a percentage of the total OPEB (funded asset)/liability	104.89%	104.23%	60.95%	62.91%	51.67%	60.44%	57.62%	52.40%

Employer's Contributions

	2025 OPEB Nonhazardous	2024 OPEB Nonhazardous	2023 OPEB Nonhazardous	2022 OPEB Nonhazardous	2021 OPEB Nonhazardous	2020 OPEB Nonhazardous	2019 OPEB Nonhazardous	2018 OPEB Nonhazardous
Contractually required contribution	3,441	7,638	8,302	8,714	8,330	8,803	7,701	6,637
Contributions in relation to the contractually required contribution	3,441	7,638	8,302	8,714	8,330	8,803	7,701	6,637
Contribution deficiency (excess)	-	-	-	-	-	-	-	-
District's covered employee payroll	339,864	251,056	226,085	213,388	195,245	171,101	166,024	167,724
Contributions as a percentage of covered employee payroll	1.01%	3.04%	3.67%	4.08%	4.27%	5.14%	4.64%	3.96%

Until a full 10-year trend is compiled, the District will present information for years available.

Ultimately, ten years of data will be presented.

See notes to financial statements and independent auditor's report.

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*

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

To the Board of Commissioners
Breathitt 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 business-type activities of Breathitt County Water District, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise Breathitt County Water District's basic financial statements, and have issued our report thereon dated May 11, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Breathitt 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 Breathitt County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Breathitt 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 Breathitt 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.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

May 11, 2026