Martin County Sanitation District

Inez, Kentucky

Annual Financial Report

Years Ended December 31, 2025 and 2024

Financial Section

Wade Stables P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

The Board of Directors
Martin County Sanitation District
Inez, Kentucky

Opinion

We have audited the accompanying financial statements of the business-type activities of Martin County Sanitation District, as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Martin County Sanitation District, as of December 31, 2025 and 2024, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Martin County Sanitation 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.

Emphasis of Matter

As discussed in Note 12 to the financial statements, the District has suffered recurring operating losses and its debt service coverage ratio has been unfavorable for the previous and current year. Management's evaluation of the events and conditions and management's plans to mitigate those matters are also described in Note 12. Our opinion is not modified with respect to that matter.

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 Martin County Sanitation 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.

Independent Auditors' Report (Continued)

Auditors' Responsibilities for the Audit of the Financial Statements

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the calculations of accounts payable turnover ratios, debt service coverage ratios, and current days' sales in accounts receivable ratios but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

Independent Auditors' Report (Concluded)

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2025, on our consideration of Martin County Sanitation 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 Martin County Sanitation 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 Martin County Sanitation District's internal control over financial reporting and compliance.

Wade Stables P.C.

Wade Stables P.C.
Certified Public Accountants

June 15, 2026
Hannibal, Missouri

As management of the Martin County Sanitation District of Inez, Kentucky (the District), we offer readers of the District's audited financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2025.

OVERVIEW OF THE AUDITED FINANCIAL STATEMENTS

The financial statements presented in this report consist of statements *of net position,* the *statements of revenues, expenses, and changes in net position,* and the *statements of cash flows.* The statement of net position provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for assessing the liquidity and financial flexibility of the District. The current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net position. This statement reports the revenues and expenses during the period indicated and can be used to determine whether the District has successfully recovered all its costs through user fees and other charges. The primary purpose of the statements of cash flows is to provide information about the District's cash receipts and cash payments. This statement reports cash receipts, cash payments, and net changes in cash resulting from activities related to operations, capital and related financing, noncapital financing, and investing activities.

STATEMENT OF NET POSITION

The District's total net position in 2025 increased by $404,308 and ended the year at $6,777,230.

Net position is comprised of total assets and total liabilities.

Total assets increased $432,339 or 5.1% primarily due to increases in current assets of $297,591 and restricted assets of $711,223. The increase in current assets is primarily due to the increase in cash and/or cash equivalents of $48,497 and the increase in unbilled receivables of $23,662. The increase in restricted assets is primarily due to an increase in the sinking fund of $81,694 and disaster relief fund of $621,773. Restricted cash is discussed in detail in the restricted assets section.

Total liabilities increased by $28,031 or 1.3% primarily due to an increase in current liabilities of $71,031. Current liabilities increased primarily due to an increase in accrued interest of $36,026, current portion of long-term debt of $43,000, and customer deposits of $630.

A summary of financial position follows:

	For The Years Ended December 31			2025	
	2025	2024	2023	Change	Percent Change
Assets:					
Current assets	$ 297,591	$ 216,422	$ 225,330	81,169	37.5%
Restricted assets	711,223	7,756	538	703,467	9070.0
Capital assets	7,929,277	8,281,574	8,709,471	(352,297)	-4.3
Total assets	8,938,091	8,505,752	8,935,339	432,339	5.1
Liabilities:					
Current liabilities	495,511	424,480	527,986	71,031	16.7
Long term debt, net	1,665,350	1,708,350	1,750,370	(43,000)	-2.5
Total liabilities	2,160,861	2,132,830	2,278,356	28,031	1.3
Net Position:					
Net investment in capital assets	6,263,927	6,573,224	6,959,101	(309,297)	-4.7
Restricted for debt service	93,053	11,220	5,699	81,833	729.3
Unrestricted	420,250	(211,522)	(307,817)	631,772	-298.7
Total net position	$ 6,777,230	$ 6,372,922	$ 6,656,983	404,308	6.3%

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Total operating revenues increased by $10,910 or 1.1% and totaled $992,657 for the year. Charges for services increased $10,896 or 1.3% from the prior year. Penalties and fees increased by $109 or 0.2%. Additionally, there was a decrease of $100 in miscellaneous income.

Total operating expenses increased by $63,819 or 5.1%. This increase consists of an increase in non-depreciation operating expenses of $60,447 or 7.7% and a $3,372 or 0.7% increase in depreciation expense.

Non-operating income (expense) in 2025 consists of $41,000 of interest expense and $64 of interest income.

A summary statement of revenues, expenses and changes in net position follows:

	For The Years Ended December 31			2025	
	2025	2024	2023	Change	Percent Change
Operating Revenues:					
Charges for services	$ 881,509	$ 870,613	$ 797,986	10,896	1.3%
Penalties and fees	59,696	59,587	67,152	109	0.2
Debt service surcharge	51,452	51,447	51,147	5	0.0
Miscellaneous income	-	100	250	(100)	-100.0
Total Operating Revenues	992,657	981,747	916,535	10,910	1.1
Operating Expenses:					
Operating expenses	840,809	780,362	737,608	60,447	7.7
Depreciation	474,753	471,381	485,592	3,372	0.7
Total operating expenses	1,315,562	1,251,743	1,223,200	63,819	5.1
Net Operating Income	(322,905)	(269,996)	(306,665)	(52,909)	19.6
Non-operating Income (Expense)					
Interest expense	(40,556)	(41,577)	(42,292)	(1,021)	2.5
Gain (loss) on disposal of assets	-	-	1,750	-	0.0
Interest and dividend income	64	12	8	52	433.3
Total Non-operating income (expenses)	(40,492)	(41,565)	(40,534)	(1,073)	-2.6
Change in net position before contributions	(363,397)	(311,561)	(347,199)	(51,836)	16.6
Capital grants and contributions	767,705	27,500	-	740,205	100.0
Change in net position	404,308	(284,061)	(347,199)	688,369	-242.3
Net Positon - Beginning	6,372,922	6,656,983	7,004,182	(284,061)	-4.3
Net Position - Ending	$ 6,777,230	$ 6,372,922	$ 6,656,983	404,308	6.3%

STATEMENT OF CASH FLOWS

The District's rate structure is designed to collect sufficient revenues to pay debt service and recover operating and maintenance expenses.

RESTRICTED ASSETS

Restricted assets were $711,223 in 2025 compared to $7,756 in 2024. The District's debt covenants specify the manner that monies on deposit in the various restricted funds must be used. Restricted assets consist of various accounts for debt service and capital projects.

CAPITAL ASSETS

Capital assets, net of accumulated depreciation was $7,929,277 on December 31, 2025, as compared to $8,281,574 on December 31, 2024, and represents a decrease of $352,297 or 4.3%. Capital asset additions in 2025 were $47,246 and primarily consist of grinder pumps, a meter project. Additions were offset by the depreciation expense of $475,000.

LONG-TERM DEBT

The District's made principal payments of $43,000 during the fiscal year. As of December 31, 2025, the District had a total long-term debt outstanding of $1,665,350 of which $43,000 is due in the next year.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District's overall financial position in 2025 improved as shown by the net position increase of $404,308 or 6.3%.

REQUEST FOR INFORMATION

This report is designed to provide our customers, debt holders, and other interested parties with a general overview of the financial position of the District and to indicate accountability for the revenues received. Direct questions about this report or requests for additional information to the District Clerk (606-298-3885) at the District's office, 387 East Main Street, Inez, KY 41224.

Basic Financial Statements

	2025	2024
Assets		
Current Assets		
Cash and cash equivalents	$ 96,541	$ 48,044
Accounts receivable (net)	136,532	129,651
Prepaid assets	14,289	12,160
Unbilled receivables	50,229	26,567
Total Current Assets	$ 297,591	$ 216,422
Restricted Assets		
Cash - depreciation reserve	$ 490	$ 490
Cash - sinking fund	88,960	7,266
Cash - disaster relief fund	621,773	-
Total Restricted Assets	$ 711,223	$ 7,756
Capital Assets		
Sewer systems	$ 16,377,377	$ 16,330,131
Buildings	363,275	363,275
Furniture and equipment	430,155	430,155
Vehicles	50,452	50,452
Construction in progress	102,710	27,500
Land	93,081	93,081
Less: Accumulated depreciation	(9,487,773)	(9,013,020)
Total Capital Assets	$ 7,929,277	$ 8,281,574
Total Assets	$ 8,938,091	$ 8,505,752
Liabilities		
Current Liabilities		
Accounts payable	$ 405,370	$ 413,995
Accrued interest	36,026	-
Customer deposits	11,115	10,485
Current portion of long-term debt	43,000	-
Total Current Liabilities	$ 495,511	$ 424,480
Long-Term Liabilities		
Long-term portion of debt	1,665,350	1,708,350
Total Liabilities	$ 2,160,861	$ 2,132,830
Net Position		
Net investment in capital assets	$ 6,263,927	$ 6,573,224
Restricted for debt retirement	93,053	11,220
Unrestricted	420,250	(211,522)
Total Net Position	$ 6,777,230	$ 6,372,922

	2025	2024
Operating Revenues		
Charges for services	$ 881,509	$ 870,613
Penalties and fees	59,696	59,587
Debt service surcharge	51,452	51,447
Miscellaneous income	-	100
Total Operating Revenues	$ 992,657	$ 981,747
Operating Expenses		
Management & operations contract	$ 625,824	$ 626,206
Legal	11,204	1,345
Accounting	5,675	5,500
Bad debt	9,947	5,268
Dues & subscriptions	500	500
Office expense	162	-
Utilities	82,013	71,837
Outside services	-	350
Insurance	36,849	35,224
Repairs & maintenance	56,832	33,467
Depreciation	474,753	471,381
Miscellaneous	11,803	665
Total Operating Expenses	$ 1,315,562	$ 1,251,743
Operating Income (Loss)	$ (322,905)	$ (269,996)
Non-operating Income (Expenses)		
Interest expense	$ (40,556)	$ (41,577)
Interest and dividend income	64	12
Total Non-operating Income (Expenses)	$ (40,492)	$ (41,565)
Change in Net Position Before Contributions	$ (363,397)	$ (311,561)
Capital grants and contributions	767,705	27,500
Change in Net Position	$ 404,308	$ (284,061)
Net Position - Beginning of Year	6,372,922	6,656,983
Net Position - End of Year	$ 6,777,230	$ 6,372,922

The accompanying notes to financial statements are an integral part of these statements.

	2025	2024
Cash Flows from Operating Activities		
Cash received from customers	$ 986,406	$ 1,033,745
Cash payments for goods and services	(875,225)	(904,255)
Net Cash Provided by Operating Activities	$ 111,181	$ 129,490
Cash Flows from Capital and Related Financing Activities		
Payments for capital assets	$ 645,249	$ (15,984)
Principal repayments	-	(42,020)
Interest and other charges paid	(4,530)	(41,577)
Net Cash Used by Capital and Related Financing Activities	$ 640,719	$ (99,581)
Cash Flows from Investing Activities		
Interest received	$ 64	$ 12
Net Cash Provided by Investing Activities	$ 64	$ 12
Net Increase (Decrease) in Cash and Cash Equivalents	$ 751,964	$ 29,921
Cash and Cash Equivalents - Beginning of Year	55,800	25,879
Cash and Cash Equivalents - End of Year	$ 807,764	$ 55,800
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 4,530	$ 41,577
Reconciliation of Cash and Cash Equivalents		
Cash and cash equivalents	$ 96,541	$ 48,044
Restricted cash and cash equivalents:		
Cash - depreciation reserve	490	490
Cash - sinking fund	88,960	7,266
Total Cash and Cash Equivalents	$ 807,764	$ 55,800
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income (loss)	$ (322,905)	$ (269,996)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	474,753	471,381
Change in assets and liabilities:		
Accounts receivable	(6,881)	50,693
Other accrued assets	(23,662)	(17,276)
Prepaid expenses	(2,129)	(1,806)
Accounts payable	(8,625)	(104,811)
Customer deposits	630	1,305
Net Cash Provided by Operating Activities	$ 111,181	$ 129,490

The accompanying notes to financial statements are an integral part of these statements.

Notes to
Financial Statements

1) Summary of Significant Accounting Policies

The Martin County Sanitation District (the District) was authorized by action of the Martin County Fiscal Court on January 10, 2008. The District is a Special Purpose Government Entity (SPGE) recognized by the Kentucky Department of Local Government. The District is governed by the Martin County Utility Board, which is comprised of commissioners appointed by the Martin County Fiscal Court. The District provides sanitation services to residential and commercial customers in the Martin County area.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization’s governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization’s resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District has no component units.

The District's annual financial report includes all accounts of the Martin County Sanitation District. The accounting policies of the District conform to generally accepted accounting principles. The following is a summary of such significant policies:

A) Fund Accounting

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of the District constitute the equivalent of enterprise funds, and therefore, only these funds are presented. These funds consist of a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses.

B) Capital Assets and Long-Term Liabilities

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with the District’s activity are included on the Statement of Net Position. Reported fund equity (net position) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against operations. Accumulated depreciation is reported on the statement of net position. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Cost of water/sewer system	5 - 40 years
Buildings	5 - 40 years
Office furniture and equipment	5 - 10 years
Vehicles	5 - 10 years

1) Summary of Significant Accounting Policies (Concluded)

C) Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when earned, and expenses are recognized when incurred.

D) Budgets and Budgetary Accounting

The District's Board of Commissioners receives and approves an annual budget from management each calendar year fulfilling the requirement to prepare an annual budget as required by all SPGE's for the Kentucky Department of Local Government.

E) Restricted Net Position

Net position is reported as restricted when limitations on use changes the normal understanding of the availability of the related asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. It is the District's policy to expend restricted resources first if the restrictions are met. All other net position that does not meet the definition of "restricted" is reported as unrestricted net position.

F) Inventory

Expenditures for inventory are recognized by the purchase method and are expensed as required. The inventory of supplies and parts on hand is not significant.

G) Cash and Cash Equivalents

The District considers all cash and cash equivalents to include all demand deposits as well as short-term investments with an initial maturity of less than three months from the date acquired by the District.

H) Operating and Non-Operating Income

Operating revenues and expenses result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. All income and expenses not meeting this definition are reported as non-operating income and expenses.

2) Use of Estimates in the Preparation of Financial Statements

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

3) Cash and Investments

The carrying amount of the District's deposits was $807,764 at December 31, 2025, and the bank balances totaled $807,764. The carrying amount of the District's deposits was $55,800 at December 31, 2024, and the bank balances totaled $56,340. At December 31, 2025 $250,000 was covered by federal depository insurance, $557,764 was deposited in institutional liquidity funds. At December 31, 2025, all of the District's deposits were covered by federal depository insurance.

4) Restricted Assets and Net Position

Restricted Assets consist of cash accounts required to be held in separate accounts in accordance with the District's debt covenants. Balances in the restricted cash accounts total $711,223 and $7,756 as of December 31, 2025 and 2024, respectively.

As of December 31, 2025 and 2024, the District's Restricted Net Position consisted of net investments in capital assets and restrictions for debt retirement.

	2025	2024
Total Capital Assets	$ 7,929,277	$ 8,281,574
Less:		
Long-term portion of debt (net)	1,665,350	1,708,350
Current portion of long-term debt	-	-
Total Net Investment in Capital Assets	$ 6,263,927	$ 6,573,224

The District's bond issues contain covenants relative to the maintenance of specific funds and the making of monthly payments to certain funds. Additionally, the District's Board of Directors imposed a debt service surcharge for funding the District's payments to vendors. The status of the various accounts was as follows at December 31:

	2025	2024
Sinking funds	$ 88,960	$ 7,266
Debt surcharge	3,603	3,464
Depreciation fund	490	490
Restricted cash and investments - Debt retirement	$ 93,053	$ 11,220
Less: Payable from restricted assets		
Accrued interest	-	-
Restricted for debt retirement	$ 93,053	$ 11,220

5) Accounts Receivable

The receivables from customers are reported on the accompanying Statements of Net Position, net of an allowance for doubtful accounts, which amounted to $8,875 and $6,000 as of December 31, 2025 and 2024, respectively. Estimated unbilled revenues are recognized at the end of each year on a pro rata basis. The estimated amount is based on billings during the month following the close of the fiscal year.

6) Long-Term Debt

Series 2011

The District obtained a loan in the amount of $485,000 from the United States Department of Agriculture (USDA) for the purpose of financing the costs of construction and improvements of the sanitation systems of the District. Principal payments are due annually beginning on January 1, 2013, with a maturity date of January 1, 2050, plus interest at a rate of 2.250%. The collateral for the loan is service revenue.

Series 2014

The District obtained a loan in the amount of $1,600,000 from the USDA for the purpose of financing the costs of the construction and improvements of the sanitation systems of the District. Principal payments are due annually beginning on January 1, 2017, with a maturity date of January 1, 2054, plus interest at a rate of 2.375%. The collateral for the loan is service revenue.

The following is a summary of outstanding debt as of December 31, 2025 and 2024:

	2025	2024
Series 2011 $485,000 USDA loan due in annual installments ranging from $8,000 to $19,500, plus interest at a rate of 2.250% from January 1, 2013 through January 1, 2050.	$ 364,980	$ 364,980
Series 2014 $1,600,000 USDA loan due in annual installments ranging from $25,500 to $64,000, plus interest at a rate of 2.375% from January 1, 2017 through January 1, 2054.	1,343,370	1,343,370
Total Debt Payable	$ 1,708,350	$ 1,708,350
Less: Current Portion	(43,000)	-
Long-Term Portion of Debt Payable	$ 1,665,350	$ 1,708,350

The following is a summary of bond principal requirements as of December 31:

Year	Principal	Interest	Total
2026	43,000	39,629	$ 82,629
2027	44,000	38,610	82,610
2028	45,500	37,560	83,060
2028	46,000	36,488	82,488
2029	47,500	35,393	82,893
2030-2034	255,000	159,520	414,520
2035-2039	287,500	127,805	415,305
2040-2044	325,500	91,909	417,409
2045-2049	368,000	51,319	419,319
2050-2054	246,350	11,911	258,261
Totals	$ 1,708,350	$ 630,144	$ 2,338,494

6) Long-Term Debt (Concluded)

The changes in long-term debt for the year ended December 31, 2025 and 2024, are as follows:

	2025	2024
Balance, Beginning	$ 1,708,350	$ 1,750,370
Additions	-	-
Retirements	-	(42,020)
Balance, Ending	$ 1,708,350	$ 1,708,350

7) Litigation

At December 31, 2025, there were no claims or lawsuits pending against the District.

8) Concentration of Credit Risk

The District provides virtually all of its services to the residents of Martin County Sanitation District and derives the majority of its revenues from sanitation services to those residents. Further, the District is subject to regulations by state statutes and the Environmental Protection Agency.

9) Capital Assets

Capital assets during the year ended December 31, 2025, consisted of the following:

	Balance at January 1	Additions	Deductions	Balance at December 31
Sewer systems	$ 16,330,131	$ 47,246	$ -	$ 16,377,377
Buildings	363,275	-	-	363,275
Furniture and equipment	430,155	-	-	430,155
Vehicles	50,452	-	-	50,452
	$ 17,174,013	$ 47,246	$ -	$ 17,221,259
Accumulated Depreciation	(9,013,020)	(474,753)	-	(9,487,773)
Construction in Progress	27,500	75,210	-	102,710
Land	93,081	-	-	93,081
Total Capital Assets	$ 8,281,574	$ (352,297)	$ -	$ 7,929,277

Depreciation expense for the year ended December 31, 2025, amounted to $474,753.

9) Capital Assets (Concluded)

Capital assets during the year ended December 31, 2024, consisted of the following:

	Balance at January 1	Additions	Deductions	Balance at December 31
Sewer systems	$ 16,317,587	$ 12,544	$ -	$ 16,330,131
Buildings	363,275	-	-	363,275
Furniture and equipment	426,715	3,440	-	430,155
Vehicles	50,452	-	-	50,452
	$ 17,158,029	$ 15,984	$ -	$ 17,174,013
Accumulated Depreciation	(8,541,639)	(471,381)	-	(9,013,020)
Construction in Progress	-	27,500	-	27,500
Land	93,081	-	-	93,081
Total Capital Assets	$ 8,709,471	$ (427,897)	$ -	$ 8,281,574

Depreciation expense for the year ended December 31, 2024, amounted to $471,381.

10) Related Party Transactions

There were no related party transactions during the year ended December 31, 2025.

11) Commitments

The District has a full service operating agreement with Alliance Water Resources, Inc., through December 31, 2029, which provides for the operation of the sanitation system. The amount to be paid under the basic agreement for operating the sanitation system is $630,144 for the year ending December 31, 2025, with the compensation for the balance of the contract to be negotiated on an annual basis.

12) Management Plans

Due to continued operating losses experienced by the District for the last several years, and due to the unfavorable debt service coverage ratio for the prior year and current year, the District has evaluated the significance of these conditions and the District's ability to meet its long-term obligations. Management and the Board have had discussions to formulate a plan to address these concerns. The following illustrates the plan that management has implemented or will implement to mitigate these conditions:

- Martin County Water District is in the process of a system-wide meter replacement project. As a result of the new meters, management is anticipating a 10% increase in revenue for the Sanitation District for the budget year 2025.
- The District expects to receive grant funding in 2026 for several projects, to be used to improve operations of the system.
- The District is in the process of applying for debt relief funding from the Kentucky Water and Wastewater Assistance for Troubled or Economically Restrained Systems Program. Based on the program's scoring matrix, the District believes it will receive the necessary funding.
- The District will continue to make monthly transfers to a sinking fund to ensure debt payments are made timely, and will continue to make use of the debt service surcharge collected from customers to assist with payments of outstanding balances.

13) Subsequent Events

Subsequent events have been considered through June 15, 2026, the date the financial statements were available to be issued.

Other Information

	Net Credit Purchases	Accounts Payable	Average Accounts Payable	Accounts Payable Turnover Ratio
January 1, 2025		$ 413,995		
January 31, 2025	$ 56,981	$ 374,958	$ 394,477	0.1444
February 28, 2025	$ 69,600	$ 407,979	$ 391,469	0.1778
March 31, 2025	$ 74,693	$ 403,655	$ 405,817	0.1841
April 30, 2025	$ 70,581	$ 406,734	$ 405,195	0.1742
May 31, 2025	$ 62,671	$ 399,526	$ 403,130	0.1555
June 30, 2025	$ 83,723	$ 425,122	$ 412,324	0.2031
July 31, 2025	$ 85,806	$ 509,673	$ 467,398	0.1836
August 31, 2025	$ 66,161	$ 438,627	$ 474,150	0.1395
September 30, 2025	$ 76,197	$ 455,977	$ 447,302	0.1703
October 31, 2025	$ 59,507	$ 435,213	$ 445,595	0.1335
November 30, 2025	$ 60,690	$ 404,669	$ 419,941	0.1445
December 31, 2025	$ 105,976	$ 388,666	$ 396,668	0.2672

	Annual Net Operating Income	Annual Debt Payments	Debt Service Coverage Ratio	
December 31, 2025	$ (322,905)	$ 40,132	-8.0461	**
December 31, 2024	$ (269,996)	$ 83,122	-3.2482	**
December 31, 2023	$ (306,665)	$ 83,063	-3.6920	**
December 31, 2022	$ (505,465)	$ 83,000	-6.0899	**
December 31, 2021	$ (508,443)	$ 82,914	-6.1322	**

** Result is less than 1.1 in any 3 of the previous 5 years

	Monthly Accounts Receivable	Monthly Credit Sales Value	Number of Days in Month	Current Days' Sales in Accounts Receivable Ratio	
January 31, 2025	$ 126,999	$ 86,716	31	45	***
February 28, 2025	$ 147,671	$ 82,208	28	50	***
March 31, 2025	$ 138,132	$ 65,215	31	66	***
April 30, 2025	$ 121,871	$ 85,763	30	43	***
May 31, 2025	$ 132,770	$ 74,815	31	55	***
June 30, 2025	$ 141,446	$ 89,085	30	48	***
July 31, 2025	$ 150,576	$ 89,619	31	52	
August 31, 2025	$ 150,809	$ 74,785	31	63	***
September 30, 2025	$ 166,278	$ 85,321	30	58	***
October 31, 2025	$ 148,508	$ 80,561	31	57	***
November 30, 2025	$ 150,650	$ 77,292	30	58	***
December 31, 2025	$ 145,407	$ 108,911	31	41	***

*** Result is greater than 45 days

Compliance Section

Wade Stables P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Martin County Sanitation District
Inez, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Martin County Sanitation District, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 15, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Martin County Sanitation 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Martin County Sanitation 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Martin County Sanitation 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2025-001 and 2025-002.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (Concluded)

Martin County Sanitation District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Martin County Sanitation District's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. Martin County Sanitation 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 the responses.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wade Stables P.C.

Wade Stables P.C.
Certified Public Accountants

June 15, 2026
Hannibal, Missouri

Findings – Financial Statement Audit

Compliance Findings

2025-001 - Payments Remitted in Accordance with State Statutes

Criteria:
Per KRS Statute 65.140, purchases must be paid within 30 days of receipt of an invoice for cities, counties and special purpose government entities.

Condition:
The District is not paying bills in accordance with KRS 65.140. At December 31, 2025, the District's total accounts payable balance was $405,370. Of this balance, invoices totaling $327,928 (80.90%) were 31 days or more outstanding at year end. $258,320 of these invoices were over 60 days outstanding, which includes several invoices (totaling $108,420) dating back to 2019 and 2020.

Cause:
The District did not have the funds available to meet their financial obligations.

Effect:
The District's ability to do business with vendors including those who provide parts and services for maintenance and repairs on the system has been affected and could greatly impact the public who depend on the District's ability to provide sanitation services.

Recommendation:
Procedures should be implemented to ensure financial obligations are timely fulfilled.

Views of Responsible Officials:
Management will work with vendors to make payment plans where necessary and work toward making payments within 30 days as required.

2025-002 – Debt Service Requirements

Criteria:
Per bond covenants, the District has agreed to maintain a Debt Reserve Fund and to make monthly deposits of a specified amount into this fund until the debt reserve requirement has been met.

Condition:
The District is not in compliance with bond covenants.

Cause:
The District did not deposit the required amounts into a Debt Reserve Fund during 2024.

Effect:
The District could be deemed in default due to failure of compliance.

Recommendation:
Procedures should be put in place to immediately begin making the required monthly deposits in order to fully fund the Debt Reserve Fund.

Views of Responsible Officials:
Management intends to begin making the required monthly deposits and fully fund the Debt Reserve account per bond covenants.