

Martin County Water District

Inez, Kentucky

Annual Financial Report

Years Ended December 31, 2025 and 2024

Martin County Water District

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December 31, 2025 and 2024

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Financial Section



Independent Auditors' Report

The Board of Directors
Martin County Water District
Inez, Kentucky

Opinion

We have audited the accompanying financial statements of the business-type activities of Martin County Water 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 Water 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 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 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.

Emphasis of Matter

As discussed in Note 16 to the financial statements, the District has suffered recurring operating losses and its debt service coverage ratio has been unfavorable for the past two years. Management's evaluation of the events and conditions and management's plans to mitigate those matters are described in Note 16. 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 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.

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 judgement 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 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 Martin 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, schedule of the District's proportionate share of net pension liability, and schedule of contributions 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 March 31, 2026, on our consideration of Martin 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 Martin 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 Martin County Water District's internal control over financial reporting and compliance.

Wade Stables P.C.
Wade Stables P.C.
Certified Public Accountants

March 31, 2026
Hannibal, Missouri

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2025**

As management of the Martin County Water 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 statements of net position provide 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 \$1,355,047 and ended the year at \$15,784,925.

Net position is comprised of Assets, Liabilities, and Deferred inflows of resources.

Total assets increased \$2,913,623 or 16.1% primarily due to increases in capital assets of \$1,358,104, current assets of \$201,557 and restricted assets of \$1,353,962. The increase in capital assets is mainly due to the purchase of five vehicles, and an increase of Construction in Progress. Additional information regarding capital assets is discussed in the capital assets section. The increase in current assets is primarily due to increases in unbilled revenue of \$73,609, cash of \$134,229, and prepaid expenses of \$6,004, offset by a decrease in accounts receivable of \$8,877 and inventory of \$3,408. The increase in cash is mainly the result of the approved invoices from the December board meeting that were made on the 9th of January 2026, while the increase to unbilled revenue is due to the timing of the December billing and the amount of December days of service not billed until January 2026. The increase in restricted assets is mainly due to the funds received for the Generator Project.

Total liabilities increased by \$1,558,576 or 42.4% primarily due to increases in long-term debt of \$1,342,539 and in current liabilities of \$216,129. The increase in long-term debt is related to the new Magnolia Lease and the Kentucky Farmers Bank Lease for Generators. The increase to current liabilities is mainly due to the increase in Accounts payable of \$175,497, and in the current portion of long-term debt of \$39,483.

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2025**

A summary of financial position follows:

	For The Years Ended December 31			2025	
	2025	2024	2023	Change	Percent Change
Assets:					
Current assets	\$ 970,120	\$ 768,563	\$ 600,316	\$ 201,557	26.2%
Restricted assets	1,493,288	139,326	158,152	1,353,962	971.8
Capital assets	18,554,827	17,196,723	16,749,860	1,358,104	7.9
Total assets	<u>21,018,235</u>	<u>18,104,612</u>	<u>17,508,328</u>	<u>2,913,623</u>	16.1
Liabilities:					
Current liabilities	1,220,964	1,004,835	1,915,984	216,129	21.5
Long term debt, net	4,012,346	2,669,807	1,547,403	1,342,539	50.3
Long term lease liability	-	92	6,102	(92)	-100.0
Total liabilities	<u>5,233,310</u>	<u>3,674,734</u>	<u>3,469,489</u>	<u>1,558,576</u>	42.4
Deferred Inflows:					
Deferred inflows of resources related to pensions	\$ -	\$ -	\$ 22,451	-	0.0
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>22,451</u>	<u>-</u>	0.0
Net Position:					
Net investment in capital assets	14,359,187	14,383,105	13,788,630	(23,918)	-0.2
Restricted for debt service	116,244	116,216	196,053	28	0.0
Restricted for management infrastructure	10,338	9,898	1,000	440	4.4
Restricted for capital projects	1,352,453	163	63	1,352,290	829625.8
Unrestricted	(53,297)	(79,504)	30,642	26,207	-33.0
Total net position	<u>\$ 15,784,925</u>	<u>\$14,429,878</u>	<u>\$ 14,016,388</u>	<u>\$1,355,047</u>	9.4%

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2025**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Total operating revenues increased by \$327,842 or 10.4% and totaled \$3,485,957 for the year. Water revenue, connection fees, late charge fees, and miscellaneous income increased \$337,330 from the prior year while debt service and water surcharges, and other fees decreased by \$9,488.

Total operating expenses decreased by \$40,679 or 1.1% and totaled \$3,801,068 for the year mainly due to the decrease of water purchased of \$46,595, offset by an increase in depreciation.

Non-operating expenses in 2025 increased by \$47,255 mainly due to an increase in interest expense of \$55,612 for the new lease purchases. This is slightly offset by decreases in Customer deposit interest of \$3,900, bond trustee fees of \$450, and Bond issuance costs of \$4,500.

Capital contributions totaled \$1,783,041 and includes \$225,000 for the KY 292 Water Line Replacement and \$1,186,000 for the meter project that is still in progress. This also includes \$371,250 for the RWI & WTP Rehabilitation Project that is also still in progress.

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2025**

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

	<u>For The Years Ended December 31</u>			<u>2025</u>	
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>Change</u>	<u>Percent Change</u>
Operating Revenues:					
Water sales	\$ 2,973,563	\$ 2,738,592	\$ 2,608,831	\$ 234,971	8.6%
Connection fees	21,368	18,076	26,543	3,292	18.2
Late charge fees	79,476	77,982	72,576	1,494	1.9
Debt service surcharge	103,204	104,009	104,847	(805)	-0.8
Water surcharge (MIS)	185,217	186,662	188,176	(1,445)	-0.8
Other fees	25,556	32,794	22,468	(7,238)	-22.1
Misc income	97,573	-	2,700	97,573	97573.0
Total operating revenues	<u>3,485,957</u>	<u>3,158,115</u>	<u>3,026,141</u>	<u>327,842</u>	<u>10.4</u>
Operating Expenses:					
Operating expenses	2,993,239	3,087,576	2,508,672	(94,337)	-3.1
Depreciation	807,829	754,171	790,096	53,658	7.1
Total operating expenses	<u>3,801,068</u>	<u>3,841,747</u>	<u>3,298,768</u>	<u>(40,679)</u>	<u>-1.1</u>
Net Operating Income	<u>(315,111)</u>	<u>(683,632)</u>	<u>(272,627)</u>	<u>368,521</u>	<u>(53.9)</u>
Non-operating Income (Expense)					
Interest expense	(117,423)	(61,811)	(103,266)	55,612	-90.0
Customer deposit interest expense	(3,787)	(7,687)	(88)	(3,900)	50.7
Bond trustee fees	(450)	(900)	(900)	(450)	50.0
Bond issuance costs	-	(4,500)	-	(4,500)	N/A
Gain (loss) on disposal of assets	-	-	(14,728)	-	N/A
Interest income	3,252	3,745	5,026	493	13.2
Total Non-operating income (expenses)	<u>(118,408)</u>	<u>(71,153)</u>	<u>(113,956)</u>	<u>47,255</u>	<u>-66.4</u>
Change in net position before contributions	<u>(433,519)</u>	<u>(754,785)</u>	<u>(386,583)</u>	<u>321,266</u>	<u>-42.6</u>
Capital grants and contributions	<u>1,783,041</u>	<u>1,168,275</u>	<u>311,760</u>	<u>614,766</u>	<u>52.6</u>
Change in net position	<u>1,349,522</u>	<u>413,490</u>	<u>(74,823)</u>	<u>936,032</u>	<u>226.4</u>
Net Position - Beginning	14,429,878	14,016,388	14,091,211	413,490	3.0
Prior Period Adjustment	-	-	-	-	N/A
Net Position - Ending	<u>\$ 15,779,400</u>	<u>\$ 14,429,878</u>	<u>\$ 14,016,388</u>	<u>\$1,349,522</u>	<u>9.40%</u>

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2025**

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. The District was able to make the required payments during 2025.

RESTRICTED ASSETS

Restricted assets were \$1,493,288 in 2025 compared to \$139,326 in 2024. The District's debt covenants specify the way 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 \$18,554,827 on December 31, 2025, compared to \$17,196,723 on December 31, 2024, which represents an increase of \$1,358,104. Capital asset additions in 2025 were \$674,380.63 and consisted of the Sester Branch Relocation, rehabilitation of four filters, and the purchase of five vehicles. Additions were offset by the depreciation expense of \$802,000.

LONG-TERM DEBT

As of December 31, 2025, the District had total long-term debt outstanding of \$4,181,297 of which \$183,294 is due in the next year.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District's change in overall financial position in 2025 increased by \$1,355,047 as compared to the 2024 overall increase of \$413,490. The District continually strives to improve its financial position.

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. Questions about this report or requests for additional information should be directed to the District Clerk (606-298-3885) at the District's office, 387 East Main Street, Inez, KY 41224.

Basic Financial Statements

Martin County Water District
 Statements of Net Position
 Years Ended December 31, 2025 and 2024

	2025	2024
Assets		
Current Assets		
Cash and cash equivalents	\$ 452,310	\$ 318,081
Accounts receivable (net)	297,265	306,142
Unbilled revenue	191,749	118,140
Prepaid expenses	13,714	7,710
Inventory	15,082	18,490
Total Current Assets	\$ 970,120	\$ 768,563
Restricted Assets		
Cash - Debt retirement	\$ 140,510	\$ 138,732
Cash - Grants	1,352,453	163
Accrued interest receivable	325	431
Total Restricted Assets	\$ 1,493,288	\$ 139,326
Capital Assets		
Water supply & distribution system	\$ 29,918,301	\$ 29,510,109
Buildings	575,264	575,264
Equipment & furniture	6,204,086	6,193,030
Vehicles & trailers	302,768	47,635
Land	214,714	214,714
Construction in progress	1,824,686	333,134
ROU leased asset	-	33,935
	\$ 39,039,819	\$ 36,907,821
Less: Accumulated depreciation	(20,484,992)	(19,682,688)
Less: Accumulated amortization ROU leased asset	-	(28,410)
Total Capital Assets	\$ 18,554,827	\$ 17,196,723
Total Assets	\$ 21,018,235	\$ 18,104,612

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

Martin County Water District
 Statements of Net Position (Concluded)
 Years Ended December 31, 2025 and 2024

	2025	2024
Liabilities		
Current Liabilities		
Accounts payable	\$ 889,689	\$ 714,192
Accrued interest	30,857	28,904
Accrued interest - leases	-	17
Sales tax payable	8,892	8,507
Customer deposits	108,232	103,394
Current portion of lease liability	-	6,010
Current portion of long-term debt	183,294	143,811
Total Current Liabilities	\$ 1,220,964	\$ 1,004,835
Long-Term Liabilities		
Long-term portion of debt (net)	\$ 4,012,346	\$ 2,669,807
Long-term portion of lease liability	-	92
Total Long-Term Liabilities	\$ 4,012,346	\$ 2,669,899
Total Liabilities	\$ 5,233,310	\$ 3,674,734
Net Position		
Net investment in capital assets	\$ 14,359,187	\$ 14,383,105
Restricted for debt retirement	116,244	116,216
Restricted for management infrastructure	10,338	9,898
Restricted for capital projects	1,352,453	163
Unrestricted	(53,297)	(79,504)
Total Net Position	\$ 15,784,925	\$ 14,429,878

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

Martin County Water DistrictStatements of Revenues and Expenses and Changes in Net Position
Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Operating Revenues		
Water sales	\$ 2,973,563	\$ 2,738,592
Connection fees	21,368	18,076
Late charge fees	79,476	77,982
Debt service surcharge	103,204	104,009
MIS water surcharge	185,217	186,662
Other fees	25,556	32,794
Miscellaneous income	97,573	-
Total Operating Revenues	<u>\$ 3,485,957</u>	<u>\$ 3,158,115</u>
Operating Expenses		
Management & operations contract	\$ 2,038,854	\$ 2,188,684
Water purchased	21	46,616
Pension expense	-	(22,451)
Utilities	284,422	278,114
Insurance	44,008	29,183
Repairs and maintenance	379,062	484,173
Outside services	2,400	407
Legal	135,468	13,195
Accounting	8,250	8,125
Bad debt	45,701	43,275
Dues & subscriptions	6,108	5,148
Office expense	7,672	6,402
Rental	4,365	25
Regulatory assessment fees	5,037	4,703
KY 811 services	1,938	1,917
Depreciation	802,304	744,701
Amortization - ROU lease assets	5,525	9,470
Miscellaneous	24,408	60
Total Operating Expenses	<u>\$ 3,795,543</u>	<u>\$ 3,841,747</u>
Operating Income (Expense)	<u>\$ (309,586)</u>	<u>\$ (683,632)</u>
Non-operating Income (Expense)		
Interest expense	\$ (117,423)	\$ (61,811)
Customer deposit interest expense	(3,787)	(7,687)
Bond trustee fees	(450)	(900)
Bond issuance costs	-	(4,500)
Interest income	3,252	3,745
Total Non-operating Income (Expense)	<u>\$ (118,408)</u>	<u>\$ (71,153)</u>
Change in Net Position before Contributions	<u>\$ (427,994)</u>	<u>\$ (754,785)</u>
Capital grants and contributions	1,783,041	1,168,275
Change in Net Position	<u>\$ 1,355,047</u>	<u>\$ 413,490</u>
Net Position - Beginning of Year	<u>14,429,878</u>	<u>14,016,388</u>
Net Position - Ending of Year	<u>\$ 15,784,925</u>	<u>\$ 14,429,878</u>

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

Martin County Water DistrictStatements of Cash Flows
Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 3,426,063	\$ 3,103,390
Other receipts		
Cash payments for goods and services	(2,814,428)	(2,750,937)
Net Cash Provided (Used) by Operating Activities	<u>\$ 611,635</u>	<u>\$ 352,453</u>
Cash Flows from Capital and Related Financing Activities		
Payments for capital assets	\$ (2,165,933)	\$ (1,201,034)
Principal repayments	(166,012)	(1,470,151)
Principal payments on lease liability	(6,102)	(9,870)
Proceeds from long term debt	1,548,788	1,323,623
Interest and other charges paid	(120,478)	(88,452)
Debt issuance costs paid	-	(4,500)
Capital grants	1,783,041	1,168,275
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ 873,304</u>	<u>\$ (282,109)</u>
Cash Flows from Investing Activities		
Interest received	\$ 3,358	\$ 3,881
Net Cash Provided (Used) by Investing Activities	<u>\$ 3,358</u>	<u>\$ 3,881</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,488,297	\$ 74,225
Cash and Cash Equivalents - Beginning of Year	456,976	382,751
Cash and Cash Equivalents - End of Year	<u>\$ 1,945,273</u>	<u>\$ 456,976</u>
Reconciliation of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 452,310	\$ 318,081
Restricted cash and cash equivalents		
Cash - Debt retirement	140,510	138,732
Cash - Grants	1,352,453	163
Total Cash and Cash Equivalents	<u>\$ 1,945,273</u>	<u>\$ 456,976</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ (309,586)	\$ (683,632)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	807,829	754,171
Change in assets and liabilities:		
Accounts receivable	8,877	12,215
Unbilled receivables	(73,609)	(71,207)
Inventory	3,408	(14,241)
Prepaid expenses	(6,004)	(2,099)
Accounts payable	175,497	375,886
Customer deposits	4,838	4,267
Sales tax payable	385	(456)
Net pension obligation	-	(22,451)
Net Cash Provided (Used) by Operating Activities	<u>\$ 611,635</u>	<u>\$ 352,453</u>

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

**Notes to
Financial Statements**

1) Summary of Significant Accounting Policies

The Martin County Water District (the District) was authorized by action of the Martin County Fiscal Court. The Martin County Water District Side A was formed December 1, 1962. On August 31, 1996, the Fiscal Court, with approval of the Kentucky Public Service Commission, merged Section A and B. 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 potable water directly 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 Water 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, each of which is considered a separate accounting entity. The operations of the District constitute the equivalent of an enterprise fund, and therefore, only this fund is presented. This fund consists of a separate set of self-balancing accounts that comprise its assets, liabilities, net position, 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 their activity are included on their statements of net position. Their reported fund equity (total net position) is segregated into net investment in capital assets, restricted for customer deposits, restricted for debt retirement, restricted for capital projects, and unrestricted components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net position.

Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method.

1) Summary of Significant Accounting Policies (Continued)

B) Capital Assets and Long-Term Liabilities (Concluded)

The District uses the midpoint of the depreciable life ranges recommended by the National Association of Regulatory Utility Commissioners. The estimated useful lives are as follows:

Cost of water/sewer system	5 - 50 years
Building	5 - 50 years
Office furniture and equipment	5 - 10 years
Vehicles	5 years

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 they are earned, and their expenses are recognized when they are 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 change 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

Inventory is priced at the lower of cost or market on a first-in, first-out (FIFO) basis or market value.

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 a maturity of less than three months from the date acquired by the District.

H) Operating and Non-Operating Income and Expenses

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.

1) Summary of Significant Accounting Policies (Concluded)

l) Pensions

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

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

As of December 31, 2025, the carrying amount of the District's deposits was \$1,945,273 and the bank balances totaled \$1,957,192. As of December 31, 2025, \$250,000 was covered by federal depository insurance, \$1,591,419 was collateralized with a letter of credit in First State Bank's name for the coverage of the District's deposit balances, and \$115,773 was deposited in institutional liquidity funds.

The institutional liquidity funds are invested in U.S. Government Agency money market funds. Due to the nature and liquidity of the government agency money market funds, they are considered cash equivalents on the Statements of Net Position and Statements of Cash Flows.

4) Accounts Receivable

Receivables are reported on the accompanying Statements of Net Position, net of an allowance for doubtful accounts, which amounted to \$36,500 and \$25,000 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.

5) Long-Term Debt

KACO

The District entered into a lease agreement with Kentucky Association of Counties (KACO) for \$200,000 to purchase vehicles and equipment. Payments accrue monthly, with a maturity date of 2025, and include a variable interest rate. The base rental interest rate is 4.25%.

Assistance Agreement (Loan) – KRW Series 2015E Refunding Bond

On May 12, 2015, the District entered into an Assistance Agreement (loan) with the Kentucky Rural Water Finance Corporation to refund existing revenue bonds totaling \$2,010,000. The debt bears interest ranging from 2.10% – 4.10% maturing on January 1, 2045. The original issue premium on the loan, totaling \$22,363, is presented as an increase in the face amount of the long-term debt payable and is being amortized using the straight-line method over the term of the debt. Amortization for the years ended December 31, 2025 and 2024, amounted to \$755 each year.

The District is obligated to make payments in amounts sufficient to satisfy the debt service. The collateral for the loan is service revenue.

5) Long-Term Debt (Continued)**Assistance Agreement (Loan) – KRW Series 2022B Revenue Bonds**

On April 20, 2022, the District entered into an Assistance Agreement (loan) with the Kentucky Rural Water Finance Corporation in the amount of \$1,110,000, to finance operations, maintenance, and improvements to the District's water system. The debt bears interest of 3.25%. No principal was due on the loan until the maturity date of February 1, 2024, at which time the principal balance was due in full. On February 1, 2024, the District entered into an Assistance Agreement with KIA. Funds received were used to pay the remaining balance of this loan on the due date. The original issue premium on the loan, totaling \$7,037, is presented as an increase in the face amount of the long-term debt payable and was amortized using the straight-line method over the term of the debt. Amortization for the year ended December 31, 2024, amounted to \$329. The premium became fully amortized during the year ended December 31, 2024.

Assistance Agreement (Loan) – KIA WMAF Loan

On February 1, 2024, the District entered into an Assistance Agreement (loan) with the Kentucky Infrastructure Authority (KIA) in the amount of \$1,323,623, for the purpose of consolidating outstanding debt. The interest rate on the loan is 0.00%. Principal payments are due monthly, beginning on March 1, 2024, with a maturity date of September 1, 2043. If certain conditions have been met, 50% of the loan principal outstanding as of July 1, 2027, will be forgiven, not to exceed \$661,812.

Magnolia Bank Equipment Lease Agreement

The District entered into a lease agreement with Magnolia Bank Incorporated for \$248,788 to purchase vehicles. The lease is due in 60 monthly installments of \$4,690.43, from July 20, 2025 through June 20, 2030. The interest rate is 4.89%.

KACO Generator Loan

The District was awarded a Hazard Mitigation Grant through Federal Emergency Management Agency (FEMA) in the amount of \$1,267,000 for a generator project. As this is a reimbursement grant, the District obtained a loan through Kentucky Association of Counties (KACO) in the amount of \$1,300,000 to fund the project. The loan bears an interest rate of 4.95% and is due in monthly interest only payments from May 20, 2025 through March 20, 2027. The full principal balance and remaining interest is due on April 20, 2027. However, the project is past the period of performance and the District is awaiting FEMA's decision as to whether the grant will be extended. As of December 31, 2025, \$40,815 has been spent on the project.

5) Long-Term Debt (Continued)

The following is a summary of outstanding debt as of December 31:

	<u>2025</u>	<u>2024</u>
Kentucky Association of Counties Equipment Lease		
\$200,000 variable rate lease due in annual installments of \$5,000 to \$15,000 from March 20, 2006 through 2025, base rental interest of 4.25%.	\$ -	\$ 11,222
Assistance Agreement (Loan) - KRW Series 2015E Refunding Bond		
\$2,010,000 loan due in yearly installments of \$30,000 to \$55,000 from January 2016 through January 2045, interest rates from 2.10% to 4.10%.	1,455,000	1,520,000
Assistance Agreement (Loan) - KIA WMAF		
\$1,323,623 Water Management Assistance Fund (WMAF) loan due in monthly installments of \$5,632 from March 1, 2024 through September 1, 2043, interest rate is 0.00%.	1,199,709	1,267,299
Magnolia Bank Equipment Lease		
\$248,788 lease due in 60 monthly installments of \$4,690.43, from July 20, 2025 through June 20, 2030, interest rate is 4.89%.	226,588	-
Kentucky Association of Counties Generator Note Payable		
\$1,300,000 note payable dated March 27, 2025, interest rate 5.35%. Monthly interest only payments due from May 20, 2025 through March 20, 2027. Full principal balance due on April 20, 2027.	1,300,000	-
Total Debt Payable	\$ 4,181,297	\$ 2,798,521
Add: Unamortized Premium	14,343	15,097
Less: Current Portion	<u>(183,294)</u>	<u>(143,811)</u>
Long-Term Portion of Debt Payable	<u>\$ 4,012,346</u>	<u>\$ 2,669,807</u>

5) Long-Term Debt (Concluded)

The following is a summary of long-term debt requirements as of December 31:

Year	Notes Payable		Lease Agreement	
	Principal	Interest	Principal	Interest
2026	\$ 137,589	\$ 124,188	\$ 45,705	\$ 9,833
2027	1,437,589	75,326	48,727	7,558
2028	142,589	50,040	51,113	5,172
2029	142,589	47,434	53,616	2,669
2030	147,589	44,644	27,427	358
2031-2035	767,946	176,416	-	-
2036-2040	727,946	93,275	-	-
2041-2045	450,872	27,778	-	-
	<u>\$ 3,954,709</u>	<u>\$ 639,101</u>	<u>\$ 226,588</u>	<u>\$ 25,590</u>

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

	<u>2025</u>	<u>2024</u>
Balance, Beginning	\$ 2,798,521	\$ 2,945,049
Additions	1,548,788	1,323,623
Retirements	(166,012)	(1,470,151)
Balance, Ending	<u>\$ 4,181,297</u>	<u>\$ 2,798,521</u>

6) Litigation

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

7) Concentration of Credit Risk

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

8) 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 and accrued interest receivable total \$1,493,288 and \$139,326 as of December 31, 2025 and 2024, respectively.

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

8) Restricted Assets and Net Position (Concluded)

Net Investment in Capital Assets

	<u>2025</u>	<u>2024</u>
Total capital assets	\$ 18,554,827	\$ 17,196,723
Less:		
Long-term portion of debt (net)	(4,012,346)	(2,669,807)
Current portion of long-term debt	<u>(183,294)</u>	<u>(143,811)</u>
Total net investment in capital assets	<u>\$ 14,359,187</u>	<u>\$ 14,383,105</u>

The bond issues contain covenants related to the maintenance of specific funds and the making of monthly payments to certain funds. The status of the various accounts was as follows at December 31:

Debt Retirement

	<u>2025</u>	<u>2024</u>
Sinking funds	\$ 139,487	\$ 137,708
Surcharge fund	6,266	5,958
Depreciation fund	<u>1,023</u>	<u>1,023</u>
Restricted cash and investments - Debt retirement	\$ 146,776	\$ 144,689
Add: Accrued interest receivable	325	431
Less: Payable from restricted assets Accrued interest	<u>(30,857)</u>	<u>(28,904)</u>
Restricted for debt retirement	<u>\$ 116,244</u>	<u>\$ 116,216</u>

A management infrastructure surcharge was authorized by the Kentucky Public Service Commission to fund payments to the District's management company. The status of the account was as follows at December 31:

Management Infrastructure

	<u>2025</u>	<u>2024</u>
Management infrastructure surcharge fund	<u>\$ 10,338</u>	<u>\$ 9,898</u>
Restricted for management infrastructure	<u>\$ 10,338</u>	<u>\$ 9,898</u>

Grant proceeds from the Appalachian Regional Commission are deposited into a grant fund to pay for improvements to the Martin County Water System. The status of the account was as follows at December 31:

Capital Projects

	<u>2025</u>	<u>2024</u>
Restricted cash - capital projects	<u>\$ 1,352,453</u>	<u>\$ 163</u>
Restricted for capital projects	<u>\$ 1,352,453</u>	<u>\$ 163</u>

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
Water Supply & Distribution System	\$ 29,510,109	\$ 408,192	\$ -	\$ 29,918,301
Buildings	575,264	-	-	575,264
Equipment & Furniture	6,193,030	11,056	-	6,204,086
Vehicles & Trailers	47,635	255,133	-	302,768
Land	214,714	-	-	214,714
Construction in Progress	333,134	1,491,854	(302)	1,824,686
ROU Leased Asset	33,935	-	(33,935)	-
	<u>36,907,821</u>	<u>2,166,235</u>	<u>(34,237)</u>	<u>39,039,819</u>
Accumulated Depreciation	(19,682,688)	(802,304)	-	(20,484,992)
Accumulated Amortization				
ROU Leased Asset	(28,410)	(5,525)	33,935	-
Total Capital Assets	<u><u>\$ 17,196,723</u></u>	<u><u>\$ 1,358,406</u></u>	<u><u>\$ (302)</u></u>	<u><u>\$ 18,554,827</u></u>

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

	Balance at January 1	Additions	Deductions	Balance at December 31
Water Supply & Distribution System	\$ 28,443,640	\$ 1,066,469	\$ -	\$ 29,510,109
Buildings	500,264	75,000	-	575,264
Equipment & Furniture	6,176,820	16,210	-	6,193,030
Vehicles & Trailers	47,635	-	-	47,635
Land	214,714	-	-	214,714
Construction in Progress	289,779	43,355	-	333,134
ROU Leased Asset	33,935	-	-	33,935
	<u>35,706,787</u>	<u>1,201,034</u>	<u>-</u>	<u>36,907,821</u>
Accumulated Depreciation	(18,937,987)	(744,701)	-	(19,682,688)
Accumulated Amortization				
ROU Leased Asset	(18,940)	(9,470)	-	(28,410)
Total Capital Assets	<u><u>\$ 16,749,860</u></u>	<u><u>\$ 446,863</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 17,196,723</u></u>

Depreciation expense for the years ended December 31, 2025 and 2024, amounted to \$802,304 and \$744,701, respectively.

10) Related Party Transactions

There were no related party transactions during the year ended December 31, 2025 and 2024.

11) Kentucky Infrastructure Authority Loan Forgiveness

On March 14, 2025, the District received a loan distribution from Kentucky Infrastructure Authority (KIA) in the amount of \$21,573 for a capital project. The full principal balance of this loan was forgiven by KIA and no interest was charged. The loan forgiveness of \$21,573 is recorded in capital contributions on the Statement of Revenues and Expenses and Changes in Net Position.

12) Grants

In August 2018, the District received a grant from the Appalachian Regional Commissioner (ARC) in the amount of \$1,200,000. The District intends to use the proceeds from this grant to improve the Martin County Water System. As of December 31, 2025, the District has used \$1,108,442 of these funds.

13) Pension Plan:***Plan Description:***

Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, 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 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 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, 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 CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending December 31, 2025, employers were required to contribute 19.83% of the member's salary. During the year ended December 31, 2025, the District contributed \$0 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

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

At December 31, 2025, the District reported a \$0 liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2025. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2024. An expected total pension liability as of June 30, 2025, was determined using standard roll-forward techniques. The District's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended December 31, 2025. At December 31, 2025, the District's proportion was 0.00%.

For the year ended December 31, 2025, the District recognized pension expense of \$0 related to CERS, resulting in the District reporting no deferred outflows of resources or deferred inflows of resources related to pensions.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. At December 31, 2025, the District does not expect to recognize pension expense over the next five years.

13) Pension Plan (Continued)

Actuarial Methods and Assumptions for Determining the Total Pension Liability and Net Pension Liability

The total pension liability, net pension liability, and sensitivity information as of June 30, 2025, were based on an actuarial valuation date of June 30, 2024. The total pension liability was rolled-forward from the valuation date (June 30, 2024) to the plan's fiscal year ending June 30, 2025, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2024.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2025:

Valuation Date	June 30, 2023
Experience Study	July 1, 2018 - June 30, 2023
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	30-year closed period at June 30, 2019 <i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases</i>
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.50%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.50%

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

13) Pension Plan (Concluded)

Long-Term Expected Rate of Return

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

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

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 that 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 rate of return of 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate:

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50%) or 1-percentage-point higher (7.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	5.50%	6.50%	7.50%
District's proportionate share of net pension liability	\$ -	\$ -	\$ -

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>.

Payables to the Pension Plan:

There are no payables to CERS at December 31, 2025.

14) 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 water system. The amount to be paid under the basic agreement for operating the water system is \$2,178,898 for the year ending December 31, 2026, with the compensation for the balance of the contract to be negotiated on an annual basis.

15) Leases (as Lessee)

The District entered into a three year lease agreement commencing on August 1, 2020, for its office space. The lease calls for monthly rental payments ranging from \$754 to \$848. The lease agreement automatically renewed through August 1, 2025. The District now leases its office space on a month-to-month basis.

16) Management Plans

Due to the continuing operating losses the District has experienced over 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:

- The District is in the process of a system-wide meter replacement project, funded by the Kentucky Infrastructure Authority. All the residential meters have been replaced for a total of 2,843 meters. The commercial meters are in the process of being replaced. As a result of the new meters, water sales have increased by \$234,971 or 8.6% in 2025. It is expected to increase by another 1.4% with the replacement of the commercial meters in 2026.
- The raw water intake project costs were expected to be reimbursed by Big Sandy Area Development District. This project remains incomplete and a lawsuit has been filed against Big Sandy in an effort to get these costs and additional expenses reimbursed.
- The District is expected to receive \$11.5M from the KY WWATERS program, once it passes through the KY Senate. If received, the funds will be used for the Route 292 booster station and waterline, the Devella pump station and line, tank repair and painting, and the District's debt service.
- The District continues to actively seek out funding for capital projects to improve the operations of the system.

17) Subsequent Events

Subsequent events have been considered through March 31, 2026, the date the financial statements were available to be issued.

Required Supplementary Information

Martin County Water District

Required Supplementary Information
 Schedule of the District's Proportionate Share of the Net Pension Liability
 December 31, 2025

	Reporting Fiscal Year (Measurement Date) 2025 (2024)	Reporting Fiscal Year (Measurement Date) 2024 (2023)	Reporting Fiscal Year (Measurement Date) 2023 (2022)	Reporting Fiscal Year (Measurement Date) 2022 (2021)	Reporting Fiscal Year (Measurement Date) 2021 (2020)	Reporting Fiscal Year (Measurement Date) 2020 (2019)	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)	Reporting Fiscal Year (Measurement Date) 2017 (2016)	Reporting Fiscal Year (Measurement Date) 2016 (2015)
County Employee's Retirement System:										
District's proportion of the net pension liability	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.02%	0.02%	0.03%	0.02%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,080,845	\$ 1,739,483	\$ 1,459,298	\$ 1,255,723	\$ 1,065,280
State's proportionate share of the net pension liability associated with the District	-	-	-	-	-	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,080,845</u>	<u>\$ 1,739,483</u>	<u>\$ 1,459,298</u>	<u>\$ 1,255,723</u>	<u>\$ 1,065,280</u>
District's covered-employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 599,725	\$ 588,225	\$ 693,688	\$ 593,711
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	162.86%	183.45%	216.29%	254.98%	260.60%	311.44%	290.05%	248.08%	181.02%	179.26%
Plan fiduciary net position as a percentage of the total pension liability	65.34%	61.61%	57.48%	52.42%	57.33%	47.81%	50.45%	53.54%	59.00%	59.97%

Note: Schedule is intended to show information for the last 10 fiscal years.

Martin County Water District
 Required Supplementary Information
 Schedule of Contributions
 December 31, 2025

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
County Employee's Retirement System:										
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 69,664	\$ 101,193	\$ 85,993	\$ 82,452	\$ 84,846
Contributions in relation to the contractually required contribution	-	-	-	-	-	69,664	101,193	85,993	82,452	84,846
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 599,725	\$ 588,225	\$ 574,250	\$ 693,688
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	16.23%	14.58%	14.36%	12.23%

Note: Schedule is intended to show information for the last 10 fiscal years.

Other Information

Martin County Water DistrictCalculation of Accounts Payable Turnover Ratios (Unaudited)
December 31, 2025

	<u>Net Credit Purchases</u>	<u>Accounts Payable</u>	<u>Average Accounts Payable</u>	<u>Accounts Payable Turnover Ratio</u>
January 1, 2025		\$ 714,192		
January 31, 2025	\$ 207,398	\$ 590,911	\$ 652,552	0.3178
February 28, 2025	\$ 377,518	\$ 770,723	\$ 680,817	0.5545
March 31, 2025	\$ 791,280	\$ 1,013,515	\$ 892,119	0.8870
April 30, 2025	\$ 659,482	\$ 880,463	\$ 946,989	0.6964
May 31, 2025	\$ 517,326	\$ 534,573	\$ 707,518	0.7312
June 30, 2025	\$ 253,283	\$ 573,675	\$ 554,124	0.4571
July 31, 2025	\$ 231,050	\$ 540,118	\$ 556,897	0.4149
August 31, 2025	\$ 272,279	\$ 665,101	\$ 602,610	0.4518
September 30, 2025	\$ 327,773	\$ 701,313	\$ 683,207	0.4798
October 31, 2025	\$ 309,417	\$ 575,250	\$ 638,282	0.4848
November 30, 2025	\$ 285,636	\$ 632,134	\$ 603,692	0.4731
December 31, 2025	\$ 430,686	\$ 889,689	\$ 760,912	0.5660

Martin County Water DistrictCalculation of Debt Service Coverage Ratios (Unaudited)
December 31, 2025

	<u>Annual Net Operating Income</u>	<u>Annual Debt Payments</u>	<u>Debt Service Coverage Ratio</u>
December 31, 2025	\$ (309,586)	\$ 284,140	-1.0896 **
December 31, 2024	\$ (683,632)	\$ 1,532,726	-0.4460 **
December 31, 2023	\$ (272,627)	\$ 242,020	-1.1265 **
December 31, 2022	\$ (45,818)	\$ 237,568	-0.1929 **
December 31, 2021	\$ (721,815)	\$ 210,339	-3.4317 **
December 31, 2020	\$ (690,720)	\$ 205,602	-3.3595 **

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

Martin County Water DistrictCalculation of Current Days' Sales in Accounts Receivable Ratios (Unaudited)
December 31, 2025

	<u>Monthly Accounts Receivable</u>	<u>Monthly Credit Sales Value</u>	<u>Number of Days in Month</u>	<u>Current Days' Sales in Accounts Receivable Ratio</u>	
January 31, 2025	\$ 366,138	\$ 295,692	31	38	
February 28, 2025	\$ 369,866	\$ 251,999	28	41	
March 31, 2025	\$ 352,528	\$ 240,112	31	46	***
April 30, 2025	\$ 352,654	\$ 250,799	30	42	
May 31, 2025	\$ 352,235	\$ 281,390	31	39	
June 30, 2025	\$ 336,768	\$ 272,720	30	37	
July 31, 2025	\$ 399,517	\$ 296,273	31	42	
August 31, 2025	\$ 376,844	\$ 265,853	31	44	
September 30, 2025	\$ 366,283	\$ 301,649	30	36	
October 31, 2025	\$ 367,300	\$ 290,834	31	39	
November 30, 2025	\$ 372,209	\$ 249,962	30	45	
December 31, 2025	\$ 333,765	\$ 360,509	31	29	

*** Result is greater than 45 days

Compliance Section

**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 Water 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 Water District (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 March 31, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Martin 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 Martin County Water 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 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 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, 2025-002, and 2025-003.

**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)**

District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Martin County Water District's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. Martin County Water District's responses were not subjected to the other 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 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.

Wade Stables P.C.

Wade Stables P.C.
Certified Public Accountants

March 31, 2026
Hannibal, Missouri

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 was not paying all bills according to KRS 65.140.

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 water system has been affected and could greatly impact the public who depend on the District's ability to provide a clean and safe water supply.

Recommendation:

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

Views of Responsible Officials:

Management will continue to work toward making payments within 30 days as required.

2025-002 – Debt Service Requirements

Criteria:

Per the KRW Series 2015 E Refunding Bond document, the District has covenanted to deposit in the Revenue Fund, promptly as received from time to time, all revenues of the system.

Condition:

The District is not in compliance with bond covenants.

Cause:

Although all revenues of the system were deposited into District bank accounts, the District did not deposit all revenues into the specified Revenue Fund.

Effect:

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

Recommendation:

Procedures should be put in place immediately to ensure all revenues of the system are first deposited into the Revenue Fund. The District should then transfer monthly from the Revenue Fund and deposit into the Operation and Maintenance Fund sums sufficient to meet the current expenses of operating and maintaining the system.

Views of Responsible Officials:

Management will make a plan to deposit all revenues of the system into the specified Revenue Fund per bond covenant.

Compliance Findings (Concluded)

2025-003 – Debt Service Requirements

Criteria:

Per the KRW Series 2015 E Refunding Bond document, the District should have a debt service coverage percentage of at least 120% of the average annual debt service requirements falling due in any fiscal year thereafter for principal of and interest on all the then outstanding bonds payable. If the District's debt service coverage percentage is below the required 120%, the District's rates should be increased by an amount sufficient to establish the existence of, or immediate projection of, the minimum 120% coverage.

Per the KIA WMAF Loan Assistance Agreement, the District should impose service charges adequate to pay at least the sum of the following for each such fiscal year: 110% of the debt service and administrative fees coming due during each such fiscal year of this loan and all other debt obligations and other indebtedness secured and payable from the revenues of the system, and the amounts required to provide for the operation of the system during each such fiscal year as required by the Assistance Agreement.

Condition:

The District is not in compliance with the bond and loan requirements.

Cause:

It was noted during the audit engagement that the District's debt service coverage percentage calculated at December 31, 2024, was below 120% as required by the bond document, and rates were not increased during the year ended December 31, 2025. The District's debt service coverage percentage calculated at December 31, 2025, for the Loan Assistance Agreement was below the required 110%. Service charges do not appear to be adequate to meet bond and loan requirements.

Effect:

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

Recommendation:

We recommend the District review the bond and loan documents and implement changes to the rates as applicable, following established guidelines and regulations.

Views of Responsible Officials:

Management will make a plan to establish the existence of, or immediate projection of, the minimum coverage required by the bond document and loan assistance agreement.