



SPECIAL CALLED

KIA BOARD MEETING

VIA ZOOM

MAY 21, 2026

KENTUCKY INFRASTRUCTURE AUTHORITY

**100 Airport Road, Third Floor
Frankfort, Kentucky 40601-3646**

TEAM 
KENTUCKY

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AGENDA

KENTUCKY INFRASTRUCTURE AUTHORITY SPECIAL CALLED BOARD MEETING

VIA ZOOM:

[KIA May 21, 2026 Special Called Board Meeting - ZOOM](#)

YouTube Live Stream: [Special Called KIA Board Meeting link](#)
www.kia.ky.gov

May 21, 2026

10:00 A.M. Eastern – 9:00 A.M. Central

- Confirmation of Press Notice
- Confirmation of Quorum
- Recognition of Members/Guests

I. BUSINESS (Board Action Required)

A. NEW PROJECTS / ACTION ITEMS

1. Consideration of terms for **KYWWATERS** projects identified for funding in **House Joint Resolution 81 (HJR81)** (Attachment I.A.1.) Mr. Rick Harris, KIA 7

II. ANNOUNCEMENTS/NOTIFICATIONS

Chair Matt Sawyers

1. Next KIA Board Meeting:
Tentatively: Thursday, June 11, 2026 1:00 p.m.

III. ADJOURN

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**Kentucky Water and Wastewater Assistance for Troubled or Economically Restrained Systems (KY WWATERS)
Scoring and Financing Recommendations**

Applicant	Project Name	WRIS Number	Funded in HJR 81	Financing Recommendation Debt Service Ratio	% of State MHI	Affordability Index	Project Category			
Qualifies for Grant										
			52,502,260	P & I	P / 0% I	50% P / 0% I	Grant			
City of Everts	New Water Treatment Plant Project	WX21095015	926,000	-0.37	-0.38	-0.45	-0.54	55.2	1.7%	Treatment Plant Construction
Martin County Water District	292 Booster Station & Water Line	WX21159034	964,850	0.31	0.31	0.34	0.37	75.4	1.6%	Infrastructure Rehab
Martin County Water District	Davella Pump Station & Line Replacement	WX21159035	6,471,900	0.15	0.16	0.22	0.37	75.4	1.6%	Infrastructure Rehab
Martin County Water District	Tank Repair & Painting	WX21159033	769,210	0.32	0.32	0.34	0.37	75.4	1.6%	Infrastructure Rehab
City of Martin	City of Martin - Flow Equalization Basin	SX21071023	514,800	-2.81	-2.88	-3.46	-4.34	46.6	2.0%	Infrastructure Rehab
City of Liberty	Liberty Wastewater Treatment Plant Improvements	SX21045007	12,563,000	0.59	0.61	0.80	1.15	48.6	2.1%	Treatment Plant Construction
City of Smithland	Smithland DBP Mitigation and System Improvements	WX21139044	1,164,665	N/A	N/A	N/A	N/A	93.0	1.1%	Infrastructure Rehab
City of Oak Grove	Hwy 115 North and Carneal Lane Waterline Extension	WX21047047	2,000,000	-0.69	-0.75	-1.50	0.00	77.1	0.9%	Line Extension
Martin County Sewer District	County Wide Lift Station Replacement	SX21159020	6,596,750	0.52	0.56	0.90	2.38	73.4	1.6%	Infrastructure Rehab
Martin County Sewer District	Inez Wastewater System Improvement	SX21159013	3,864,100	0.51	0.54	0.88	2.38	73.4	1.6%	Infrastructure Rehab
Qualifies for Grant - Repayment of Debt Service										
Martin County Water District	Debt Service	WX21159029	3,294,561	0.23	0.24	0.29	0.37	75.4	1.6%	Debt Service
Southern Water and Sewer District	WWATERS - SWS - Repayment of Debt	WX21071029	4,211,643	1.15	1.16	1.26	1.37	64.3	1.6%	Debt Service
City of Elkhorn City	WWATERS - Elkhorn City Debt Repayment	WX21195073	1,296,212	N/A	N/A	N/A	N/A	90.2	1.0%	Debt Service
Martin County Sewer District	Debt Service	SX21159021	2,169,799	1.20	1.24	1.63	2.38	73.4	1.6%	Debt Service
Qualifies for Loan with Principal and Interest										
Southern Water and Sewer District	Southern Water and Sewer Dist. Water Mains	WX21071013	3,106,890	1.19	1.21	1.28	1.37	64.3	1.6%	Line Replacement
Southern Water And Sewer District	Tank Replacement Project	WX21071021	900,500	1.31	1.31	1.34	1.37	64.3	1.6%	Infrastructure Rehab
Martin County Sewer District	Black Log Gravity Line Replacements	SX21159023	1,687,380	1.27	1.31	1.69	2.38	73.4	1.6%	Infrastructure Rehab
Martin County Sewer District	all 3 Construction Debt and Debt Repayment		12,148,230	0.44	0.47	0.90	N/A	73.4	1.6%	
Southern Water and Sewer District	both (2) Construction Debt and Debt Repayment		4,007,390	7.10	7.60	14.52	N/A	64.3	1.6%	

Martin County Water District

Inez, Kentucky

Annual Financial Report

Years Ended December 31, 2024 and 2023

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Financial Section



Independent Auditor's 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, 2024 and 2023, 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, 2024 and 2023, 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 Auditor's 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 15 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 also described in Note 15. 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 Auditor's Report (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional 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.

Independent Auditor's Report (Concluded)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2025, 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, 2025
Hannibal, Missouri

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2024**

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, 2024.

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 2024 increased by \$413,490 and ended the year at \$14,429,878.

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

Total assets increased \$596,000 or 3.4% primarily due to increases in capital assets of \$447,000, current assets of \$168,000 and a decrease in restricted assets of \$19,000. The increase in capital assets is mainly due to the recognition of donated assets. 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 \$71,000, cash of \$93,000, inventory of \$14,000, and prepaid expenses of \$2,000, offset by a decrease in accounts receivable of \$12,000. The increase in cash is mainly the result of the approved invoices from the December board meeting that were made on the 2nd of January 2025, 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 2025. The decrease in restricted assets is mainly due to decreases in the accounts associated with the Series 2022B Revenue Bond that matured in the first quarter of 2024.

Total liabilities increased by \$205,000 or 5.9% primarily due to increases in long-term debt of \$1,116,000, offset by a decrease in current liabilities of \$911,000. The increase in long-term debt is related to the new Kentucky Infrastructure Loan and the decrease to current liabilities is due to the payoff of the Series 2022 B Revenue Bond.

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2024**

Deferred inflows of resources related to pensions decreased by \$22,000. See Footnote 12 (page 21) of the audited financial statements for more information.

A summary of financial position follows:

	For The Years Ended December 31			2024	
	2024	2023	2022	Change	Percent Change
Assets:					
Current assets	\$ 768,563	\$ 600,316	\$ 687,050	\$ 168,247	28.0%
Restricted assets	139,326	158,152	196,643	(18,826)	-11.9
Capital assets	17,196,723	16,749,860	17,141,150	446,863	2.7
Total assets	18,104,612	17,508,328	18,024,843	596,284	3.4
Liabilities:					
Current liabilities	1,004,835	1,915,984	578,845	(911,149)	-47.6
Long term debt, net	2,669,807	1,547,403	2,965,937	1,122,404	72.5
Long term lease liability	92	6,102	15,971	(6,010)	-98.5
Total liabilities	3,674,734	3,469,489	3,560,753	205,245	5.9
Deferred Inflows:					
Deferred inflows of resources related to pensions	\$ -	\$ 22,451	\$ 372,879	(22,451)	-100.0
Total deferred inflows of resources	-	22,451	372,879	(22,451)	-100.0
Net Position:					
Net investment in capital assets	14,383,105	13,788,630	14,040,456	594,475	4.3
Restricted for debt service	116,216	196,053	199,705	(79,837)	-40.7
Restricted for management infrastructure	9,898	1,000	9,865	8,898	889.8
Restricted for capital projects	163	63	63	100	158.7
Unrestricted	(79,504)	30,642	(158,878)	(110,146)	-359.5
Total net position	\$ 14,429,878	\$14,016,388	\$ 14,091,211	\$ 413,490	3.0%

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2024**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Total operating revenues increased by \$132,000 or 4.4% and totaled \$3,158,000 for the year. Water revenue, other fees, and late charge fees increased \$146,000 from the prior year while connection fees, debt service and water surcharges, and miscellaneous income decreased by \$14,000.

Total operating expenses increased by \$543,000 or 16.5% and totaled \$3,841,000 for the year mainly due to the decrease in the credit for the pension expense for 2024 of \$22,000 as compared to the credit of \$350,000 in 2023 for a net change of \$328,000. Additionally, there is an increase of \$117,000 in the billback due to Alliance Water Resources for the repair and chemical cap overage, as well as increases in utilities, insurance, purchased water and district paid repairs and maintenance expenses.

There were more repairs than originally budgeted. As mentioned in the 2023 audit, the largest contributor to the increase is related to the delay in completing the raw water intake project. This is expected to be completed in the second quarter of 2025.

Non-operating expenses in 2024 decreased by \$43,000 mainly due to a decrease in interest expense of \$41,000 for paying off the Series 2022B Revenue Bond and replacing it with an interest-free loan. There were also decreases in interest income, which was offset by increases in bond issues costs and customer deposit interest.

Capital contributions totaled \$1,168,275 and include the addition of the Brookview apartments pump station valued at \$75,000 and the completion of the Beauty-Lovely line extensions funded through Big Sandy Area Development District in the amount of \$1,049,920. It also includes \$43,354 for the RWI & WTP Rehabilitation Project that is still in progress.

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2024**

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

	<u>For The Years Ended December 31</u>			<u>2024</u>	
	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>Change</u>	<u>Percent Change</u>
Operating Revenues:					
Water sales	\$ 2,738,592	\$ 2,608,831	\$ 2,542,610	\$ 129,761	5.0%
Connection fees	18,076	26,543	28,372	(8,467)	-31.9
Late charge fees	77,982	72,576	70,236	5,406	7.4
Debt service surcharge	104,009	104,847	105,780	(838)	-0.8
Water surcharge (MIS)	186,662	188,176	189,817	(1,514)	-0.8
Other fees	32,794	22,468	29,560	10,326	46.0
Misc income	-	2,700	395	(2,700)	-100.0
Total operating revenues	<u>3,158,115</u>	<u>3,026,141</u>	<u>2,966,770</u>	<u>131,974</u>	4.4
Operating Expenses:					
Operating expenses	3,087,576	2,508,672	2,215,975	578,904	23.1
Depreciation	754,171	790,096	796,613	(35,925)	-4.5
Total operating expenses	<u>3,841,747</u>	<u>3,298,768</u>	<u>3,012,588</u>	<u>542,979</u>	16.5
Net Operating Income	<u>(683,632)</u>	<u>(272,627)</u>	<u>(45,818)</u>	<u>(411,005)</u>	150.8
Non-operating Income (Expense)					
Interest expense	(61,811)	(103,266)	(102,107)	(41,455)	40.1
Customer deposit interest expense	(7,687)	(88)	(46)	7,599	-8635.2
Bond trustee fees	(900)	(900)	(450)	-	0.0
Bond issuance costs	(4,500)	-	(47,422)	4,500	N/A
Gain (loss) on disposal of assets	-	(14,728)	(10,432)	(14,728)	100.0
Interest income	3,745	5,026	2,060	1,281	25.5
Total Non-operating income (expenses)	<u>(71,153)</u>	<u>(113,956)</u>	<u>(158,397)</u>	<u>(42,803)</u>	37.6
Change in net position before contributions	<u>(754,785)</u>	<u>(386,583)</u>	<u>(808,526)</u>	<u>(368,202)</u>	95.2
Capital grants and contributions	<u>1,168,275</u>	<u>311,760</u>	<u>261,659</u>	<u>856,515</u>	274.7
Change in net position	413,490	(74,823)	(546,867)	488,313	-652.6
Net Position - Beginning	14,016,388	14,091,211	13,507,653	(74,823)	-0.5
Prior Period Adjustment	-	-	526,114	-	N/A
Net Position - Ending	<u>\$ 14,429,878</u>	<u>\$ 14,016,388</u>	<u>\$ 13,486,900</u>	<u>\$ 413,490</u>	3.00%

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2024**

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 2024.

RESTRICTED ASSETS

Restricted assets were \$139,326 in 2024 compared to \$158,152 in 2023. 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 \$17,196,723 on December 31, 2024, compared to \$16,749,860 on December 31, 2023, which represents an increase of \$446,000. Capital asset additions in 2024 were \$1,157,000 and consisted of Beauty/Lovely line extensions, Brookview apartments pumping station, meters, motor, and a chlorine analyzer, as well as \$43,000 of CIP for the RWI & WTP Rehabilitations. Additions were offset by the depreciation expense of \$754,000.

LONG-TERM DEBT

As of December 31, 2024, the District had total long-term debt outstanding of \$2,669,807 of which \$143,811 is due in the next year.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District's change in overall financial position in 2024 increased by \$413,490 as compared to the 2023 overall decrease of \$74,823. 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, 2024 and 2023

	2024	2023
Assets		
Current Assets		
Cash and cash equivalents	\$ 318,081	\$ 225,166
Accounts receivable (net)	306,142	318,357
Unbilled revenue	118,140	46,933
Prepaid expenses	7,710	5,611
Inventory	18,490	4,249
Total Current Assets	\$ 768,563	\$ 600,316
Restricted Assets		
Cash - Debt retirement	\$ 138,732	\$ 157,522
Cash - Grants	163	63
Accrued interest receivable	431	567
Total Restricted Assets	\$ 139,326	\$ 158,152
Capital Assets		
Water supply & distribution system	\$ 29,510,109	\$ 28,443,640
Buildings	575,264	500,264
Equipment & furniture	6,193,030	6,176,820
Vehicles & trailers	47,635	47,635
Land	214,714	214,714
Construction in progress	333,134	289,779
ROU leased asset	33,935	33,935
	\$ 36,907,821	\$ 35,706,787
Less: Accumulated depreciation	(19,682,688)	(18,937,987)
Less: Accumulated amortization ROU leased asset	(28,410)	(18,940)
Total Capital Assets	\$ 17,196,723	\$ 16,749,860
Total Assets	\$ 18,104,612	\$ 17,508,328

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, 2024 and 2023

	2024	2023
Liabilities		
Current Liabilities		
Accounts payable	\$ 714,192	\$ 338,306
Accrued interest	28,904	45,848
Accrued interest - leases	17	43
Sales tax payable	8,507	8,963
Customer deposits	103,394	99,127
Current portion of lease liability	6,010	9,870
Current portion of long-term debt	143,811	1,413,827
Total Current Liabilities	\$ 1,004,835	\$ 1,915,984
Long-Term Liabilities		
Long-term portion of debt (net)	\$ 2,669,807	\$ 1,547,403
Long-term portion of lease liability	92	6,102
Total Long-Term Liabilities	\$ 2,669,899	\$ 1,553,505
Total Liabilities	\$ 3,674,734	\$ 3,469,489
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	\$ -	\$ 22,451
Total Deferred Inflows of Resources	\$ -	\$ 22,451
Net Position		
Net investment in capital assets	\$ 14,383,105	\$ 13,788,630
Restricted for debt retirement	116,216	196,053
Restricted for management infrastructure	9,898	1,000
Restricted for capital projects	163	63
Unrestricted	(79,504)	30,642
Total Net Position	\$ 14,429,878	\$ 14,016,388

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

Martin County Water District
Statements of Revenues and Expenses and Changes in Net Position
Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Operating Revenues		
Water sales	\$ 2,738,592	\$ 2,608,831
Connection fees	18,076	26,543
Late charge fees	77,982	72,576
Debt service surcharge	104,009	104,847
MIS Water surcharge	186,662	188,176
Other fees	32,794	22,468
Miscellaneous income	-	2,700
Total Operating Revenues	<u>\$ 3,158,115</u>	<u>\$ 3,026,141</u>
Operating Expenses		
Management & operations contract	\$ 2,188,684	\$ 2,071,629
Water purchased	46,616	30,180
Pension expense	(22,451)	(350,428)
Utilities	278,114	228,442
Insurance	29,183	21,603
Repairs and maintenance	484,173	456,205
Outside services	407	663
Legal	13,195	7,950
Accounting	8,125	7,985
Bad debt	43,275	17,669
Dues & subscriptions	5,148	4,734
Office Expense	6,402	4,233
Rental	25	25
Regulatory assessment fees	4,703	3,863
KY 811 Services	1,917	2,036
Depreciation	744,701	780,626
Amortization - ROU lease assets	9,470	9,470
Miscellaneous	60	1,883
Total Operating Expenses	<u>\$ 3,841,747</u>	<u>\$ 3,298,768</u>
Operating Income (Expense)	<u>\$ (683,632)</u>	<u>\$ (272,627)</u>
Non-operating Income (Expense)		
Interest expense	\$ (61,811)	\$ (103,266)
Customer deposit interest expense	(7,687)	(88)
Bond trustee fees	(900)	(900)
Bond issuance costs	(4,500)	-
Gain (loss) on disposal of assets	-	(14,728)
Interest income	3,745	5,026
Total Non-operating Income (Expense)	<u>\$ (71,153)</u>	<u>\$ (113,956)</u>
Change in Net Position before Contributions	<u>\$ (754,785)</u>	<u>\$ (386,583)</u>
Capital grants and contributions	1,168,275	311,760
Change in Net Position	<u>\$ 413,490</u>	<u>\$ (74,823)</u>
Net Position - Beginning of Year	<u>14,016,388</u>	<u>14,091,211</u>
Net Position - Ending of Year	<u>\$ 14,429,878</u>	<u>\$ 14,016,388</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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 3,103,390	\$ 3,064,259
Cash payments for goods and services	(2,750,937)	(2,803,945)
Net Cash Provided (Used) by Operating Activities	<u>\$ 352,453</u>	<u>\$ 260,314</u>
Cash Flows from Capital and Related Financing Activities		
Payments for capital assets	\$ (1,201,034)	\$ (417,144)
Principal repayments	(1,470,151)	(134,757)
Principal payments on lease liability	(9,870)	(9,269)
Proceeds from long term debt	1,323,623	-
Interest and other charges paid	(88,452)	(109,164)
Proceeds from sale of assets	-	4,000
Expenses from sale of assets	-	(389)
Debt issuance costs paid	(4,500)	-
Capital grants	1,168,275	311,760
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (282,109)</u>	<u>\$ (354,963)</u>
Cash Flows from Investing Activities		
Interest received	\$ 3,881	\$ 4,920
Net Cash Provided (Used) by Investing Activities	<u>\$ 3,881</u>	<u>\$ 4,920</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 74,225	\$ (89,729)
Cash and Cash Equivalents - Beginning of Year	382,751	472,480
Cash and Cash Equivalents - End of Year	<u>\$ 456,976</u>	<u>\$ 382,751</u>
 Reconciliation of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 318,081	\$ 225,166
Restricted cash and cash equivalents		
Cash - Debt retirement	138,732	157,522
Cash - Grants	163	63
Total Cash and Cash Equivalents	<u>\$ 456,976</u>	<u>\$ 382,751</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ (683,632)	\$ (272,627)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	754,171	790,096
Change in assets and liabilities:		
Accounts receivable	12,215	(3,656)
Unbilled receivables	(71,207)	33,505
Inventory	(14,241)	(1,301)
Prepaid expenses	(2,099)	7,054
Accounts payable	375,886	48,691
Customer deposits	4,267	8,269
Sales tax payable	(456)	711
Net pension obligation	(22,451)	(350,428)
Net Cash Provided (Used) by Operating Activities	<u>\$ 352,453</u>	<u>\$ 260,314</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, 2024, the carrying amount of the District's deposits was \$456,976 and the bank balances totaled \$454,143. As of December 31, 2024, \$250,000 was covered by federal depository insurance, \$95,397 was collateralized with a letter of credit in First State Bank's name for the coverage of the District's deposit balances, and \$108,746 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 \$25,000 and \$20,000 as of December 31, 2024 and 2023, 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

KIA

The District obtained a loan in the amount of \$1,329,826 from the Kentucky Infrastructure Authority (KIA) to provide water to customers in the Martin County area. Payments accrue monthly, with a maturity date of June 2027, and interest rate of 3.00%. The collateral for the loan is service revenue. A new KIA loan was obtained on February 1, 2024, which was used to consolidate the District's debt and pay off the remaining balance of the existing loan.

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%.

5) Long-Term Debt (Continued)

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, 2024 and 2023, 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.

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 is being amortized using the straight-line method over the term of the debt. Amortization for the years ended December 31, 2024 and 2023, amounted to \$329 and \$3,952, respectively.

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.

5) Long-Term Debt (Continued)

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

	<u>2024</u>	<u>2023</u>
Kentucky Infrastructure Authority Loan \$1,329,826 loan due in monthly installments of \$5,620.58 from 1991 through June 2027, interest rate is 3.00%.	\$ -	\$ 223,827
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	26,222
Assistance Agreement (Loan) - KRW Series 2022B Revenue Bonds \$1,110,000 loan due in four interest payments beginning on August 1, 2022, at an interest rate of 3.25%, and one principal payment due on February 1, 2024.	-	1,110,000
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 at 2.10% to 4.10%.	1,520,000	1,585,000
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%.	<u>1,267,299</u>	<u>-</u>
Total Debt Payable	\$ 2,798,521	\$ 2,945,049
Add: Unamortized Premium	15,097	16,181
Less: Current Portion	<u>(143,811)</u>	<u>(1,413,827)</u>
Long-Term Portion of Debt Payable	<u>\$ 2,669,807</u>	<u>\$ 1,547,403</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
2025	\$ 132,589	56,731	\$ 11,222	208
2026	137,589	54,639	-	-
2027	137,589	52,425	-	-
2028	142,589	50,040	-	-
2029	142,589	47,434	-	-
2030-2034	757,945	192,474	-	-
2035-2039	737,945	109,359	-	-
2040-2044	543,464	39,158	-	-
2045	55,000	1,128	-	-
	<u>\$ 2,787,299</u>	<u>\$ 603,388</u>	<u>\$ 11,222</u>	<u>\$ 208</u>

The changes in long-term debt for the years ended December 31, 2024 and 2023, are as follows:

	<u>2024</u>	<u>2023</u>
Balance, Beginning	\$ 2,945,049	\$ 3,079,806
Additions	1,323,623	-
Retirements	<u>(1,470,151)</u>	<u>(134,757)</u>
Balance, Ending	<u>\$ 2,798,521</u>	<u>\$ 2,945,049</u>

6) Litigation

At December 31, 2024, 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 \$139,326 and \$158,152 as of December 31, 2024 and 2023, respectively.

As of December 31, 2024 and 2023, 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>2024</u>	<u>2023</u>
Total Capital Assets	\$ 17,196,723	\$ 16,749,860
Less:		
Long-term portion of debt (net)	(2,669,807)	(1,547,403)
Current portion of long-term debt	<u>(143,811)</u>	<u>(1,413,827)</u>
Total net investment in capital assets	<u>\$ 14,383,105</u>	<u>\$ 13,788,630</u>

The bond issues contain covenants relative 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>2024</u>	<u>2023</u>
Sinking funds	\$ 137,708	\$ 150,855
Surcharge fund	5,958	89,457
Depreciation fund	<u>1,023</u>	<u>1,022</u>
Restricted cash and investments - Debt retirement	\$ 144,689	\$ 241,334
Add: Accrued interest receivable	431	567
Less: Payable from restricted assets Accrued interest	<u>(28,904)</u>	<u>(45,848)</u>
Restricted for debt retirement	<u>\$ 116,216</u>	<u>\$ 196,053</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>2024</u>	<u>2023</u>
Management infrastructure surcharge fund	\$ 9,898	\$ 1,000
Restricted for management infrastructure	<u>\$ 9,898</u>	<u>\$ 1,000</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>2024</u>	<u>2023</u>
Restricted cash - capital projects	\$ 163	\$ 63
Restricted for capital projects	<u>\$ 163</u>	<u>\$ 63</u>

9) Capital Assets

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

	<u>Balance at January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at December 31</u>
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>

Capital assets during the year ended December 31, 2023, consisted of the following:

	<u>Balance at January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at December 31</u>
Water Supply & Distribution System	\$ 28,399,263	\$ 90,353	\$ (45,976)	\$ 28,443,640
Buildings	500,264	-	-	500,264
Equipment & Furniture	6,340,341	37,012	(200,533)	6,176,820
Vehicles & Trailers	138,773	-	(91,138)	47,635
Land	214,714	-	-	214,714
Construction in Progress	-	289,779	-	289,779
ROU Leased Asset	33,935	-	-	33,935
	<u>35,627,290</u>	<u>417,144</u>	<u>(337,647)</u>	<u>35,706,787</u>
Accumulated Depreciation	(18,476,670)	(780,626)	319,309	(18,937,987)
Accumulated Amortization ROU Leased Asset	(9,470)	(9,470)	-	(18,940)
Total Capital Assets	<u><u>\$ 17,141,150</u></u>	<u><u>\$ (372,952)</u></u>	<u><u>\$ (18,338)</u></u>	<u><u>\$ 16,749,860</u></u>

Depreciation expense for the years ended December 31, 2024 and 2023, amounted to \$744,701 and \$780,626, respectively.

10) Related Party Transactions

There were no related party transactions during the year ended December 31, 2024 and 2023.

11) 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, 2024, the District has used \$1,108,442 of these funds.

12) 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, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits Provided:

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

Contributions:

Funding for 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, 2024, employers were required to contribute 23.46% of the member's salary. During the year ended December 31, 2024, 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, 2024, 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, 2024. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2023. An expected total pension liability as of June 30, 2024, 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, 2024. At December 31, 2024, the District's proportion was 0.00%.

For the year ended December 31, 2024, the District recognized negative pension expense of \$(22,451) 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, 2024, the District does not expect to recognize pension expense over the next five years.

12) 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, 2024, were based on an actuarial valuation date of June 30, 2023. The total pension liability was rolled-forward from the valuation date (June 30, 2023) to the plan's fiscal year ending June 30, 2024, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2023.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2024:

Valuation Date	June 30, 2022
Experience Study	July 1, 2018 - June 30, 2022
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	2.30%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%

The mortality table used for active members is a PUB-2010 General Mortality table, projected with the ultimate rates from the MP-2014 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 2024. 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.

12) 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	60.00%	
Public Equity	50.00%	4.15%
Private Equity	10.00%	9.10%
Fixed Income	20.00%	
Core Fixed Income	10.00%	2.85%
Specialty Credit	10.00%	3.82%
Cash	0.00%	1.70%
Inflation Protected	20.00%	
Real Estate	7.00%	4.90%
Real Return	13.00%	5.35%
Expected Real Return	100.00%	4.69%
Long Term Inflation Assumption		2.50%
Expected Nominal Return for Portfolio		7.19%

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>
	5.50%	6.50%	7.50%
CERS 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, 2024.

13) 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 \$2,022,084 for the year ending December 31, 2025, with the compensation for the balance of the contract to be negotiated on an annual basis.

14) 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. So long as the District is not in default on August 1, 2023, the lease agreement will automatically be renewed. The District intends to automatically renew the lease through August 1, 2025.

The following is a schedule of future lease payments expected under the terms of the lease:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	<u>6,102</u>	<u>67</u>	<u>6,169</u>
Totals	<u>\$ 6,102</u>	<u>\$ 67</u>	<u>\$ 6,169</u>

15) 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. As a result of the new meters, management is anticipating a 10% increase in revenue for the budget year 2025.
- The raw water intake project costs are expected to be reimbursed by Big Sandy Area Development District. These funds, if received, will be used to eliminate outstanding payables to Alliance Water Resources. Additionally, the completion of this project in 2025 will eliminate the diesel pump rental and associated costs.
- A capital contribution from Big Sandy Area Development District of approximately \$79,000 is expected in 2025 to pay one of the vendor balances included in accounts payable as of December 31, 2024.
- The District continues to actively seek out funding for capital projects to improve the operations of the system.

16) Subsequent Events

Subsequent events have been considered through March 31, 2025, 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, 2024

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	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)	Reporting Fiscal Year (Measurement Date) 2015 (2014)
--	--	--	--	--	--	--	--	--	--	--

County Employee's Retirement System:

District's proportionate of the net pension liability 0.00% 0.00% 0.00% 0.00% 0.01% 0.02% 0.02% 0.03% 0.02% 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 \$ 750,000

State's proportionate share of the net pension liability associated with the District - - - - - - - - - -

Total \$ - \$ - \$ - \$ - \$ 1,080,845 \$ 1,739,483 \$ 1,459,298 \$ 1,255,723 \$ 1,065,280 \$ 750,000

District's covered-employee payroll \$ - \$ - \$ - \$ - \$ - \$ 599,725 \$ 588,225 \$ 693,688 \$ 593,711 \$ 559,494

District's proportionate share of the net pension liability as a percentage of its covered-employee payroll 183.45% 216.29% 254.98% 260.60% 311.44% 290.05% 248.08% 181.02% 179.26% 134.05%

Plan fiduciary net position as a percentage of the total pension liability 61.61% 57.48% 52.42% 57.33% 47.81% 50.45% 53.54% 59.00% 59.97% 66.80%

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, 2024

County Employee's Retirement System:	<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>	<u>2015</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ 69,664	\$ 101,193	\$ 85,993	\$ 82,452	\$ 84,846	\$ 104,892
Contributions in relation to the contractually required contribution	-	-	-	-	69,664	101,193	85,993	82,452	84,846	104,892
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	\$ 593,711
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	16.23%	14.58%	14.36%	12.23%	17.67%

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

Compliance Section



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

To the Board of 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, 2024, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements and have issued our report thereon dated March 31, 2025.

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 2024-001, 2024-002, and 2024-003.

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards* (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, 2025
Hannibal, Missouri

Compliance Findings

2024-001 – 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.

2024-002 – 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)

2024-003 – 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, 2023, was below 120% as required by the bond document, and rates were not increased during the year ended December 31, 2024. The District's debt service coverage percentage calculated at December 31, 2024, 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.

Martin County Water District

Inez, Kentucky

Annual Financial Report

Years Ended December 31, 2023 and 2022

Martin County Water District

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December 31, 2023 and 2022

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Financial Section



Independent Auditor's 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, 2023 and 2022, 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, 2023 and 2022, 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 Auditor's 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.

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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists.

Independent Auditor's Report (Continued)

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.

Independent Auditor's Report (Concluded)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2024, 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 22, 2024

Hannibal, Missouri

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

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, 2023.

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 2023 decreased by \$74,823 and ended the year at \$14,016,388.

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

Total assets decreased \$517,000 or 2.9% primarily due to decreases in capital assets of \$391,000, current assets of \$87,000, and restricted assets of \$39,000. The decrease in capital assets is mainly due to depreciation expense of \$790,000 exceeding net asset additions of \$79,000. The District inventoried capital assets and removed assets no longer in service. Additional information regarding capital assets is discussed in the capital assets section. The decrease in current assets is primarily due to decreases in unbilled revenue of \$34,000, cash of \$51,000, and prepaid expenses of \$7,000, offset by increases in accounts receivable of \$4,000 and inventory of \$1,000. The decrease in cash is mainly the result of an increase in vendor obligations during 2023. The decrease in restricted assets is mainly due to decreases in debt service reserves that were used to meet debt service requirements. Restricted cash is discussed in detail in the restricted assets section.

Total liabilities decreased by \$91,000 or 2.6% primarily due to decreases in long-term debt of \$1,428,000, offset by an increase in current liabilities of \$1,337,000. The decrease in long-term debt is related to principal payments made during the year, with most of the decrease being the \$1,100,000 principal balance due in 2024 for the 2022 Revenue Bond. Current liabilities increased by \$1,337,000 mainly because of the increase of \$1,280,000 in current maturities, with \$1,100,000 of that amount being for the 2022 Revenue Bond payment due in 2024, along with an increase of

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

\$49,000 in accounts payable due to increases in the payable to Sanitation offset by the decrease in the 2023 contract year-end billback due to Alliance Water Resources (AWR), and an increase in customer deposits of \$8,000.

Deferred inflows of resources related to pensions decreased by \$350,000. See Footnote 12 (page 20) of the audited financial statements for more information.

A summary of financial position follows:

	<u>For The Years Ended December 31</u>			<u>2023</u>	
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>Percent Change</u>
Assets:					
Current assets	\$ 600,316	\$ 687,050	\$ 714,436	\$ (86,734)	-12.6%
Restricted assets	158,152	196,643	131,434	(38,491)	-19.6
Capital assets	16,749,860	17,141,150	17,715,134	(391,290)	-2.3
Total assets	<u>17,508,328</u>	<u>18,024,843</u>	<u>18,561,004</u>	<u>(516,515)</u>	-2.9
Deferred Outflows:					
Deferred outflows of resources related to pensions	\$ -	\$ -	\$ 134,959	-	N/A
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>134,959</u>	<u>-</u>	N/A
Liabilities:					
Current liabilities	1,915,984	578,845	1,639,744	1,337,139	231.0
Long term debt, net	1,547,403	2,965,937	1,987,168	(1,418,534)	-47.8
Long term lease liability	6,102	15,971	-	(9,869)	-61.8
Net pension liability	-	-	1,080,845	-	N/A
Total liabilities	<u>3,469,489</u>	<u>3,560,753</u>	<u>4,707,757</u>	<u>(91,264)</u>	-2.6
Deferred Inflows:					
Deferred inflows of resources related to pensions	\$ 22,451	\$ 372,879	\$ 480,553	(350,428)	-94.0
Total deferred inflows of resources	<u>22,451</u>	<u>372,879</u>	<u>480,553</u>	<u>(350,428)</u>	-94.0
Net Position:					
Net investment in capital assets	13,788,630	14,040,456	15,594,973	(251,826)	-1.8
Restricted for debt service	196,053	199,705	105,137	(3,652)	-1.8
Restricted for management infrastructure	1,000	9,865	6,587	(8,865)	-89.9
Restricted for capital projects	63	63	63	-	0.0
Unrestricted	30,642	(158,878)	(2,199,107)	189,520	-119.3
Total net position	<u>\$ 14,016,388</u>	<u>\$14,091,211</u>	<u>\$ 13,507,653</u>	<u>\$ (74,823)</u>	-0.5%

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Total operating revenues increased by \$59,000 or 2.0% and totaled \$3,026,000 for the year. Water revenue and late charge fees increased \$69,000 from the prior year mainly due to the slight increase in gallons billed for 2023 as compared to 2022. Miscellaneous income increased by \$2,000 primarily due to the sale of scrap metal. This was offset by decreases in other fees of \$12,000.

Total operating expenses increased by \$286,000 or 9.5% and totaled \$3,299,000 for the year mainly due to the significant increase in repairs and maintenance of \$393,000, as well as increases in the recognition of pension expense, dues & subscriptions fees, and office expenses. This was offset by decreases in the contract year-end billback due to AWR, utilities, insurance, purchased water, legal, and bad debts.

There were more repairs on equipment in 2023 than originally budgeted. The largest contributor to the overage however was related to the delay in completing the raw water intake project. Specifically, the cart to raise and lower the intake pump has been delayed. The rental and maintenance on that pump is about \$9,000 a month. The cost of fuel to run the pump is \$4,000 per day. The costs to maintain temporary pumps to fill the reservoir was approximately \$30,000 per month in 2023.

Non-operating expenses in 2023 decreased by \$44,000 mainly due to there being no bond issue costs and an increase in interest income, offset by an increase in the loss recognized on disposed assets.

Capital contributions totaled \$311,760 and includes a reimbursement from the Big Sandy Area Development District in the amount of \$18,155 for a Variable Frequency Drive (VFD), \$289,477 for the RWI & WTP Rehabilitation Project, and \$4,128 for a Pressure Reducing Valve donated by AWR.

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

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

	<u>For The Years Ended December 31</u>			<u>2023</u>	
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>Percent Change</u>
Operating Revenues:					
Water sales	\$ 2,608,831	\$ 2,542,610	\$ 2,243,478	\$ 66,221	2.6%
Connection fees	26,543	28,372	17,612	(1,829)	-6.4
Late charge fees	72,576	70,236	58,575	2,340	3.3
Debt service surcharge	104,847	105,780	107,177	(933)	-0.9
Water surcharge (MIS)	188,176	189,817	192,369	(1,641)	-0.9
Other fees	22,468	29,560	39,575	(7,092)	-24.0
Misc income	2,700	395	161,982	2,305	583.5
Total operating revenues	<u>3,026,141</u>	<u>2,966,770</u>	<u>2,820,768</u>	<u>59,371</u>	2.0
Operating Expenses:					
Operating expenses	2,508,672	2,215,975	2,769,377	292,697	13.2
Depreciation	790,096	796,613	773,206	(6,517)	-0.8
Total operating expenses	<u>3,298,768</u>	<u>3,012,588</u>	<u>3,542,583</u>	<u>286,180</u>	9.5
Net Operating Income	<u>(272,627)</u>	<u>(45,818)</u>	<u>(721,815)</u>	<u>(226,809)</u>	495.0
Non-operating Income (Expense)					
Interest expense	(103,266)	(102,107)	(78,302)	1,159	-1.1
Customer deposit interest expense	(88)	(46)	(3,319)	42	-91.3
Bond trustee fees	(900)	(450)	(450)	450	-100.0
Bond issuance costs	-	(47,422)	-	(47,422)	100.0
Gain (loss) on disposal of assets	(14,728)	(10,432)	(4,752)	4,296	-41.2
Interest income	5,026	2,060	112	(2,966)	-144.0
Total Non-operating income (expenses)	<u>(113,956)</u>	<u>(158,397)</u>	<u>(86,711)</u>	<u>(44,441)</u>	28.1
Change in net position before contributions	<u>(386,583)</u>	<u>(204,215)</u>	<u>(808,526)</u>	<u>(182,368)</u>	89.3
Capital grants and contributions	<u>311,760</u>	<u>261,659</u>	<u>566,983</u>	<u>50,101</u>	19.1
Change in net position	<u>(74,823)</u>	<u>57,444</u>	<u>(241,543)</u>	<u>(132,267)</u>	-230.3
Net Position - Beginning	14,091,211	13,507,653	13,749,196	583,558	4.3
Prior Period Adjustment	<u>-</u>	<u>526,114</u>	<u>-</u>	<u>(526,114)</u>	-100.0
Net Position - Ending	<u>\$ 14,016,388</u>	<u>\$ 14,091,211</u>	<u>\$ 13,507,653</u>	<u>\$ (74,823)</u>	-0.50%

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

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 successfully accomplished that objective during 2023.

RESTRICTED ASSETS

Restricted assets were \$158,152 in 2023 compared to \$196,643 in 2022. 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 \$16,749,860 on December 31, 2023, compared to \$17,141,150 on December 31, 2022, which represents a decrease of \$391,000 or 2.3%. Capital asset additions in 2023 were \$417,144 and consisted of the RWI & WTP Rehabilitation, check valve, Davella Station pump motor, VFDs, meters, and customer TAPs. Additions were offset by the retirement of numerous items (including a booster station, pumps, chlorinators, air compressors, various office furniture, vehicles, and radios) and depreciation expense of \$790,096.

LONG-TERM DEBT

The District paid principal payments of \$134,757 during the fiscal year. As of December 31, 2023, the District had a total long-term debt outstanding of \$2,945,049 of which \$1,413,827 is due in the next year.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District's change in overall financial position in 2023 decreased by \$74,823 as compared to the 2022 overall increase of \$583,558. 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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 225,166	\$ 276,298
Accounts receivable (net)	318,357	314,701
Unbilled revenue	46,933	80,438
Prepaid expenses	5,611	12,665
Inventory	4,249	2,948
Total Current Assets	<u>\$ 600,316</u>	<u>\$ 687,050</u>
Restricted Assets		
Cash - Debt retirement	\$ 157,522	\$ 196,119
Cash - Grants	63	63
Accrued interest receivable	567	461
Total Restricted Assets	<u>\$ 158,152</u>	<u>\$ 196,643</u>
Capital Assets		
Water supply & distribution system	\$ 28,443,640	\$ 28,399,263
Buildings	500,264	500,264
Equipment & furniture	6,176,820	6,340,341
Vehicles & trailers	47,635	138,773
Land	214,714	214,714
Construction in progress	289,779	-
ROU leased asset	33,935	33,935
	<u>\$ 35,706,787</u>	<u>\$ 35,627,290</u>
Less: Accumulated depreciation	(18,937,987)	(18,476,670)
Less: Accumulated amortization ROU leased asset	(18,940)	(9,470)
Total Capital Assets	<u>\$ 16,749,860</u>	<u>\$ 17,141,150</u>
Total Assets	<u>\$ 17,508,328</u>	<u>\$ 18,024,843</u>

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, 2023 and 2022

	2023	2022
Liabilities		
Current Liabilities		
Accounts payable	\$ 338,306	\$ 289,615
Accrued interest	45,848	46,026
Accrued interest - leases	43	68
Sales tax payable	8,963	8,252
Customer deposits	99,127	90,858
Current portion of lease liability	9,870	9,269
Current portion of long-term debt	1,413,827	134,757
Total Current Liabilities	\$ 1,915,984	\$ 578,845
Long-Term Liabilities		
Long-term portion of debt (net)	\$ 1,547,403	\$ 2,965,937
Long-term portion of lease liability	6,102	15,971
Total Long-Term Liabilities	\$ 1,553,505	\$ 2,981,908
Total Liabilities	\$ 3,469,489	\$ 3,560,753
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	\$ 22,451	\$ 372,879
Total Deferred Inflows of Resources	\$ 22,451	\$ 372,879
Net Position		
Net investment in capital assets	\$ 13,788,630	\$ 14,040,456
Restricted for debt retirement	196,053	199,705
Restricted for management infrastructure	1,000	9,865
Restricted for capital projects	63	63
Unrestricted	30,642	(158,878)
Total Net Position	\$ 14,016,388	\$ 14,091,211

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

Martin County Water District
Statements of Revenues and Expenses and Changes in Net Position
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Water sales	\$ 2,608,831	\$ 2,542,610
Connection fees	26,543	28,372
Late charge fees	72,576	70,236
Debt service surcharge	104,847	105,780
MIS Water surcharge	188,176	189,817
Other fees	22,468	29,560
Miscellaneous income	2,700	395
Total Operating Revenues	<u>\$ 3,026,141</u>	<u>\$ 2,966,770</u>
Operating Expenses		
Management & operations contract	\$ 2,071,629	\$ 2,132,734
Water purchased	30,180	74,988
Pension expense	(350,428)	(527,446)
Utilities	228,442	375,997
Insurance	21,603	34,932
Repairs and maintenance	456,205	63,171
Outside services	663	630
Legal	7,950	10,000
Accounting	7,985	7,950
Bad debt	17,669	30,948
Dues & subscriptions	4,734	3,149
Office Expense	4,233	2,676
Rental	25	25
Regulatory assessment fees	3,863	4,214
KY 811 Services	2,036	1,273
Depreciation	780,626	787,143
Amortization - ROU lease assets	9,470	9,470
Miscellaneous	1,883	734
Total Operating Expenses	<u>\$ 3,298,768</u>	<u>\$ 3,012,588</u>
Operating Income (Expense)	<u>\$ (272,627)</u>	<u>\$ (45,818)</u>
Non-operating Income (Expense)		
Interest expense	\$ (103,266)	\$ (102,107)
Customer deposit interest expense	(88)	(46)
Bond trustee fees	(900)	(450)
Bond issuance costs	-	(47,422)
Gain (loss) on disposal of assets	(14,728)	(10,432)
Interest income	5,026	2,060
Total Non-operating Income (Expense)	<u>\$ (113,956)</u>	<u>\$ (158,397)</u>
Change in Net Position before Contributions	<u>\$ (386,583)</u>	<u>\$ (204,215)</u>
Capital grants and contributions	311,760	261,659
Change in Net Position	<u>\$ (74,823)</u>	<u>\$ 57,444</u>
Net Position - Beginning of Year	14,091,211	13,507,653
Prior Period Adjustment	-	526,114
Net Position - Ending of Year	<u>\$ 14,016,388</u>	<u>\$ 14,091,211</u>

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

Martin County Water District

Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 3,064,259	\$ 2,986,678
Cash payments for goods and services	(2,803,945)	(3,847,197)
Net Cash Provided (Used) by Operating Activities	<u>\$ 260,314</u>	<u>\$ (860,519)</u>
Cash Flows from Capital and Related Financing Activities		
Payments for capital assets	\$ (417,144)	\$ (199,126)
Principal repayments	(134,757)	(132,993)
Principal payments on lease liability	(9,269)	(8,695)
Proceeds from long term debt	-	1,110,000
Interest and other charges paid	(109,164)	(81,134)
Proceeds from sale of assets	4,000	-
Expenses from sale of assets	(389)	-
Debt issuance costs paid	-	(47,422)
Capital grants	311,760	261,659
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (354,963)</u>	<u>\$ 902,289</u>
Cash Flows from Investing Activities		
Interest received	\$ 4,920	\$ 1,601
Net Cash Provided (Used) by Investing Activities	<u>\$ 4,920</u>	<u>\$ 1,601</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (89,729)	\$ 43,371
Cash and Cash Equivalents - Beginning of Year	<u>472,480</u>	<u>429,109</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 382,751</u></u>	<u><u>\$ 472,480</u></u>
 Reconciliation of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 225,166	\$ 276,298
Restricted cash and cash equivalents		
Cash - Debt retirement	157,522	196,119
Cash - Grants	63	63
Total Cash and Cash Equivalents	<u><u>\$ 382,751</u></u>	<u><u>\$ 472,480</u></u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ (272,627)	\$ (45,818)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	790,096	796,613
Change in assets and liabilities:		
Accounts receivable	(3,656)	(965)
Unbilled receivables	33,505	12,124
Inventory	(1,301)	2,609
Prepaid expenses	7,054	(7,761)
Accounts payable	48,691	(1,099,925)
Customer deposits	8,269	8,749
Sales tax payable	711	1,301
Net pension obligation	(350,428)	(527,446)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 260,314</u></u>	<u><u>\$ (860,519)</u></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, 2023, the carrying amount of the District's deposits was \$382,751 and the bank balances totaled \$536,445. As of December 31, 2023, \$250,000 was covered by federal depository insurance, \$126,660 was collateralized with a letter of credit in First State Bank's name for the coverage of the District's deposit balances, and \$159,785 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 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 \$28,000 and \$20,000 as of December 31, 2023 and 2022, 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

KIA

The District obtained a loan in the amount of \$1,329,826 from the Kentucky Infrastructure Authority (KIA) to provide water to customers in the Martin County area. Payments accrue monthly, with a maturity date of June 2027, and interest rate of 3.00%. The collateral for the loan is service revenue.

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%.

5) Long-Term Debt (Continued)

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, 2023 and 2022, 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.

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 is due on the loan until the maturity date of February 1, 2024, at which time the principal balance is due in full. 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 is being amortized using the straight-line method over the term of the debt. Amortization for the years ended December 31, 2023 and 2022, amounted to \$3,952 and \$2,756, respectively.

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

	<u>2023</u>	<u>2022</u>
Kentucky Infrastructure Authority Loan		
\$1,329,826 loan due in monthly installments of \$5,620.58 from 1991 through June 2027, interest rate is 3.00%.	\$ 223,827	\$ 283,584
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%.	26,222	41,222
Assistance Agreement (Loan) - KRW Series 2022B Revenue Bonds		
\$1,110,000 loan due in four interest payments beginning on August 1, 2022, at an interest rate of 3.25%, and one principal payment due on February 1, 2024.	1,110,000	1,110,000
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 at 2.10% to 4.10%.	<u>1,585,000</u>	<u>1,645,000</u>
Total Debt Payable	\$ 2,945,049	\$ 3,079,806
Add: Unamortized Premium	16,181	20,888
Less: Current Portion	<u>(1,413,827)</u>	<u>(134,757)</u>
Long-Term Portion of Debt Payable	<u>\$ 1,547,403</u>	<u>\$ 2,965,937</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
2024	\$ 1,398,827	\$ 89,346	\$ 15,000	\$ 1,046
2025	65,000	56,731	11,222	208
2026	70,000	54,639	-	-
2027	70,000	52,425	-	-
2028	75,000	50,040	-	-
2029-2033	405,000	207,855	-	-
2034-2038	415,000	125,729	-	-
2039-2043	310,000	51,458	-	-
2044-2045	110,000	4,511	-	-
	<u>\$ 2,918,827</u>	<u>\$ 692,734</u>	<u>\$ 26,222</u>	<u>\$ 1,254</u>

The changes in long-term debt for the years ended December 31, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Balance, Beginning	\$ 3,079,806	\$ 2,102,799
Additions	-	1,110,000
Retirements	<u>(134,757)</u>	<u>(132,993)</u>
Balance, Ending	<u>\$ 2,945,049</u>	<u>\$ 3,079,806</u>

6) Litigation

At December 31, 2023, 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 \$158,152 and \$196,643 as of December 31, 2023 and 2022, respectively.

As of December 31, 2023 and 2022, 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>2023</u>	<u>2022</u>
Total Capital Assets	\$ 16,749,860	\$ 17,141,150
Less:		
Long-term portion of debt (net)	(1,547,403)	(2,965,937)
Current portion of long-term debt	<u>(1,413,827)</u>	<u>(134,757)</u>
Total net investment in capital assets	<u>\$ 13,788,630</u>	<u>\$ 14,040,456</u>

The bond issues contain covenants relative 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>2023</u>	<u>2022</u>
Sinking funds	\$ 150,855	\$ 189,617
Surcharge fund	89,457	54,631
Depreciation fund	<u>1,022</u>	<u>1,022</u>
Restricted cash and investments - Debt retirement	241,334	245,270
Add: Accrued interest receivable	567	461
Less: Payable from restricted assets Accrued interest	<u>(45,848)</u>	<u>(46,026)</u>
Restricted for debt retirement	<u>\$ 196,053</u>	<u>\$ 199,705</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>2023</u>	<u>2022</u>
Management infrastructure surcharge fund	<u>\$ 1,000</u>	<u>\$ 9,865</u>
Restricted for management infrastructure	<u>\$ 1,000</u>	<u>\$ 9,865</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>2023</u>	<u>2022</u>
Restricted cash - capital projects	<u>\$ 63</u>	<u>\$ 63</u>
Restricted for capital projects	<u>\$ 63</u>	<u>\$ 63</u>

9) Capital Assets

Capital assets during the year ended December 31, 2023, consisted of the following:

	Balance at January 1	Additions	Deductions	Balance at December 31
Water Supply & Distribution System	\$ 28,399,263	\$ 90,353	\$ (45,976)	\$ 28,443,640
Buildings	500,264	-	-	500,264
Equipment & Furniture	6,340,341	37,012	(200,533)	6,176,820
Vehicles & Trailers	138,773	-	(91,138)	47,635
Land	214,714	-	-	214,714
Construction in Progress	-	289,779	-	289,779
ROU Leased Asset	33,935	-	-	33,935
	<u>35,627,290</u>	<u>417,144</u>	<u>(337,647)</u>	<u>35,706,787</u>
Accumulated Depreciation	(18,476,670)	(780,626)	319,309	(18,937,987)
Accumulated Amortization ROU Leased Asset	(9,470)	(9,470)	-	(18,940)
Total Capital Assets	<u><u>\$ 17,141,150</u></u>	<u><u>\$ (372,952)</u></u>	<u><u>\$ (18,338)</u></u>	<u><u>\$ 16,749,860</u></u>

Capital assets during the year ended December 31, 2022, consisted of the following:

	Balance at January 1	Additions	Deductions	Balance at December 31
Water Supply & Distribution System	\$ 28,206,274	\$ 192,989	\$ -	\$ 28,399,263
Buildings	500,264	-	-	500,264
Equipment & Furniture	6,369,882	12,374	(41,915)	6,340,341
Vehicles & Trailers	138,773	-	-	138,773
Land	214,714	-	-	214,714
Construction in Progress	6,237	133,986	(140,223)	-
ROU Leased Asset	-	33,935	-	33,935
	<u>35,436,144</u>	<u>373,284</u>	<u>(182,138)</u>	<u>35,627,290</u>
Accumulated Depreciation	(17,721,010)	(787,143)	31,483	(18,476,670)
Accumulated Amortization ROU Leased Asset	-	(9,470)	-	(9,470)
Total Capital Assets	<u><u>\$ 17,715,134</u></u>	<u><u>\$ (423,329)</u></u>	<u><u>\$ (150,655)</u></u>	<u><u>\$ 17,141,150</u></u>

Depreciation expense for the years ended December 31, 2023 and 2022, amounted to \$780,626 and \$787,143, respectively.

10) Related Party Transactions

There were no related party transactions during the year ended December 31, 2023 and 2022.

11) 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, 2023, the District has used \$1,108,442 of these funds.

12) 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, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits Provided:

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

Contributions:

Funding for 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, 2023, employers were required to contribute 23.52% of the member's salary. During the year ended December 31, 2023, 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, 2023, 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, 2023. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2022. An expected total pension liability as of June 30, 2022, 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, 2023. At December 31, 2023, the District's proportion was 0.00%.

For the year ended December 31, 2023, the District recognized negative pension expense of \$(350,428) related to CERS. At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	22,451
Total	\$ -	\$ 22,451

12) Pension Plan (Continued)

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. These will be recognized in pension expense as follows:

<u>Year Ended</u>	
2024	\$ (22,451)
2025	-
2026	-
2027	-
2028	-
	<u>\$ (22,451)</u>

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, 2023, were based on an actuarial valuation date of June 30, 2022. The total pension liability was rolled-forward from the valuation date (June 30, 2022) to the plan’s fiscal year ending June 30, 2023, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2022.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2023:

Valuation Date	June 30, 2021
Experience Study	July 1, 2018 - June 30, 2022
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	2.30%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%

The mortality table used for active members is a PUB-2010 General Mortality table, projected with the ultimate rates from the MP-2014 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.

12) 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	60.00%	
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
Fixed Income	20.00%	
Core Fixed Income	10.00%	2.45%
Specialty Credit	10.00%	3.65%
Cash	0.00%	1.39%
Inflation Protected	20.00%	
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
Expected Real Return	100.00%	5.75%
Long Term Inflation Assumption		2.50%
Expected Nominal Return for Portfolio		8.25%

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, 2023.

13) 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 \$2,022,084 for the year ending December 31, 2024, with the compensation for the balance of the contract to be negotiated on an annual basis.

14) 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. So long as the District is not in default on August 1, 2023, the lease agreement will automatically be renewed. The District intends to automatically renew the lease through August 1, 2025.

The following is a schedule of future lease payments expected under the terms of the lease:

Year	Principal	Interest	Total
2024	\$ 9,870	\$ 374	\$ 10,244
2025	6,102	67	6,169
Totals	<u>\$ 15,972</u>	<u>\$ 441</u>	<u>\$ 16,413</u>

15) Prior Period Adjustment

A prior period adjustment was necessary in order to properly reflect the District's deferred outflows and deferred inflows of resources related to pensions and net pension liability as a result of the Kentucky Retirement Systems reports not being available to present updated pension information in the 2021 audited financial statements. Deferred outflows of resources related to pensions was decreased by \$129,545, deferred inflows of resources related to pensions was increased by \$425,186, and net pension liability decreased by \$1,080,845 in order to adjust balances for the changes occurring during the year ended December 31, 2021. These changes resulted in a net prior period adjustment of \$526,114, which is shown in the Statement of Revenues and Expenses and Changes in Net Position.

16) Subsequent Events

In January 2024, the District received a new loan through Kentucky Infrastructure Authority (KIA) for the purpose of consolidating outstanding debt. The loan amount was \$1,323,623, with a maturity date of September 1, 2043, and an interest rate of 0.00%. The proceeds were used to pay off the District's previous KIA loan and KRW Series 2022B Revenue Bonds.

Subsequent events have been considered through March 22, 2024, 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, 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)	Reporting Fiscal Year (Measurement Date) 2015 (2014)
County Employee's Retirement System:									
District's proportion of the net pension liability	0.00%	0.00%	0.00%	0.01%	0.02%	0.02%	0.03%	0.02%	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	\$ 750,000
State's proportionate share of the net pension liability associated with the District	-	-	-	-	-	-	-	-	-
Total	<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>	<u>\$ 750,000</u>
District's covered-employee payroll	\$ -	\$ -	\$ -	\$ -	\$ 599,725	\$ 588,225	\$ 693,688	\$ 593,711	\$ 559,494
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	216.29%	254.98%	260.60%	311.44%	290.05%	248.08%	181.02%	179.26%	134.05%
Plan fiduciary net position as a percentage of the total pension liability	57.48%	52.42%	57.33%	47.81%	50.45%	53.54%	59.00%	59.97%	66.80%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Martin County Water District
 Required Supplementary Information
 Schedule of Contributions
 December 31, 2023

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
County Employee's Retirement System:										
Contractually required contribution	\$ -	\$ -	\$ -	\$ 69,664	\$ 101,193	\$ 85,993	\$ 82,452	\$ 84,846	\$ 104,892	\$ 97,385
Contributions in relation to the contractually required contribution	-	-	-	69,664	101,193	85,993	82,452	84,846	104,892	97,385
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ -	\$ -	\$ -	\$ -	\$ 599,725	\$ 588,225	\$ 574,250	\$ 693,688	\$ 593,711	\$ 559,494
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	16.23%	14.58%	14.36%	12.23%	17.67%	17.41%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Compliance Section



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

To the Board of 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, 2023, 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 22, 2024.

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 2023-001, 2023-002, and 2023-003.

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards* (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 22, 2024
Hannibal, Missouri

Compliance Findings

2023-001 – 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.

2023-002 – Debt Service Requirements

Criteria:

Per loan agreement, the District has covenanted to maintain a depreciation and replacement reserve special account and to fund it until such account is equal to five percent (5%) of the original principal amount of the loan, \$66,491, in order to ensure loan obligations can be paid.

Condition:

The District is not in compliance with loan covenants.

Cause:

The District did not deposit the required amounts into a depreciation and replacement reserve special account during 2023.

Effect:

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

Recommendation:

Procedures should be put in place to immediately fund the full reserve requirement of \$66,491.

Views of Responsible Officials:

Management will make a plan to fully fund depreciation and replacement reserve account per loan covenant.

Compliance Findings (Concluded)

2023-003 – Debt Service Requirements

Criteria:

Per loan agreement, 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 loan 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 loan covenant.