

Jackson County Water Association, Incorporated
Tyner, Kentucky

Independent Auditors' Report
And Financial Statements
For the Years Ended
December 31, 2025 and 2024

Jackson County Water Association, Incorporated
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Independent Auditors' Report

To the Commissioners
Jackson County Water Association, Incorporated
Tyner, Kentucky

Opinion

We have audited the accompanying financial statements of Jackson County Water Association, Incorporated (a nonprofit organization), which comprise the statements of net position as of December 31, 2025 and 2024, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Jackson County Water Association, Incorporated's basic financial statements.

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

Basis for Opinion

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

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 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 Jackson County Water Association, Incorporated's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Jackson County Water Association, Incorporated'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 Jackson County Water Association, Incorporated'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

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2026 on our consideration of Jackson County Water Association, Incorporated'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 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 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 Jackson County Water Association, Incorporated's internal control over financial reporting and compliance.

Abner & Cox, PLLC

Abner & Cox, PLLC
London, Kentucky

March 12, 2026

Jackson County Water Association, Incorporated
 Statements of Net Position
 December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,315,666	\$ 1,473,622
Investments	2,410,834	2,410,834
Accounts receivable, less allowance for doubtful accounts	213,865	202,103
Unbilled accounts receivable	186,047	182,216
Interest receivable	13	8
Inventories	407,422	391,664
Prepaid expenses	78,355	74,384
Total Current Assets	<u>4,612,202</u>	<u>4,734,831</u>
Noncurrent Assets		
Restricted Assets		
Restricted cash and cash equivalents	<u>2,154,774</u>	<u>493,444</u>
Total Restricted Assets	<u>2,154,774</u>	<u>493,444</u>
Capital Assets		
Land and land rights	349,889	349,889
Source of supply and pumping	1,676,738	1,676,738
Water treatment	7,021,907	6,842,770
Transmission and distribution	24,767,572	24,560,355
General plant and transportation	1,920,770	1,910,304
Construction in progress	1,777,108	78,001
Less: accumulated depreciation	<u>(18,394,091)</u>	<u>(17,489,563)</u>
Net Capital Assets	<u>19,119,893</u>	<u>17,928,494</u>
Total Noncurrent Assets	<u>21,274,667</u>	<u>18,421,938</u>
Total Assets	<u>\$ 25,886,869</u>	<u>\$ 23,156,769</u>

Jackson County Water Association, Incorporated
 Statements of Net Position (Continued)
 December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Liabilities		
Current Liabilities		
Current portion of long-term debt	\$ 338,302	\$ 292,494
Accounts payable	123,506	145,939
Accrued interest payable	46,513	10,954
Accrued salaries and taxes payable	126,065	129,590
Customer deposits	10,550	9,950
Total Current Liabilities	<u>644,936</u>	<u>588,927</u>
Noncurrent Liabilities		
Long-term debt, less current portion included in current liabilities	<u>7,686,372</u>	<u>7,990,711</u>
Total Noncurrent Liabilities	<u>7,686,372</u>	<u>7,990,711</u>
Total Liabilities	<u>8,331,308</u>	<u>8,579,638</u>
Net Position		
Net investment in capital assets	11,095,219	9,645,289
Restricted for:		
Debt service	467,160	466,320
Other purposes	27,637	27,124
Capital Projects	1,659,977	-
Unrestricted	<u>4,305,568</u>	<u>4,438,394</u>
Total Net Position	<u>\$ 17,555,561</u>	<u>\$ 14,577,127</u>

Jackson County Water Association, Incorporated
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Operating Revenues		
Water sales	\$ 3,030,023	\$ 2,910,381
Other operating income	148,301	151,991
	<hr/>	<hr/>
Total Operating Revenues	3,178,324	3,062,372
Operating Expenses		
Salaries and benefits	1,001,510	953,596
Purchased power	303,759	346,295
Contracted services	18,415	19,150
Insurance	316,033	322,733
Transportation	33,568	32,643
Administration and general	162,814	204,080
Maintenance and water treatment	558,361	589,768
Depreciation	904,527	897,235
Bad debt expense	37,665	39,392
Miscellaneous expense	60,776	57,831
	<hr/>	<hr/>
Total Operating Expenses	3,397,429	3,462,724
Operating Income (Loss)	<hr/> (219,105)	<hr/> (400,352)
Non-operating Revenues (Expenses)		
Interest expense	(220,972)	(229,886)
Interest income	103,428	80,458
Grant income	3,294,327	-
Miscellaneous non-operating income	20,752	48,714
Total Non-operating Revenues (Expenses)	<hr/> 3,197,535	<hr/> (100,714)
Change in Net Position	2,978,431	(501,066)
Net Position, Beginning of Year	<hr/> 14,577,127	<hr/> 15,078,192
Net Position, End of Year	<hr/> <u>\$ 17,555,561</u>	<hr/> <u>\$ 14,577,127</u>

Jackson County Water Association, Incorporated
 Statements of Cash Flows
 For the Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 3,184,083	\$ 3,050,834
Payments to employees	(1,005,035)	(939,730)
Payments to suppliers	(1,533,554)	(1,615,629)
Net Cash Provided by Operating Activities	<u>645,494</u>	<u>495,475</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of property and equipment	(2,095,926)	(330,451)
Principal payments on debt	(258,531)	(290,685)
Interest payments on debt	(185,413)	(230,334)
Grant income	3,294,327	48,714
Net Cash Provided by Capital and Related Financing Activities	<u>754,457</u>	<u>(802,756)</u>
Cash Flows From Investing Activities		
Interest on investments	<u>103,423</u>	<u>80,489</u>
Net Cash Provided by Investing Activities	<u>103,423</u>	<u>80,489</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,503,374	(226,792)
Cash and Cash Equivalents at Beginning of Year	<u>1,967,066</u>	<u>2,193,858</u>
Cash and Cash Equivalents at End of Year	<u>\$ 3,470,440</u>	<u>\$ 1,967,066</u>
Reconciliation of Cash at End of Year		
Cash and cash equivalents	\$ 1,315,666	\$ 1,714,858
Restricted cash and cash equivalents	2,154,774	479,000
Total Cash at End of Year	<u>\$ 3,470,440</u>	<u>\$ 2,193,858</u>

See accompanying notes to the financial statements.

Jackson County Water Association, Incorporated
 Statements of Cash Flows (Continued)
 For the Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by Operating Activities:		
Operating income (loss)	\$ (219,105)	\$ (400,348)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	904,527	897,235
Changes in operating assets and liabilities		
(Increase) decrease in accounts receivable	5,149	(10,938)
(Increase) decrease in inventories	(15,758)	(9,047)
(Increase) decrease in prepaid expenses	(3,971)	(9,440)
Increase (decrease) in accounts payable	(22,423)	14,747
Increase (decrease) in accrued expenses	(3,525)	13,866
Increase (decrease) in customer deposits	600	(600)
	\$ 645,494	\$ 495,475
Net Cash Provided by Operating Activities	\$ 645,494	\$ 495,475

Jackson County Water Association, Incorporated
Notes to Financial Statements
December 31, 2025 and 2024

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Jackson County Water Association, Incorporated, of Jackson County, Kentucky (“Association”) was created in 1970 under Chapter 273 of the Kentucky Revised Statutes and is exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code. The Association is governed by seven directors that are elected by members of the Association.

The Association, a nonprofit corporation, is a rural water utility system whose purpose is to establish, develop and operate a water supply and distribution system for its members and customers in Jackson and Rockcastle Counties, Kentucky. The Association’s primary source of revenue is from water sales to its members and customers, including public bodies and local businesses in its service area.

Basis of Accounting, Financial Presentation, and Measurement Focus

Not-for-profit organizations ordinarily present their financial statements in accordance with Accounting Standards Codification (ASC) 958-205. ASC 958-205 requires reporting amounts for a not-for-profit organization’s total assets, liabilities, and net assets in a statement of financial position; reporting the change in an organization’s net assets in a statement of activities; and reporting the change in its cash and cash equivalents in a statement of cash flows. ASC 958-205 also requires net assets be displayed in two classes – with donor restrictions and without donor restrictions.

The Association’s financial position, results of operations and cash flows are presented, along with relevant disclosures, in a format ordinarily used by entities similar to the Association in their organization and purpose. While this format differs in some respects from the guidance of ASC 958-205, management believes the presentation used enhances the relevance, understandability, and comparability of financial statements to those issued by similar organizations. The Association’s financial statements provide the basic information required by ASC 958-205, focus on the entity as a whole, and meet the common needs of external users of the Association’s financial statements.

The basic financial statements of the Association have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position display information about the Association as a whole. These statements include all funds of the Association. The statements distinguish between governmental and business-type activities. The Association does not have any governmental activities.

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Jackson County Water Association, Incorporated
Notes to Financial Statements (Continued)
December 31, 2025 and 2024

Note 1 – Summary of Significant Accounting Policies (Continued)

Basis of Accounting, Financial Presentation, and Measurement Focus (Continued)

Operating income reported by the Association includes revenues and expenses related to the continuing operation of water service for its customers. Principal operating revenues are charges to customers for services. Principal operating expenses are the costs of providing the services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Cash and Cash Equivalents

The Association considers demand deposits and certificates of deposits with maturities of 90 days or less to be cash equivalents.

Investments

Investments consist of certificates of deposit with maturity dates of three months or more. Certificates of deposit are carried at fair value on the accompanying financial statements.

Accounts Receivable

Receivables include amounts due from customers for water services. These receivables are due at the time the services are billed. Billing is completed monthly and accounts are considered past due on the twenty first day after the end of each billing period. Accounts receivable are presented net of uncollectible accounts. The allowance amount is estimated using a percentage of accounts past due more than 30 days. At December 31, 2025 and 2024, the allowance for doubtful accounts was \$23,152 and \$28,822, respectively.

Unbilled Accounts Receivable

Estimated unbilled revenues from water sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billing during the month following the close of the fiscal year.

Inventory and Prepaid Expenses

Inventory, consisting primarily of water treatment chemicals, pipe and replacement parts for the water distribution system, is stated at cost on the first-in, first-out basis. Prepaid expenses represent payments to vendors that benefit future reporting periods and are reported on the consumption basis.

Capital Assets

Property and equipment are recorded at cost. Depreciation is provided by the straight-line method over the estimated useful life of the depreciable property. The range of useful lives of assets is as follows:

<u>Asset Classification</u>	<u>Range of Lives</u>
Water purification	20 - 40 years
Transmission mains and accessories	40 years
Buildings	40 years
Equipment and vehicles	5 - 10 years

Jackson County Water Association, Incorporated
Notes to Financial Statements (Continued)
December 31, 2025 and 2024

Note 1 – Summary of Significant Accounting Policies (Continued)

Income Taxes

The Association has received notification from the Internal Revenue Service that it qualifies as a 501(c)(4) tax exempt organization and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code and similar provisions of state law.

The Association has adopted Accounting Standards Codification (ASC) 740-10 as it relates to uncertain tax positions and has evaluated its tax positions taken for all open years. Currently, the 2025, 2024, and 2023 tax years are open and subject to examination by the Internal Revenue Service. However, the Association is not currently under audit nor has the Organization been contacted by any of these jurisdictions.

Any interest and penalties recognized associated with a tax position are classified as current expenses in the Association's financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Position

The Association has adopted accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Net position is comprised of the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted – This component of net position consists of restricted assets less liabilities and deferred inflows of resources related to those assets. Restricted assets are those with limits on their use that are externally imposed constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net amounts of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or the restricted component of net position.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the Association would typically use restricted assets first, but reserves the right to selectively spend unrestricted assets first.

Jackson County Water Association, Incorporated
Notes to Financial Statements (Continued)
December 31, 2025 and 2024

Note 2 – Restricted Assets

The Association considers all sinking fund deposits, funds required for other debt service, and funds related to specific projects or customer accounts to be restricted. At December 31, 2025 and 2024 restricted cash amounted to \$2,154,774 and \$493,444, respectively. This includes restrictions for customer deposits of \$27,637 and \$27,124, respectively, restrictions for debt service of \$466,320 and \$451,200, respectively, and restrictions for capital projects of \$1,659,861 and \$0, respectively. In addition, revenues from the operations of the Association are pledged as collateral on long-term debt.

Note 3 – Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. The Association does not have a deposit policy for custodial credit risk. As of December 31, 2025 and 2024, \$2,766,345 and \$3,904,583, respectively, of the Association's bank balances of \$3,516,345 and \$4,404,583 were exposed to custodial credit risk as follows:

	<u>2025</u>	<u>2024</u>
Uninsured and uncollateralized	\$ -	\$ -
Uninsured and repurchase agreements held by bank, and sweep account balances secured by collateral held by bank	2,766,345	3,904,583
Uninsured and repurchase agreements held by bank's trust department not in the Association's name	-	-
Total	<u><u>\$ 2,766,345</u></u>	<u><u>\$ 3,904,583</u></u>

Note 4 – Capital Assets

Below is a summary of capital assets transactions for the year ended December 31, 2025:

	<u>Balance</u> <u>Dec. 31, 2024</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>Dec. 31, 2025</u>
Land and land rights	\$ 349,889	\$ -	\$ -	\$ 349,889
Source of supply and pumping	1,676,738	-	-	1,676,738
Water treatment	6,842,770	179,137	-	7,021,907
Transmission and distribution	24,560,355	207,217	-	24,767,572
General plant and transportation	1,910,304	10,465	-	1,920,770
Construction in progress	78,001	1,699,106	-	1,777,107
Total at Historical Costs	<u>35,418,058</u>	<u>2,095,925</u>	<u>-</u>	<u>37,513,983</u>
Less: accumulated depreciation				
Land and land rights	-	-	-	-
Source of supply and pumping	785,173	70,943	-	856,116
Water treatment	3,703,429	192,871	-	3,896,300
Transmission and distribution	11,574,403	581,585	-	12,155,988
General plant and transportation	1,426,560	59,127	-	1,485,686
Total accumulated depreciation	<u>17,489,563</u>	<u>904,526</u>	<u>-</u>	<u>18,394,089</u>
Property and Equipment - Net	<u><u>\$ 17,928,494</u></u>	<u><u>\$ 1,191,399</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 19,119,893</u></u>

Jackson County Water Association, Incorporated
Notes to Financial Statements (Continued)
December 31, 2025 and 2024

Note 4 – Capital Assets (Continued)

Below is a summary of capital assets transactions for the year ended December 31, 2024:

	Balance Dec. 31, 2023	Additions	Deductions	Balance Dec. 31, 2024
Land and land rights	\$ 349,890	\$ -	\$ -	\$ 349,890
Source of supply and pumping	1,676,738	-	-	1,676,738
Water treatment	6,832,794	9,976	-	6,842,770
Transmission and distribution	24,371,942	188,414	-	24,560,355
General plant and transportation	1,841,393	68,911	-	1,910,303
Construction in progress	14,851	63,152	-	78,002
Total at Historical Costs	<u>35,087,608</u>	<u>330,453</u>	<u>-</u>	<u>35,418,059</u>
Less: accumulated depreciation				
Land and land rights	-	-	-	-
Source of supply and pumping	714,231	70,943	-	785,174
Water treatment	3,520,848	182,581	-	3,703,429
Transmission and distribution	10,992,026	582,377	-	11,574,403
General plant and transportation	1,365,223	61,335	-	1,426,558
Total accumulated depreciation	<u>16,592,328</u>	<u>897,236</u>	<u>-</u>	<u>17,489,564</u>
Property and Equipment - Net	<u>\$ 18,495,280</u>	<u>\$ (566,783)</u>	<u>\$ -</u>	<u>\$ 17,928,494</u>

Jackson County Water Association, Incorporated
Notes to Financial Statements (Continued)
December 31, 2025 and 2024

Note 5 – Long-Term Debt

The following is a summary of long-term debt transactions for the year ended December 31, 2025:

	<u>Balance</u> <u>Dec. 31, 2024</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2025</u>	<u>Due Within</u> <u>One Year</u>
5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through January 2030	\$ 323,610	\$ -	\$ (57,133)	\$ 266,477	\$ 60,187
4.5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through July 2035	472,085	-	(34,881)	437,204	36,792
4.5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through June 2043	757,197	-	(29,138)	728,059	28,371
4.5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through June 2043	459,064	-	(17,660)	441,404	17,198
2.5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through July 2050	2,754,458	-	(80,726)	2,673,732	81,332
2.0% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through June 2057	<u>3,516,791</u>	<u>-</u>	<u>(38,992)</u>	<u>3,477,798</u>	<u>114,422</u>
	<u>\$ 8,283,205</u>	<u>\$ -</u>	<u>\$ (258,530)</u>	<u>\$ 8,024,674</u>	<u>\$ 338,302</u>

Jackson County Water Association, Incorporated
Notes to Financial Statements (Continued)
December 31, 2025 and 2024

Note 5 – Long-Term Debt (Continued)

Real estate mortgages on the property of the Association are pledged as collateral on the long-term debt. In addition, revenues from the operations of the Association are pledged as collateral on the long-term debt, as described in Note 2.

The following is a summary of long-term debt transactions for the year ended December 31, 2024:

	<u>Balance</u> <u>Dec. 31, 2023</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2024</u>	<u>Due Within</u> <u>One Year</u>
5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through April 2024	\$ 2,672	\$ -	\$ (2,672)	\$ -	\$ -
5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through January 2030	377,963	-	(54,353)	323,610	57,257
4.5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through July 2035	505,434	-	(33,349)	472,085	35,176
4.5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through June 2043	785,056	-	(27,859)	757,197	27,150
4.5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through June 2043	475,949	-	(16,885)	459,064	16,457
2.5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through July 2050	2,833,419	-	(78,931)	2,754,488	79,542

Jackson County Water Association, Incorporated
Notes to Financial Statements (Continued)
December 31, 2025 and 2024

Note 5 – Long-term Debt (Continued)

	<u>Balance</u> <u>Dec. 31, 2023</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2024</u>	<u>Due Within</u> <u>One Year</u>
2.0% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through June 2057	3,593,429	-	(76,637)	3,516,791	76,912
	<u>\$ 8,573,892</u>	<u>\$ -</u>	<u>\$ (290,686)</u>	<u>\$ 8,283,205</u>	<u>\$ 292,494</u>

The annual requirements to retire long-term debt are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 302,322	\$ 216,164	\$ 518,486
2027	312,541	205,981	518,522
2028	323,158	196,024	519,182
2029	334,192	184,390	518,582
2030	278,342	174,464	452,806
2031-2035	1,471,303	744,645	2,215,948
2036-2040	1,416,201	565,982	1,982,183
2041-2045	1,377,479	370,040	1,747,519
2046-2050	1,258,620	204,385	1,463,005
2051-2055	669,760	85,512	755,272
2056-2059	280,756	14,200	294,956
	<u>\$ 8,024,674</u>	<u>\$ 2,961,787</u>	<u>\$ 10,986,461</u>

Note 6 – Retirement Plan

The Association has a retirement plan which covers employees age twenty-one or older who have completed twelve months of service. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. The Association makes contributions to the plan on the basis of up to 4% of the participant's compensation. Plan expenses incurred by the Association during 2025, 2024, and 2023 were \$28,977, \$30,664, and \$29,018, respectively.

Note 7 – Risk Management

The Association is exposed to various risks of loss related to limited torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the Association carries commercial insurance. There have been no significant reductions in coverage for the year and settlements have not exceeded coverage in the past three years.

Note 8 – Subsequent Events

Management of the Association has evaluated subsequent events through March 12, 2026, the date on which the financial statements were available to be issued.



Independent Auditors' Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An
Audit Of Financial Statements Performed In Accordance
With *Government Auditing Standards*

To the Commissioners
Jackson County Water Association, Incorporated
Tyner, 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 Jackson County Water Association, Incorporated (a nonprofit organization), which comprise the statement of net position as of December 31, 2025, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Jackson County Water Association, Incorporated's basic financial statements, and have issued our report thereon dated March 12, 2026.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Jackson County Water Association, Incorporated's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Jackson County Water Association, Incorporated's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association'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 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. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness. (See item 2025-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jackson County Water Association, Incorporated's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, as described in the accompanying schedule of findings and responses, identified no instances of noncompliance as required to be reported under *Government Auditing Standards*.

Jackson County Water Association Incorporated's Response to Findings

Jackson County Water Association, Incorporated's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Jackson County Water Association, Incorporated's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Abner & Cox, PLLC

Abner & Cox, PLLC
London, Kentucky

March 12, 2026

Jackson County Water Association, Incorporated
Schedule of Findings and Responses
December 31, 2025

A. Findings – Financial Statement Audit

2025-1

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

The size of the Association's office staff does not allow for proper segregation of duties in the areas of accounts receivable, cash receipts, and payroll.

Effect:

This condition creates a weakness in internal controls that could provide opportunity for misappropriation of funds that may not be detected.

Views of responsible officials and planned corrective actions:

The Association does not believe it is cost effective to hire additional staff to overcome this finding. The Association will consider implementing mitigating controls to reduce risk related to lack of segregation of duties.