

MARTIN COUNTY WATER DISTRICT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

Prepared by:

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White & Associates, PSC

CERTIFIED PUBLIC ACCOUNTANTS

1407 Lexington Road
Richmond, Kentucky 40475

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the Martin County Water District
Martin County Water District
Inez, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities (enterprise fund) of the Martin County Water District (District), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities (enterprise fund) of the District, as of December 31, 2016, and the respective changes in financial position, and where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the District's Proportionate share of the net Pension Liability and the Schedule of Contributions on pages 22 and 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Account Standards Board, who considers it to be an essential part of the 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 response 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.

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 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 December 5, 2019, on our consideration of the 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 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 the District's internal control over financial reporting and compliance.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
December 5, 2019

Martin County Water District
STATEMENT OF NET POSITION
December 31, 2016

	2016
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 45,653
Restricted cash and cash equivalents	307,959
Accounts receivable	
Customer, net	318,833
Other, net	90
Inventory	27,164
Prepaid expenses	23,200
Accrued utility revenues	221,857
Total current assets	944,756
Noncurrent assets:	
Capital assets not being depreciated	214,714
Capital assets, net of accumulated depreciation	20,428,783
Total noncurrent assets	20,643,497
Deferred outflows of resources:	
Deferred outflows of resources related to pensions	211,614
Total assets	\$ 21,799,867
LIABILITIES:	
Current liabilities:	
Accounts payable	\$ 762,432
Payroll tax liabilities	39,799
Other accrued liabilities	5,998
Total unrestricted current liabilities	808,229
Restricted current liabilities:	
Interest	36,914
Customer deposits	154,506
Long-term debt, current portion	110,677
Total restricted current liabilities	302,097
Total current liabilities	1,110,326
Noncurrent liabilities:	
Net pension liability	1,064,280
Long-term debt, less current portion	2,613,537
Total noncurrent liabilities	3,677,817
Total liabilities	4,788,143
NET POSITION	
Net Investment in capital assets	17,919,283
Restricted for:	
Debt service	307,959
Unrestricted	(1,215,518)
Total net position	17,011,724
Total liabilities and net position	\$ 21,799,867

See the accompanying notes to the financial statements.

Martin County Water District
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2016

	2016
OPERATING REVENUES:	
Water sales:	
Residential	\$ 1,512,569
Commercial	429,018
Industrial	1,258
Martin Fire Department	
Tap fees	16,375
Other	991
Unmetered	304
Other sales:	
Public authorities	28,250
Penalties	72,155
Other	4,477
Vendors	190
Miscellaneous	3
Total operating revenues	2,065,590
OPERATING EXPENSES:	
Water	
Salaries and wages	555,389
Employee benefits	251,438
Purchased water	397,956
Chemicals	115,033
Materials & supplies	156,069
Contractual services	198,556
Rental	59,212
Transportation	75,334
Insurance	69,115
Bad debt	78,677
Taxes	42,508
Regulatory assess fees	6,988
Amortization/Depreciation	774,461
Miscellaneous	40,342
Total operating expenses	2,821,078
OPERATIONS INCOME (LOSS)	(755,488)
NONOPERATING REVENUES (EXPENSES)	
Earnings on investments	556
Amortization of deferrals	753
Gain on disposal of assets	22,676
Non-utility revenue	109
Interest expense	(99,816)
Total nonoperating revenues (expenses)	(75,722)
INCOME (LOSS) BEFORE CONTRIBUTIONS	(831,210)
Contributions	
Capital Contributions	128,282
Total capital contributions	128,282
CHANGE IN NET POSITION	(702,928)
NET POSITION, BEGINNING	17,502,537
Prior period adjustment	212,115
RESTATED NET POSITION, BEGINNING	17,714,652
NET POSITION, ENDING	\$ 17,011,724

See the accompanying notes to the financial statements.

Martin County Water District
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

	2016
Cash flows from operating activities:	
Cash received from customers and other sources	\$ 2,146,900
Cash payments to suppliers for goods and services	(1,091,266)
Cash payments for employees and benefits	(789,135)
Net cash provided (used) by operating activities	266,499
Cash flows from capital and related financing activities:	
Purchases and construction of capital assets	(259,451)
Proceeds from sale of asset	22,676
Capital contributions	128,282
Amortization of deferrals	753
Principal payments on long-term debt	(88,450)
Interest expense	(99,816)
Net cash provided (used) by capital and related financing activities	(296,006)
Cash flows from investing activities:	
Other cash flows	109
Earnings on investments	556
Net cash provided (used) by investing activities	665
Net increase (decrease) in cash and cash equivalents	(28,842)
Cash and cash equivalents, beginning of year	382,454
Cash and cash equivalents, end of year	\$ 353,612
Reconciliation of cash and cash equivalents:	
Cash and cash equivalents	\$ 45,653
Restricted cash and cash equivalents	307,959
Total Cash and cash equivalents	\$ 353,612
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (755,488)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation/Amortization	774,461
Bad debt	78,677
(Increase) Decrease in:	
Accounts receivable	(71,066)
Inventory	(3,097)
Prepaid expenses	1,284
Accrued revenues	36,342
Deferrals	(158,662)
Increase (Decrease) in:	
Accounts payable	152,898
Accrued liabilities	(17,692)
Accrued interest	(15,946)
Customer deposits	14,508
Net pension liability	314,280
Deferrals	(84,000)
Net cash provided (used) by operating activities	\$ 266,499

See the accompanying notes to the financial statements.

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

NOTE 1 – Reporting entity and significant accounting policies

(a) Description of the reporting entity

The Martin County Water District (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, for financial purposes, includes the transactions relevant to the operation of the Martin County Water District. The District provides potable water directly to residential and commercial customers in the Martin County area. In determining the financial reporting entity, the District complies with the provisions of generally accepted accounting principles (GAAP) and includes all component units that have a significant operational or financial relationship with the District. Based upon the criteria set forth by the Governmental Accounting Standards Board (GASB), there are no component units included in the reporting entity.

(b) Measurement Focus, Basis of accounting, and Financial Statement Presentation

The District's financial statements are reported using the economic resource measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for proprietary funds. Revenues are recorded and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounting policies of the District conform to applicable generally accepted accounting principles as defined by the Governmental Accounting Standards Board (GASB). Operating revenues and expenses generally result from providing water services in connection with the District's ongoing operations. Operating expenses include the cost of personnel and contractual services, supplies, and depreciation on capital assets. All revenues and expenses meeting this definition are reported as non-operating revenues and expenses.

(c) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents are defined to be cash on hand, demand deposits and highly liquid investments with a maturity of three months or less from the date of purchase. For financial statement presentation purposes, cash and cash equivalents are shown as cash and cash equivalents and restricted cash and cash equivalents.

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

(d) *Restricted assets*

Restricted cash and cash equivalents represent amounts held in trust at the bank and are set aside for customer security deposits, bond sinking, reserves and depreciation funds as required by the bond ordinance. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

(e) *Investments*

Investments are reported in the accompanying statement of net position at fair value, except for certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

The Kentucky Revised Statutes authorize the District to invest money subject to its control in obligations of the United States; bonds or certificates of indebtedness of Kentucky and its agencies and instrumentalities; savings and loan associations insured by an agency of the United States up to the amount insured; and national or state banks chartered in Kentucky and insured by an agency of the United States providing such banks pledge as security obligations, as permitted by KRS 41.240(4), having a current quoted market value at least equal to uninsured deposits.

In accordance with the District's investment policy, the District may invest in the following:

Certificates of Deposit
U.S. Treasury Bills, Notes and Bonds
Local Agency Investment Fund
Money Market Mutual Funds

Currently, the District does not have any investments.

(f) *Receivables*

Accounts receivable are presented, when considered necessary, net of an allowance for doubtful accounts. Unbilled revenues for estimated usage between the last meter reading cycle and June 30 are recorded by the District.

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

(g) *Inventory*

The District maintains a detailed inventory of supplies needed to maintain the water infrastructure. Inventory is stated at the lower of cost or market. Cost is determined principally by the first-in, first-out method.

(h) *Prepaid expenses*

Payments made by the District that benefit periods beyond December 31st are classified as prepaid expenses. A current asset is recorded at the time of purchase and an expense is made per the consumption method. The prepayment of expenses is for the numerous insurances required on behalf of the District's employees' and its infrastructure.

(i) *Capital assets*

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District's capitalization threshold for capital assets is \$500.

All reported capital assets are depreciated with the exception of land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	10-50 years
Buildings and improvements	10-25 years
Technology equipment	5-20 years
Equipment	5-50 years

(j) *Employee leave benefits*

The District's policy on vacation shall accrue at the rate of eighty (80) hours per year for one (1) to five (5) years of full time employment, henceforth employees' may earn an additional eight (8) hours per year up to a maximum of one hundred and twenty (120) hours. Maximum accrual of each employee is one hundred and sixty (160) hours. Accrual for vacation is included in accrued payroll liabilities in the amount of \$11,571 as of December 31, 2016.

The District's employees' shall accrue sick leave at the rate of eight (8) hours per month to a maximum of four hundred and eighty (480) hours. No monetary value is

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

given to the accrual of sick leave based upon policy of no payout to employees upon termination or retirement.

(k) *Customer deposits*

Deposits required by the District for each customer to receive services. The deposits are maintained by the District and returned when services are no longer used or other qualifying event by the District's policy.

(l) *Long-term debt*

In proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of applicable bond premiums or discounts. Bond issuance costs are reported as an expense of the current period. Refunding of debt may result in deferred gains or losses and are reported as deferred inflows or outflows of resources. The difference between reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense using the straight-line method.

(m) *Net investment in capital assets*

Net investment in capital assets is the net amount of the capital assets less the amounts payable for long-term debt financing those capital assets.

(n) *Use of estimates*

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(o) *Capital contributions*

Capital contributions include the amounts paid by state and local governments that arise from contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

(p) *Reserves for net position*

The amount restricted in net position is the amount that has been set aside for payments of long-term debt. The restricted amount equals the restricted cash and cash equivalents as reported in the statement of net position.

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

(q) *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 fiduciary net position have been determined on the same basis as they are reported by the pensions. 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.

(r) *New Pronouncements*

The District has implemented the following new accounting pronouncements.

GASB Statement No. 72-*Fair Value Measurement and Application*, effective for the District's fiscal year ending December 31, 2016.

GASB Statement No. 76-*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The above new pronouncements did not have an impact on the District's financial position or results of operations.

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

GASB Statement No. 75-*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the District's fiscal year ending December 31, 2018.

GASB Statement No. 82-*Pension Issues – An Amendment of GASB Statements No. 67, No. 58, and No. 73*, effective for the District's fiscal year ending December 31, 2017.

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

NOTE 2 – Budgetary data

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.

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

NOTE 3 – Cash and cash equivalents

Cash and cash equivalents as of December 31, 2016 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and cash equivalents	\$ 45,653
Restricted cash and cash equivalents	<u>307,959</u>
Total cash and cash equivalents	<u>\$ 353,612</u>

Cash and cash equivalents as of December 31, 2016 consist of the following:

Cash on hand	\$ 900
Deposits with financial institutions	<u>352,712</u>
Total cash and cash equivalents	<u>\$ 353,612</u>

Custodial risk

Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of a another party. As of June 30th, the District's deposits with financial institutions are non-interest bearing, and have a limited insurance coverage with the federal deposit insurance corporation up to \$250,000. As of December 31, 2016, the District deposits with financial institutions exceeded the federal depository insurance limits by \$102,712. The difference has been covered by securities held by the pledging financial institution in the government's name.

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

NOTE 4 – Capital assets

Capital asset activity for the calendar year ended December 31, 2016, was as follows:

	<u>12/31/2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/2016</u>
Land-non-depreciable	\$ 214,714	\$ -	\$ -	\$ 214,714
Construction in progress-non-depreciable	19,968		19,968	-
Structures	500,264			500,264
Collecting & Impounding Reservoirs	288,203			288,203
Lakes, rivers and intakes	2,153,753	19,968		2,173,720
Pumping Equip	310,768	48,671		359,439
Water Treatment Equipment	4,877,419	52,449		4,929,868
Distribution reservoir & standpipes	4,071,502	8,345		4,079,847
Transmission & Distribution mains	20,060,075	130,916		20,190,991
Meters & meter installation	504,502	6,895		511,397
Hydrants	2,969			2,969
Other plant & misc equip	878,648	4,725		883,373
Lovely Project plant	153,129			153,129
Office Furniture & equipment	175,251	2,045		177,296
Transportation equipment	324,570	27,000	27,000	324,570
Tools	29,534			29,534
Lab Equipment	14,403			14,403
Power Operated equipment	43,193			43,193
Communication equipment	16,897			16,897
Power generation equipment	15,000			15,000
Total at historical cost	<u>\$ 34,654,760</u>	<u>\$ 301,014</u>	<u>\$ 46,968</u>	<u>\$ 34,908,806</u>
Less: Accumulated depreciation				
Structures	\$ 118,258	\$ 10,183	\$ -	\$ 128,441
Collecting & Impounding Reservoirs	67,069	1,555		68,624
Lakes, rivers and intakes	597,609	43,109		640,718
Pumping Equip	301,061	12,869		313,930
Water Treatment Equipment	1,476,135	92,241		1,570,376
Distribution reservoir & standpipes	1,017,402	81,589		1,098,991
Transmission & Distribution mains	8,292,398	494,767		8,787,165
Meters & meter installation	213,038	13,999		227,037
Hydrants	2,021	89		2,110
Other plant & misc equip	787,511	11,777		799,288
Lovely Project plant	41,539	2,601		44,140
Office Furniture & equipment	174,389	1,026		175,415
Transportation equipment	324,102	3,576	27,000	300,678
Tools	29,327	80		29,407
Lab Equipment	14,401	-		14,401
Power Operated equipment	43,192	-		43,192
Communication equipment	16,896			16,896
Power generation equipment	1,500	3,000		4,500
Total accumulated depreciation	<u>\$ 13,517,848</u>	<u>\$ 774,461</u>	<u>\$ 27,000</u>	<u>\$ 14,265,309</u>
Capital Assets-net	<u>\$ 21,136,912</u>	<u>\$ (473,447)</u>	<u>\$ 19,968</u>	<u>\$ 20,643,497</u>

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

Depreciation expense was \$774,461 for the year.

NOTE 5 – Long-term debt

Long-term debt activity for the calendar year ended December 31, 2016, was as follows:

Notes payable

The amounts shown in the accompanying financial statements as notes payable represents the District’s future obligations to make payments related to a loan obtained from the Kentucky Infrastructure Authority (KIA) to provide water to customers in the Martin County area.

The District is obligated to make payments in amounts sufficient to satisfy debt service. The original amount of the outstanding note, maturity date, interest rate, and outstanding balance at December 31, 2016 is summarized below:

<u>Note Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2015 Debt Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>2016 Debt Outstanding</u>
KIA	\$ 1,329,826	2027	3%	\$ 655,302		\$ 48,450	\$ 606,852

The current amount due for the note payable as of December 31, 2016, is \$49,924. The collateral for the revenue is service revenue. Payments accrue monthly. Future note payable obligation is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	49,924	17,523	67,447
2018	51,443	16,004	67,447
2019	53,007	14,440	67,447
2020	54,620	12,827	67,447
2021	56,281	11,166	67,447
2022-2026	308,148	28,386	336,534
2027	33,429	294	33,723
	\$ <u>606,852</u>	\$ <u>100,640</u>	\$ <u>707,492</u>

Capital lease

The amount shown in the accompanying financial statements as capital lease represents the District’s purchase of vehicles and equipment by obtaining funding from the Kentucky Association of Counties (KACO).

The District is obligated to make payments in amounts sufficient to satisfy the debt service. The original amount of outstanding capital lease, maturity date, interest rate, and outstanding balance, at December 31, 2016 is summarized below:

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

<u>Capital Lease Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2015 Lease Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>2016 Lease Outstanding</u>
KACO	\$ 200,000	2025	1.85%	\$ 126,222		\$ 10,000	\$ 116,222

The current amount due for the capital lease as of December 31, 2016, is \$10,000. The collateral for the revenue is service revenue. Payments accrue monthly. Future capital lease obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 10,000	\$ 4,834	\$ 14,834
2018	10,000	4,413	14,413
2019	10,000	3,986	13,986
2020	15,000	3,417	18,417
2021	15,000	2,779	17,779
2022-2025	56,222	4,722	60,944
	<u>\$ 116,222</u>	<u>\$ 24,150</u>	<u>\$ 140,372</u>

Bonds payable

The amounts shown in the accompanying financial statements as bonds payable represents the District's initiation and improvements of its water system by obtaining funding from the United States Department of Agriculture (USDA) Division of Rural Development (RD). The RD loans were refunded on May 12, 2015 from the Kentucky Rural Water Finance Corporation Public Projects.

Series 2015E Current Refunding

RD loans of \$2,008,100 were refunded on May 12, 2015 by \$2,010,000 par amount public project fund bond from the Kentucky Rural Water Finance Corporation. The new debt bears interest from 2.1 – 4.1% maturing on February 1, 2044. The net fair value cash flow savings is \$223,252, and the net present value savings of \$112,269, a savings of 4.06%. The District will receive a net future value benefit of \$185,746 of refunding with the new debt a 3.72% savings.

The District is obligated to make payments in amounts sufficient to satisfy the new debt service. The original amount of outstanding bonds, maturity date, interest rate, and outstanding balance, at December 31, 2016 is summarized below:

<u>Bond Issues</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2015 Debt Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>2016 Debt Outstanding</u>
Refunding KRW	\$ 2,010,000	2045	2.1-4.1%	2,010,000		30,000	1,980,000

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

The current amount due for the bonds as of December 31, 2016, is \$50,000. The collateral for the revenue is service revenue. Payments accrue monthly. Future bond obligations are as follows:

		<u>Principal</u>		<u>Interest</u>		<u>Total</u>
2017	\$	50,000	\$	73,974	\$	123,974
2018		55,000		72,321		127,321
2019		55,000		70,066		125,066
2020		55,000		68,361		123,361
2021		60,000		66,554		126,554
2022-2026		320,000		296,169		616,169
2027-2031		380,000		236,256		616,256
2032-2036		445,000		159,609		604,609
2037-2041		345,000		78,208		423,208
2042-2045		215,000		17,938		232,938
	\$	<u>1,980,000</u>	\$	<u>1,139,456</u>	\$	<u>3,119,456</u>

A summary of long-term debt of the District as of December 31, 2016 is as follows:

		<u>Beginning Balance 12/31/2015</u>		<u>Additions</u>		<u>Deletions</u>		<u>Ending Balance 12/31/2016</u>		<u>Due in One Year</u>		<u>Due Beyond One Year</u>
KIA Loan	\$	655,302	\$	-	\$	48,450	\$	606,852	\$	49,924	\$	556,928
KACO Lease		126,222		-		10,000		116,222		10,000		106,222
KRW Bond Ref		2,010,000		-		30,000		1,980,000		50,000		1,930,000
Accrued Premium		21,893		-		753		21,140		753		20,387
		<u>2,813,417</u>		-	\$	<u>89,203</u>		<u>2,724,214</u>		<u>110,677</u>		<u>2,613,537</u>
Net Pension Liability		750,000		314,280		-		1,064,280		-		1,064,280
	\$	<u>3,563,417</u>	\$	<u>314,280</u>	\$	<u>89,203</u>	\$	<u>3,788,494</u>	\$	<u>110,677</u>	\$	<u>3,677,817</u>

NOTE 6 – Pension Plan

General information about the County Employees Retirement System Non-Hazardous (“CERS”)

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 Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

Benefits provided—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years’ service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
Unreduced retirement		27 years service or 65 years old
Reduced retirement		At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date,	September 1, 2008 – December 31, 2015
Unreduced retirement		At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
Reduced retirement		At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2015
Unreduced retirement		At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
Reduced retirement		Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years’ service and hire date multiplied by the average of the highest five years’ earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years’ service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent’s beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent’s monthly final rate of pay and any dependent child will receive 10% of the decedent’s monthly final rate of pay up to 40% for all dependent children. Five years’ service is required for non-service-related disability benefits.

Contributions—Required contributions by the employee are based on the tier:

		<u>Required contribution</u>
Tier	1	5%
Tier	2	5% + 1% for insurance
Tier	3	5% + 1% for insurance

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

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

At December 31, 2016, the District reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the District as its proportionate share of the net pension liabilities as follows:

District's proportionate share of CERS's net pension liability \$1,064,280

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District's proportion was .024753% (percent).

For the year ended December 31, 2016, the District recognized pension expense of \$62,536 related to CERS. At December 31, 2016, 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	\$ 8,845	\$ -
Changes of assumptions	107,321	-
Net difference between projected and actual earnings on pension plan investments	9,540	-
Changes in proportion and differences between District contributions and proportionate share of contributions	42,038	-
District contributions subsequent to the measurement date	43,870	-
	\$ 211,614	\$ -

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

\$43,870 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

	<u>Year Ended 12/31</u>
2017	\$ 33,549
2018	33,549
2019	33,549
2020	33,549
2021	<u>33,548</u>
	<u>\$ 167,744</u>

Actuarial assumptions—the total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.50%	3.50%
Projected salary increases	4.50%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.75%	7.50%

For CERS, mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering calendar years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the District, calculated using the discount rates selected by the pension system, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.50%	7.50%	8.50%
District's proportionate share of net pension liability	1,358,662	1,064,280	812,134

Pension plan fiduciary net position—detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of CERS.

NOTE 7 – Risk Management

The District is exposed to various risks of loss related to illegal acts, torts, theft/damage/ destruction of assets, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers’ compensation, errors and omission, and general liability coverage, the District purchased commercial insurance coverage.

NOTE 8 – Restatement of Net Position

In 2016, the District’s Net Position was restated by \$212,115, from \$17,502,537 to \$17,714,652, which was the result of the District omitting a department, Lovely Project Sewer Department, from the financial statements in the total amount of \$133,938 and a correction of an error in recording Accounts Receivable in the amount of \$78,177. The restatement had no effect on current year net position.

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

NOTE 9 – Subsequent events

The district has evaluated subsequent events through December 5, 2019, the date the financial statements were available to be issued. 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. In addition, beginning January 1, 2020 the District will be utilizing the expertise of an outside management company to aid in operations of the District.

Martin County Water District
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
For the Year Ended December 31, 2016

	Reporting Fiscal Year (Measurement Date) 2016 (2015)	Reporting Fiscal Year (Measurement Date) 2015 (2014)
	<hr/>	<hr/>
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:		
Districts' proportion of the net pension liability	0.02%	0.02%
District's proportionate share of the net pension liability	\$ 1,064,280	\$ 750,000
State's proportionate share of the net pension liability associated with the District	-	-
Total	<u>\$ 1,064,280</u>	<u>\$ 750,000</u>
District's covered-employee payroll	\$ 593,711	\$ 559,494
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	179.26%	134.05%
Plan fiduciary net position as a percentage of the total pension liability	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.

See the accompanying notes to the required supplementary information.

Martin County Water District
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
Year Ended December 31, 2016

	2016	2015	2014
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:			
Contractually required contribution	\$ 84,846	\$ 104,892	\$ 97,385
Contributions in relation to the contractually required contribution	84,846	104,892	\$ 97,385
Contribution deficiency (excess)	-	-	-
District's covered-employee payroll	\$ 693,688	\$ 593,711	\$ 559,494
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	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.

See the accompanying notes to the required supplementary information.

Martin County Water District
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2016

Changes in benefit terms – There were no changes in benefit terms that affected measurement of the total pension liability during the measurement period.

Changes in assumptions – The District’s proportionate share of changes in actuarial assumptions was \$107,321. Pension expense of \$62,536 was recognized for the year ending December 31, 2016.

White & Associates, PSC

CERTIFIED PUBLIC ACCOUNTANTS

1407 Lexington Road

Richmond, Kentucky 40475

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

To the Board of Commissioners of the Martin County Water District
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 Standard* issued by the Comptroller General of the United States, the financial statements of the business-type activities (enterprise fund) of Martin County Water District (District), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 5, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 the 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 and deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompany schedule of findings and responses that we consider to be a significant deficiency, 2016-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 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 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: 2016-002 2016-003 and 2016-004.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the District in a separate letter dated December 5, 2019.

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.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
December 5, 2019

MARTIN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2016

SECTION I – SUMMARY OF AUDITORS’ RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed?	Yes
If so, was any significant deficiencies material (GAGAS)?	No
Was any material noncompliance reported (GAGAS)?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

Internal Controls

2016-001 Customer Security Deposit Liability

Condition: Customer security deposits log is not being maintained in total and compared to the general ledger monthly.

Criteria: Internal controls should be in place to track the total customer security deposit log to the customer security deposit liability in the general ledger for accuracy of the amount to be refunded to the customer and the liability.

Cause: There were no internal controls in place to maintain the total for the customer security deposit log and compare it to the customer security deposit liability monthly.

Effect: Possibility the District would not be able to accurately refund customers security deposits and reflect the liability in the general ledger.

Recommendation: Management should implement internal controls to track and make comparisons of the customer security deposit log to the customer security deposit liability monthly. Procedures should be implemented to establish and document the reconciliation of the two as a starting point and reconcile monthly from that point forward.

Views of Responsible Officials and Planned Corrective Actions: The Board will meet to discuss the policy on security deposit refunds going forward and making any necessary adjustments to reconcile the customer security deposit liability and the customer security deposit log. Internal controls will be implemented to reconcile the two as mentioned above monthly.

Compliance Findings

2016-002

Condition: 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.

MARTIN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2016

Criteria: Internal controls should be in place requiring payment of all invoices within the 30 day requirement of the KRS Statute.

Cause: The District has been unable to meet its obligation to adhere to the statute as required.

Effect: The District's ability to maintain relationships with vendors has been affected, ability to maintain maintenance and repairs on water system has been affected and other financial decisions which might need to be made as far as adequate infrastructure decisions has also been affected which most importantly could greatly impact the public whom depend on the District's ability to provide clean and safe water supply.

Recommendation: Procedures should be implemented to possibly raise rates, obtain grant funding and other support from the state to put the District in a better financial condition to meet its obligations not only financially but to the public.

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

2016-003

Condition: Per loan agreement, the District has covenanted to maintain a depreciatoin 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.

Criteria: Internal controls should be in place to ensure all loan covenants are being maintained such as this reserve requirement.

Cause: The District appears to have not given responsibility for any employees to be responsible or be held accountable for loan covenants or requirements.

Effect: Failure to comply with a covenant per the loan agreement could put the District in default.

Recommendation: Procedures should be put in place to immediately fund the full reserve requirement of \$66,491 and other policies and procedures for an employee to be responsible and held accountable for ensuring all loan covenants are held to.

Views of Responsible Officials and Corrective Actions: Management will make plan to fully fund depreciation and replacement reserve account per loan covenant.

MARTIN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2016

2016-004

Condition: Per Kentucky Special Purpose Government Entities (SPGE) required filings by the Department for Local Government, the District has not timely filed their 2019 Budget, 2017 and 2018 financial statements and 2016, 2017 and 2018 audits.

Criteria: Internal controls should be in place to ensure all SPGE filing requirements are met.

Cause: There are no internal controls in place to ensure the requirements are met and no employee has been assigned this responsibility.

Effect: This could affect future funding by the state.

Recommendation: Procedures should be put in place to assign responsibility and accountability for the SPGE filing requirements.

Views of Responsible Officials and Corrective Actions: Management will continue to get caught up on required filings as a Special Purpose Governmental Entity.

MARTIN COUNTY WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2016

There were no findings from the prior year.