

MARTIN COUNTY WATER DISTRICT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

Prepared by:

White & Associates PSC
CERTIFIED PUBLIC ACCOUNTANTS
1407 Lexington Road
Richmond, Kentucky 40475
Phone 859.624.3926
Fax 859.625.0227

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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, 2017, 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, 2017, 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 schedule of contributions information as listed in the table of contents be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the remaining required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. 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 consider 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 April 9, 2020, 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
April 9, 2020

Martin County Water District
STATEMENT OF NET POSITION
December 31, 2017

	2017
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 60,822
Accounts receivable	
Customer, net	270,562
Inventory	8,377
Prepaid expenses	9,530
Unbilled revenue receivable	239,245
Restricted cash and cash equivalents	
Customer Deposits	177,852
Debt Service	112,973
Grants	33,480
Total current assets	912,841
Noncurrent assets:	
Capital assets not being depreciated	214,714
Capital assets, net of accumulated depreciation	19,556,312
Total noncurrent assets	19,771,026
Deferred outflows of resources:	
Deferred outflows of resources related to pensions	317,912
Total assets and deferred outflows of resources	\$ 21,001,779
LIABILITIES:	
Current liabilities:	
Accounts payable	\$ 770,186
Payroll tax liabilities	51,538
Other accrued liabilities	6,189
Interest, payable from restricted assets	36,172
Customer deposits, payable from restricted assets	162,231
Long-term debt, current portion, payable from restricted assets	117,196
Total current liabilities	1,143,512
Noncurrent liabilities:	
Net pension liability	1,255,723
Long-term debt, less current portion	2,496,340
Total noncurrent liabilities	3,752,063
Total liabilities	4,895,575
NET POSITION	
Net Investment in capital assets	17,157,490
Restricted for:	
Customer Deposits	177,852
Debt Service	112,973
Construction	33,480
Unrestricted	(1,375,591)
Total net position	16,106,204
Total liabilities and net position	\$ 21,001,779

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, 2017

	2017
OPERATING REVENUES:	
Water sales:	
Residential	\$ 1,517,484
Commercial	317,825
Public authorities	92,260
Tap fees	6,210
Other	7
Unmetered	1,458
Other sales:	
Public authorities	31,227
Penalties	68,456
Other	6,484
Vendors	265
Miscellaneous	234
Total operating revenues	2,041,910
OPERATING EXPENSES:	
Water	
Salaries and wages	523,953
Employee benefits	265,255
Purchased water	402,253
Chemicals	123,269
Materials & supplies	146,646
Contractual services	182,297
Rental	20,229
Transportation	64,700
Insurance	83,287
Bad debt	81,182
Taxes	41,414
Regulatory assess fees	4,186
Depreciation	777,147
Miscellaneous	30,394
Total operating expenses	2,746,212
OPERATIONS INCOME (LOSS)	(704,302)
NONOPERATING REVENUES (EXPENSES)	
Earnings on investments	477
Amortization of deferrals	754
Interest expense	(96,061)
Gain (loss) on disposal of capital assets	(106,388)
Total nonoperating revenues (expenses)	(201,218)
CHANGE IN NET POSITION	(905,520)
NET POSITION, BEGINNING	17,011,724
NET POSITION, ENDING	\$ 16,106,204

See the accompanying notes to the financial statements.

Martin County Water District
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

	2017
Cash flows from operating activities:	
Cash received from customers and other sources	\$ 2,090,271
Cash payments to suppliers for goods and services	(1,138,121)
Cash payments for employees and benefits	(704,063)
Net cash provided (used) by operating activities	248,087
Cash flows from capital and related financing activities:	
Purchases and construction of capital assets	(11,063)
Amortization of deferrals	754
Principal payments on long-term debt	(110,679)
Interest expense	(96,061)
Net cash provided (used) by capital and related financing activities	(217,049)
Cash flows from investing activities:	
Earnings on investments	477
Net cash provided (used) by investing activities	477
Net increase (decrease) in cash and cash equivalents	31,515
Cash and cash equivalents, beginning of year	353,612
Cash and cash equivalents, end of year	\$ 385,127
Reconciliation of cash and cash equivalents:	
Cash and cash equivalents	\$ 60,822
Restricted cash and cash equivalents	
Customer Deposits	177,852
Debt Service	112,973
Grants	33,480
Total Cash and cash equivalents	\$ 385,127
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (704,302)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	777,147
(Increase) Decrease in:	
Accounts receivable	48,361
Inventory	18,787
Prepaid expenses	13,670
Accrued revenues	(17,388)
Deferrals	(106,298)
Increase (Decrease) in:	
Accounts payable	7,754
Accrued liabilities	11,930
Accrued interest	(742)
Customer deposits	7,725
Net pension liability	191,443
Net cash provided (used) by operating activities	\$ 248,087

NONCASH ACTIVITIES

Disposal of \$153,129 of capital assets, net of \$46,741 accumulated depreciation, resulting in a loss on disposal of \$106,388.

See the accompanying notes to the financial statements.

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

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 when earned 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 not 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.

(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 and for grant purposes. 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.

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017
(Continued)

(e) *Receivables*

Accounts receivable are presented, when considered necessary, net of an allowance for doubtful accounts.

(f) *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.

(g) *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.

(h) *Unbilled Revenues*

Revenues are recorded when earned. Customers' meters are read and bills are prepared monthly based on billing cycles. The District estimates the amount of water service rendered from the latest date of each meter-reading cycle to December 31 of each year and is accrued as unbilled revenues

(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 \$5,000.

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

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017
(Continued)

(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 \$12,759 as of December 31, 2017.

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

(k) *Customer deposits*

Deposits are 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.

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017
(Continued)

(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.

(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 pronouncement.

In March 2016, the GASB issued Statement No. 82, *Pension Issues* ("GASB 82"). GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements that arose during the implementation of GASB Statement No. 68. GASB 82 is effective for the District beginning with its year ending December 31, 2017. The adoption of this standard did not have a material effect on the District's financial statements.

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended December 31, 2017
 (Continued)

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

GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* (“GASB 75”). GASB 75 replaces Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits (“OPEB”). In addition, GASB 75 details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. GASB 75 will be effective for the District beginning with its year ending December 31, 2018. The impact of this pronouncement 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.

NOTE 3 – Cash and cash equivalents

Cash and cash equivalents as of December 31, 2017 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and cash equivalents	\$ 60,822
Restricted cash and cash equivalents	<u>324,305</u>
Total cash and cash equivalents	<u>\$ 385,127</u>

Cash and cash equivalents as of December 31, 2017 consist of the following:

Cash on hand	\$ 900
Deposits with financial institutions	<u>384,227</u>
Total cash and cash equivalents	<u>\$ 385,127</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. As of December 31, 2017, the District deposits with financial institutions are fully collateralized by federal depository insurance up to \$250,000, and then by collateral held by the District’s agent in the District’s name.

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017
(Continued)

NOTE 4 – Capital assets

Capital asset activity for the calendar year ended December 31, 2017, was as follows:

	<u>12/31/2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/2017</u>
Land (non-depreciable)	\$ 214,714	\$ -	\$ -	\$ 214,714
Structures	500,264	-	-	500,264
Collecting & Impounding Reservoirs	288,203	-	-	288,203
Lakes, rivers and intakes	2,173,720	-	-	2,173,720
Pumping Equipment	359,439	5,660	-	365,099
Water Treatment Equipment	4,929,868	-	-	4,929,868
Distribution reservoir & standpipes	4,079,847	-	-	4,079,847
Transmission & Distribution mains	20,190,991	-	-	20,190,991
Meters & meter installation	511,397	1,200	-	512,597
Hydrants	2,969	-	-	2,969
Other plant & misc equipment	883,373	4,204	-	887,577
Lovely Project plant	153,129	-	153,129	-
Office Furniture & equipment	177,296	-	-	177,296
Transportation equipment	324,570	-	68,717	255,853
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
	<u>34,908,806</u>	<u>11,064</u>	<u>221,846</u>	<u>34,698,024</u>
Less: Accumulated depreciation				
Structures	128,441	10,502	-	138,943
Collecting & Impounding Reservoirs	68,624	1,555	-	70,179
Lakes, rivers and intakes	640,718	43,475	-	684,193
Pumping Equip	313,930	10,920	-	324,850
Water Treatment Equipment	1,570,376	94,591	-	1,664,967
Distribution reservoir & standpipes	1,098,991	81,505	-	1,180,496
Transmission & Distribution mains	8,787,165	496,376	-	9,283,541
Meters & meter installation	227,037	13,914	-	240,951
Hydrants	2,110	89	-	2,199
Other plant & misc equip	799,288	12,541	-	811,829
Lovely Project plant	44,140	2,601	46,741	-
Office Furniture & equipment	175,415	560	-	175,975
Transportation equipment	300,678	5,438	68,717	237,399
Tools	29,407	80	-	29,487
Lab Equipment	14,401	-	-	14,401
Power Operated equipment	43,192	-	-	43,192
Communication equipment	16,896	-	-	16,896
Power generation equipment	4,500	3,000	-	7,500
	<u>14,265,309</u>	<u>777,147</u>	<u>115,458</u>	<u>14,926,998</u>
Capital Assets-net	\$ <u>20,643,497</u>	\$ <u>(766,083)</u>	\$ <u>106,388</u>	\$ <u>19,771,026</u>

Depreciation expense was \$777,147 for the year.

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017
(Continued)

NOTE 5 – Long-term debt

Long-term debt activity for the calendar year ended December 31, 2017, was as follows:

KIA

The amounts shown below in the summary of debt obligations 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, 2017 is summarized below:

<u>Note Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2016 Debt Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>2017 Debt Outstanding</u>
KIA	\$ 1,329,826	2027	3%	\$ 606,852		\$ 49,924	\$ 556,928

The current amount due for the note payable as of December 31, 2017, is \$51,443. 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>
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	57,993	9,454	67,447
2023-2027	283,584	19,226	302,810
	<u>\$ 556,928</u>	<u>\$ 83,117</u>	<u>\$ 640,045</u>

KACO

The amount shown below in the summary of debt obligations 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, 2017 is summarized below:

<u>Capital Lease Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2016 Lease Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>2017 Lease Outstanding</u>
KACO	\$ 200,000	2025	1.85%	\$ 116,222		\$ 10,000	\$ 106,222

The current amount due for the capital lease as of December 31, 2017, is \$10,000. The collateral for the revenue is service revenue. Payments accrue monthly. Future capital lease obligations are as follows:

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017
(Continued)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	15,000	2,146	17,146
2023-2025	41,222	2,576	43,798
	<u>\$106,222</u>	<u>\$19,316</u>	<u>\$125,538</u>

KRW Bond Refunding

The amount shown below in the summary of debt obligations 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, along with a premium of 22,363 to be amortized annually (\$753) over the life of the bond.

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, 2017 is summarized below:

<u>Bond Issues</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2016 Debt Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>2017 Debt Outstanding</u>
Refunding KRW	\$ 2,010,000	2045	2.1-4.1%	1,980,000		50,000	1,930,000

The current amount due for the bonds as of December 31, 2017, is \$55,000. The collateral for the revenue is service revenue. Payments accrue monthly. Future bond obligations are as follows:

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017
(Continued)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	55,000	88,326	143,326
2019	55,000	84,506	139,506
2020	55,000	81,189	136,189
2021	60,000	77,720	137,720
2022	60,000	73,548	133,548
2023-2027	330,000	303,726	633,726
2028-2032	395,000	222,472	617,472
2033-2037	430,000	142,494	572,494
2038-2042	325,000	64,473	389,473
2043-2045	165,000	10,148	175,148
	<u>\$ 1,930,000</u>	<u>\$ 1,148,599</u>	<u>\$ 3,078,599</u>

A summary of activity in debt obligations of the District as of December 31, 2017 is as follows:

	<u>Beginning Balance 12/31/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance 12/31/2017</u>	<u>Due in One Year</u>	<u>Due Beyond One Year</u>
KIA Loan	\$ 606,852	\$ -	\$ 49,924	\$ 556,928	\$ 51,443	\$ 505,485
KACO Lease	116,222	-	10,000	106,222	10,000	96,222
KRW Bond Ref	1,980,000	-	50,000	1,930,000	55,000	1,875,000
Accrued Premium	21,140	-	754	20,386	753	19,633
Total Long-Term Debt	<u>2,724,214</u>	<u>-</u>	<u>110,678</u>	<u>2,613,536</u>	<u>117,196</u>	<u>2,496,340</u>
Net Pension Liability	<u>1,064,280</u>	<u>191,443</u>	<u>-</u>	<u>1,255,723</u>	<u>-</u>	<u>1,255,723</u>
Total Debt Obligations	<u>\$ 3,788,494</u>	<u>\$ 191,443</u>	<u>\$ 110,678</u>	<u>\$ 3,869,259</u>	<u>\$ 117,196</u>	<u>\$ 3,752,063</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 General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members. CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

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

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017
(Continued)

Contributions: Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending December 31, 2017 employers were required to contribute 18.68% of the member’s salary. During the year ended December 31, 2017, the District contributed \$82,452 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

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

At December 31, 2017, the District reported a \$1,255,723 liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2016 was determined using standard roll-forward techniques. The District’s proportion of the net pension liability was based on contributions to CERS during the fiscal year ended December 31, 2017. At December 31, 2017 the District’s proportion was .02550% (percent).

For the year ended December 31, 2017, the District recognized pension expense of \$85,145 related to CERS. At December 31, 2017, 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	\$ 5,482	\$ -
Changes of assumptions	66,522	-
Net difference between projected and actual earnings on pension plan investments	118,051	-
Changes in proportion and differences between District contributions and proportionate share of contributions	45,405	-
District contributions subsequent to the measurement date	82,452	-
	\$ 317,912	\$ -

The \$82,452 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, 2018.

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017
(Continued)

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

	<u>Year Ended</u>
2018	\$ 47,092
2019	47,092
2020	47,092
2021	47,092
2022	47,092
	<u>\$ 235,460</u>

Actuarial Methods and Assumptions—The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2016. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0 % average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

The following represents the changes in assumptions from the prior valuation to the valuation performed as of June 30, 2016:

- The assumed investment rate of return remained at 7.5%.
- The assumed rate of inflation remained at 3.25%.
- The assumed rate of wage inflation remained at .75%.
- Payroll growth assumption remained at 4%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017
(Continued)

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. 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 target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	<u>2.0%</u>	-0.25%
	<u>100.0%</u>	

Discount rate: 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 members 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 assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Martin County Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017
(Continued)

Sensitivity of the District's proportionate share of net pension liability to changes in the discount rate: The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) 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	1,564,585	1,255,723	990,595

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the pension plan: At December 31, 2017, there are no payables to 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 – Subsequent events

The district has evaluated subsequent events through April 9, 2020, 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, 2017

	Reporting Fiscal Year (Measurement Date) 2017 (2016)	Reporting Fiscal Year (Measurement Date) 2016 (2015)	Reporting Fiscal Year (Measurement Date) 2015 (2014)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:			
Districts' proportion of the net pension liability	0.03%	0.02%	0.02%
District's proportionate share of the net pension liability	\$ 1,255,723	\$ 1,064,280	\$ 750,000
State's proportionate share of the net pension liability associated with the District	-	-	-
Total	<u>\$ 1,255,723</u>	<u>\$ 1,064,280</u>	<u>\$ 750,000</u>
District's covered-employee payroll	\$ 693,688	\$ 593,711	\$ 559,494
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	181.02%	179.26%	134.05%
Plan fiduciary net position as a percentage of the total pension liability	59.00%	59.97%	66.80%

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

See the accompanying notes to the required supplementary information.

Martin County Water District
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
Year Ended December 31, 2017

COUNTY EMPLOYEE'S RETIREMENT SYSTEM:	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 82,452	\$ 84,846	\$ 104,892	\$ 97,385
Contributions in relation to the contractually required contribution	<u>82,452</u>	<u>84,846</u>	<u>104,892</u>	<u>\$ 97,385</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 574,250	\$ 693,688	\$ 593,711	\$ 559,494
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	14.36%	12.23%	17.67%	17.41%

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

See the accompanying notes to the required supplementary information.

Martin County Water District
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2017

(1) CHANGES OF ASSUMPTIONS

CERS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016:

- The assumed investment rate of return remained at 7.50%
- The assumed rate of inflation remained at 3.25%.
- The assumed rate of wage inflation remained at 0.75%.
- Payroll growth assumption remained at 4.00%.
- The morality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

CERS

The actuarially determine contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0 % average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

(3) CHANGES OF BENEFITS

There were no changes of benefit terms for CERS.

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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 9, 2020.

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, 2017-001.

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: 2017-002, 2017-003, and 2017-004.

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 April 9, 2020.

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
April 9, 2020

MARTIN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2017

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

2017-001 Customer Security Deposit Liability

Condition: Customer security deposits log could not be reconciled to the general ledger.

Criteria: Internal controls should be in place to reconcile the total customer security deposit log to the customer security deposit liability in the general ledger.

Cause: There were no internal controls in place to maintain the customer security deposits log.

Effect: The District would not be able to accurately account for customers security deposits.

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.

Views of Responsible Officials: 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.

MARTIN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2017

Compliance Findings

2017-002

Condition: The utility was not paying bills according to KRS 65.140.

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

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

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

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

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

2017-003

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

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

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

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

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

Views of Responsible Officials: 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, 2017

2017-004

Condition: The District did not timely file their 2017 financial statements and 2017 audit to the Department of Local Government.

Criteria: Per KRS 65A.030, the special purpose government entity must prepare a financial statement and be audited annually.

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

Effect: The state could withhold future funding.

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

Views of Responsible Officials: 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, 2017

2016-001

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

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.

Current Status: Finding was not corrected in current year.

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.

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.

Current Status: Finding was not corrected in current year.

2016-003

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

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.

Current Status: Finding was not corrected in current year.

2016-004

Condition: Per Kentucky Special Purpose Government Entities (SPGE) required filings by the Department for Local Government, the District did not timely file their 2016 audit.

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

Current Status: Finding was not corrected in current year.