

# **Martin County Water District**

**Inez, Kentucky**

Annual Financial Report

Year Ended December 31, 2018

# Martin County Water District

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December 31, 2018

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## **Financial Section**



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## **Independent Auditor's Report**

The Board of Directors  
Martin County Water District  
Inez, Kentucky

We were engaged to audit the accompanying financial statements of the business-type activities of the Martin County Water District, as of and for the year ended December 31, 2018, which collectively comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

### ***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 opinions on these financial statements based on our conducting our audits in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### ***Basis for Disclaimer of Opinion***

Martin County Water District was not able to produce sufficient appropriate audit evidence related to accounts receivable, customer deposits and pension expense. As a result of this matter, we were unable to determine whether any adjustments might have been necessary related to these accounts in the statement of net position, statements of revenues and expenses and changes in net position or statement of cash flows.

### ***Disclaimer of Opinion***

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

## Independent Auditor's Report (Concluded)

### **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 on pages 16 and 17 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 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 audits 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 require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2020, on our consideration of Martin County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Martin County Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Martin County Water District's internal control over financial reporting and compliance.

*Wade Stables P.C.*

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

September 30, 2020  
Hannibal, Missouri

## **Basic Financial Statements**

**Martin County Water District**

Statement of Net Position

December 31, 2018

	<u>2018</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 105,427
Accounts receivable (net)	201,201
Unbilled revenue	292,715
Prepaid expenses	27,243
Inventory	8,377
<b>Total Current Assets</b>	<u>634,963</u>
<b>Restricted Assets</b>	
Cash - Customer deposits	152,790
Cash - Debt service	141,558
Cash - Grants	8,299
<b>Total Restricted Assets</b>	<u>302,647</u>
<b>Capital Assets</b>	
Transmission & distrib. mains	20,273,944
Water Treatment Equipment	4,929,868
Reservoirs & standpipes	4,361,724
Lakes, rivers & intakes	2,173,720
Other plant, equipment & tools	1,435,381
Meters & hydrants	516,766
Structures	500,264
Transportation equipment	329,570
Office furniture & equipment	177,296
Land	214,714
Less: Accumulated depreciation	<u>(15,775,689)</u>
<b>Total Capital Assets</b>	<u>19,137,558</u>
<b>TOTAL ASSETS</b>	<u>20,075,168</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to pensions	<u>261,494</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>261,494</u>

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

**Martin County Water District**

Statement of Net Position

December 31, 2018

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	<u>2018</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	1,083,414
Payroll tax liabilities	36,189
Accrued interest	35,597
Sales tax payable	6,428
Customer deposits	137,155
Current portion of long-term debt	118,007
<b>Total Current Liabilities</b>	<u>1,416,790</u>
<b>Long-Term Liabilities</b>	
Long-term portion of debt (net)	2,378,335
Net pension liability	1,459,298
<b>TOTAL LIABILITIES</b>	<u>5,254,423</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	151,042
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>151,042</u>
<b>NET POSITION</b>	
Net investment in capital assets	16,641,216
Restricted for customer deposits	152,790
Restricted for debt service	141,558
Restricted for capital projects	8,299
Unrestricted	(2,012,666)
<b>TOTAL NET POSITION</b>	<u>\$ 14,931,197</u>

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



**Martin County Water District**  
Statement of Revenues and Expenses and Changes in Net Position  
Year Ended December 31, 2018

	<b>2018</b>
<b>Operating Revenues</b>	
Water sales	\$ 2,013,260
Other sales	47,867
Penalties	70,747
Water surcharge	150,162
Total Operating Revenues	2,282,036
<b>Operating Expenses</b>	
Salaries and wages	580,849
Employee benefits	587,491
Purchased water	464,330
Chemicals	161,897
Materials & supplies	263,840
Contractual services	233,504
Rental	126,166
Transportation	63,986
Insurance	75,931
Payroll taxes	44,598
Regulatory assess fees	4,071
Depreciation	780,131
Miscellaneous	39,442
Total Operating Expenses	3,426,236
<b>Operating Income</b>	(1,144,200)
<b>Non-operating Income (Expenses)</b>	
Interest expense	(108,055)
Interest income	898
<b>Total Non-operating Income (Expenses)</b>	(107,157)
<b>Change in Net Position Before Contributions</b>	(1,251,357)
<b>Capital grants and contributions</b>	76,350
<b>Change in Net Position</b>	(1,175,007)
<b>Net Position - Beginning</b>	16,106,204
<b>Net Position - Ending</b>	\$ 14,931,197

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

**Martin County Water District**Statement of Cash Flows  
Year Ended December 31, 2018

	<u>2018</u>
<b>Cash Flows From Operating Activities</b>	
Cash received from customers	\$ 2,297,927
Cash payments for goods and services	(1,163,419)
Cash payments for employees and benefits	(817,252)
<b>Net Cash Provided by Operating Activities</b>	<u>317,256</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Payments for capital assets	(146,484)
Principal repayments	(116,443)
Interest and other charges paid	(108,630)
Capital grants	76,350
<b>Net Cash Provided By Capital and Related Financing Activities</b>	<u>(295,207)</u>
<b>Cash Flows From Investing Activities</b>	
Interest received	898
<b>Net Cash Provided By Investing Activities</b>	<u>898</u>
<b>Net Increase (Decrease) In Cash and Cash Equivalents</b>	22,947
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>385,127</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 408,074</u>
<b>Reconciliation of Cash and Cash Equivalents</b>	
Cash and cash equivalents	\$ 105,427
Restricted cash and cash equivalents	
Cash - Customer deposits	152,790
Cash - Debt service	141,558
Cash - Grants	8,299
<b>Total Cash and Cash Equivalents</b>	<u>\$ 408,074</u>
<b>Reconciliation Of Operating Income To Net Cash Provided By Operating Activities</b>	
Operating income	\$ (1,144,200)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	780,131
Change in assets and liabilities:	
Accounts receivable	69,361
Unbilled receivables	(53,470)
Prepaid expenses	(17,713)
Accounts payable	313,228
Customer deposits	(25,076)
Payroll liabilities	(15,349)
Sales tax payable	(691)
Net pension obligation	411,035
<b>Net Cash Provided By Operating Activities</b>	<u>\$ 317,256</u>

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

**Notes to the  
Financial Statements**

**1) Summary of Significant Accounting Policies**

The Martin County Water District (the District) was authorized by action of the Martin County Fiscal Court. The Martin County Water District Side A was formed December 1, 1962. On August 31, 1996 the Fiscal Court, with approval of the Kentucky Public Service Commission, merged Section A and B. The District is a Special Purpose Government Entity (SPGE) recognized by the Kentucky department of Local Government. The District is governed by the Martin county Utility Board, which is comprised of Commissioners appointed by the Martin County Fiscal Court. The District provides potable water directly to residential and commercial customers in the Martin County area.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District has no component units.

The District's annual financial report includes all accounts of the Martin County Water District. The accounting policies of the District conform to generally accepted accounting principles. The following is a summary of such significant policies:

**A) Fund Accounting**

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of the District constitute the equivalent of enterprise funds, and therefore, only these funds are presented. These funds consist of a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses.

**B) Capital Assets and Long-Term Liabilities**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net position) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net position.

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

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

**1) Significant Accounting Policies (Concluded)**

**C) Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

**D) Budgets and Budgetary Accounting**

The District's Board of Commissioners receives and approves an annual budget from management each calendar year fulfilling the requirement to prepare an annual budget as required by all SPGE's for the Kentucky Department of Local Government.

**E) Restricted 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.

**F) Inventory**

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

**G) Cash and Cash Equivalents**

The District considers all cash and cash equivalents to include all demand deposits as well as short-term investments with a maturity of less than three months from the date acquired by the District.

**H) 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.

**I) Pensions**

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

**2) Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**3) Accounts Receivable**

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

**4) Long-Term Debt**

**KIA**

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

**KACO**

The District purchased vehicles and equipment by obtaining \$200,000 of funding from the Kentucky Association of Counties (KACO). Payments accrue monthly, with a maturity date of 2025 and interest rate of 1.85%. The collateral for the loan is service revenue.

**KRW Bond Refunding**

The District initiated 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 2.10 – 4.10% maturing on February 1, 2044. The premium on the refunding, totaling \$22,363 is presented as an increase in the face amount of the long-term debt payable and is being amortized using the straight-line method over the term of the debt. Amortization for the year ended December 31, 2018 amounted to \$753.

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

**4) Long-Term Debt (Continued)**

The following is a summary of outstanding debt as of December 31, 2018:

	<u>2018</u>
<b>Series 2015 E Revenue Bonds</b>	
\$2,010,000 Revenue Bonds due in yearly installments of \$30,000 to \$55,000 from January 2016 through June 2045, interest rates at 2.10% to 4.10%.	\$ 1,875,000
<b>Kentucky Infrastructure Authority Loan</b>	
\$1,329,826.43 loan due in monthly installments of \$5,620.58 from 1991 through June 2027, interest rate is 3.00%.	505,485
<b>Kentucky Association of Counties Equipment Lease</b>	
\$200,000 variable rate lease due in annual installments of \$5,000 to \$15,000 from March 20, 2006 through 2025, base rental interest of 4.25%.	<u>96,222</u>
Total Debt Payable	2,476,707
Add: Unamortized Premium	19,635
Less: Current Portion	<u>(118,007)</u>
Long-Term Portion of Debt Payable	<u><u>\$ 2,378,335</u></u>

The following is a summary of bond principal requirements as of December 31:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 118,007	\$ 86,143	\$ 204,150
2020	124,620	82,577	207,197
2021	131,281	78,829	210,110
2022	132,993	74,382	207,375
2023	134,757	69,887	204,644
2024-2028	595,049	285,769	880,818
2029-2033	405,000	207,855	612,855
2034-2038	415,000	125,729	540,729
2039-2043	310,000	51,453	361,453
2044-2048	110,000	4,509	114,509
Totals	<u><u>\$ 2,476,707</u></u>	<u><u>\$ 1,067,133</u></u>	<u><u>\$ 3,543,840</u></u>

The changes in long-term debt for the year ended December 31, 2018 are as follows:

	<u>2018</u>
Balance, Beginning	\$ 2,593,150
Additions	-
Retirements	<u>(116,443)</u>
Balance, Ending	<u><u>\$ 2,476,707</u></u>

**5) Cash and Investments**

The carrying amount of the District's deposits was \$408,074 at year end December 31, 2018, and the bank balances totaled \$422,928. As of December 31, 2018, \$250,000 was covered by federal depository insurance and \$76,560 was collateralized with securities held by the financial institution in the District's name and \$96,368 was deposited in institutional liquidity funds.

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

**6) Litigation**

At December 31, 2018, there were no claims or lawsuits pending against the District.

**7) Concentration of Credit Risk**

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

**8) Capital Assets**

Capital assets during the year ended December 31, 2018 consisted of the following:

	<u>Balance at January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at December 31</u>
Transmission & Distrib. Mains	\$ 20,199,357	\$ 74,587	\$ -	\$ 20,273,944
Water Treatment Equipment	4,929,868	-	-	4,929,868
Reservoirs & Standpipes	4,359,705	2,019	-	4,361,724
Lakes, rivers & intakes	2,173,720	-	-	2,173,720
Other plant, equipment & tools	1,371,703	63,678	-	1,435,381
Meters & hydrants	515,566	1,200	-	516,766
Structures	500,264	-	-	500,264
Transportation Equipment	324,570	5,000	-	329,570
Office Furniture & Equipment	177,296	-	-	177,296
	<u>34,552,049</u>	<u>146,484</u>	<u>-</u>	<u>34,698,533</u>
Accumulated Depreciation	(14,995,558)	(780,131)	-	(15,775,689)
Construction in Progress	-	-	-	-
Land	214,714	-	-	214,714
Total Capital Assets	<u>\$ 19,771,205</u>	<u>\$ (633,647)</u>	<u>\$ -</u>	<u>\$ 19,137,558</u>

Depreciation expense for the year ended December 31, 2018 amounted to \$780,131.

**9) Related Party Transactions**

There were no related party transactions during the year ended December 31, 2018.



**10) Pension Plan:**

**Plan Description:**

Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members. CERS issues a publicly available financial report included in Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

**Benefits Provided:**

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

**Contributions:**

Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending December 31, 2018 employers were required to contribute 14.58% of the member's salary. During the year ended December 31, 2018, the District contributed \$85,993 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, 2018, the District reported a \$1,459,298 liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2017. 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, 2018. At December 31, 2018 the District's proportion was .023961%.

For the year ended December 31, 2018, the District recognized pension expense of \$233,503 related to CERS. At December 31, 2018, 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	\$ 47,598	\$ 21,361
Changes in assumptions	142,616	-
Net difference between projected and actual earnings on pension plan investments	67,858	85,356
Changes in proportion and differences between District contributions and proportionate share of contributions	3,422	44,325
Total	<u>\$ 261,494</u>	<u>\$ 151,042</u>

**10) Pension Plan (Continued)**

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

<u>Year Ended</u>	
2019	\$ 100,881
2020	41,134
2021	(23,731)
2022	(7,832)
2023	-
	<u>\$ 110,452</u>

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

The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	27 years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00% average
Investment Rate of Return	7.50%

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 for one year for females). For disabled members, the RP-2000 Combined Disability Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

**10) Pension Plan (Concluded)**

**Long-Term Expected Rate of Return**

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50%	4.50-5.50%
Non US Equity	17.50%	6.50-7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	3.75-8.5%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
Total	100.00%	6.09%

**Discount Rate:**

The discount rate used to measure the total pension liability was 5.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return of 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$ 1,837,105	\$ 1,459,298	\$ 1,142,762

**Pension Plan Fiduciary Net Position:**

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

**Payables to the Pension Plan:**

There are no payables to CERS at December 31, 2018.

**11) Grants**

In August 2018, the District received a grant from the Appalachian Regional Commissioner (ARC) in the amount of \$1,200,000. The District intends to use the proceeds from this grant to improve the Martin County Water System. As of December 31, 2018, the District has used \$76,350 of these funds.

**12) Subsequent Events**

Beginning January 1, 2020, the District will be utilizing the expertise of an outside management company to aid in operations of the District. Subsequent events have been considered through September 30, 2020, the date the financial statements were available to be issued.

## **Required Supplementary Information**

**Martin County Water District**

Required Supplementary Information

Schedule of the District's Proportionate Share of the Net Pension Liability

December 31, 2018

	Reporting Fiscal Year (Measurement Date) 2018 (2017)	Reporting Fiscal Year (Measurement Date) 2017 (2016)	Reporting Fiscal Year (Measurement Date) 2016 (2015)	Reporting Fiscal Year (Measurement Date) 2015 (2014)
<b>County Employee's Retirement System:</b>				
District's proportion of the net pension liability	0.02%	0.03%	0.02%	0.02%
District's proportionate share of the net pension liability	\$ 1,459,298	\$ 1,255,723	\$ 1,065,280	\$ 750,000
State's proportionate share of the net pension liability associated with the District	-	-	-	-
Total	<u>\$ 1,459,298</u>	<u>\$ 1,255,723</u>	<u>\$ 1,065,280</u>	<u>\$ 750,000</u>
District's covered-employee payroll	\$ 588,225	\$ 693,688	\$ 593,711	\$ 559,494
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	248.08%	181.02%	179.26%	134.05%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	59.00%	59.97%	66.80%

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

**Martin County Water District**  
 Required Supplementary Information  
 Schedule of Contributions  
 December 31, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>County Employee's Retirement System:</b>					
Contractually required contribution	\$ 85,993	\$ 82,452	\$ 84,846	\$ 104,892	\$ 97,385
Contributions in relation to the contractually required contribution	85,993	82,452	84,846	104,892	97,385
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 588,225	\$ 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	14.58%	14.36%	12.23%	17.67%	17.41%

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

## **Compliance Section**





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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Martin County Water District (District), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 30, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Martin County Water District's internal control over financial reporting (internal control) 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 Martin County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2018-001 to be a material weakness.

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. We consider the deficiency described in the accompany schedule of findings and responses as item 2018-002 to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Martin County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 2018-003, 2018-004, and 2018-005.

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

**District's Response to Findings**

Martin County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Martin County Water 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.

**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 organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Wade Stables P.C.*

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

September 30, 2020  
Hannibal, Missouri

**Findings – Financial Statement Audit**

**Material Weaknesses**

**Finding 2018-001 - Accounts Receivable:**

**Criteria:**

Internal controls should be in place to reconcile the total accounts receivable to the account's receivable in the general ledger.

**Condition:**

A detailed accounts receivable aging report as of December 31, 2018 could not be produced.

**Cause:**

There were no internal controls in place to maintain a detailed aged receivable listing.

**Effect:**

The District would not be able to accurately account for accounts receivables or related revenues.

**Recommendation:**

Management should implement internal controls to track accounts receivable and reconcile the asset to the general ledger on a monthly basis.

**Views of Responsible Officials:**

The District will produce an aged accounts receivable trial balance on a monthly basis and reconcile the report to the general ledger on a monthly basis.

**Significant Deficiencies**

**Finding 2018-002 - Customer Security Deposit Liability:**

**Criteria:**

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

**Condition:**

The customer security deposits log could not be reconciled to 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 the customer security deposit log to the customer security deposit liability regularly.

**Views of Responsible Officials:**

The Board will 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 customer deposits log to the general ledger.

**Compliance Findings**

**2018-003 - Payments Remitted in Accordance with State Statutes**

**Criteria:**

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

**Condition:**

The District was not paying bills according to KRS 65.140.

**Cause:**

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

**Effect:**

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

**Recommendation:**

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

**Views of Responsible Officials:**

Management will work with vendors to make payment plans were necessary and work toward making payments within 30 days as required.

**2018-004 – Debt Service Requirements**

**Criteria:**

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

**Condition:**

The District is not in compliance with loan covenants.

**Cause:**

The District 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 a plan to fully fund depreciation and replacement reserve account per loan covenant.

**2018-005 - Audited Financial Statements Filing Requirements**

***Criteria:***

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

***Condition:***

The District did not timely file their 2018 financial statements and 2018 audit to the Department of Local Government.

***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.