

Martin County Water District

Inez, Kentucky

Annual Financial Report

Years Ended December 31, 2019 and 2018

Martin County Water District

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December 31, 2019 and 2018

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Financial Section



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 years ended December 31, 2019 and 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 conducting the 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 and customer deposits. In addition, we were not able to obtain sufficient appropriate audit evidence for various income and expense accounts. As a result of these matters, we were unable to determine whether any adjustments might have been necessary related to these accounts in the statements of net position, statements of revenues and expenses and changes in net position and statements 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 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 November 13, 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

November 13, 2020
Hannibal, Missouri

Basic Financial Statements

Martin County Water DistrictStatements of Net Position
Years Ended December 31, 2019 and December 31, 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 47,341	\$ 105,427
Accounts receivable (net)	121,707	201,201
Unbilled revenue	317,549	292,715
Prepaid expenses	13,780	27,243
Inventory	8,377	8,377
Total Current Assets	<u>508,754</u>	<u>634,963</u>
Restricted Assets		
Cash - Customer deposits	157,928	152,790
Cash - Debt service	120,239	141,558
Cash - Grants	89	8,299
Total Restricted Assets	<u>278,256</u>	<u>302,647</u>
Capital Assets		
Transmission & distrib. mains	20,275,959	20,273,944
Water treatment equipment	4,929,868	4,929,868
Reservoirs & standpipes	4,361,724	4,361,724
Lakes, rivers & intakes	2,173,720	2,173,720
Other plant, equipment & tools	1,449,003	1,435,381
Meters & hydrants	516,766	516,766
Structures	500,264	500,264
Transportation equipment	346,665	329,570
Office furniture & equipment	184,349	177,296
Land	214,714	214,714
Less: Accumulated depreciation	<u>(16,565,983)</u>	<u>(15,775,689)</u>
Total Capital Assets	<u>18,387,049</u>	<u>19,137,558</u>
TOTAL ASSETS	<u>19,174,059</u>	<u>20,075,168</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	<u>286,346</u>	<u>261,494</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>286,346</u>	<u>261,494</u>

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

Martin County Water DistrictStatements of Net Position
Years Ended December 31, 2019 and December 31, 2018

	<u>2019</u>	<u>2018</u>
LIABILITIES		
Current Liabilities		
Accounts payable	850,181	1,083,414
Payroll tax liabilities	41,693	36,189
Accrued interest	34,469	35,597
Sales tax payable	7,795	6,428
Customer deposits	142,391	137,155
Current portion of long-term debt	124,620	118,007
Total Current Liabilities	<u>1,206,149</u>	<u>1,416,790</u>
Long-Term Liabilities		
Long-term portion of debt (net)	2,252,962	2,378,335
Net pension liability	1,739,483	1,459,298
TOTAL LIABILITIES	<u>5,198,594</u>	<u>5,254,423</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	93,003	151,042
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>93,003</u>	<u>151,042</u>
NET POSITION		
Net investment in capital assets	16,009,467	16,641,216
Restricted for customer deposits	157,928	152,790
Restricted for debt service	120,239	141,558
Restricted for capital projects	89	8,299
Unrestricted	(2,118,915)	(2,012,666)
TOTAL NET POSITION	<u>\$ 14,168,808</u>	<u>\$ 14,931,197</u>

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

Martin County Water DistrictStatements of Revenues and Expenses and Changes in Net Position
Years Ended December 31, 2019 and December 31, 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Water sales	\$ 2,220,203	\$ 2,013,260
Other sales	67,495	47,867
Penalties	76,437	70,747
Water surcharge	164,953	150,162
Total Operating Revenues	<u>2,529,088</u>	<u>2,282,036</u>
Operating Expenses		
Salaries and wages	757,165	580,849
Employee benefits	473,677	587,491
Purchased water	362,568	464,330
Chemicals	172,529	161,897
Materials & supplies	91,597	263,840
Contractual services	241,872	233,504
Rental	45,380	126,166
Transportation	96,271	63,986
Insurance	73,924	75,931
Bad debt	1,731	-
Payroll taxes	58,684	44,598
Regulatory assess fees	4,526	4,071
Depreciation	790,294	780,131
Miscellaneous	44,870	39,442
Total Operating Expenses	<u>3,215,088</u>	<u>3,426,236</u>
Operating Income	<u>(686,000)</u>	<u>(1,144,200)</u>
Non-operating Income (Expenses)		
Interest expense	(93,472)	(108,055)
Interest income	83	898
Total Non-operating Income (Expenses)	<u>(93,389)</u>	<u>(107,157)</u>
Change in Net Position Before Contributions	(779,389)	(1,251,357)
Capital grants and contributions	<u>17,000</u>	<u>76,350</u>
Change in Net Position	(762,389)	(1,175,007)
Net Position - Beginning	<u>14,931,197</u>	<u>16,106,204</u>
Net Position - Ending	<u>\$ 14,168,808</u>	<u>\$ 14,931,197</u>

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

Martin County Water District

Statements of Cash Flows
 Years Ended December 31, 2019 and December 31, 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Cash received from customers	\$ 2,588,984	\$ 2,297,927
Cash payments for goods and services	(1,348,671)	(1,163,419)
Cash payments for employees and benefits	(1,086,728)	(817,252)
Net Cash Provided by Operating Activities	<u>153,585</u>	<u>317,256</u>
Cash Flows From Capital and Related Financing Activities		
Payments for capital assets	(39,785)	(146,484)
Principal repayments	(118,007)	(116,443)
Interest and other charges paid	(95,353)	(108,630)
Capital grants	17,000	76,350
Net Cash Provided By Capital and Related Financing Activities	<u>(236,145)</u>	<u>(295,207)</u>
Cash Flows From Investing Activities		
Interest received	83	898
Net Cash Provided By Investing Activities	<u>83</u>	<u>898</u>
Net Increase (Decrease) In Cash and Cash Equivalents	(82,477)	22,947
Cash and Cash Equivalents - Beginning of Year	<u>408,074</u>	<u>385,127</u>
Cash and Cash Equivalents - End of Year	<u>\$ 325,597</u>	<u>\$ 408,074</u>
Reconciliation of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 47,341	\$ 105,427
Restricted cash and cash equivalents		
Cash - Customer deposits	157,928	152,790
Cash - Debt service	120,239	141,558
Cash - Grants	89	8,299
Total Cash and Cash Equivalents	<u>\$ 325,597</u>	<u>\$ 408,074</u>
Reconciliation Of Operating Income To Net Cash Provided By Operating Activities		
Operating income	\$ (686,000)	\$ (1,144,200)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	790,294	780,131
Change in assets and liabilities:		
Accounts receivable	79,494	69,361
Unbilled receivables	(24,834)	(53,470)
Prepaid expenses	13,463	(17,713)
Accounts payable	(233,233)	313,228
Customer deposits	5,236	(25,076)
Payroll liabilities	5,504	(15,349)
Sales tax payable	1,367	(691)
Other accrued liabilities	5,000	-
Net pension obligation	197,294	411,035
Net Cash Provided By Operating Activities	<u>\$ 153,585</u>	<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 insure 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 the statements of net position. 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 the statements of net position. 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) Summary of 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, customer deposits, and capital projects. 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, 2019 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, 2019:

	<u>2019</u>
Series 2015 E Revenue Bonds	
\$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%.	\$ 1,820,000
Kentucky Infrastructure Authority Loan	
\$1,329,826.43 loan due in monthly installments of \$5,620.58 from 1991 through June 2027, interest rate is 3.00%.	452,478
Kentucky Association of Counties Equipment Lease	
\$200,000 variable rate lease due in annual installments of \$5,000 to \$15,000 from March 20, 2006 through 2025, base rental interest of 4.25%.	<u>86,222</u>
Total Debt Payable	2,358,700
Add: Unamortized Premium	18,882
Less: Current Portion	<u>(124,620)</u>
Long-Term Portion of Debt Payable	<u><u>\$ 2,252,962</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>
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	141,574	65,221	206,795
2025-2029	528,475	267,982	796,457
2030-2034	420,000	192,474	612,474
2035-2039	400,000	109,359	509,359
2040-2044	290,000	39,152	329,152
2045-2049	55,000	1,127	56,127
Totals	<u>\$ 2,358,700</u>	<u>\$ 980,990</u>	<u>\$ 3,339,690</u>

The changes in long-term debt for the year ended December 31, 2019 are as follows:

	<u>2019</u>
Balance, Beginning	\$ 2,476,707
Additions	-
Retirements	<u>(118,007)</u>
Balance, Ending	<u><u>\$ 2,358,700</u></u>

5) Cash and Investments

The carrying amount of the District's deposits was \$325,597 at December 31, 2019, and the bank balances totaled \$357,940. As of December 31, 2019, \$250,000 was covered by federal depository insurance and \$11,463 was collateralized with securities held by the financial institution in the District's name and \$96,477 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, 2019, 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, 2019 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	\$ 20,273,944	\$ 2,015	\$ -	\$ 20,275,959
Water Treatment Equipment	4,929,868	-	-	4,929,868
Reservoirs & Standpipes	4,361,724	-	-	4,361,724
Lakes, rivers & intakes	2,173,720	-	-	2,173,720
Other plant, equipment & tools	1,435,381	18,644	(5,022)	1,449,003
Meters & hydrants	516,766	-	-	516,766
Structures	500,264	-	-	500,264
Transportation Equipment	329,570	17,095	-	346,665
Office Furniture & Equipment	177,296	7,053	-	184,349
	<u>34,698,533</u>	<u>44,807</u>	<u>(5,022)</u>	<u>34,738,318</u>
Accumulated Depreciation	(15,775,689)	(790,294)	-	(16,565,983)
Land	214,714	-	-	214,714
Total Capital Assets	<u>\$ 19,137,558</u>	<u>\$ (745,487)</u>	<u>\$ (5,022)</u>	<u>\$ 18,387,049</u>

Depreciation expense for the year ended December 31, 2019 amounted to \$790,294.

9) Related Party Transactions

There were no related party transactions during the year ended December 31, 2019.

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, 2019 employers were required to contribute 16.23% of the member's salary. During the year ended December 31, 2019, the District contributed \$101,193 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, 2019, the District reported a \$1,739,483 liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2018. An expected total pension liability as of June 30, 2018 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, 2019. At December 31, 2019 the District's proportion was .024733%.

For the year ended December 31, 2019, the District recognized pension expense of \$301,634 related to CERS. At December 31, 2019, 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	\$ 44,414	\$ 7,350
Changes in assumptions	176,055	-
Net difference between projected and actual earnings on pension plan investments	33,391	61,432
Changes in proportion and differences between District contributions and proportionate share of contributions	32,486	24,221
Total	<u>\$ 286,346</u>	<u>\$ 93,003</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>	
2020	\$ 117,812
2021	50,515
2022	23,025
2023	1,991
2024	-
	<u>\$ 193,343</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, 2019 were based on an actuarial valuation date of June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2018.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2019:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	26 years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.05% to 18.55%
Investment Rate of Return	6.25%

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 Disables 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	18.75%	4.30%
Non US Equity	18.75%	4.80%
Core Bonds	13.50%	1.35%
Specialty Credit/High Yield	15.00%	2.60%
Private Equity	10.00%	6.65%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Cash	1.00%	0.20%
Total	100.00%	3.89%

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	\$ 2,175,600	\$ 1,739,483	\$ 1,375,984

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, 2019.

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, 2019, the District has used \$93,350 of these funds.

12) Contingencies

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the District’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the District is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for the next fiscal year.

13) 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 November 13, 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, 2019

	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)	Reporting Fiscal Year (Measurement Date) 2017 (2016)	Reporting Fiscal Year (Measurement Date) 2016 (2015)	Reporting Fiscal Year (Measurement Date) 2015 (2014)
County Employee's Retirement System:					
District's proportion of the net pension liability	0.02%	0.02%	0.03%	0.02%	0.02%
District's proportionate share of the net pension liability	\$ 1,739,483	\$ 1,459,298	\$ 1,255,723	\$ 1,065,280	\$ 750,000
State's proportionate share of the net pension liability associated with the District	-	-	-	-	-
Total	<u>\$ 1,739,483</u>	<u>\$ 1,459,298</u>	<u>\$ 1,255,723</u>	<u>\$ 1,065,280</u>	<u>\$ 750,000</u>
District's covered-employee payroll	\$ 599,725	\$ 588,225	\$ 693,688	\$ 593,711	\$ 559,494
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	290.05%	248.08%	181.02%	179.26%	134.05%
Plan fiduciary net position as a percentage of the total pension liability	50.45%	53.54%	59.00%	59.97%	66.80%

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

Martin County Water District
 Required Supplementary Information
 Schedule of Contributions
 December 31, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
County Employee's Retirement System:						
Contractually required contribution	\$ 101,193	\$ 85,993	\$ 82,452	\$ 84,846	\$ 104,892	\$ 97,385
Contributions in relation to the contractually required contribution	101,193	85,993	82,452	84,846	104,892	97,385
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 599,725	\$ 588,225	\$ 574,250	\$ 693,688	\$ 593,711	\$ 559,494
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	16.23%	14.58%	14.36%	12.23%	17.67%	17.41%

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

Compliance Section



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Martin County Water District (District), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 13, 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 2019-001 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 2019-002 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 2019-003 and 2019-004.

**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 District'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 District'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

November 13, 2020
Hannibal, Missouri

Findings – Financial Statement Audit

Material Weaknesses

Finding 2019-001 - Accounts Receivable:

Criteria:

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

Condition:

A detailed accounts receivable aging report as of December 31, 2019 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 receivable 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 2019-002 - 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 to the customer security deposit log. Internal controls will be implemented to reconcile the customer deposits log to the general ledger.

Compliance Findings

2019-003 - 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 where necessary and work toward making payments within 30 days as required.

2019-004 – 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.