

Martin County Water District

Inez, Kentucky

Annual Financial Report

Year Ended December 31, 2020

Martin County Water District

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December 31, 2020

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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, 2020, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 of the Martin County Water District, as of December 31, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (Concluded)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of the District's proportionate share of the net pension liability, and schedule of contributions information on pages 3 through 7 and 21 through 22 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2021, 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

March 22, 2021
Hannibal, Missouri

MARTIN COUNTY WATER DISTRICT OF INEZ, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2020

As management of the Martin County Water District of Inez, Kentucky (the District), we offer readers of the District's audited financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2020.

OVERVIEW OF THE AUDITED FINANCIAL STATEMENTS

The financial statements presented in this report consist of the *statement of net position*, the *statement of revenues, expenses, and changes in net position*, and the *statement of cash flows*. The statement of net position provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for assessing the liquidity and financial flexibility of the District. The current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement reports the revenues and expenses during the period indicated and can be used to determine whether the District has successfully recovered all its costs through user fees and other charges. The primary purpose of the statement of cash flows is to provide information about the District's cash receipts and cash payments. This statement reports cash receipts, cash payments, and net changes in cash resulting from activities related to operations, capital and related financing, noncapital financing, and investing activities.

STATEMENT OF NET POSITION

The District's total net position in 2020 decreased by \$419,612 and ended the year at \$13,749,196.

Net position is comprised of Assets, Deferred outflows of resources related to pensions, Liabilities, and Deferred inflows of resources related to pensions.

Total assets decreased \$376,422 or 2.0% primarily due to decreases in capital assets of \$461,000, offset by an increase in current assets of \$67,000 and restricted assets of \$17,000. The decrease in capital assets is due to depreciation expense of \$787,000 exceeding net asset additions of \$115,000. The District inventoried capital assets and removed any assets no longer in service. Additional information regarding capital assets is discussed in the capital assets section below. The increase in current assets is due to increases in accounts receivable of \$226,000 and cash of \$106,000, offset by a decrease in unbilled revenue of \$255,000. The District's billing software was replaced, and the District now collects and deposits sewer payments. The increase in cash mainly represents the District's payable to Martin County Sanitation. The increase in restricted assets is mainly due to increases in debt service reserves for the principal payments and customer deposits. Restricted cash is discussed in detail in the restricted assets section.

Deferred outflows consist of the net difference between projected and actual earnings on pension plan investments and decreased by \$151,000. Differences between expected and actual experience and changes in assumptions decreased by \$151,000. Footnote 10 (page 16) of the audited financial statements provides additional information.

MARTIN COUNTY WATER DISTRICT OF INEZ, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2020

Total liabilities decreased by \$496,000 or 9.5% primarily due to decreases in net pension liability of \$659,000 and in long-term debt of \$132,000 related to principal payments made, offset by an increase in current liabilities of \$295,000. Current liabilities increased mainly due to monies owed to Martin County Sanitation for sewer payments collected, two months of invoices due to Alliance Water Resources, and an increase in current portion of long term debt offset by decreases in payroll tax liabilities, accrued interest, and customer deposits payable.

Net pension liability decreased \$659,000 due to the changes in actuarial assumptions and actual returns on plan investments. See Footnote 10 (page 16) of the audited financial statements for more information.

A summary of financial position follows:

	For The Years Ended December 31			2020	
	2020	2019	2018	Change	Percent Change
Assets:					
Current assets	\$ 576,181	\$ 508,754	\$ 634,963	67,427	13.3%
Restricted assets	295,343	278,256	302,647	17,087	6.1
Capital assets	17,926,113	18,387,049	19,137,558	(460,936)	-2.5
Total assets	18,797,637	19,174,059	20,075,168	(376,422)	-2.0
Deferred Outflows:					
Deferred outflows of resources related to pensions	\$ 134,959	\$ 286,346	\$ 261,494	(151,387)	-52.9
Total deferred outflows of resources	134,959	286,346	261,494	(151,387)	-52.9
Liabilities:					
Current liabilities	1,501,086	1,206,149	1,416,790	294,937	24.5
Long term debt, net	2,120,916	2,252,962	2,378,335	(132,046)	-5.9
Net pension liability	1,080,845	1,739,483	1,459,298	(658,638)	-37.9
Total liabilities	4,702,847	5,198,594	5,254,423	(495,747)	-9.5
Deferred Inflows:					
Deferred inflows of resources related to pensions	\$ 480,553	\$ 93,003	\$ 151,042	387,550	416.7
Total deferred inflows of resources	480,553	93,003	151,042	387,550	416.7
Net Position:					
Net investment in capital assets	15,673,916	16,009,467	16,641,216	(335,551)	-2.1
Restricted for customer deposits	166,222	157,928	152,790	8,294	5.3
Restricted for debt service	129,028	120,239	141,558	8,789	7.3
Restricted for capital projects	93	89	8,299	4	4.5
Unrestricted	(2,220,063)	(2,118,915)	(2,012,666)	(101,148)	4.8
Total net position	\$ 13,749,196	\$ 14,168,808	\$ 14,931,197	(419,612)	-3.0%

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Total operating revenues decreased by \$11,000 or 0.4% and totaled \$2,518,000 for the year. Water revenue decreased \$74,000 or 3.3% from the prior year. 2020 water revenue includes a full year of the water increase approved in November of 2019, but staff found a significant amount of inaccurate meter reads when the meter read audits were performed in January and February 2020. 2020's decreased water revenue includes corrections to overstated revenue and gallons recorded in 2019 and before. Connection fees of \$23,000 are below projections and were impacted by the effects of the pandemic. Likewise, late charge fees were low as pandemic-related directives limited the ability of the District to charge these fees. The classification of the various categories of operating revenues may not be consistent with prior years, however district records preclude current management (Alliance Water Resources) from accurately restating prior year activity.

Net operating loss in 2020 was \$691,000. Net operating loss increased by \$5,000 or 0.7% from 2019 mainly due to revenue shortfall of \$11,000. Operating expenses decreased in 2020.

Non-operating income (expense) in 2020 consists of \$80,000 of interest expense, \$450 of bond trustee fees, \$5,200 of loss on disposal of assets and \$390 of interest income.

Capital contributions increased \$314,000 due to grants received from ARC and AML for The Lovely Water Line Replacement Project and Raw Water Intake Improvements (Pump Purchase Only).

A summary statement of revenues, expenses and changes in net position follows:

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	For The Years Ended December 31			2020	
	2020	2019	2018	Change	Percent Change
Operating Revenues:					
Water sales	\$ 2,146,384	\$ 2,220,203	\$ 2,013,260	(73,819)	-3.3%
Connection fees	22,872	-	-	22,872	N/M
Late charge fees	13,416	76,437	70,747	(63,021)	(82.4)
Debt service surcharge	107,436	152,709	150,162	(45,273)	(29.6)
Water surcharge (MIS)	193,180	12,244	-	180,936	1477.8
Other fees	20,144	67,495	47,867	(47,351)	(70.2)
Misc income	14,311	-	-	14,311	N/M
Total operating revenues	2,517,743	2,529,088	2,282,036	(11,345)	(0.4)
Operating Expenses:					
Operating expenses	2,421,722	2,424,794	2,646,105	(3,072)	(0.1)
Depreciation	786,741	790,294	780,131	(3,553)	(0.4)
Total operating expenses	3,208,463	3,215,088	3,426,236	(6,625)	(0.2)
Net Operating Income	(690,720)	(686,000)	(1,144,200)	(4,720)	0.7
Non-operating Income (Expense)					
Interest expense	(80,217)	(93,472)	(108,055)	(13,255)	14.2
Bond trustee fees	(450)	-	-	450	N/M
Gain (loss) on disposal of assets	(5,237)	-	-	(5,237)	N/M
Interest income	386	83	898	303	(365.1)
Total Non-operating income (expenses)	(85,518)	(93,389)	(107,157)	(7,871)	(8.4)
Change in net position before contributions	(776,238)	(779,389)	(1,251,357)	3,151	(0.4)
Capital grants and contributions	331,046	17,000	76,350	314,046	1847.3
Change in net position	(445,192)	(762,389)	(1,175,007)	317,197	(41.6)
Net Position - Beginning	14,168,808	14,931,197	16,106,204	(762,389)	(5.1)
Prior Period Adjustment	25,580	-	-	25,580	N/M
Net Position - Ending	\$ 13,749,196	\$ 14,168,808	\$ 14,931,197	(419,612)	-3.00%

STATEMENT OF CASH FLOWS

The District's rate structure is designed to collect sufficient revenues to pay debt service and recover operating and maintenance expenses. The District successfully accomplished that objective during 2020 with the help of the debt service surcharge and the management infrastructure surcharge. The net cash provided by operating activities by itself would not have been sufficient to pay debt service.

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020**

RESTRICTED ASSETS

Restricted assets were \$295,343 in 2020 compared to \$278,256 in 2019. The District's debt covenants specify the manner in which monies on deposit in the various restricted funds must be used. Restricted assets consist of various accounts for customer meter deposits, debt service and capital projects.

CAPITAL ASSETS

Capital assets, net of accumulated depreciation was \$17,926,113 on December 31, 2020 compared to \$18,387,049 on December 31, 2019 which represents a decrease of \$460,936 or 2.5%. Capital asset additions in 2020 were \$331,042 which consisted of the ARC Water System improvements. Additions were offset by the retirement of numerous items (including pumps, equipment, computer hardware and software, and vehicles which remained in the district records) and depreciation expense of \$786,741.

LONG-TERM DEBT

The District paid principal payments of \$125,000 during the fiscal year. As of December 31, 2020, the District had total long-term debt outstanding of \$2,234,080 of which \$131,281 is due in the next year.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District's overall financial position in 2020 declined as shown by the net position decrease of \$419,612. The District continually strives to improve its financial position as reflected in the District entering a management contract with Alliance Water Resources.

REQUEST FOR INFORMATION

This report is designed to provide our customers, debt holders, and other interested parties with a general overview of the financial position of the District and to indicate accountability for the revenues received. Questions about this report or requests for additional information should be directed to the District Clerk (606-298-3885) at the District's office, 387 East Main Street, Inez, KY 41224.

Basic Financial Statements

Martin County Water DistrictStatement of Net Position
Year Ended December 31, 2020

	2020
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 153,191
Accounts receivable (net)	347,314
Unbilled revenue	62,058
Prepaid expenses	9,050
Accrued interest receivable	2
Inventory	4,566
Total Current Assets	576,181
Restricted Assets	
Cash - Customer deposits	166,222
Cash - Debt service	129,028
Cash - Grants	93
Total Restricted Assets	295,343
Capital Assets	
Water supply & distr. system	27,316,475
Buildings	500,264
Equipment & Furniture	6,398,523
Vehicles & Trailers	307,474
Construction in progress	331,042
Land	214,714
Less: Accumulated depreciation	(17,142,379)
Total Capital Assets	17,926,113
TOTAL ASSETS	18,797,637
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	134,959
TOTAL DEFERRED OUTFLOWS OF RESOURCES	134,959

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

Martin County Water DistrictStatement of Net Position
Year Ended December 31, 2020

	<u>2020</u>
LIABILITIES	
Current Liabilities	
Accounts payable	1,257,086
Accrued interest	29,378
Sales tax payable	8,896
Customer deposits	74,445
Current portion of long-term debt	131,281
Total Current Liabilities	<u>1,501,086</u>
Long-Term Liabilities	
Long-term portion of debt (net)	2,120,916
Net pension liability	1,080,845
TOTAL LIABILITIES	<u>4,702,847</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	480,553
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>480,553</u>
NET POSITION	
Net investment in capital assets	15,673,916
Restricted for customer deposits	166,222
Restricted for debt service	129,028
Restricted for capital projects	93
Unrestricted	(2,220,063)
TOTAL NET POSITION	<u><u>\$ 13,749,196</u></u>

Martin County Water District
Statement of Revenues and Expenses and Changes in Net Position
Year Ended December 31, 2020

	<u>2020</u>
Operating Revenues	
Water sales	\$ 2,146,384
Connection fees	22,872
Late charge fees	13,416
Debt service surcharge	107,436
MIS Water surcharge	193,180
Other fees	20,144
Miscellaneous income	14,311
Total Operating Revenues	<u>2,517,743</u>
Operating Expenses	
Management & operations contract	1,985,039
Employee benefits	(119,701)
Utilities	320,969
Insurance	48,400
Repairs and maintenance	6,511
Outside services	6,831
Legal	6,975
Accounting	25,000
Bad debt	118,530
Dues & subscriptions	3,700
Office Expense	3,339
Rental	9,053
Regulatory assessment fees	5,983
Depreciation	786,741
Miscellaneous	1,093
Total Operating Expenses	<u>3,208,463</u>
Operating Income	<u>(690,720)</u>
Non-operating Income (Expenses)	
Interest expense	(80,217)
Bond trustee fees	(450)
Gain (loss) on disposal of assets	(5,237)
Interest income	386
Total Non-operating Income (Expenses)	<u>(85,518)</u>
Change in Net Position Before Contributions	(776,238)
Capital grants and contributions	<u>331,046</u>
Change in Net Position	(445,192)
Net Position - Beginning	14,168,808
Prior Period Adjustment	<u>25,580</u>
Net Position - Ending	<u><u>\$ 13,749,196</u></u>

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

Martin County Water DistrictStatement of Cash Flows
Year Ended December 31, 2020

	2020
Cash Flows From Operating Activities	
Cash received from customers	\$ 2,561,255
Cash payments for goods and services	(2,129,876)
Cash payments for employees and benefits	(97,689)
Net Cash Provided by Operating Activities	<u>333,690</u>
Cash Flows From Capital and Related Financing Activities	
Payments for capital assets	(331,042)
Principal repayments	(124,620)
Interest and other charges paid	(86,523)
Capital grants	331,046
Net Cash Provided By Capital and Related Financing Activities	<u>(211,139)</u>
Cash Flows From Investing Activities	
Interest received	386
Net Cash Provided By Investing Activities	<u>386</u>
Net Increase (Decrease) In Cash and Cash Equivalents	122,937
Cash and Cash Equivalents - Beginning of Year	<u>325,597</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 448,534</u></u>
Reconciliation of Cash and Cash Equivalents	
Cash and cash equivalents	\$ 153,191
Restricted cash and cash equivalents	
Cash - Customer deposits	166,222
Cash - Debt service	129,028
Cash - Grants	93
Total Cash and Cash Equivalents	<u><u>\$ 448,534</u></u>
Reconciliation Of Operating Income To Net Cash Provided By Operating Activities	
Operating income	\$ (690,720)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	786,741
Change in assets and liabilities:	
Accounts receivable	(225,607)
Unbilled receivables	255,491
Inventory	3,811
Prepaid expenses	4,730
Accounts payable	406,905
Customer deposits	13,628
Payroll liabilities	(97,689)
Sales tax payable	1,101
Other accrued liabilities	(5,000)
Net pension obligation	(119,701)
Net Cash Provided By Operating Activities	<u><u>\$ 333,690</u></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, 2020 amounted to \$765.

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

Martin County Water District

Notes to the Financial Statements

December 31, 2020

4) Long-Term Debt (Continued)

The following is a summary of outstanding debt as of December 31, 2020:

	<u>2020</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%.	\$ 1,765,000
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%.	397,858
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>71,222</u>
Total Debt Payable	2,234,080
Add: Unamortized Premium	18,117
Less: Current Portion	<u>(131,281)</u>
Long-Term Portion of Debt Payable	<u><u>\$ 2,120,916</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>
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	139,669	60,782	200,451
2026-2030	468,806	251,544	720,350
2031-2035	430,000	176,418	606,418
2036-2040	390,000	93,276	483,276
2041-2045	265,000	27,774	292,774
Totals	<u>\$ 2,234,080</u>	<u>\$ 898,113</u>	<u>\$ 3,132,193</u>

The changes in long-term debt for the year ended December 31, 2020 are as follows:

	<u>2020</u>
Balance, Beginning	\$ 2,358,700
Additions	-
Retirements	<u>(124,620)</u>
Balance, Ending	<u><u>\$ 2,234,080</u></u>

Martin County Water DistrictNotes to the Financial Statements
December 31, 2020**5) Cash and Investments**

The carrying amount of the District's deposits was \$448,534 at year end December 31, 2020, and the bank balances totaled \$447,184. As of December 31, 2020, \$250,000 was covered by federal depository insurance and \$95,987 was collateralized with securities held by the financial institution in the District's name and \$101,197 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, 2020, 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, 2020 consisted of the following:

	Balance at January 1	Additions	Deductions	Balance at December 31
Water Supply & Distribution System	\$ 27,328,169	\$ -	\$ (11,694)	\$ 27,316,475
Buildings	500,264	-	-	500,264
Equipment & Furniture	6,563,220	-	(164,697)	6,398,523
Vehicles & Trailers	346,665	-	(39,191)	307,474
	<u>34,738,318</u>	<u>-</u>	<u>(215,582)</u>	<u>34,522,736</u>
Accumulated Depreciation	(16,565,983)	(786,741)	210,345	(17,142,379)
Construction in Progress	-	331,042	-	331,042
Land	214,714	-	-	214,714
Total Capital Assets	<u>\$ 18,387,049</u>	<u>\$ (455,699)</u>	<u>\$ (5,237)</u>	<u>\$ 17,926,113</u>

Depreciation expense for the year ended December 31, 2020 amounted to \$786,741.

9) Related Party Transactions

There were no related party transactions during the year ended December 31, 2020.

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, 2020 employers were required to contribute 19.30% of the member's salary. During the year ended December 31, 2020, the District contributed \$69,664 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, 2020, the District reported a \$1,080,845 liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2019. An expected total pension liability as of June 30, 2019 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, 2020. At December 31, 2020 the District's proportion was .014092%.

For the year ended December 31, 2020, the District recognized pension expense of \$(50,037) related to CERS. At December 31, 2020, 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	\$ 26,953	\$ -
Changes in assumptions	42,205	-
Net difference between projected and actual earnings on pension plan investments	46,851	19,804
Changes in proportion and differences between District contributions and proportionate share of contributions	18,950	460,749
Total	<u>\$ 134,959</u>	<u>\$ 480,553</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>	
2021	\$ (161,805)
2022	(178,039)
2023	(16,613)
2024	10,863
2025	-
	<u>\$ (345,594)</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, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2019.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2020:

Valuation Date	June 30, 2018
Experience Study	July 1, 2013 - June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	25 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	3.30% to 11.55%
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 (Continued)

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>
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Expected Real Return	100.00%	3.96%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.26%

Discount Rate:

The discount rate used to measure the total pension liability was 6.25%. 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</u>	<u>1% Increase</u>
	<u>5.25%</u>	<u>Discount Rate</u>	<u>7.25%</u>
CERS			
District's proportionate share of net pension liability	\$ 1,332,917	\$ 1,080,845	\$ 872,120

10) Pension Plan (Concluded)

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, 2020.

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, 2020, the District has used \$424,396 of these funds.

12) Commitments

The District has a full service operating agreement with Alliance Water Resources, Inc. through December 31, 2024, which provides for the operation of the water system. The amount to be paid under the basic agreement for operating the water system is \$2,022,079 for the year ending December 31, 2021 with the compensation for the balance of the contract to be negotiated on an annual basis.

13) 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.

14) Subsequent Events

Subsequent events have been considered through March 22, 2021, 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, 2020

	Reporting Fiscal Year (Measurement Date) 2020 (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	0.01%	0.02%	0.02%	0.03%	0.02%	0.02%
District's proportionate share of the net pension liability	\$ 1,080,845	\$ 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	\$ 1,080,845	\$ 1,739,483	\$ 1,459,298	\$ 1,255,723	\$ 1,065,280	\$ 750,000
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	311.44%	290.05%	248.08%	181.02%	179.26%	134.05%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	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, 2020

	2020	2019	2018	2017	2016	2015	2014
County Employee's Retirement System:							
Contractually required contribution	\$ 69,664	\$ 101,193	\$ 85,993	\$ 82,452	\$ 84,846	\$ 104,892	\$ 97,385
Contributions in relation to the contractually required contribution	69,664	101,193	85,993	82,452	84,846	104,892	97,385
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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	N/A	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



100 North Sixth Street ♦ P.O. Box 796 ♦ Hannibal, Missouri 63401-0796 ♦ Phone (573) 221-5998 ♦ Fax (573) 221-2044

**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, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 22, 2021.

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. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 2020-001, and 2020-002.

**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

March 22, 2021
Hannibal, Missouri

Compliance Findings

2020-001 - 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.

2020-002 – 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 did not deposit the required amount into a depreciation and replacement reserve special account during 2020.

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.

Views of Responsible Officials:

Management will make a plan to fully fund depreciation and replacement reserve account per loan covenant.