

Martin County Water District

Inez, Kentucky

Annual Financial Report

Years Ended December 31, 2022 and 2021

Martin County Water District

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December 31, 2022 and 2021

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Financial 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

The Board of Directors
Martin County Water District
Inez, Kentucky

Opinion

We have audited the accompanying financial statements of the business-type activities of Martin County Water District, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 Martin County Water District, as of December 31, 2022, 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.

Qualified Opinion on the 2021 Financial Statements

In our opinion, except for the effects of the matter described in the Basis of Qualified Opinion on 2021 Financial Statements section of our report, the financial statements present fairly, in all material respects, the financial position of the business-type activities of Martin County Water District as of December 31, 2021, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Martin County Water District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the financial statements as of December 31, 2022.

Basis for Qualified Opinion on 2021 Financial Statements

As of the 2021 audit report date, updated Kentucky Retirement Systems reports were not available to present current pension information in the financial statements. Therefore, deferred inflows and outflows of resources related to pensions, net pension liability, net position, and expenses were unable to be updated to reflect the activity during the year ended December 31, 2021. Accounting principles generally accepted in the United States of America require that the net pension liability be measured based either on an actuarial valuation performed no earlier than the employer's prior fiscal year end or updated procedures to roll forward amounts from an earlier actuarial valuation. The amount by which this would affect the deferred inflows and outflows of resources related to pensions, net pension liability, net position, and expenses has not been determined. This matter was corrected as of December 31, 2022, through a prior period adjustment, but the 2021 financial statements have not been reissued.

Independent Auditor's Report (Continued)

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Martin County Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Martin County Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Martin County Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

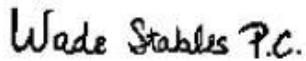
Independent Auditor's Report (Concluded)

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the District's proportionate share of the net pension liability, and schedule of contributions information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2023, 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.

Certified Public Accountants

March 10, 2023
Hannibal, Missouri

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022**

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, 2022.

OVERVIEW OF THE AUDITED FINANCIAL STATEMENTS

The financial statements presented in this report consist of the *statements of net position*, the *statements of revenues, expenses, and changes in net position*, and the *statements of cash flows*. The statements of net position provide 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 statements 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 statements 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 2022 increased by \$583,558 and ended the year at \$14,091,211.

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

Total assets decreased \$536,000 or 2.9% primarily due to decreases in capital assets of \$574,000 and current assets of \$27,000, offset by an increase in restricted assets of \$65,000. The decrease in capital assets is mainly due to depreciation expense of \$797,000 exceeding net asset additions of \$191,000. The District inventoried capital assets and removed assets no longer in service. Additional information regarding capital assets is discussed in the capital assets section. The decrease in current assets is primarily due to decreases in unbilled revenue of \$12,000 and cash of \$21,000, offset by an increase in prepaid expenses of \$8,000. The District collects and deposits sewer payments for Martin County Sanitation District. The decrease in cash mainly represents a reduction in the District's payable to Martin County Sanitation. The increase in restricted assets is mainly due to increases in debt service reserves due to the addition of 2022 Revenue Bond and the associated increases to the accrued interest receivable. Restricted cash is discussed in detail in the restricted assets section.

The Kentucky Retirement report was not available in time for the 2021 audit. Deferred inflows and outflows of resources related to pensions, net pension liability, net position, and expenses for both 2021 and 2022 are reflected in the 2022 audited financial statements.

MARTIN COUNTY WATER DISTRICT OF INEZ, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2022

Deferred outflows consist of the net difference between projected and actual earnings on pension plan investments and decreased by \$135,000. Footnote 12 (page 20) of the audited financial statements provides additional information.

Total liabilities decreased by \$1,147,000 or 24.4% primarily due to decreases in current liabilities of \$1,061,000 and net pension liability of \$1,081,000, offset by an increase in long-term debt of \$979,000 related to the addition of the 2022 Revenue Bond, net of principal payments made during the year on other district debt, plus the addition of the office lease liability of \$16,000. Current liabilities decreased by \$1,061,000 mainly because of the decrease of \$1,100,000 in accounts payable due to the payoff of outstanding vendor debt, offset by an increase in accrued interest due to the new 2022 Revenue Bond, and increases in customer deposits and the current portion of the office lease liability.

Deferred inflows of resources related to pensions decreased by \$108,000. See Footnote 12 (page 20) of the audited financial statements for more information.

A summary of financial position follows:

	For The Years Ended December 31			2022	
	2022	2021	2020	Change	Percent Change
Assets:					
Current assets	\$ 687,050	\$ 714,436	\$ 744,318	\$ (27,386)	-3.8%
Restricted assets	196,643	131,434	127,206	65,209	49.6
Capital assets	17,141,150	17,715,134	17,926,113	(573,984)	-3.2
Total assets	18,024,843	18,561,004	18,797,637	(536,161)	-2.9
Deferred Outflows:					
Deferred outflows of resources related to pensions	\$ -	\$ 134,959	\$ 134,959	(134,959)	-100.0
Total deferred outflows of resources	-	134,959	134,959	(134,959)	-100.0
Liabilities:					
Current liabilities	578,845	1,639,744	1,501,086	(1,060,899)	-64.7
Long term debt, net	2,965,937	1,987,168	2,120,916	978,769	49.3
Long term lease liability	15,971		15,971		N/A
Net pension liability	-	1,080,845	1,080,845	(1,080,845)	-100.0
Total liabilities	3,560,753	4,707,757	4,702,847	(1,147,004)	-24.4
Deferred Inflows:					
Deferred inflows of resources related to pensions	\$ 372,879	\$ 480,553	\$ 480,553	(107,674)	-22.4
Total deferred inflows of resources	372,879	480,553	480,553	(107,674)	-22.4
Net Position:					
Net investment in capital assets	14,040,456	15,594,973	15,673,916	(1,554,517)	-10.0
Restricted for debt service	199,705	105,137	99,652	94,568	89.9
Restricted for management infrastructure	9,865	6,587	1,000	3,278	49.8
Restricted for capital projects	63	63	93	-	0.0
Unrestricted	(158,878)	(2,199,107)	(2,025,465)	2,040,229	-92.8
Total net position	\$ 14,091,211	\$ 13,507,653	\$ 13,749,196	\$ 583,558	4.3%

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Total operating revenues increased by \$146,000 or 0.1% and totaled \$2,967,000 for the year. Water revenue and late charge/connection fees increased \$322,000 from the prior year mainly due to the rate increase in March 2022 as approved by the Public Service Commission (PSC) and the resumption of late charges billed which was suspended during the height of the pandemic. This was offset by decreases to other fees of \$176,000, with most of that decrease to miscellaneous income of \$162,000 as 2022 did not have adjustments of previous accruals and penalty/interest fees waived that occurred in 2021.

Total operating expenses decreased by \$530,000 or 15.0% and totaled \$3,013,000 for the year mainly due to the recognition of pension expense of (\$527,000). There were also decreases in management and operations due to a decrease in the annual billback amount, legal and dues & subscriptions fees offset by increases in repairs & maintenance, utilities, purchased water and bad debts.

Change in net position (net operating loss) in 2022 was \$57,000, an improvement of \$299,000 or 124% over the prior year before considering the prior period adjustment of \$526,114 for the 2021 net pension adjustment.

Non-operating expense in 2022 increased by \$72,000 mainly due to increases in bond issue costs, interest expense and interest income related to the 2022 Revenue Bond and the loss on disposal of assets.

Capital contributions totaled \$262,000 and include a donation of a kiosk purchased by Alliance Water Resources, Inc. in the amount of \$3,600, a grant received from the Appalachian Regional Commission (ARC) in the amount of \$117,063 for The Lovely Water Line Replacement Project, and FEMA flood payments in the amount of \$147,000 for water line repairs on St. Rt. 292, Poplar Fork, St. Rt. 908, 40E Booster Station, 40W Booster Station, and the Davella Pump Station.

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022**

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

	For The Years Ended December 31			2022	
	2022	2021	2020	Change	Percent Change
Operating Revenues:					
Water sales	\$ 2,542,610	\$ 2,243,478	\$ 2,146,384	\$ 299,132	13.3%
Connection fees	28,372	17,612	22,872	10,760	0.6
Late charge fees	70,236	58,575	13,416	11,661	0.2
Debt service surcharge	105,780	107,177	107,436	(1,397)	0.0
Water surcharge (MIS)	189,817	192,369	193,180	(2,552)	0.0
Other fees	29,560	39,575	20,144	(10,015)	-0.3
Misc income	395	161,982	14,311	(161,587)	-1.0
Total operating revenues	2,966,770	2,820,768	2,517,743	146,002	0.1
Operating Expenses:					
Operating expenses	2,215,975	2,769,377	2,421,722	(553,402)	(20.0)
Depreciation	796,613	773,206	786,741	23,407	3.0
Total operating expenses	3,012,588	3,542,583	3,208,463	(529,995)	(15.0)
Net Operating Income	(45,818)	(721,815)	(690,720)	675,997	(93.7)
Non-operating Income (Expense)					
Interest expense	(102,107)	(78,302)	(80,217)	23,805	(30.4)
Customer deposit interest expense	(46)	(3,319)	-	(3,273)	98.6
Bond trustee fees	(450)	(450)	(450)	-	0.0
Bond issuance costs	(47,422)	-	-	47,422	N/A
Gain (loss) on disposal of assets	(10,432)	(4,752)	(5,237)	5,680	(119.5)
Interest income	2,060	112	386	(1,948)	(1739.3)
Total Non-operating income (expenses)	(158,397)	(86,711)	(85,518)	71,686	(82.7)
Change in net position before contributions	(204,215)	(808,526)	(808,526)	604,311	(74.7)
Capital grants and contributions	261,659	566,983	331,046	(305,324)	(53.9)
Change in net position	57,444	(241,543)	(477,480)	298,987	(123.8)
Net Position - Beginning	13,507,653	13,749,196	14,168,808	(241,543)	(1.8)
Prior Period Adjustment	526,114	-	25,580	526,114	N/A
Net Position - Ending	\$ 14,091,211	\$ 13,507,653	\$ 13,716,908	\$ 583,558	4.30%

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 2022 by procuring the 2022 Revenue Bond in addition to the collection of the

**MARTIN COUNTY WATER DISTRICT OF
INEZ, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022**

debt service and management infrastructure surcharges and the permanent rate increase that was effective March 2022.

RESTRICTED ASSETS

Restricted assets were \$196,643 in 2022 compared to \$131,434 in 2021. The District's debt covenants specify the way monies on deposit in the various restricted funds must be used. Restricted assets consist of various accounts for debt service and capital projects.

CAPITAL ASSETS

Capital assets, net of accumulated depreciation was \$17,141,150 on December 31, 2022, compared to \$17,715,134 on December 31, 2021, which represents a decrease of \$574,000 or 3.2%. Capital asset additions in 2022 were \$373,284 and consisted of the recognition of the office lease as a right of use asset, ARC Lovely line replacement, Otto Brown pump, meters, flush kiosk, pressure reducing valve and customer TAPs. Additions were offset by the retirement of numerous items (including a generator, chlorinators, water pumps, various office furniture, and a tapping tool) and depreciation expense of \$796,613.

LONG-TERM DEBT

The District paid principal payments of \$132,993 during the fiscal year. As of December 31, 2022, the District had total long-term debt outstanding of \$3,079,806 of which \$134,757 is due in the next year.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District's change in overall financial position in 2022 increased by \$583,558 as compared to the 2021 overall decrease of \$241,543. The District continually strives to improve its financial position as reflected in the District's passage of the rate increase effective in March 2022.

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 District
Statements of Net Position
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 276,298	\$ 297,677
Accounts receivable (net)	314,701	313,736
Unbilled revenue	80,438	92,562
Prepaid expenses	12,665	4,904
Inventory	2,948	5,557
Total Current Assets	<u>\$ 687,050</u>	<u>\$ 714,436</u>
Restricted Assets		
Cash - Debt retirement	\$ 196,119	\$ 131,369
Cash - Grants	63	63
Accrued interest receivable	461	2
Total Restricted Assets	<u>\$ 196,643</u>	<u>\$ 131,434</u>
Capital Assets		
Water supply & distribution system	\$ 28,399,263	\$ 28,206,274
Buildings	500,264	500,264
Equipment & furniture	6,340,341	6,369,882
Vehicles & trailers	138,773	138,773
Land	214,714	214,714
Construction in progress	-	6,237
ROU leased asset	33,935	-
	<u>\$ 35,627,290</u>	<u>\$ 35,436,144</u>
Less: Accumulated depreciation	(18,476,670)	(17,721,010)
Less: Accumulated amortization ROU leased asset	(9,470)	-
Total Capital Assets	<u>\$ 17,141,150</u>	<u>\$ 17,715,134</u>
Total Assets	<u>\$ 18,024,843</u>	<u>\$ 18,561,004</u>
Deferred Outflows of Resources		
Deferred outflows of resources related to pensions	\$ -	\$ 134,959
Total Deferred Outflows of Resources	<u>\$ -</u>	<u>\$ 134,959</u>

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

Martin County Water District
Statements of Net Position (Concluded)
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 289,615	\$ 1,389,540
Accrued interest	46,026	28,151
Accrued interest - leases	68	-
Sales tax payable	8,252	6,951
Customer deposits	90,858	82,109
Current portion of lease liability	9,269	-
Current portion of long-term debt	134,757	132,993
Total Current Liabilities	<u>\$ 578,845</u>	<u>\$ 1,639,744</u>
Long-Term Liabilities		
Long-term portion of debt (net)	\$ 2,965,937	\$ 1,987,168
Long-term portion of lease liability	15,971	-
Net pension liability	-	1,080,845
Total Long-Term Liabilities	<u>\$ 2,981,908</u>	<u>\$ 3,068,013</u>
Total Liabilities	<u>\$ 3,560,753</u>	<u>\$ 4,707,757</u>
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	\$ 372,879	\$ 480,553
Total Deferred Inflows of Resources	<u>\$ 372,879</u>	<u>\$ 480,553</u>
Net Position		
Net investment in capital assets	\$ 14,040,456	\$ 15,594,973
Restricted for debt retirement	199,705	105,137
Restricted for management infrastructure	9,865	6,587
Restricted for capital projects	63	63
Unrestricted	(158,878)	(2,199,107)
Total Net Position	<u>\$ 14,091,211</u>	<u>\$ 13,507,653</u>

Martin County Water District
Statements of Revenues and Expenses and Changes in Net Position
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Water sales	\$ 2,542,610	\$ 2,243,478
Connection fees	28,372	17,612
Late charge fees	70,236	58,575
Debt service surcharge	105,780	107,177
MIS Water surcharge	189,817	192,369
Other fees	29,560	39,575
Miscellaneous income	395	161,982
Total Operating Revenues	<u>\$ 2,966,770</u>	<u>\$ 2,820,768</u>
Operating Expenses		
Management & operations contract	\$ 2,132,734	\$ 2,220,673
Water purchased	74,988	65,763
Pension expense	(527,446)	-
Utilities	375,997	362,424
Insurance	34,932	35,717
Repairs and maintenance	63,171	13,181
Outside services	630	755
Legal	10,000	19,612
Accounting	7,950	7,725
Bad debt	30,948	16,733
Dues & subscriptions	3,149	4,884
Office Expense	2,676	2,804
Rental	25	8,849
Regulatory assessment fees	4,214	-
KY 811 Services	1,273	2,451
Taxes	-	5,035
Depreciation	787,143	773,206
Amortization - ROU lease assets	9,470	-
Miscellaneous	734	2,771
Total Operating Expenses	<u>\$ 3,012,588</u>	<u>\$ 3,542,583</u>
Operating Income (Expense)	<u>\$ (45,818)</u>	<u>\$ (721,815)</u>
Non-operating Income (Expense)		
Interest expense	\$ (102,107)	\$ (78,302)
Customer deposit interest expense	(46)	(3,319)
Bond trustee fees	(450)	(450)
Bond issuance costs	(47,422)	-
Gain (loss) on disposal of assets	(10,432)	(4,752)
Interest income	2,060	112
Total Non-operating Income (Expense)	<u>\$ (158,397)</u>	<u>\$ (86,711)</u>
Change in Net Position before Contributions	<u>\$ (204,215)</u>	<u>\$ (808,526)</u>
Capital grants and contributions	261,659	566,983
Change in Net Position	<u>\$ 57,444</u>	<u>\$ (241,543)</u>
Net Position - Beginning of Year	13,507,653	13,749,196
Prior Period Adjustment	526,114	-
Net Position - Ending of Year	<u><u>\$ 14,091,211</u></u>	<u><u>\$ 13,507,653</u></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, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,986,678	\$ 2,831,506
Cash payments for goods and services	(3,847,197)	(2,635,713)
Net Cash Provided (Used) by Operating Activities	\$ (860,519)	\$ 195,793
Cash Flows from Capital and Related Financing Activities		
Payments for capital assets	\$ (199,126)	\$ (566,980)
Principal repayments	(132,993)	(131,281)
Principal payments on lease liability	(8,695)	-
Proceeds from long term debt	1,110,000	-
Interest and other charges paid	(81,134)	(84,052)
Debt issuance costs paid	(47,422)	-
Capital grants	261,659	566,983
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ 902,289	\$ (215,330)
Cash Flows from Investing Activities		
Interest received	\$ 1,601	\$ 112
Net Cash Provided (Used) by Investing Activities	\$ 1,601	\$ 112
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 43,371	\$ (19,425)
Cash and Cash Equivalents - Beginning of Year	429,109	448,534
Cash and Cash Equivalents - End of Year	\$ 472,480	\$ 429,109
 Reconciliation of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 276,298	\$ 297,677
Restricted cash and cash equivalents		
Cash - Debt retirement	196,119	131,369
Cash - Grants	63	63
Total Cash and Cash Equivalents	\$ 472,480	\$ 429,109
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ (45,818)	\$ (721,815)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	796,613	773,206
Change in assets and liabilities:		
Accounts receivable	(965)	33,578
Unbilled receivables	12,124	(30,504)
Inventory	2,609	(991)
Prepaid expenses	(7,761)	4,146
Accounts payable	(1,099,925)	132,454
Customer deposits	8,749	7,664
Sales tax payable	1,301	(1,945)
Net pension obligation	(527,446)	-
Net Cash Provided (Used) By Operating Activities	\$ (860,519)	\$ 195,793

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, each of which is considered a separate accounting entity. The operations of the District constitute the equivalent of an enterprise fund, and therefore, only this fund is presented. This fund consists of a separate set of self-balancing accounts that comprise its assets, liabilities, net position, 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 statements of net position. Their reported fund equity (total net position) is segregated into net investment in capital assets, restricted for customer deposits, restricted for debt retirement, restricted for capital projects, and unrestricted 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.

1) Significant Accounting Policies (Continued)**B) Capital Assets and Long-Term Liabilities (Concluded)**

The District uses the midpoint of the depreciable life ranges recommended by the National Association of Regulatory Utility Commissioners. 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

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 Net Position

Net position is reported as restricted when limitations on use change the normal understanding of the availability of the related asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. It is the District's policy to expend restricted resources first if the restrictions are met. All other net position that does not meet the definition of "restricted" is reported as unrestricted net position.

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) Operating and Non-Operating Income

Operating revenues and expenses result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. All income and expenses not meeting this definition are reported as non-operating income and expenses.

1) Significant Accounting Policies (Concluded)**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) Cash and Investments

As of December 31, 2022, the carrying amount of the District's deposits was \$472,480 and the bank balances totaled \$466,999. As of December 31, 2022, \$250,000 was covered by federal depository insurance, \$59,312 was collateralized with a letter of credit in First State Bank's name for the coverage of the District's deposit balances, and \$157,687 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.

4) Accounts Receivable

The receivables are reported on the accompanying Statements of Net Position, net of an allowance for doubtful accounts, which amounted to \$28,000 as of December 31, 2022 and 2021. Estimated unbilled revenues are recognized at the end of each year on a pro rata basis. The estimated amount is based on billings during the month following the close of the fiscal year.

5) 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 entered into a lease agreement with Kentucky Association of Counties (KACO) for \$200,000 to purchase vehicles and equipment. Payments accrue monthly, with a maturity date of 2025, and include a variable interest rate. The base rental interest rate is 4.25%.

5) Long-Term Debt (Continued)

Assistance Agreement (Loan) – KRW Series 2015E Refunding Bond

On May 12, 2015, the District entered into an Assistance Agreement (loan) with the Kentucky Rural Water Finance Corporation to refund existing revenue bonds totaling \$2,010,000. The debt bears interest ranging from 2.10% – 4.10% maturing on February 1, 2045. The original issue premium on the loan, 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 years ended December 31, 2022 and 2021, amounted to \$755 and \$765, respectively.

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

Assistance Agreement (Loan) – KRW Series 2022B Revenue Bonds

On April 20, 2022, the District entered into an Assistance Agreement (loan) with the Kentucky Rural Water Finance Corporation in the amount of \$1,110,000, to finance operations, maintenance, and improvements to the District's water system. The debt bears interest of 3.25%. No principal is due on the loan until the maturity date of February 1, 2024, at which time the principal balance is due in full. The original issue premium on the loan, totaling \$7,037, 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, 2022, amounted to \$2,756.

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

	<u>2022</u>	<u>2021</u>
Kentucky Infrastructure Authority Loan		
\$1,329,826 loan due in monthly installments of \$5,620.58 from 1991 through June 2027, interest rate is 3.00%.	\$ 283,584	\$ 341,577
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%.	41,222	56,222
Assistance Agreement (Loan) - KRW Series 2022B Revenue Bonds		
\$1,110,000 loan due in four interest payments beginning on August 1, 2022, at an interest rate of 3.25%, and one principal payment due on February 1, 2024.	1,110,000	-
Assistance Agreement (Loan) - KRW Series 2015E Refunding Bond		
\$2,010,000 loan due in yearly installments of \$30,000 to \$55,000 from January 2016 through June 2045, interest rates at 2.10% to 4.10%.	1,645,000	1,705,000
Total Debt Payable	3,079,806	2,102,799
Add: Unamortized Premium	20,888	17,362
Less: Current Portion	(134,757)	(132,993)
Long-Term Portion of Debt Payable	<u>\$ 2,965,937</u>	<u>\$ 1,987,168</u>

5) Long-Term Debt (Concluded)

The following is a summary of long-term debt requirements as of December 31:

Year	Notes Payable		Lease Agreement	
	Principal	Interest	Principal	Interest
2023	\$ 119,757	\$ 105,399	\$ 15,000	\$ 1,866
2024	1,236,574	82,982	15,000	1,046
2025	128,447	60,731	11,222	208
2026	135,377	56,709	-	-
2027	103,429	52,719	-	-
2028-2032	395,000	222,473	-	-
2033-2037	430,000	142,496	-	-
2038-2042	325,000	64,475	-	-
2043-2045	165,000	10,149	-	-
	<u>\$ 3,038,584</u>	<u>\$ 798,133</u>	<u>\$ 41,222</u>	<u>\$ 3,120</u>

The changes in long-term debt for the years ended December 31, 2022 and 2021, are as follows:

	2022	2021
Balance, Beginning	\$ 2,102,799	\$ 2,234,080
Additions	1,110,000	-
Retirements	(132,993)	(131,281)
Balance, Ending	<u>\$ 3,079,806</u>	<u>\$ 2,102,799</u>

6) Litigation

At December 31, 2022, 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) Restricted Assets and Net Position

Restricted Assets consist of cash accounts required to be held in separate accounts in accordance with the District's debt covenants. Balances in the restricted cash accounts and accrued interest receivable total \$196,643 and \$131,434 as of December 31, 2022 and 2021, respectively.

As of December 31, 2022 and 2021, the District's Restricted Net Position consists of net investments in capital assets, restrictions on debt retirement, restrictions on management infrastructure, and restrictions on capital projects.

8) Restricted Assets and Net Position (Concluded)

Net Investment in Capital Assets

	<u>2022</u>	<u>2021</u>
Total Capital Assets	\$ 17,141,150	\$ 17,715,134
Less:		
Long-term portion of debt (net)	(2,965,937)	(1,987,168)
Current portion of long-term debt	<u>(134,757)</u>	<u>(132,993)</u>
Total net investment in capital assets	<u>\$ 14,040,456</u>	<u>\$ 15,594,973</u>

The bond issues contain covenants relative to the maintenance of specific funds and the making of monthly payments to certain funds. The status of the various accounts was as follows at December 31:

Debt Retirement

	<u>2022</u>	<u>2021</u>
Sinking funds	\$ 189,617	\$ 130,347
Surcharge fund	54,631	1,917
Depreciation fund	<u>1,022</u>	<u>1,022</u>
Restricted cash and investments -		
Debt retirement	245,270	133,286
Add: Accrued interest receivable	461	2
Less: Payable from restricted assets		
Accrued interest	<u>(46,026)</u>	<u>(28,151)</u>
Restricted for debt retirement	<u>\$ 199,705</u>	<u>\$ 105,137</u>

A management infrastructure surcharge was authorized by the Kentucky Public Service Commission to fund payments to the District's management company. The status of the account was as follows at December 31:

Management Infrastructure

	<u>2022</u>	<u>2021</u>
Management infrastructure surcharge fund	<u>\$ 9,865</u>	<u>\$ 6,587</u>
Restricted for management infrastructure	<u>\$ 9,865</u>	<u>\$ 6,587</u>

Grant proceeds from the Appalachian Regional Commission are deposited into a grant fund to pay for improvements to the Martin County Water System. The status of the account was as follows at December 31:

Capital Projects

	<u>2022</u>	<u>2021</u>
Restricted cash - capital projects	<u>\$ 63</u>	<u>\$ 63</u>
Restricted for capital projects	<u>\$ 63</u>	<u>\$ 63</u>

Martin County Water DistrictNotes to the Financial Statements
December 31, 2022 and 2021**9) Capital Assets**

Capital assets during the year ended December 31, 2022, consisted of the following:

	Balance at January 1	Additions	Deductions	Balance at December 31
Water Supply & Distribution System	\$ 28,206,274	\$ 192,989	\$ -	\$ 28,399,263
Buildings	500,264	-	-	500,264
Equipment & Furniture	6,369,882	12,374	(41,915)	6,340,341
Vehicles & Trailers	138,773	-	-	138,773
Land	214,714	-	-	214,714
Construction in Progress	6,237	133,986	(140,223)	-
ROU Leased Asset	-	33,935	-	33,935
	<u>35,436,144</u>	<u>373,284</u>	<u>(182,138)</u>	<u>35,627,290</u>
Accumulated Depreciation	(17,721,010)	(787,143)	31,483	(18,476,670)
Accumulated Amortization	-	-	-	-
ROU Leased Asset	-	(9,470)	-	(9,470)
Total Capital Assets	<u>\$ 17,715,134</u>	<u>\$ (423,329)</u>	<u>\$ (150,655)</u>	<u>\$ 17,141,150</u>

Capital assets during the year ended December 31, 2021, consisted of the following:

	Balance at January 1	Additions	Deductions	Balance at December 31
Water Supply & Distribution System	\$ 27,316,475	\$ 891,785	\$ (1,986)	\$ 28,206,274
Buildings	500,264	-	-	500,264
Equipment & Furniture	6,398,523	-	(28,641)	6,369,882
Vehicles & Trailers	307,474	-	(168,701)	138,773
Land	214,714	-	-	214,714
Construction in Progress	331,042	566,980	(891,785)	6,237
	<u>35,068,492</u>	<u>1,458,765</u>	<u>(1,091,113)</u>	<u>35,436,144</u>
Accumulated Depreciation	(17,142,379)	(773,206)	194,575	(17,721,010)
Total Capital Assets	<u>\$ 17,926,113</u>	<u>\$ 685,559</u>	<u>\$ (896,538)</u>	<u>\$ 17,715,134</u>

Depreciation expense for the years ended December 31, 2022 and 2021, amounted to \$787,143 and \$773,206, respectively.

10) Related Party Transactions

There were no related party transactions during the year ended December 31, 2022 and 2021.

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, 2022, the District has used \$1,108,442 of these funds.

12) 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, 2022 employers were required to contribute 21.40% of the member's salary. During the year ended December 31, 2022, the District contributed \$0 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, 2022, the District reported a \$0 liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2021. An expected total pension liability as of June 30, 2021 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, 2022. At December 31, 2022 the District's proportion was 0.00%.

For the year ended December 31, 2022, the District recognized pension expense of \$(527,446) related to CERS. At December 31, 2022, 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	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	372,879
Total	<u>\$ -</u>	<u>\$ 372,879</u>

12) 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>	
2023	\$ (350,428)
2024	(22,451)
2025	-
2026	-
2027	-
	<u>\$ (372,879)</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, 2022 were based on an actuarial valuation date of June 30, 2021. The total pension liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2021.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2022:

Valuation Date	June 30, 2020
Experience Study	July 1, 2013 - June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	30-year closed period at June 30, 2019 <i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases</i>
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 10.30%
Investment Rate of Return	6.25%

The mortality table used for active members is a PUB-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members and beneficiaries, the mortality table used is a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. For disabled members, the PUB-2010 Disabled Mortality with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010, is used for the period after disability retirement.

12) 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.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	60.00%	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income	20.00%	
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	0.28%
Cash	0.00%	-0.91%
Inflation Protected	20.00%	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Expected Real Return	100.00%	4.28%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.58%

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:

	1% Decrease	Current	1% Increase
	5.25%	Discount Rate	7.25%
CERS			
District's proportionate share of net pension liability	\$ -	\$ -	\$ -

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, 2022.

13) 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 \$2,022,084 for the year ending December 31, 2023, with the compensation for the balance of the contract to be negotiated on an annual basis.

14) Leases (as Lessee)

The District entered into a three year lease agreement commencing on August 1, 2020, for its office space. The lease calls for monthly rental payments ranging from \$754 to \$848. So long as the District is not in default on August 1, 2023, the lease agreement will automatically be renewed. The District intends to automatically renew the lease through August 1, 2025.

The following is a schedule of future lease payments expected under the terms of the lease:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 9,269	\$ 684	\$ 9,953
2024	9,870	374	10,244
2025	6,101	67	6,168
Totals	<u>\$ 25,240</u>	<u>\$ 1,125</u>	<u>\$ 26,365</u>

15) Prior Period Adjustment

A prior period adjustment was necessary in order to properly reflect the District's deferred outflows and deferred inflows of resources related to pensions and net pension liability as a result of the Kentucky Retirement Systems reports not being available to present updated pension information in the 2021 audited financial statements. Deferred outflows of resources related to pensions was decreased by \$129,545, deferred inflows of resources related to pensions was increased by \$425,186, and net pension liability decreased by \$1,080,845 in order to adjust balances for the changes occurring during the year ended December 31, 2021. These changes resulted in a net prior period adjustment of \$526,114, which is shown in the Statement of Revenues and Expenses and Changes in Net Position.

16) Subsequent Events

Subsequent events have been considered through March 10, 2023, the date the financial statements were available to be issued.

17) Recently Issued Pronouncements

In June 2017, the GASB issued GASB Statement No. 87, *Leases* (GASB 87). The primary objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The District adopted this standard for the year ended December 31, 2022. It has not been deemed necessary to restate prior periods as the effect would be immaterial to the overall financial statements.

Required Supplementary Information

Martin County Water District

Required Supplementary Information

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

December 31, 2022

	Reporting Fiscal Year (Measurement Date) 2022 (2021)	Reporting Fiscal Year (Measurement Date) 2021 (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	0.00%	0.00%	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	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,080,845</u>	<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	254.98%	260.60%	311.44%	290.05%	248.08%	181.02%	179.26%	134.05%
Plan fiduciary net position as a percentage of the total pension liability	52.42%	57.33%	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, 2022

	2022	2021	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)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<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	N/A	N/A	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

**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 the business-type activities of Martin County Water District (District), as of and for the year ended December 31, 2022, 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 10, 2023.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Report on 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 financial statements. 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 2022-001, 2022-002, and 2022-003.

**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

Government Auditing Standards requires the auditor to perform limited procedures on Martin County Water District's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. Martin County Water District's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wade Stables P.C.

Wade Stables P.C.
Certified Public Accountants

March 10, 2023
Hannibal, Missouri

Compliance Findings

2022-001 - 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 all 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.

2022-002 – 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 amounts into a depreciation and replacement reserve special account during 2022.

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.

Compliance Findings (Concluded)

2022-003 – Debt Service Requirements

Criteria:

Per loan agreement, the District has covenanted to deposit in the Revenue Fund, promptly as received from time to time, all revenues of the system.

Condition:

The District is not in compliance with loan covenants.

Cause:

Although all revenues of the system were deposited into District bank accounts, the District did not deposit all revenues into the specified Revenue Fund.

Effect:

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

Recommendation:

Procedures should be put in place immediately to ensure all revenues of the system are first deposited into the Revenue Fund. The District should then transfer monthly from the Revenue Fund and deposit into the Operation and Maintenance Fund sums sufficient to meet the current expenses of operating and maintaining the system.

Views of Responsible Officials:

Management will make a plan to deposit all revenues of the system into the specified Revenue Fund per loan covenant.