

# **Martin County Water District**

**Inez, Kentucky**

Annual Financial Report

Years Ended December 31, 2023 and 2022

# Martin County Water District

Table of Contents  
December 31, 2023 and 2022

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	<u>Page</u>
<b><i>Financial Section:</i></b>	
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 8
<b><i>Basic Financial Statements:</i></b>	
Statements of Net Position	9 - 10
Statements of Revenues and Expenses and Changes in Net Position	11
Statements of Cash Flows	12
Notes to Financial Statements	13 - 23
<b><i>Required Supplementary Information:</i></b>	
Schedule of the District's Proportionate Share of Net Pension Liability	24
Schedule of Contributions	25
<b><i>Compliance Section:</i></b>	
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 <i>Government Auditing Standards</i>	26 - 27
Schedule of Findings and Responses	28 - 29

## **Financial Section**



## 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, 2023 and 2022, 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, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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.

### 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.

## Independent Auditor's Report (Continued)

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.

### 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 net pension liability, and schedule of contributions 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.

## Independent Auditor's Report (Concluded)

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2024, 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, 2024

Hannibal, Missouri

**MARTIN COUNTY WATER DISTRICT OF  
INEZ, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2023**

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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, 2023.

**OVERVIEW OF THE AUDITED FINANCIAL STATEMENTS**

The financial statements presented in this report consist of 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 2023 decreased by \$74,823 and ended the year at \$14,016,388.

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

Total assets decreased \$517,000 or 2.9% primarily due to decreases in capital assets of \$391,000, current assets of \$87,000, and restricted assets of \$39,000. The decrease in capital assets is mainly due to depreciation expense of \$790,000 exceeding net asset additions of \$79,000. 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 \$34,000, cash of \$51,000, and prepaid expenses of \$7,000, offset by increases in accounts receivable of \$4,000 and inventory of \$1,000. The decrease in cash is mainly the result of an increase in vendor obligations during 2023. The decrease in restricted assets is mainly due to decreases in debt service reserves that were used to meet debt service requirements. Restricted cash is discussed in detail in the restricted assets section.

Total liabilities decreased by \$91,000 or 2.6% primarily due to decreases in long-term debt of \$1,428,000, offset by an increase in current liabilities of \$1,337,000. The decrease in long-term debt is related to principal payments made during the year, with most of the decrease being the \$1,100,000 principal balance due in 2024 for the 2022 Revenue Bond. Current liabilities increased by \$1,337,000 mainly because of the increase of \$1,280,000 in current maturities, with \$1,100,000 of that amount being for the 2022 Revenue Bond payment due in 2024, along with an increase of

**MARTIN COUNTY WATER DISTRICT OF  
INEZ, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2023**

\$49,000 in accounts payable due to increases in the payable to Sanitation offset by the decrease in the 2023 contract year-end billback due to Alliance Water Resources (AWR), and an increase in customer deposits of \$8,000.

Deferred inflows of resources related to pensions decreased by \$350,000. See Footnote 12 (page 20) of the audited financial statements for more information.

A summary of financial position follows:

	<u>For The Years Ended December 31</u>			<u>2023</u>	
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>Percent Change</u>
<b>Assets:</b>					
Current assets	\$ 600,316	\$ 687,050	\$ 714,436	\$ (86,734)	-12.6%
Restricted assets	158,152	196,643	131,434	(38,491)	-19.6
Capital assets	16,749,860	17,141,150	17,715,134	(391,290)	-2.3
Total assets	<u>17,508,328</u>	<u>18,024,843</u>	<u>18,561,004</u>	<u>(516,515)</u>	-2.9
<b>Deferred Outflows:</b>					
Deferred outflows of resources related to pensions	\$ -	\$ -	\$ 134,959	-	N/A
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>134,959</u>	<u>-</u>	N/A
<b>Liabilities:</b>					
Current liabilities	1,915,984	578,845	1,639,744	1,337,139	231.0
Long term debt, net	1,547,403	2,965,937	1,987,168	(1,418,534)	-47.8
Long term lease liability	6,102	15,971	-	(9,869)	-61.8
Net pension liability	-	-	1,080,845	-	N/A
Total liabilities	<u>3,469,489</u>	<u>3,560,753</u>	<u>4,707,757</u>	<u>(91,264)</u>	-2.6
<b>Deferred Inflows:</b>					
Deferred inflows of resources related to pensions	\$ 22,451	\$ 372,879	\$ 480,553	(350,428)	-94.0
Total deferred inflows of resources	<u>22,451</u>	<u>372,879</u>	<u>480,553</u>	<u>(350,428)</u>	-94.0
<b>Net Position:</b>					
Net investment in capital assets	13,788,630	14,040,456	15,594,973	(251,826)	-1.8
Restricted for debt service	196,053	199,705	105,137	(3,652)	-1.8
Restricted for management infrastructure	1,000	9,865	6,587	(8,865)	-89.9
Restricted for capital projects	63	63	63	-	0.0
Unrestricted	30,642	(158,878)	(2,199,107)	189,520	-119.3
Total net position	<u>\$ 14,016,388</u>	<u>\$14,091,211</u>	<u>\$ 13,507,653</u>	<u>\$ (74,823)</u>	-0.5%



**MARTIN COUNTY WATER DISTRICT OF  
INEZ, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2023**

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**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

Total operating revenues increased by \$59,000 or 2.0% and totaled \$3,026,000 for the year. Water revenue and late charge fees increased \$69,000 from the prior year mainly due to the slight increase in gallons billed for 2023 as compared to 2022. Miscellaneous income increased by \$2,000 primarily due to the sale of scrap metal. This was offset by decreases in other fees of \$12,000.

Total operating expenses increased by \$286,000 or 9.5% and totaled \$3,299,000 for the year mainly due to the significant increase in repairs and maintenance of \$393,000, as well as increases in the recognition of pension expense, dues & subscriptions fees, and office expenses. This was offset by decreases in the contract year-end billback due to AWR, utilities, insurance, purchased water, legal, and bad debts.

There were more repairs on equipment in 2023 than originally budgeted. The largest contributor to the overage however was related to the delay in completing the raw water intake project. Specifically, the cart to raise and lower the intake pump has been delayed. The rental and maintenance on that pump is about \$9,000 a month. The cost of fuel to run the pump is \$4,000 per day. The costs to maintain temporary pumps to fill the reservoir was approximately \$30,000 per month in 2023.

Non-operating expenses in 2023 decreased by \$44,000 mainly due to there being no bond issue costs and an increase in interest income, offset by an increase in the loss recognized on disposed assets.

Capital contributions totaled \$311,760 and includes a reimbursement from the Big Sandy Area Development District in the amount of \$18,155 for a Variable Frequency Drive (VFD), \$289,477 for the RWI & WTP Rehabilitation Project, and \$4,128 for a Pressure Reducing Valve donated by AWR.

**MARTIN COUNTY WATER DISTRICT OF  
INEZ, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2023**

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

	<u>For The Years Ended December 31</u>			<u>2023</u>	
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>Percent Change</u>
<b>Operating Revenues:</b>					
Water sales	\$ 2,608,831	\$ 2,542,610	\$ 2,243,478	\$ 66,221	2.6%
Connection fees	26,543	28,372	17,612	(1,829)	-6.4
Late charge fees	72,576	70,236	58,575	2,340	3.3
Debt service surcharge	104,847	105,780	107,177	(933)	-0.9
Water surcharge (MIS)	188,176	189,817	192,369	(1,641)	-0.9
Other fees	22,468	29,560	39,575	(7,092)	-24.0
Misc income	2,700	395	161,982	2,305	583.5
Total operating revenues	<u>3,026,141</u>	<u>2,966,770</u>	<u>2,820,768</u>	<u>59,371</u>	2.0
<b>Operating Expenses:</b>					
Operating expenses	2,508,672	2,215,975	2,769,377	292,697	13.2
Depreciation	790,096	796,613	773,206	(6,517)	-0.8
Total operating expenses	<u>3,298,768</u>	<u>3,012,588</u>	<u>3,542,583</u>	<u>286,180</u>	9.5
<b>Net Operating Income</b>	<u>(272,627)</u>	<u>(45,818)</u>	<u>(721,815)</u>	<u>(226,809)</u>	495.0
<b>Non-operating Income (Expense)</b>					
Interest expense	(103,266)	(102,107)	(78,302)	1,159	-1.1
Customer deposit interest expense	(88)	(46)	(3,319)	42	-91.3
Bond trustee fees	(900)	(450)	(450)	450	-100.0
Bond issuance costs	-	(47,422)	-	(47,422)	100.0
Gain (loss) on disposal of assets	(14,728)	(10,432)	(4,752)	4,296	-41.2
Interest income	5,026	2,060	112	(2,966)	-144.0
Total Non-operating income (expenses)	<u>(113,956)</u>	<u>(158,397)</u>	<u>(86,711)</u>	<u>(44,441)</u>	28.1
<b>Change in net position before contributions</b>	<u>(386,583)</u>	<u>(204,215)</u>	<u>(808,526)</u>	<u>(182,368)</u>	89.3
Capital grants and contributions	<u>311,760</u>	<u>261,659</u>	<u>566,983</u>	<u>50,101</u>	19.1
<b>Change in net position</b>	<u>(74,823)</u>	<u>57,444</u>	<u>(241,543)</u>	<u>(132,267)</u>	-230.3
Net Position - Beginning	14,091,211	13,507,653	13,749,196	583,558	4.3
Prior Period Adjustment	<u>-</u>	<u>526,114</u>	<u>-</u>	<u>(526,114)</u>	-100.0
<b>Net Position - Ending</b>	<u>\$ 14,016,388</u>	<u>\$ 14,091,211</u>	<u>\$ 13,507,653</u>	<u>\$ (74,823)</u>	-0.50%

**MARTIN COUNTY WATER DISTRICT OF  
INEZ, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2023**

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**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 2023.

**RESTRICTED ASSETS**

Restricted assets were \$158,152 in 2023 compared to \$196,643 in 2022. 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 \$16,749,860 on December 31, 2023, compared to \$17,141,150 on December 31, 2022, which represents a decrease of \$391,000 or 2.3%. Capital asset additions in 2023 were \$417,144 and consisted of the RWI & WTP Rehabilitation, check valve, Davella Station pump motor, VFDs, meters, and customer TAPs. Additions were offset by the retirement of numerous items (including a booster station, pumps, chlorinators, air compressors, various office furniture, vehicles, and radios) and depreciation expense of \$790,096.

**LONG-TERM DEBT**

The District paid principal payments of \$134,757 during the fiscal year. As of December 31, 2023, the District had a total long-term debt outstanding of \$2,945,049 of which \$1,413,827 is due in the next year.

**OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS**

The District's change in overall financial position in 2023 decreased by \$74,823 as compared to the 2022 overall increase of \$583,558. The District continually strives to improve its financial position.

**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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 225,166	\$ 276,298
Accounts receivable (net)	318,357	314,701
Unbilled revenue	46,933	80,438
Prepaid expenses	5,611	12,665
Inventory	4,249	2,948
<b>Total Current Assets</b>	<u>\$ 600,316</u>	<u>\$ 687,050</u>
<b>Restricted Assets</b>		
Cash - Debt retirement	\$ 157,522	\$ 196,119
Cash - Grants	63	63
Accrued interest receivable	567	461
<b>Total Restricted Assets</b>	<u>\$ 158,152</u>	<u>\$ 196,643</u>
<b>Capital Assets</b>		
Water supply & distribution system	\$ 28,443,640	\$ 28,399,263
Buildings	500,264	500,264
Equipment & furniture	6,176,820	6,340,341
Vehicles & trailers	47,635	138,773
Land	214,714	214,714
Construction in progress	289,779	-
ROU leased asset	33,935	33,935
	<u>\$ 35,706,787</u>	<u>\$ 35,627,290</u>
Less: Accumulated depreciation	(18,937,987)	(18,476,670)
Less: Accumulated amortization ROU leased asset	(18,940)	(9,470)
<b>Total Capital Assets</b>	<u>\$ 16,749,860</u>	<u>\$ 17,141,150</u>
<b>Total Assets</b>	<u><u>\$ 17,508,328</u></u>	<u><u>\$ 18,024,843</u></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, 2023 and 2022

	<b>2023</b>	<b>2022</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 338,306	\$ 289,615
Accrued interest	45,848	46,026
Accrued interest - leases	43	68
Sales tax payable	8,963	8,252
Customer deposits	99,127	90,858
Current portion of lease liability	9,870	9,269
Current portion of long-term debt	1,413,827	134,757
<b>Total Current Liabilities</b>	<b>\$ 1,915,984</b>	<b>\$ 578,845</b>
<b>Long-Term Liabilities</b>		
Long-term portion of debt (net)	\$ 1,547,403	\$ 2,965,937
Long-term portion of lease liability	6,102	15,971
<b>Total Long-Term Liabilities</b>	<b>\$ 1,553,505</b>	<b>\$ 2,981,908</b>
<b>Total Liabilities</b>	<b>\$ 3,469,489</b>	<b>\$ 3,560,753</b>
<b>Deferred Inflows of Resources</b>		
Deferred inflows of resources related to pensions	\$ 22,451	\$ 372,879
<b>Total Deferred Inflows of Resources</b>	<b>\$ 22,451</b>	<b>\$ 372,879</b>
<b>Net Position</b>		
Net investment in capital assets	\$ 13,788,630	\$ 14,040,456
Restricted for debt retirement	196,053	199,705
Restricted for management infrastructure	1,000	9,865
Restricted for capital projects	63	63
Unrestricted	30,642	(158,878)
<b>Total Net Position</b>	<b>\$ 14,016,388</b>	<b>\$ 14,091,211</b>

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

**Martin County Water District**  
 Statements of Revenues and Expenses and Changes in Net Position  
 Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Operating Revenues</b>		
Water sales	\$ 2,608,831	\$ 2,542,610
Connection fees	26,543	28,372
Late charge fees	72,576	70,236
Debt service surcharge	104,847	105,780
MIS Water surcharge	188,176	189,817
Other fees	22,468	29,560
Miscellaneous income	2,700	395
<b>Total Operating Revenues</b>	<u>\$ 3,026,141</u>	<u>\$ 2,966,770</u>
<b>Operating Expenses</b>		
Management & operations contract	\$ 2,071,629	\$ 2,132,734
Water purchased	30,180	74,988
Pension expense	(350,428)	(527,446)
Utilities	228,442	375,997
Insurance	21,603	34,932
Repairs and maintenance	456,205	63,171
Outside services	663	630
Legal	7,950	10,000
Accounting	7,985	7,950
Bad debt	17,669	30,948
Dues & subscriptions	4,734	3,149
Office Expense	4,233	2,676
Rental	25	25
Regulatory assessment fees	3,863	4,214
KY 811 Services	2,036	1,273
Depreciation	780,626	787,143
Amortization - ROU lease assets	9,470	9,470
Miscellaneous	1,883	734
<b>Total Operating Expenses</b>	<u>\$ 3,298,768</u>	<u>\$ 3,012,588</u>
<b>Operating Income (Expense)</b>	<u>\$ (272,627)</u>	<u>\$ (45,818)</u>
<b>Non-operating Income (Expense)</b>		
Interest expense	\$ (103,266)	\$ (102,107)
Customer deposit interest expense	(88)	(46)
Bond trustee fees	(900)	(450)
Bond issuance costs	-	(47,422)
Gain (loss) on disposal of assets	(14,728)	(10,432)
Interest income	5,026	2,060
<b>Total Non-operating Income (Expense)</b>	<u>\$ (113,956)</u>	<u>\$ (158,397)</u>
<b>Change in Net Position before Contributions</b>	<u>\$ (386,583)</u>	<u>\$ (204,215)</u>
Capital grants and contributions	311,760	261,659
<b>Change in Net Position</b>	<u>\$ (74,823)</u>	<u>\$ 57,444</u>
<b>Net Position - Beginning of Year</b>	14,091,211	13,507,653
<b>Prior Period Adjustment</b>	-	526,114
<b>Net Position - Ending of Year</b>	<u>\$ 14,016,388</u>	<u>\$ 14,091,211</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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 3,064,259	\$ 2,986,678
Cash payments for goods and services	(2,803,945)	(3,847,197)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 260,314</u>	<u>\$ (860,519)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Payments for capital assets	\$ (417,144)	\$ (199,126)
Principal repayments	(134,757)	(132,993)
Principal payments on lease liability	(9,269)	(8,695)
Proceeds from long term debt	-	1,110,000
Interest and other charges paid	(109,164)	(81,134)
Proceeds from sale of assets	4,000	-
Expenses from sale of assets	(389)	-
Debt issuance costs paid	-	(47,422)
Capital grants	311,760	261,659
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>\$ (354,963)</u>	<u>\$ 902,289</u>
<b>Cash Flows from Investing Activities</b>		
Interest received	\$ 4,920	\$ 1,601
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>\$ 4,920</u>	<u>\$ 1,601</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	\$ (89,729)	\$ 43,371
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>472,480</u>	<u>429,109</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u><u>\$ 382,751</u></u>	<u><u>\$ 472,480</u></u>
 <b>Reconciliation of Cash and Cash Equivalents</b>		
Cash and cash equivalents	\$ 225,166	\$ 276,298
Restricted cash and cash equivalents		
Cash - Debt retirement	157,522	196,119
Cash - Grants	63	63
<b>Total Cash and Cash Equivalents</b>	<u><u>\$ 382,751</u></u>	<u><u>\$ 472,480</u></u>
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ (272,627)	\$ (45,818)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	790,096	796,613
Change in assets and liabilities:		
Accounts receivable	(3,656)	(965)
Unbilled receivables	33,505	12,124
Inventory	(1,301)	2,609
Prepaid expenses	7,054	(7,761)
Accounts payable	48,691	(1,099,925)
Customer deposits	8,269	8,749
Sales tax payable	711	1,301
Net pension obligation	(350,428)	(527,446)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><u>\$ 260,314</u></u>	<u><u>\$ (860,519)</u></u>

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



**Notes to  
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) Summary of 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 and Expenses**

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) Summary of Significant Accounting Policies (Concluded)**

**l) 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, 2023, the carrying amount of the District's deposits was \$382,751 and the bank balances totaled \$536,445. As of December 31, 2023, \$250,000 was covered by federal depository insurance, \$126,660 was collateralized with a letter of credit in First State Bank's name for the coverage of the District's deposit balances, and \$159,785 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 Statements of Net Position and Statements of Cash Flows.

**4) Accounts Receivable**

Receivables are reported on the accompanying Statements of Net Position, net of an allowance for doubtful accounts, which amounted to \$28,000 and \$20,000 as of December 31, 2023 and 2022, respectively. 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 January 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, 2023 and 2022, amounted to \$755 each year.

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 years ended December 31, 2023 and 2022, amounted to \$3,952 and \$2,756, respectively.

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

	<u>2023</u>	<u>2022</u>
<b>Kentucky Infrastructure Authority Loan</b>		
\$1,329,826 loan due in monthly installments of \$5,620.58 from 1991 through June 2027, interest rate is 3.00%.	\$ 223,827	\$ 283,584
<b>Kentucky Association of Counties Equipment Lease</b>		
\$200,000 variable rate lease due in annual installments of \$5,000 to \$15,000 from March 20, 2006 through 2025, base rental interest of 4.25%.	26,222	41,222
<b>Assistance Agreement (Loan) - KRW Series 2022B Revenue Bonds</b>		
\$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	1,110,000
<b>Assistance Agreement (Loan) - KRW Series 2015E Refunding Bond</b>		
\$2,010,000 loan due in yearly installments of \$30,000 to \$55,000 from January 2016 through January 2045, interest rates at 2.10% to 4.10%.	<u>1,585,000</u>	<u>1,645,000</u>
Total Debt Payable	\$ 2,945,049	\$ 3,079,806
Add: Unamortized Premium	16,181	20,888
Less: Current Portion	<u>(1,413,827)</u>	<u>(134,757)</u>
Long-Term Portion of Debt Payable	<u>\$ 1,547,403</u>	<u>\$ 2,965,937</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
2024	\$ 1,398,827	\$ 89,346	\$ 15,000	\$ 1,046
2025	65,000	56,731	11,222	208
2026	70,000	54,639	-	-
2027	70,000	52,425	-	-
2028	75,000	50,040	-	-
2029-2033	405,000	207,855	-	-
2034-2038	415,000	125,729	-	-
2039-2043	310,000	51,458	-	-
2044-2045	110,000	4,511	-	-
	<u>\$ 2,918,827</u>	<u>\$ 692,734</u>	<u>\$ 26,222</u>	<u>\$ 1,254</u>

The changes in long-term debt for the years ended December 31, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Balance, Beginning	\$ 3,079,806	\$ 2,102,799
Additions	-	1,110,000
Retirements	<u>(134,757)</u>	<u>(132,993)</u>
Balance, Ending	<u>\$ 2,945,049</u>	<u>\$ 3,079,806</u>

**6) Litigation**

At December 31, 2023, 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 \$158,152 and \$196,643 as of December 31, 2023 and 2022, respectively.

As of December 31, 2023 and 2022, the District's Restricted Net Position consists of net investments in capital assets, restrictions for debt retirement, restrictions for management infrastructure, and restrictions for capital projects.

**8) Restricted Assets and Net Position (Concluded)**

**Net Investment in Capital Assets**

	<u>2023</u>	<u>2022</u>
Total Capital Assets	\$ 16,749,860	\$ 17,141,150
Less:		
Long-term portion of debt (net)	(1,547,403)	(2,965,937)
Current portion of long-term debt	<u>(1,413,827)</u>	<u>(134,757)</u>
Total net investment in capital assets	<u>\$ 13,788,630</u>	<u>\$ 14,040,456</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>2023</u>	<u>2022</u>
Sinking funds	\$ 150,855	\$ 189,617
Surcharge fund	89,457	54,631
Depreciation fund	<u>1,022</u>	<u>1,022</u>
Restricted cash and investments - Debt retirement	241,334	245,270
Add: Accrued interest receivable	567	461
Less: Payable from restricted assets Accrued interest	<u>(45,848)</u>	<u>(46,026)</u>
Restricted for debt retirement	<u>\$ 196,053</u>	<u>\$ 199,705</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>2023</u>	<u>2022</u>
Management infrastructure surcharge fund	<u>\$ 1,000</u>	<u>\$ 9,865</u>
Restricted for management infrastructure	<u>\$ 1,000</u>	<u>\$ 9,865</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>2023</u>	<u>2022</u>
Restricted cash - capital projects	<u>\$ 63</u>	<u>\$ 63</u>
Restricted for capital projects	<u>\$ 63</u>	<u>\$ 63</u>

**9) Capital Assets**

Capital assets during the year ended December 31, 2023, consisted of the following:

	<b>Balance at January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at December 31</b>
Water Supply & Distribution System	\$ 28,399,263	\$ 90,353	\$ (45,976)	\$ 28,443,640
Buildings	500,264	-	-	500,264
Equipment & Furniture	6,340,341	37,012	(200,533)	6,176,820
Vehicles & Trailers	138,773	-	(91,138)	47,635
Land	214,714	-	-	214,714
Construction in Progress	-	289,779	-	289,779
ROU Leased Asset	33,935	-	-	33,935
	<u>35,627,290</u>	<u>417,144</u>	<u>(337,647)</u>	<u>35,706,787</u>
Accumulated Depreciation	(18,476,670)	(780,626)	319,309	(18,937,987)
Accumulated Amortization ROU Leased Asset	(9,470)	(9,470)	-	(18,940)
<b>Total Capital Assets</b>	<b><u>\$ 17,141,150</u></b>	<b><u>\$ (372,952)</u></b>	<b><u>\$ (18,338)</u></b>	<b><u>\$ 16,749,860</u></b>

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

	<b>Balance at January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at December 31</b>
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)
<b>Total Capital Assets</b>	<b><u>\$ 17,715,134</u></b>	<b><u>\$ (423,329)</u></b>	<b><u>\$ (150,655)</u></b>	<b><u>\$ 17,141,150</u></b>

Depreciation expense for the years ended December 31, 2023 and 2022, amounted to \$780,626 and \$787,143, respectively.

**10) Related Party Transactions**

There were no related party transactions during the year ended December 31, 2023 and 2022.

**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, 2023, 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, 2023, employers were required to contribute 23.52% of the member's salary. During the year ended December 31, 2023, 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, 2023, 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, 2023. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2022. An expected total pension liability as of June 30, 2022, 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, 2023. At December 31, 2023, the District's proportion was 0.00%.

For the year ended December 31, 2023, the District recognized negative pension expense of \$(350,428) related to CERS. At December 31, 2023, 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	-	22,451
<b>Total</b>	<b>\$ -</b>	<b>\$ 22,451</b>

**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>	
2024	\$ (22,451)
2025	-
2026	-
2027	-
2028	-
	<u>\$ (22,451)</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, 2023, were based on an actuarial valuation date of June 30, 2022. The total pension liability was rolled-forward from the valuation date (June 30, 2022) to the plan’s fiscal year ending June 30, 2023, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2022.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2023:

Valuation Date	June 30, 2021
Experience Study	July 1, 2018 - June 30, 2022
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%, varies by service
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. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

**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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>Equity</b>	<b>60.00%</b>	
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
<b>Fixed Income</b>	<b>20.00%</b>	
Core Fixed Income	10.00%	2.45%
Specialty Credit	10.00%	3.65%
Cash	0.00%	1.39%
<b>Inflation Protected</b>	<b>20.00%</b>	
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
<b>Expected Real Return</b>	<b>100.00%</b>	<b>5.75%</b>
<b>Long Term Inflation Assumption</b>		<b>2.50%</b>
<b>Expected Nominal Return for Portfolio</b>		<b>8.25%</b>

**Discount Rate:**

The discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment 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 6.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50%) or 1-percentage-point higher (7.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	5.50%	6.50%	7.50%
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, 2023.

**13) Commitments**

The District has a full service operating agreement with Alliance Water Resources, Inc., through December 31, 2029, 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, 2024, 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>
2024	\$ 9,870	\$ 374	\$ 10,244
2025	6,102	67	6,169
Totals	<u>\$ 15,972</u>	<u>\$ 441</u>	<u>\$ 16,413</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**

In January 2024, the District received a new loan through Kentucky Infrastructure Authority (KIA) for the purpose of consolidating outstanding debt. The loan amount was \$1,323,623, with a maturity date of September 1, 2043, and an interest rate of 0.00%. The proceeds were used to pay off the District's previous KIA loan and KRW Series 2022B Revenue Bonds.

Subsequent events have been considered through March 22, 2024, 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, 2023

	Reporting Fiscal Year (Measurement Date) 2023 (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)
<b>County Employee's Retirement System:</b>									
District's proportion of the net pension liability	0.00%	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	-	-	-	-	-	-	-	-	-
<b>Total</b>	<u>\$ -</u>	<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	216.29%	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	57.48%	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, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>County Employee's Retirement System:</b>										
Contractually required contribution	\$ -	\$ -	\$ -	\$ 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>	<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	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, 2023, 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, 2024.

**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 2023-001, 2023-002, and 2023-003.

**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 22, 2024  
Hannibal, Missouri

**Compliance Findings**

**2023-001 – 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 continue to work toward making payments within 30 days as required.

**2023-002 – 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 2023.

**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)**

**2023-003 – 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.