

**NORTH MARSHALL WATER DISTRICT**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2020 AND 2019**

**NORTH MARSHALL WATER DISTRICT  
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## **INTRODUCTORY SECTION**

**NORTH MARSHALL WATER DISTRICT  
DIRECTORY**

December 31, 2020

**BOARD MEMBERS**

James Leonard, Chairman  
Kenneth Shadowen  
Billy Driskill  
Joe Draffen  
Jim Dossett

**MANAGEMENT TEAM**

Bobby Gifford, Superintendent  
Kimberly Smith, Bookkeeper

**INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Alexander Thompson Arnold PLLC  
Jackson, Tennessee

## **FINANCIAL SECTION**



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## Independent Auditor's Report

Board of Commissioners  
North Marshall Water District  
Benton, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the North Marshall Water District (the District), as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of December 31, 2020 and 2019, 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.

**Other Matters****Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the required schedules and notes for pensions and OPEB as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response 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 Information**

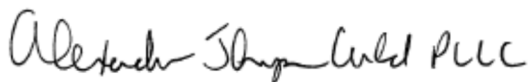
Our audits was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section and supplementary and other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary and other information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary and other information section is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2021 on our consideration of the 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 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 the District's internal control over financial reporting and compliance.



Jackson, Tennessee  
March 19, 2021

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the North Marshall Water District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended December 31, 2020 and 2019. All amounts, unless otherwise indicated, are expressed in actual dollars.

### **FINANCIAL HIGHLIGHTS**

Management believes the District's financial condition is strong. The District is well within its more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- Total assets and deferred outflows at year-end were \$9.75 million and exceeded liabilities and deferred inflows in the amount of \$3.77 million (i.e. net position).
- Total assets decreased by \$363 thousand, mainly due to a decrease in cash.
- Operating revenues were \$1.63 million, a decrease from year 2019 in the amount of \$141 thousand or 7.95%.
- Operating expenses were \$2.11 million, an increase from year 2020 in the amount of \$29 thousand or 1.41%.
- The operating loss for the year was \$478 thousand as compared to \$307 thousand operating loss in 2019.
- Ratios of operating income (loss) to total operating revenue were -.292 and -.173 for 2020, and 2019, respectively.

### **OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's strategic plan, budget, bond resolutions and other management tools were used for this analysis. The Financial Statements and Supplementary Information are made up of four sections: 1) the introductory section, 2) the financial section, 3) the supplementary and other information section, 4) and the internal control and compliance section. The introductory section includes the District's directory. The financial section includes the MD&A, the independent auditor's report, and the financial statements with accompanying notes. The supplementary and other information section includes selected financial and operational information. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

### **REQUIRED FINANCIAL STATEMENTS**

A Proprietary Fund is used to account for the operations of the District, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements report information about the District, using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.



The *Statement of Net Position* includes all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position and provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the District's operations and can be used to determine whether the District has successfully recovered all of its costs. This statement also measures the District's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises.

The *Notes to the Financial Statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

## **FINANCIAL ANALYSIS**

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District, and the changes in the net position. Net position is one way to measure the financial health or financial position of the District. Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates. The District's total net position decreased by \$551,860 for the fiscal year ended December 31, 2020. The District's total net position decreased by \$367,447 for the fiscal year ended December 31, 2019. The analysis below focuses on the District's net position (Table 1A & 1B) and changes in net position (Table 2A & 2B) during the year.

Table 1A  
**CONDENSED STATEMENT OF NET POSITION**

	December 31, 2020	December 31, 2019	Increase (Decrease)	
			\$	%
Current assets	\$ 1,133,337	\$ 1,506,878	\$ (373,541)	-24.79%
Restricted noncurrent assets	60,621	57,628	2,993	5.19%
Capital assets	8,035,024	8,027,638	7,386	0.09%
Total assets	<u>9,228,982</u>	<u>9,592,144</u>	<u>(363,162)</u>	-3.79%
Deferred outflows of resources	<u>521,892</u>	<u>446,553</u>	<u>75,339</u>	16.87%
Long-term liabilities	5,733,364	5,429,652	303,712	5.59%
Other liabilities	157,775	136,180	21,595	15.86%
Total liabilities	<u>5,891,139</u>	<u>5,565,832</u>	<u>325,307</u>	5.84%
Deferred inflows of resources	<u>85,798</u>	<u>147,068</u>	<u>(61,270)</u>	-41.66%
Net investment in capital assets	4,365,524	4,296,138	69,386	1.62%
Unrestricted	(591,587)	29,659	(621,246)	-2094.63%
Total net position	<u>\$ 3,773,937</u>	<u>\$ 4,325,797</u>	<u>\$ (551,860)</u>	-12.76%

Table 1B  
**CONDENSED STATEMENTS OF NET POSITION**

	December 31, 2019	December 31, 2018	Increase (Decrease)	
			\$	%
Current and other assets	\$ 1,506,878	\$ 1,688,845	\$ (181,967)	-10.77%
Restricted noncurrent assets	57,628	57,557	71	0.12%
Capital assets	8,027,638	8,061,387	(33,749)	-0.42%
Total assets	<u>9,592,144</u>	<u>9,807,789</u>	<u>(215,645)</u>	-2.20%
Deferred outflows of resources	<u>446,553</u>	<u>326,686</u>	<u>119,867</u>	36.69%
Long-term liabilities	5,429,652	5,215,936	213,716	4.10%
Other liabilities	136,180	131,415	4,765	3.63%
Total liabilities	<u>5,565,832</u>	<u>5,347,351</u>	<u>218,481</u>	4.09%
Deferred inflows of resources	<u>147,068</u>	<u>93,880</u>	<u>53,188</u>	56.66%
Net investment in capital assets	4,296,138	4,269,887	26,251	0.61%
Unrestricted	29,659	423,357	(393,698)	-92.99%
Total net position	<u>\$ 4,325,797</u>	<u>\$ 4,693,244</u>	<u>\$ (367,447)</u>	-7.83%

The decrease in assets in 2020 and 2019 was due to current year activities resulting in less cash. Total liabilities increased during the current year due to increases in net pension liability and net OPEB liability.

Changes in the District's net position can be determined by reviewing the following condensed Statement of Revenues, Expense, and Changes in Net Position for the year.

Table 2A  
**CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	December 31, 2020	December 31, 2019	Increase (Decrease)	
			\$	%
Operating revenues	\$ 1,634,500	\$ 1,775,643	\$ (141,143)	-7.95%
Non-operating revenues	9,194	24,538	(15,344)	-62.53%
Total revenues	<u>1,643,694</u>	<u>1,800,181</u>	<u>(156,487)</u>	-8.69%
Costs of sales and services	207,297	199,952	7,345	3.67%
Customer accounts expense	54,396	51,366	3,030	5.90%
Administrative and general expenses	1,035,328	925,849	109,479	11.82%
Maintenance expense	389,531	464,121	(74,590)	-16.07%
Provision for depreciation	425,741	441,706	(15,965)	-3.61%
Non-operating expenses	83,261	84,634	(1,373)	-1.62%
Total expenses	<u>2,195,554</u>	<u>2,167,628</u>	<u>27,926</u>	1.29%
Change in net position	(551,860)	(367,447)	(184,413)	50.19%
Beginning net position	4,325,797	4,693,244	(367,447)	-7.83%
Ending net position	<u>\$ 3,773,937</u>	<u>\$ 4,325,797</u>	<u>\$ (551,860)</u>	-12.76%

Table 2B  
**CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	December 31, 2019	December 31, 2018	Increase (Decrease)	
			\$	%
Operating revenues	\$ 1,775,643	\$ 1,676,795	\$ 98,848	5.90%
Non-operating revenues	24,538	6,103	18,435	302.06%
Total revenues	<u>1,800,181</u>	<u>1,682,898</u>	<u>117,283</u>	6.97%
Costs of sales and services	199,952	193,453	6,499	3.36%
Customer accounts expense	51,366	46,356	5,010	10.81%
Administrative and general expenses	925,849	875,501	50,348	5.75%
Maintenance expense	464,121	327,999	136,122	41.50%
Provision for depreciation	441,706	407,876	33,830	8.29%
Non-operating expenses	84,634	85,967	(1,333)	-1.55%
Total expenses	<u>2,167,628</u>	<u>1,937,152</u>	<u>230,476</u>	11.90%
Change in net position	(367,447)	(254,254)	(113,193)	44.52%
Beginning net position	4,693,244	4,947,498	(254,254)	-5.14%
Ending net position	<u>\$ 4,325,797</u>	<u>\$ 4,693,244</u>	<u>\$ (367,447)</u>	-7.83%

Operating revenues showed a 7.95% decrease from 2019 to 2020 and a 5.90% increase from 2018 to 2019, respectively.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2020 the system had \$8.04 million (net of accumulated depreciation) invested in a broad range of utility capital assets. This investment includes land, distribution systems and their related equipment, and various types of equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as land, utility plant in service, and construction in progress.

The following tables summarizes the District's capital assets, net of accumulated depreciation, and changes therein, for the years ended December 31, 2020 and 2019. These changes are presented in detail in Note 3E to the financial statements.

Table 3A  
**CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION**

	December 31, 2020	December 31, 2019	Increase (Decrease)	
			\$	%
Land	\$ 143,164	\$ 143,164	\$ -	0.00%
Utility plant in service	15,830,015	15,470,749	359,266	2.32%
Construction in progress	160,963	87,102	73,861	84.80%
Accumulated depreciation	(8,099,118)	(7,673,377)	(425,741)	5.55%
Total capital assets	<u>\$ 8,035,024</u>	<u>\$ 8,027,638</u>	<u>\$ 7,386</u>	0.09%

Table 3B  
**CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION**

	December 31, 2019	December 31, 2018	Increase (Decrease)	
			\$	%
Land	\$ 143,164	\$ 143,164	\$ -	0.00%
Utility plant in service	15,470,749	15,149,894	320,855	2.12%
Construction in progress	87,102	-	87,102	100.00%
Accumulated depreciation	(7,673,377)	(7,231,671)	(441,706)	6.11%
Total capital assets	<u>\$ 8,027,638</u>	<u>\$ 8,061,387</u>	<u>\$ (33,749)</u>	-0.42%

### Debt Administration

The District has outstanding bonds and notes payable of \$3.67 and \$3.73 million as of December 31, 2020 and 2019, respectively. Principal payments are due in the upcoming fiscal year in the amount of \$63,500 with interest payments totaling \$81,849 also due. Details relating to the outstanding debt can be found in Note 3F. The District also has plans to issue new debt and refund the outstanding debt in the upcoming year, however no plans have been finalized.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District will continue to function under the current operations. Management will do everything possible to keep the customer costs as low as possible and continue to maintain the District's financial position. The District has plans to increase customer costs in the upcoming fiscal year.

### CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the commissioners at the office located at 96 Carroll Road, Benton, Kentucky 42025, or by telephone at (270) 527-3208.

**NORTH MARSHALL WATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
December 31, 2020 and 2019

	2020	2019
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash on hand	\$ 1,900	\$ 1,000
Cash in bank - unrestricted	779,906	1,160,667
Accounts receivable - customer (less allowance of \$83,865 and \$73,980)	221,815	230,228
Inventory	102,247	92,257
Prepaid expenses	27,469	22,726
<b>Total current assets</b>	<b>1,133,337</b>	<b>1,506,878</b>
<b>Noncurrent assets:</b>		
Cash in bank - restricted	60,621	57,628
<b>Total restricted cash accounts</b>	<b>60,621</b>	<b>57,628</b>
<b>Capital assets:</b>		
Land	143,164	143,164
Construction in progress	160,963	87,102
Utility plant in service	15,830,015	15,470,749
Less: Provision for depreciation	(8,099,118)	(7,673,377)
<b>Total capital assets</b>	<b>8,035,024</b>	<b>8,027,638</b>
<b>Total noncurrent assets</b>	<b>8,095,645</b>	<b>8,085,266</b>
<b>Total assets</b>	<b>9,228,982</b>	<b>9,592,144</b>
<b>Deferred outflows of resources:</b>		
Pension related	286,442	310,766
OPEB related	235,450	135,787
<b>Total deferred outflows of resources</b>	<b>521,892</b>	<b>446,553</b>

*The accompanying notes are an integral part of the financial statements.*

**NORTH MARSHALL WATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
December 31, 2020 and 2019

	2020	2019
<b>LIABILITIES</b>		
<b>Current liabilities (payable from current assets):</b>		
Accounts payable	26,384	9,557
Other accrued liabilities	13,995	13,676
Current portion of bonds and notes payable	63,500	62,000
Total current liabilities (payable from current assets)	103,879	85,233
 <b>Current liabilities (payable from restricted assets):</b>		
Customer deposits	55,396	52,947
Total current liabilities	159,275	138,180
 <b>Noncurrent liabilities:</b>		
Accrued vacation	5,214	5,214
Bonds payable	3,606,000	3,669,500
Net pension liability	1,612,984	1,414,697
Net OPEB liability	507,666	338,241
Total noncurrent liabilities	5,731,864	5,427,652
<b>Total liabilities</b>	<b>5,891,139</b>	<b>5,565,832</b>
 <b>Deferred inflows of resources:</b>		
Pension related	-	28,782
OPEB related	85,798	118,286
<b>Total deferred inflows of resources</b>	<b>85,798</b>	<b>147,068</b>
 <b>NET POSITION</b>		
Net investment in capital assets	4,365,524	4,296,138
Unrestricted	(591,587)	29,659
<b>Total net position</b>	<b>\$ 3,773,937</b>	<b>\$ 4,325,797</b>

*The accompanying notes are an integral part of the financial statements.*

**NORTH MARSHALL WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
For the Year Ended December 31, 2020 and 2019

	2020	2019
<b>Operating revenues:</b>		
Charges for sales and services (net of bad debt expense of \$0)	1,576,040	1,619,299
Other operating revenue	58,460	156,344
Total operating revenues	1,634,500	1,775,643
<b>Operating expenses:</b>		
Costs of sales and service	207,297	199,952
Maintenance	389,531	464,121
Customer accounts	54,396	51,366
Administrative and general expenses	1,035,328	925,849
Provision for depreciation	425,741	441,706
Total operating expenses	2,112,293	2,082,994
Operating income (loss)	(477,793)	(307,351)
<b>Nonoperating revenues (expenses):</b>		
Interest income	9,194	24,538
Interest expense	(83,261)	(84,634)
Total nonoperating revenues (expenses)	(74,067)	(60,096)
<b>Change in net position</b>	(551,860)	(367,447)
<b>Net position - beginning</b>	4,325,797	4,693,244
<b>Net position - ending</b>	\$ 3,773,937	\$ 4,325,797

*The accompanying notes are an integral part of the financial statements.*

**NORTH MARSHALL WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
For the Year Ended December 31, 2020 and 2019

	2020	2019
<b>Cash flows from operating activities:</b>		
Cash received from consumers	\$ 1,642,913	\$ 1,778,066
Cash paid to suppliers of goods and services	(880,579)	(918,624)
Cash paid to employees for services	(572,457)	(511,226)
Change in customer deposits	2,449	506
Net cash provided by (used in) operating activities	192,326	348,722
<b>Cash flows from investing activities:</b>		
Interest received from investments	9,194	24,538
Net cash provided by (used in) investing activities	9,194	24,538
<b>Cash flows from capital and related financing activities:</b>		
Payment on long-term debt	(62,000)	(60,000)
Construction and acquisition of plant	(433,127)	(407,957)
Interest and other non-operating expenses	(83,261)	(84,634)
Net cash provided by (used in) financing activities:	(578,388)	(552,591)
<b>Increase (decrease) in cash and cash equivalents</b>	(376,868)	(179,331)
<b>Cash and cash equivalents - beginning</b>	1,219,295	1,398,626
<b>Cash and cash equivalents - ending</b>	\$ 842,427	\$ 1,219,295
<b>Cash and cash equivalents:</b>		
Restricted cash in bank	\$ 60,621	\$ 57,628
Unrestricted cash on hand	1,900	1,000
Unrestricted cash in bank	779,906	1,160,667
Net cash and cash equivalents	\$ 842,427	\$ 1,219,295

*The accompanying notes are an integral part of the financial statements.*



**NORTH MARSHALL WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
For the Year Ended December 31, 2020 and 2019

	2020	2019
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Net operating income (loss)	\$ (477,793)	\$ (307,351)
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	425,741	441,706
Net pension deferred inflows/outflows and liability	193,829	202,272
OPEB deferred inflows/outflows and liability	37,274	4,765
(Increase) decrease in current assets:		
Accounts receivable	8,413	2,423
Inventory	(9,990)	-
Prepaid expenses	(4,743)	142
Increase (decrease) in current liabilities:		
Accounts payable	16,827	7,142
Other current liabilities	319	(2,883)
Customer deposits	2,449	506
Net cash provided by (used in) operating activities	\$ 192,326	\$ 348,722

*The accompanying notes are an integral part of the financial statements.*

**NORTH MARSHALL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020 and 2019

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The financial statements of the North Marshall Water District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to the governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

The North Marshall Water District's general purpose financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name),
- The District holds the corporate powers of the organization,
- The District appoints a voting majority of the organization's board,
- The District is able to impose its will on the organization,
- The organization has the potential to impose a financial benefit/burden on the District, and
- There is fiscal dependency by the organization on the District.

Based on the aforementioned criteria, the North Marshall Water District has no component units.

**B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows.

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that generally result from providing services in connection with the Water District's principal ongoing operations. All other expenses are reported as non-operating expenses.

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**C. Assets, Liabilities, and Net Position**

***Deposits and Investments***

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool.

***Accounts Receivable***

Trade receivables result from unpaid billings for water service to customers and from unpaid billings related to work performed for or materials sold to certain entities. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible customer accounts recorded by the District is based on past history of uncollectible accounts and management's analysis of current accounts.

***Inventories and Prepaid Items***

All inventories are valued at the lower of average cost or market, using the first-in/first-out (FIFO) method at year end. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements as of year-end.

***Restricted Assets***

Certain cash accounts and investments are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The District elects to use restricted assets before unrestricted assets when the situation arises when either can be used.

***Capital Assets***

The property, plant, and equipment are stated at original cost including all direct cost of materials and labor during the construction period. All donated material is stated at the current fair market value.

The costs of replacements, normal maintenance, and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Property, plant, and equipment of the District, with the exception of Land and Construction in Process, are depreciated, using the straight line method over the following useful lives:

Utility Plant	20 - 50 years
Office and other equipment	5 - 20 years
Vehicles	5 years

***Accrued Vacation***

It is the District's policy to permit employees to accumulate earned but unused vacation. All vacation pay has been accrued and the current year's is reflected as a noncurrent liability and the prior year's is reflected as a noncurrent liability on the financial statements.

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***Long-term Obligations***

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. The District will continue to report bond cost as an asset and amortize those over the life of the bonds instead of expensing those costs in the current year in accordance with certain provisions included in GASB Statement No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements. This option as part of GASB Statement No. 65 is available due to the above mentioned cost being used for rate setting by the District.

***Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The District has several items that qualify for this form of reporting - deferred outflows related to the pension and OPEB plans as of December 31, 2020 and 2019.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has several items that qualify for this form of reporting - deferred inflows related to the pension and OPEB plans as of December 31, 2020 and 2019.

***Net Position Flow Assumption***

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

***Net Position***

Equity is classified as net position and displayed in the following two components:

- Net Investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.
- Unrestricted - All other net positions that do not meet the description of the above categories.

***Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements,

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and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

***Pensions***

For the 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 Non-Hazardous (CERS) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

***Other Post-Employment Benefits (OPEB)***

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

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information**

The fiscal year 2021 budget was approved unanimously at the October 2020 Board meeting. The budget is not legally adopted but only used as a management tool.

**NOTE 3 – DETAILED NOTES**

**A. Deposits and Investments**

***Custodial Credit Risk***

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. For an investment, this is the risk that, in the event of a failure of the counterpart, the District will not be able to recover the value of its investments or the collateral securities that are in the possession of an outside party.

The District's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statute authorize the District to invest in obligations of the United States and its agencies and instrumentalities; bond or certificates of indebtedness of the Commonwealth of Kentucky and its agencies and municipalities; interest bearing deposit accounts in financial institutions chartered in the Commonwealth of Kentucky insured by an agency of the United States up to the amount thus insured and in larger amounts, provided such financial institutions pledge as security obligations of the United States having such value as may be satisfactory to the District. As of December 31, 2020 and 2019, all bank deposits were fully covered by federal depository insurance or fully collateralized by financial institutions.

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**B. Receivables**

Receivables as of the fiscal year ends were made up of the following:

	<u>2020</u>	<u>2019</u>
Billed service for utility customer	\$ 305,680	\$ 304,208
Less: allowance for doubtful	<u>(83,865)</u>	<u>(73,980)</u>
Total	<u>\$ 221,815</u>	<u>\$ 230,228</u>

**C. Restricted Assets**

Restricted assets as of the fiscal year ends were made up of the following:

	<u>2020</u>	<u>2019</u>
Cash in bank - restricted	<u>\$ 60,621</u>	<u>\$ 57,628</u>

**D. Net Position**

Net Position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The restricted net position amounts were as follows:

	<u>2020</u>	<u>2019</u>
Net investment in capital assets		
Net property, plant and equipment	\$ 8,035,024	\$ 8,027,638
Less: Debt as disclosed in Note 3F	<u>3,669,500</u>	<u>3,731,500</u>
	<u>4,365,524</u>	<u>4,296,138</u>
Unrestricted	<u>(591,587)</u>	<u>29,659</u>
Total Net Position	<u>\$ 3,773,937</u>	<u>\$ 4,325,797</u>

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**E. Capital Assets**

Capital asset activity during the year was as follows:

Description	Balance at December 31, 2019	Additions	Disposals	Balance at December 31, 2020
Capital assets, not being depreciated				
Land	\$ 143,164	\$ -	\$ -	\$ 143,164
Construction in progress	87,102	73,861	-	160,963
Total capital assets not being depreciated	<u>230,266</u>	<u>73,861</u>	<u>-</u>	<u>304,127</u>
Capital assets, being depreciated				
Utility plant in service	15,470,749	359,266	-	15,830,015
Less accumulated depreciation for:				
Utility plant in service	7,673,377	425,741	-	8,099,118
Total capital assets, being depreciated, net	<u>7,797,372</u>	<u>(66,475)</u>	<u>-</u>	<u>7,730,897</u>
Total capital assets, net	<u>\$ 8,027,638</u>	<u>\$ 7,386</u>	<u>\$ -</u>	<u>\$ 8,035,024</u>
Description	Balance at December 31, 2018	Additions	Disposals	Balance at December 31, 2019
Capital assets, not being depreciated				
Land	\$ 143,164	\$ -	\$ -	\$ 143,164
Construction in progress	-	87,102	-	87,102
Total capital assets not being depreciated	<u>143,164</u>	<u>87,102</u>	<u>-</u>	<u>230,266</u>
Capital assets, being depreciated				
Utility plant in service	15,149,894	320,855	-	15,470,749
Less accumulated depreciation for:				
Utility plant in service	7,231,671	441,706	-	7,673,377
Total capital assets, being depreciated, net	<u>7,918,223</u>	<u>(120,851)</u>	<u>-</u>	<u>7,797,372</u>
Total capital assets, net	<u>\$ 8,061,387</u>	<u>\$ (33,749)</u>	<u>\$ -</u>	<u>\$ 8,027,638</u>

Depreciation expense amounted to \$425,741 and \$441,706 for the fiscal years ended December 31, 2020 and 2019, respectively.

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**F. Long-term Debt**

At year end, the District's long-term liabilities consisted of the following loan:

(1) In 2014 the District issued a USDA Series Bond in the amount of \$3.85 million. For 2021, \$82 thousand in interest and \$64 thousand in principal will be paid.

The following is a summary of long-term debt transactions for the year ended December 31, 2020 and 2019.

	Balance 12/31/19	Issued	Retired	Balance 12/31/20	Due Within One Year
2014 USDA Series Bond	3,731,500	-	62,000	3,669,500	63,500
Total long-term debt	3,731,500	-	62,000	3,669,500	63,500
Accrued vacation	5,214	-	-	5,214	-
Total Long-Term Liabilities	<u>\$ 3,736,714</u>	<u>\$ -</u>	<u>\$ 62,000</u>	<u>\$ 3,674,714</u>	<u>\$ 63,500</u>
	Balance 12/31/18	Issued	Retired	Balance 12/31/19	Due Within One Year
2014 USDA Series Bond	3,791,500	-	60,000	3,731,500	62,000
Total long-term debt	3,791,500	-	60,000	3,731,500	62,000
Accrued vacation	5,214	-	-	5,214	-
Total Long-Term Liabilities	<u>\$ 3,796,714</u>	<u>\$ -</u>	<u>\$ 60,000</u>	<u>\$ 3,736,714</u>	<u>\$ 62,000</u>

The scheduled annual requirements for long-term debt at December 31, 2020, including interest of \$1.67 million is as follows:



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<u>Year ended</u> <u>12/31/2020</u>	<b>USDA Series 2014 Bond</b>		<u>Total</u>
	<u>Total</u> <u>Principal</u>	<u>Total</u> <u>Interest</u>	
2021	63,500	81,849	145,349
2022	65,500	80,398	145,898
2023	67,500	78,902	146,402
2024	69,000	77,367	146,367
2025	71,000	75,792	146,792
2026-2030	385,000	353,757	738,757
2031-2035	441,500	307,345	748,845
2036-2040	506,000	254,115	760,115
2041-2045	578,500	193,225	771,725
2046-2050	663,500	123,476	786,976
2051-2055	758,500	45,507	804,007
	<u>\$ 3,669,500</u>	<u>\$ 1,671,733</u>	<u>\$ 5,341,233</u>

The District does not have any lines of credit.

The District complied with all significant debt covenants and restrictions as set forth in the bond agreements across all systems.

The bonds payable for all systems contain provisions that in the event of default, the lender can exercise one or more of the following options: (1) Make all or any of the outstanding bonds payable balance immediately due and accrued interest at highest post maturity interest rate, (2) Use any remedy allowed by state or federal law.

**NOTE 4 – OTHER INFORMATION**

**A. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During the year ended December 31, 2020, the District purchased commercial insurance for all of the above risks. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in the amount of coverage provided.

**B. Retirement Plan**

For the years ended December 31, 2020 and 2019, the District's total covered payroll for all employees were \$597,302 and \$563,183. Covered payroll refers to all compensation paid by the District to active employees covered by the Plan.

**County Employees Retirement System Non-Hazardous (CERS)**

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*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 plan. CERS is administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Employee membership data related to the Plan as of June 30, 2020 was as follows:

Active members	10
Inactive members	22
Total members	32

*Benefits provided* – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years of service or 65 years old At least 5 years of service and 55 years old At least 25 years of service and any age
Tier 2	Participation date Unreduced retirement  Reduced retirement	Before September 1, 2008 – December 31, 2013 At least 5 years of service and 65 years old Or age 57+ and sum of service years plus age equals 87 At least 10 years of service and 60 years old
Tier 3	Participation date Unreduced retirement  Reduced retirement	After December 31, 2013 At least 5 years of service and 65 years old Or age 57+ and sum of service years plus age equals 87 Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice related disability benefits.

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*Net Pension Liability* - The District's net pension liability (asset) was measured as of June 30, 2020, and the total pension liability (asset) used to calculate net pension liability (asset) was determined by an actuarial valuation as of June 30, 2019 and rolled forward using generally accepted actuarial principles.

*Contributions* – Required contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

Employer contributions rates for the fiscal year were adopted by the Board of KRS based on actuarially recommended rates. The District's contributions to CERS for the year ended December 31, 2020 and 2019 were \$134,424 and \$120,829.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* – At December 31, 2020, the District reported a liability \$1,612,984 for its proportionate share of the net pension liability. The net pension liability for the plan was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 and rolled forward using generally accepted actuarial principles. The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2020 and 2019, the District's proportion was 0.021030% and 0.020115%, respectively.

For the years ended December 31, 2020 and 2019, the District recognized pension expense of \$302,610 and \$296,411. At December 31, 2020 and 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

December 31, 2020	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 40,223	\$ -
Changes of assumptions	62,984	-
Net difference between projected and actual earnings on plan investments	40,362	-
Changes in proportion and differences between District contributions and proportionate share of contributions	74,004	-
District contributions subsequent to the measurement date	68,869	-
<b>Total</b>	<b>\$ 286,442</b>	<b>\$ -</b>

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December 31, 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 36,121	\$ 5,977
Changes of assumptions	143,183	-
Net difference between projected and actual earnings on plan investments	-	22,805
Changes in proportion and differences between District contributions and proportionate share of contributions	67,408	-
District contributions subsequent to the measurement date	64,054	-
<b>Total</b>	<b>\$ 310,766</b>	<b>\$ 28,782</b>

Deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year 1	\$ 107,938
Year 2	71,156
Year 3	22,270
Year 4	16,209
Year 5	-
Thereafter	-

*Actuarial assumptions* – The actuarially determined contribution rates effective for fiscal year ending 2020 that are documented in the schedule on the previous pages are calculated as of June 30, 2018. Based on the June 30, 2018 actuarial valuation report (produced by the prior actuary), the actuarial methods and assumptions used to calculate these contribution rates are below:

Actuarial cost method	Entry Age Normal
Asset Valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Amortization method	Level percent of pay
Amortization period	25 years, closed
Inflation	2.30 percent
Projected salary increases	3.30 to 11.55 percent, varies by service
Investment rate of return	6.25 percent, net of pension plan investment expense, including inflation
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members

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and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2018.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2013 through 2018, is outlined in a report dated April 12, 2019. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth		
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity		
Core Bond	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies		
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	<u>15.00%</u>	3.95%
Total	100%	

*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 employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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*Sensitivity of The District's proportionate share of net pension liability to changes in the discount rate* – The following table presents the net pension liability of the District, calculated using the discount rate selected, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rates.

2020			
	1% Decrease	Current Discount Rate	1% Increase
District's net pension liability	\$ 1,989,160	\$ 1,612,984	\$ 1,301,495
2019			
	1% Decrease	Current Discount Rate	1% Increase
District's net pension liability	\$ 1,769,385	\$ 1,414,697	\$ 1,119,068

*Pension plan fiduciary net position* – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report.

**C. Other Postemployment Benefit Plan**

All full-time employees are eligible to participate in the County Employee's Retirement System ("System"). This plan currently has state administered trust. The System plan provides for retirement, disability, and death benefits, which benefits are established by State statute. Employer contribution rates are intended to fund the System's normal cost on a current basis plus an amount equal to the amortization of unfounded past service costs over thirty years using the level percentage. Such contribution rates are determined by the System's Board of Trustees each biennium. Vesting in a retirement benefit begins immediately upon entry into the System with participants establishing full vesting after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest compounded annually at a rate of 2.5%.

Covered employees are required to contribute five percent (5%) of their salary to the plan. For those employees who began participating with the County Retirement System on or after September 1, 2008, 6% of their salary will be the required contribution, with 5% deposited into the individual's account and 1% deposited into the County Retirement System Insurance Fund. In addition, the System is required to contribute the remaining amounts necessary to pay benefits when due.

The System's contribution represented less than 1% of the total contributions required of all participating entities. Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 2020 annual financial report.

**County Employees Retirement System Non-Hazardous (CERS)**

*Plan description* – Effective August 1, 1988, employees of North Marshall Water District became a part of the County Employee Retirement Systems (CERS). This is a cost-sharing, multiple employer defined benefit plan. CERS is administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provision of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the

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authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

*Benefits provided* – CERS provides retirement, health insurance, death and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years’ service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1 participation began before July 1, 2003. Members are eligible for benefits if they are the recipient of a retirement allowance. The percentage of the member premium paid by the retirement system is based on the number of years of service as indication below:

Less than 4 years	0%
4-9 years	25%
10-14 years	50%
15-19 years	75%
20 or more years	100%

Tier 2 participation began on or after July 1, 2003, but before September 1, 2008. Members are eligible for benefits if they are the recipient of a retirement allowance with at least 120 months of service at retirement. The retirement system provides a monthly contribution of \$10 for each year of earned service. The monthly contribution is increased by 1.5% each July. As of July 1, 2016, the monthly contribution was \$12.99/year of service.

Tier 3 participation began on or after September 1, 2008. Benefits are identical to Tier 2, except Tier 3 members are required to have at least 1809 months of service in order to be eligible.

*Contributions* – Required contributions by the employee are based on the tier. Tier 1 members contribute 0% of gross salary. Tier 2 and 3 members both contribute 1% of gross salary.

Employer contributions rates for the fiscal year were adopted by the Board of KRS based on actuarially recommend rates. The Board’s contributions for the year ended December 31, 2020 and 2019, were \$36,208 and \$32,571, respectively.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs* – At June 30, 2020, the District reported a liability of \$507,666 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB was determined by an actuarial valuation as of June 30, 2018 and rolled forward using generally accepted actuarial principles. The District’s proportion of the net OPEB liability was based on a projection of the District’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2020 and 2019, the District’s proportion was 0.021024% and 0.020110%, respectively.

For the year ended June 30, 2020 and 2019, the Board recognized OPEB expense of \$75,299 and \$40,675, respectively. At December 31, 2020 and 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**NORTH MARSHALL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019**

<u>December 31, 2020</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 84,820	\$ 84,887
Changes of assumptions	88,304	537
Net difference between projected and actual earnings on plan investments	16,874	-
Changes in proportion and differences between District contributions and proportionate share of contributions	27,348	374
District contributions subsequent to the measurement date	18,104	-
Total	<u>\$ 235,450</u>	<u>\$ 85,798</u>
<u>December 31, 2019</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 102,055
Changes of assumptions	100,089	669
Net difference between projected and actual earnings on plan investments	-	15,023
Changes in proportion and differences between District contributions and proportionate share of contributions	19,413	539
District contributions subsequent to the measurement date	16,285	-
Total	<u>\$ 135,787</u>	<u>\$ 118,286</u>

Deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follow:

2021	\$	34,372
2022		39,366
2023		29,786
2024		28,326
2025		(302)
Thereafter		-

*Actuarial methods and assumptions* – The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation rate	2.30%
Payroll growth rate	2.00%
Salary increases	3.30 to 11.55% varies by service
Investment rate of return, net of investment	



**NORTH MARSHALL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

December 31, 2020 and 2019

expense and inflation	6.25%
Long-term municipal bond rate	2.45%
Healthcare trend rates single discount rate	5.34%
Pre-65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Post-65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RE-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RE-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

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 below.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth		
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private equity	10.00%	6.65%
Speciatly Credit/High Yield	15.00%	3.90%
Liquidity		
Core Bond	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies		
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	100%	

**Discount Rate** – The projection of cash flows used to determine the discount rate of 5.34% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 year (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2020.

**Sensitivity of the District’s Proportionate Share of the Collective Net OPEB Liability to Changes in the Discount Rate** - The following table presents the District’s proportionate share of the collective net

**NORTH MARSHALL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019**

OPEB liability, calculated using the discount rate of 5.34% and 5.68%, as well as what the Board's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rates.

2020			
	1% Decrease, 4.34%	Current Discount Rate, 5.34%	1% Increase, 6.34%
District's net OPEB liability	\$ 652,201	\$ 507,666	\$ 388,954
2019			
	1% Decrease, 4.68%	Current Discount Rate, 5.68%	1% Increase, 6.68%
District's net OPEB liability	\$ 453,104	\$ 338,241	\$ 243,602

*Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates* – The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates.

2020			
	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's net OPEB liability	393,060	507,666	646,742
2019			
	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's net OPEB liability	251,552	338,241	443,362

*OPEB plan fiduciary net position* – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial statements.

**D. Subsequent Events**

The full impact of the COVID-19 outbreak continues to evolve as of the March 19, 2021. As such, it is uncertain as to the full magnitude that the pandemic will have on the District's financial condition and future results of operations. Management is actively monitoring the situation on its financial condition, liquidity, operations, suppliers, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the District is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021. Management has evaluated subsequent events through March 19, 2021, the date in which the financial statements were available to be issued.

## **REQUIRED SUPPLEMENTARY INFORMATION SECTION**

**NORTH MARSHALL WATER DISTRICT  
SCHEDULE OF THE PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY  
County Employee's Retirement System  
Fiscal Years Ending June 30,**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
District's proportion of the net pension liability (asset)	0.01505%	0.016020%	0.016880%	0.018596%	0.018805%	0.020115%	0.021030%
District's proportionate share of the net pension liability (asset)	\$ 488,279	\$ 688,613	\$ 831,288	\$ 1,088,481	\$ 1,145,343	\$ 1,414,697	\$ 1,612,984
District's covered-employee payroll	\$ 387,798	\$ 405,480	\$ 458,633	\$ 482,536	\$ 525,873	\$ 563,183	\$ 570,339
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	125.91%	169.83%	181.25%	225.58%	217.80%	251.20%	282.81%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%	53.32%	53.54%	50.45%	47.81%

The amounts presented were determined as of June 30 of the current fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future until 10 years of information is available.

*See Independent auditor's report.*

**NORTH MARSHALL WATER DISTRICT**  
**SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS**  
**County Employee's Retirement System**  
Fiscal Years Ending December 31,

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Contractually required contribution	\$ 65,626	\$ 65,048	\$ 76,143	\$ 84,210	\$ 98,172	\$ 120,829	\$ 134,424
Contributions in relation to the contractually required contribution	<u>65,206</u>	<u>65,048</u>	<u>76,143</u>	<u>84,210</u>	<u>98,172</u>	<u>120,829</u>	<u>134,424</u>
Contribution deficiency (excess)	<u>\$ 420</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 387,798	\$ 405,480	\$ 458,633	\$ 482,536	\$ 525,873	\$ 563,183	\$ 597,302
Contributions as a percentage of covered-employee payroll	16.81%	16.04%	16.60%	17.45%	18.67%	21.45%	22.51%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future until 10 years of information is available.

*See independent auditor's report,*

**NORTH MARSHALL WATER DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN**  
For the Year Ended December 31, 2020

**County Employees Retirement System**

*Changes of benefit terms* - None.

*Changes of assumptions* - The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2020.

Determined by actuarial valuation as of June 30, 2018.

Actuarial Cost Method:       Entry Age Normal

Asset Valuation Method:    20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.

Amortization Method:       Level Percent of Pay

Amortization Period:       25 Years, Closed

Investment Return:         6.25%

Inflation:                    2.30%

Salary Increases:            3.30% to 11.55%, varies by service

Mortality:                    RP-2000 Combined Mortality Table projected to 2013 with Scale BB  
(set back 1 year for females)

**NORTH MARSHALL WATER DISTRICT**  
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE**  
**NET OPEB LIABILITY**

Fiscal Years Ending June 30,

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Board's proportion of the net OPEB liability (asset)	0.018805%	0.020110%	0.021024%
Board's proportionate share of the net OPEB liability (asset)	<u>\$ 333,879</u>	<u>\$ 338,241</u>	<u>\$ 507,666</u>
Board's covered-employee payroll	<u>\$ 525,873</u>	<u>\$ 563,183</u>	<u>\$ 570,339</u>
Board's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	63.49%	60.06%	89.01%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	60.44%	51.67%

The amounts presented were determined as of June 30 of the current fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future until 10 years of information is available.

**NORTH MARSHALL WATER DISTRICT**  
**SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS**  
**County Employee's Retirement System**  
Fiscal Years Ending December 31,

	<b>2018</b>	<b>2019</b>	<b>2020</b>
Contractually required contribution	\$ 23,762	\$ 32,571	\$ 36,208
Contributions in relation to the contractually required contribution	23,762	32,571	36,208
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Board's covered employee payroll	\$ 525,873	\$ 563,183	\$ 597,302
Contributions as a percentage of covered-employee payroll	4.52%	5.78%	6.06%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future until 10 years of information is available.



**NORTH MARSHALL WATER DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB PLAN**  
For the Year Ended December 31, 2020

**County Employees OPEB Post-Retirement System**

*Changes of benefit terms* - None.

*Changes of assumptions* - The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2020.

Determined by actuarial valuation as of June 30, 2018.

Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Amortization Method:	Level Percent of Pay
Amortization Period:	25 Years, Closed
Payroll Growth Rate:	2.00%
Investment Return:	6.25%
Inflation:	2.30%
Salary Increases:	3.30% to 11.55%, varies by service
Mortality:	RP-2000 Combined Mortality Table projected to 2013 with Scale BB (set back 1 year for females)
Healthcare Trend Rates:	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post-65:	Initial trend starting at 5.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
Phase-in provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

## **SUPPLEMENTARY AND OTHER INFORMATION SECTION**

**NORTH MARSHALL WATER DISTRICT**  
**SCHEDULE OF OPERATING INCOME AND EXPENSES**  
For the Year Ended December 31, 2020 and 2019

	2020	2019
<b>Operating revenues:</b>		
Gross water sales	\$ 1,585,661	\$ 1,630,923
Less: Bad debt expense	-	-
Less: leak adjustments	(9,621)	(11,624)
Net water sales	1,576,040	1,619,299
 Fees:		
Connect and reconnect fees	15,521	20,574
Other water revenues	42,939	135,770
	58,460	156,344
 Total operating revenues	\$ 1,634,500	\$ 1,775,643
<b>Operating expenses:</b>		
Cost of sales and services		
Purchased power	160,101	158,213
Salaries and wages	4,706	5,161
Treatment chemicals	28,829	27,946
Contractual services	13,661	8,632
	207,297	199,952
 Maintenance:		
Salaries and wages	253,000	248,222
Materials and supplies	96,258	113,541
Contractual services	40,273	102,358
	389,531	464,121
 Customer accounts expense:		
Meter reading	22,752	21,234
Accounting and collection	31,644	30,132
	54,396	51,366

See independent auditor's report

**NORTH MARSHALL WATER DISTRICT**  
**SCHEDULE OF OPERATING INCOME AND EXPENSES**  
For the Year Ended December 31, 2020 and 2019

	2020	2019
Administrative and general expenses		
Salaries and wages	293,698	259,332
Employee benefits and payroll taxes	146,805	132,704
Employee pensions	363,057	326,227
Office supplies	55,567	40,494
Office and shop utilities	2,887	3,119
Insurance	52,101	46,511
Advertising	303	172
Professional fees	20,366	28,654
Educational and training	18,314	17,707
Transportation	24,802	30,250
Uniforms	5,093	4,564
Office phones	20,895	18,969
Rental	7,491	5,763
Miscellaneous	23,949	11,383
	1,035,328	925,849
Provision for depreciation	425,741	441,706
Total operating expense	\$ 2,112,293	\$ 2,082,994

*See independent auditor's report*

**NORTH MARSHALL WATER DISTRICT**  
**SCHEDULE OF LONG-TERM DEBT**  
December 31, 2020

Year Ended	USDA Series 2014		Total
	Principal	Interest	
2021	63,500	81,849	145,349
2022	65,500	80,398	145,898
2023	67,500	78,902	146,402
2024	69,000	77,367	146,367
2025	71,000	75,792	146,792
2026	73,000	74,172	147,172
2027	75,000	72,506	147,506
2028	77,000	70,796	147,796
2029	79,000	69,042	148,042
2030	81,000	67,242	148,242
2031	83,500	65,391	148,891
2032	86,000	63,484	149,484
2033	88,500	61,521	150,021
2034	90,500	59,507	150,007
2035	93,000	57,442	150,442
2036	96,000	55,316	151,316
2037	98,500	53,128	151,628
2038	101,000	50,884	151,884
2039	104,000	48,578	152,578
2040	106,500	46,210	152,710
2041	109,500	43,779	153,279
2042	112,500	41,282	153,782
2043	115,500	38,717	154,217
2044	119,000	36,079	155,079
2045	122,000	33,367	155,367
2046	125,500	30,584	156,084
2047	129,000	27,720	156,720
2048	132,500	24,779	157,279
2049	136,500	21,752	158,252
2050	140,000	18,642	158,642
2051	144,000	15,447	159,447
2052	148,000	12,162	160,162
2053	152,000	8,786	160,786
2054	156,000	5,742	161,742
2055	158,500	3,368	161,868
	<u>\$ 3,669,500</u>	<u>\$ 1,671,733</u>	<u>\$ 5,341,233</u>

**NORTH MARSHALL WATER DISTRICT  
WATER RATES IN FORCE**

December 31, 2020

**Water**

\$2.64 per every 1,000 gallons of water plus a base charge

Residential Rate Schedule

	Base
Residential 5/8"	\$18.94
Residential 1"	\$26.44
Residential 1 1/2"	\$38.95
Residential 2"	\$53.99
Residential 3"	\$89.03

Commercial Rate Schedule

Commercial 5/8"	\$18.94
Commercial 1"	\$26.44
Commercial 1 1/2"	\$38.95
Commercial 2"	\$53.99
Commercial 3"	\$89.03
Commercial 4"	\$139.12
Commercial 6"	\$264.30
4" Two-Meters	\$272.24
Reidland 4"	\$139.12

**Sewer**

\$60.00 minimum bi-monthly charge up to 12,000 gallons of water usage

\$5.00 for every 1,000 gallons over the 12,000 gallon limit

## **INTERNAL CONTROL AND COMPLIANCE SECTION**



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**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**

Board of Commissioners  
North Marshall Water District  
Benton, 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 North Marshall Water District (the District) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 19, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



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.

Alexander Thompson Arnold PLLC

Jackson, Tennessee  
March 19, 2021

**NORTH MARSHALL WATER DISTRICT**  
**SCHEDULE OF FINDINGS**  
For the Fiscal Year Ended December 31, 2020

**Financial Statement Findings:**

No current year findings reported.

**NORTH MARSHALL WATER DISTRICT  
SCHEDULE OF PRIOR YEAR FINDINGS**  
For the Fiscal Year Ended December 31, 2020

**Financial Statement Findings:**

No prior year findings reported.