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COMMISSION**

**Montgomery County Water
District #1**

**Financial Statements and
Independent Auditor's Report**

December 31, 2012 and 2011

PREPARED BY
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Montgomery County Water District #1

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Vickie C. Richardson, CPA, PSC

*114 East High Street
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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Montgomery County Water District #1
Mt. Sterling, Kentucky

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities of the Montgomery County Water District #1, component unit of Montgomery County Fiscal Court, as of and for the year ended December 31, 2012, 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

Commissioners
July 24, 2013
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I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Montgomery County Water District #1, as of December 31, 2012, and the respective changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Management has not presented the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated July 24, 2013, on my consideration of the Montgomery County Water District #1's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Montgomery County Water District #1's internal control over financial reporting and compliance.

Vicki C. Richardson, CPA, PSC

July 24, 2013

This report contains 11 pages.

Montgomery County Water District #1
COMPARATIVE BALANCE SHEET
For the years ended December 31, 2012 and 2011

ASSETS		
	<u>2012</u>	<u>2011</u>
Current assets		
Cash	\$ 123,555	\$ 78,610
Accounts receivable	<u>34,358</u>	<u>29,049</u>
Total current assets	<u>157,913</u>	<u>107,659</u>
Restricted assets		
Cash – reserve accounts	158,655	147,448
Property and equipment		
Water system	2,541,488	2,535,530
Vehicle	18,027	18,027
Office equipment	41,768	41,768
Land	<u>58,609</u>	<u>58,609</u>
	2,659,892	2,653,934
Less accumulated depreciation	<u>(987,133)</u>	<u>(924,970)</u>
Net property and equipment	<u>1,672,759</u>	<u>1,728,964</u>
Total assets	<u>\$1,989,327</u>	<u>\$1,984,071</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 56,005	\$ 50,067
Customer deposits	21,995	26,911
Accrued taxes	2,356	2,860
Accrued interest payable	4,900	5,335
Payable from restricted cash	61	215
Notes payable - current portion	<u>30,000</u>	<u>29,000</u>
Total current liabilities	<u>115,317</u>	<u>114,388</u>
Notes payable- long term	<u>166,000</u>	<u>182,000</u>
Total liabilities	<u>281,317</u>	<u>296,388</u>
Fund equity		
Contributed capital	2,033,486	2,028,735
Unrestricted net assets	<u>(325,476)</u>	<u>(341,052)</u>
Total fund equity	<u>1,708,010</u>	<u>1,687,683</u>
Total liabilities and fund equity	<u>\$1,989,327</u>	<u>\$1,984,071</u>

See accompanying notes.

Montgomery County Water District #1
COMPARATIVE STATEMENT OF ACTIVITIES
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues		
User fees	\$ 312,260	\$ 298,860
Late charges	,320	5,925
Reconnect fees	2,000	1,573
Miscellaneous	1	30
Jobbing & contract	<u>11,297</u>	<u>4,547</u>
Total revenues	<u>331,878</u>	<u>320,935</u>
Expenses		
Water purchased	101,436	93,740
Salaries, taxes and benefits	82,392	96,009
Professional Fees	-0-	5,185
Office expense	7,212	7,203
Insurance	6,996	6,725
Utilities	8,154	7,515
Legal and accounting	5,800	5,850
Water tests	1,750	2,180
Contract labor	7,634	4,890
Maintenance and repairs	9,602	13,008
Supplies	8,569	5,320
Depreciation	62,163	61,700
Advertising	633	536
Miscellaneous	699	5,079
Vehicle expense	<u>1,394</u>	<u>-0-</u>
Total operating expenses	<u>304,434</u>	<u>314,940</u>
Operating income	<u>27,444</u>	<u>5,995</u>
Nonoperating revenues (expenses)		
Gain on disposal of property	-0-	999
Interest income	683	1,285
Interest expense	<u>(12,550)</u>	<u>(10,922)</u>
Net nonoperating expenses	<u>(11,867)</u>	<u>(8,638)</u>
Net increase/(decrease) in unrestricted net assets	<u>\$ 15,577</u>	<u>\$ (2,643)</u>

See accompanying notes.

Montgomery County Water District #1
COMPARATIVE STATEMENT OF CHANGES IN FUND EQUITY
For the years ended December 31, 2012 and 2011

	<u>Net Assets</u>	<u>Contributed Capital</u>	<u>Total</u>
Balances, January 1, 2011	\$ (338,410)	\$ 2,019,022	\$ 1,680,612
Net decrease in unrestricted net assets	(2,643)		(2,643)
Grant revenue & tap on fees	_____	_____ 9,713	_____ 9,713
Balances, December 31, 2011 as previously reported	(341,053)	2,028,735	1,687,682
Net increase in unrestricted net assets	15,577		15,577
Grant revenue & tap on fees	_____	_____ 4,751	_____ 4,751
Balances, December 31, 2012	<u>\$ (325,476)</u>	<u>\$ 2,033,486</u>	<u>\$ 1,708,010</u>

See accompanying notes.

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Vickie C. Richardson, CPA, PSC

Montgomery County Water District #1
COMPARATIVE STATEMENT OF CASH FLOWS
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Tap on fees	\$ 4,751	\$ 1,500
Grants	0	8,213
Receipts from customers	312,042	310,571
Jobbing and contract	12,487	15,304
Water purchased	(99,593)	(94,122)
Payments to and for employees	(83,209)	(98,946)
Payments to contractors and suppliers	(57,501)	(60,629)
	<u>88,977</u>	<u>81,891</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Capital expenditures	(5,958)	(69,838)
Insurance proceeds from disposed asset	0	999
Interest income	683	1,285
	<u>(5,275)</u>	<u>(67,554)</u>
Net cash used by investing activities		
Cash flows from financing activities:		
Interest expense	(12,550)	(5,585)
Note payments	(15,000)	0
	<u>(27,550)</u>	<u>(5,585)</u>
Net cash used by financing activities		
(Decrease)/increase in cash	56,152	8,752
Cash at beginning of year	<u>226,058</u>	<u>217,306</u>
Cash at end of year	<u>\$ 282,210</u>	<u>\$ 226,058</u>
Cash consists of:		
Cash - unrestricted	\$ 123,555	\$ 78,610
Cash - restricted	<u>158,655</u>	<u>147,448</u>
	<u>\$ 282,210</u>	<u>\$ 226,058</u>

See accompanying notes.

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Montgomery County Water District #1
COMPARATIVE STATEMENT OF CASH FLOWS-CONTINUED
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Operating decrease in unrestricted net assets	\$ 27,444	\$ 5,995
Adjustments to reconcile operating increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation	62,163	61,700
Tap on fees	4,751	1,500
Grants	0	8,213
(Increase)/decrease in accounts receivable	(5,309)	2,431
Increase/(decrease) in accounts payable	<u>(72)</u>	<u>2,052</u>
Net cash provided by operating activities	<u><u>\$ 88,977</u></u>	<u><u>\$ 81,891</u></u>

See accompanying notes.

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Montgomery County Water District #1
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Organization

Montgomery County Water District #1 (the District) is a public water utility which operates in Montgomery County, Kentucky, and its sales are to residential customers, business customers, and the Jeffersonville Water System. The District was organized on April 1, 1961.

Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Montgomery County Water District #1.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria, there are no other organizations included in these financial statements.

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission (PSC) pursuant to KRS 278.040.

Basis of Accounting

The accrual basis of accounting is used for financial statement reporting purposes. Revenues are recorded when earned. Expenses are recorded when a liability is incurred

Cash and Cash Equivalents

The District considers all highly liquid investments with a maturity of twelve months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable consist of customer receivables. The amounts reflected in the financial statements are net of allowance for uncollectible accounts in the amount of \$.00 for December 31, 2012 and 2011.

Depreciation

Depreciation is applied using the straight-line basis over the estimated useful lives of the assets.

Montgomery County Water District #1
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2012

NOTE 1 - CONTINUED

Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH

Cash is carried at cost, which approximates fair value. At December 31, 2012 the carrying amount of restricted and unrestricted cash was \$282,210 and the bank balances were \$284,966.

The debt agreement with USDA Rural Development requires the following accounts be maintained by the District:

Revenue account - All operating funds received shall be deposited in this account. Funds will be transferred to other accounts as needed. The balances as of December 31, 2012 and 2011 were \$104,794 and \$77,093, respectively.

Operations and maintenance account - Monthly transfers are made into this account as needed. The Districts operating expenses are paid from this account. The balances as of December 31, 2012 and 2011 were \$18,661 and \$1,417, respectively.

Depreciation fund - The required balance in this account as of December 31, 2002 was \$26,000. As the balance of the loan with USDA Rural Development decreases, the required balance in the Depreciation fund also decreases. Only expenditures for capital improvements or extraordinary expenses are permitted to be paid from this fund and with approval from the Rural Development. The balances as of December 31, 2012 and 2011 were \$34,572 and \$34,503, respectively.

Bond and interest sinking fund - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. This fund is used to make the semi-annual interest payments and annual principal payments on the debt agreement with Rural Development. The balances as of December 31, 2012 and 2011 were \$103,183 and \$112,945, respectively.

Montgomery County Water District #1
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2012

NOTE 3 - NOTES PAYABLE

Notes payable as of December 31, 2012 and 2011 consists of the following:

	<u>2012</u>		<u>2011</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
USDA Rural Development, dated February 1, 1984, principal payment due each January, interest payments due January and July, interest rate of 5%	\$ 30,000	\$ 166,000	\$ 29,000	\$ 182,000
Beginning Balance	\$ <u>211,000</u>		\$ <u>211,000</u>	
Payments	15,000		-0-	
New Loans	<u>-0-</u>		<u>-0-</u>	
Ending Balance	<u>\$ 196,000</u>		<u>\$ 211,000</u>	

Five-year maturities are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	30,000	14,520	44,520
2014	17,000	8,300	25,300
2015	17,000	7,025	24,025
2016	18,000	6,300	24,300
2017	19,000	5,800	24,800
Thereafter	<u>95,000</u>	<u>14,086</u>	<u>109,086</u>
Total	<u>\$ 196,000</u>	<u>\$ 56,031</u>	<u>\$ 252,031</u>

NOTE 4 - CHANGES IN FIXED ASSETS

	<u>2012</u>	<u>2011</u>
Beginning Balance	\$ 2,653,934	\$ 2,584,097
Additions:		
Land	0	0
Water system	5,958	52,159
Vehicle	0	0
Office equipment	<u>0</u>	<u>17,679</u>
Total additions	5,958	69,838
Disposals	<u>0</u>	<u>0</u>
Ending balance	<u>\$ 2,659,892</u>	<u>\$ 2,653,935</u>

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Montgomery County Water District #1
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2012

NOTE 5 - CONCENTRATIONS

The District is economically dependent on Mt. Sterling Water and Sewer System as the sole supplier of water. Water purchased from Mt. Sterling Water and Sewer System was \$101,436 and \$93,740 for the years ended December 31, 2012 and 2011, respectively.

NOTE 6 - PENSION PLAN

All of the District's employees are covered by the County Employees Retirement System (CERS), which is part of the Kentucky Retirement System. Employees participating in CERS contribute 5% of their gross wages and the District contributed 18.96 % through June 30, 2012 and 19.55 % through December 31, 2012. Total pension plan expense to the District as of December 31, 2012 and 2011 was \$5,819 and \$12,004, respectively. A Comprehensive Annual Financial Report on the Kentucky Retirement System may be requested from the following address:

Kentucky Retirement System
Perimeter Park West
1260 Louisville Road
Frankfort, KY 40601-6124

NOTE 7 - 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; injuries to employees; and natural disasters. In addition to its general liability insurance, the District also carries commercial insurance for other risks of losses such as workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 24, 2013 the date on which the financial statements were issued.