

Monroe County Water District

Financial Statements

December 31, 2014 and 2013

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CAMPBELL, MYERS AND RUTLEDGE, PLLC

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INDEPENDENT AUDITOR'S REPORT

Monroe County Water District
Tompkinsville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Monroe County Water District as of and for the years ended December 31, 2014 and 2013, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Monroe County Water District, as of December 31, 2014 and 2013, 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 on pages 3–6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Monroe County Water District's basic financial statements. The supplemental information is presented for additional analysis and is not a required part of the basic financial statements.

The supplemental information is the responsibility of management and is 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 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 supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2015 on our consideration of the Monroe County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Monroe County Water District's internal control over financial reporting and compliance.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

February 23, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Monroe County Water District, we offer readers of the District's financial statements this narrative overview of the financial activities of the District for the fiscal years ending December 31, 2014 and 2013. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

For the year ending December 31, 2014, total operating and non-operating revenues (including capital contributions) totaled \$1,678,749. This represents a 6% increase in revenues from the prior year. This change was primarily due to a pass through rate increase during the year.

Total operating and non-operating expenses amounted to \$1,707,317, an increase of approximately \$237,000 from the prior year. This increase was primarily the result of an increase in water purchases, employee wages and benefits, and general repairs and maintenance on building and equipment.

Total assets decreased by \$89,804, and total liabilities decreased by \$61,236. These changes resulted in a decrease in net position of \$28,568.

Overview of the Financial Statements

This report consists of this Management's Discussion and Analysis report, the Independent Auditor's Report, Financial Statements and Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the Financial Statements.

Required Financial Statements

The financial statements of Monroe County Water District report information of Monroe County Water 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 Monroe County Water District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Monroe County Water District creditors (liabilities). It also provides the basis for evaluation of the capital structure of Monroe County Water District and assessing the liquidity and financial flexibility of Monroe County Water District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of Monroe County Water District's operations over the past year and can be used to determine whether Monroe County Water District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**Monroe County Water District
Summary of Net Position
December 31, 2014 and 2013**

| | <u>2014</u> | <u>2013</u> |
|--|-----------------------------|-----------------------------|
| Assets | | |
| Total Current Assets | \$ 1,339,137 | \$ 1,248,007 |
| Total Restricted Assets | 562,341 | 559,619 |
| Net Capital Assets | <u>9,373,518</u> | <u>9,557,174</u> |
| Total Assets | <u>\$ 11,274,996</u> | <u>\$ 11,364,800</u> |
| Liabilities | | |
| Total Current Liabilities | \$ 181,649 | \$ 149,946 |
| Total Liabilities Payable from Restricted Assets | 211,863 | 209,802 |
| Total Long-term Liabilities | <u>2,511,500</u> | <u>2,606,500</u> |
| Total Liabilities | <u>\$ 2,905,012</u> | <u>\$ 2,966,248</u> |
| Net Position | | |
| Invested in capital assets, net of related debt | \$ 6,767,018 | \$ 6,849,878 |
| Restricted for equipment replacement | 347,902 | 346,067 |
| Restricted for debt retirement | 96,268 | 94,282 |
| Restricted - other | 1,308 | 968 |
| Unrestricted | <u>1,157,488</u> | <u>1,107,357</u> |
| Total Net Position | <u>\$ 8,369,984</u> | <u>\$ 8,398,552</u> |

The largest portion (81%) of the District's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding. This represents 1% percent decrease from the prior year.

Restricted net position (5%) represent resources that are subject to external restrictions on how they may be used.

The balance (14%) of unrestricted net position may be used to meet the District's ongoing obligations to citizens, consumers and creditors.

**Monroe County Water District
Summary of Changes in Net Position
For the Year Ended December 31, 2014 and 2013**

| | <u>2014</u> | <u>2013</u> |
|--|--------------------|--------------------|
| Total operating revenues | \$1,631,274 | \$1,535,899 |
| Total operating expenses | <u>1,583,879</u> | <u>1,341,825</u> |
| Operating Income | \$ 47,395 | \$ 194,074 |
| Total non-operating revenue (expenses) | <u>(115,657)</u> | <u>(120,411)</u> |
| Income before capital contributions | \$ (68,262) | \$ 73,663 |
| Capital contributions | <u>39,694</u> | <u>36,674</u> |
| Increase in net position | \$ (28,568) | \$ 110,337 |
| Net position, beginning of year | <u>8,398,552</u> | <u>8,288,215</u> |
| Net position, end of year | <u>\$8,369,984</u> | <u>\$8,398,552</u> |

Net position decreased by \$28,568, from the prior year.

Capital Asset Changes

At December 31, 2014, the District had invested \$9,373,518 in capital assets net of accumulated depreciation. This amount represents a net decrease of \$183,656 from the previous year. This decrease is the result of having more depreciation expense than capital asset additions during the year.

The Monroe County Water District completed several projects including over 2 miles of water line extensions during the year of 2014. There were 32 new water connections set for service during the year of 2014. The Monroe County Water District has a very active meter testing program, having tested 286 meters during the year of 2014.

Monroe County Water District has worked diligently on the Monroe – Tompkinsville Regional Water Treatment Plant Project since 2006. The total project cost is \$12,000,000 which consists of the treatment plant, intake, transmission lines, storage tanks, land acquisition, engineering and administration. Preliminary design work was completed in 2012. Monroe County Water District has been fortunate to have the continued support from the Kentucky Legislators and the Kentucky Division of Water to help assist with moving our project forward. Monroe, Metcalfe and Cumberland Counties all share the need for a more abundant source and a higher quality of raw water. Health issues were a continuing concern in 2014. This is a major project for Monroe County Water District, but the need for upgrading and maintenance projects are also anticipated to help improve the distribution system and to better serve our customers.

Budgetary Highlights

The Monroe County Water District adopts an annual operating budget after careful considerations of prior year and anticipated current year operations. The operating budget includes proposed expenses and the means to finance them. The District's operating budget remains in effect the entire year and is not revised. A budget comparison and analysis is presented on page 18 of this report.

Debt Administration

At December 31, 2014, the District had \$2,606,500 bonds outstanding, a decrease of \$91,500 from the prior year's balance of \$2,698,000. The District incurred \$123,438 in interest expense associated with long term debt, a decrease of \$4,410 due to the decrease in the principal balance on the bonds.

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of Monroe County Water District's finances and to demonstrate Monroe County Water District's accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact the Monroe County Water District at 205 Capp Harlan Road, Tompkinsville, Kentucky 42167, or by phone (270) 487-8131.

MONROE COUNTY WATER DISTRICT
Statements of Net Position
December 31, 2014 and 2013

| Assets | <u>2014</u> | <u>2013</u> |
|---|--------------------------|--------------------------|
| Current Assets | | |
| Cash | \$ 1,081,658 | \$ 978,756 |
| Accounts receivable | 150,145 | 131,424 |
| Inventory | <u>107,334</u> | <u>137,827</u> |
| Total Current Assets | <u>1,339,137</u> | <u>1,248,007</u> |
| Non-current Assets | | |
| Restricted Assets | | |
| Cash - Depreciation fund | 347,902 | 346,067 |
| Cash - Bond and interest redemption fund | 157,987 | 158,207 |
| Cash - Meter Deposits | <u>56,452</u> | <u>55,345</u> |
| Total Restricted Assets | <u>562,341</u> | <u>559,619</u> |
| Capital Assets | | |
| Land and land rights | 126,842 | 126,842 |
| Utility plant in service | 11,868,387 | 11,777,532 |
| Furniture and equipment | 1,143,789 | 1,091,526 |
| Construction in progress | 873,087 | 869,481 |
| Accumulated depreciation and amortization | <u>(4,638,587)</u> | <u>(4,308,207)</u> |
| Net Capital Assets | <u>9,373,518</u> | <u>9,557,174</u> |
| Total Non-current Assets | <u>9,935,859</u> | <u>10,116,793</u> |
| Total Assets | <u>\$ 11,274,996</u> | <u>\$ 11,364,800</u> |

MONROE COUNTY WATER DISTRICT
Statements of Net Position
December 31, 2014 and 2013

Liabilities

Current Liabilities

| | | |
|---------------------------|-----------|-----------|
| Accounts payable | \$ 64,403 | \$ 49,093 |
| Accrued liabilities | 117,246 | 100,853 |
| Total Current Liabilities | 181,649 | 149,946 |

Liabilities Payable from Restricted Assets

| | | |
|--|---------|---------|
| Current maturities of long-term debt | 95,000 | 91,500 |
| Customer deposits | 55,144 | 54,377 |
| Accrued interest | 61,719 | 63,925 |
| Total Liabilities Payable from Restricted Assets | 211,863 | 209,802 |

Long-term Liabilities

| | | |
|---|-----------|-----------|
| Long-term debt, less current maturities | 2,511,500 | 2,606,500 |
| Total Long-term Liabilities | 2,511,500 | 2,606,500 |

| | | |
|-------------------|-----------|-----------|
| Total Liabilities | 2,905,012 | 2,966,248 |
|-------------------|-----------|-----------|

Net Position

Net Position

| | | |
|---|-----------|-----------|
| Invested in capital assets, net of related debt | 6,767,018 | 6,849,878 |
| Restricted for equipment replacement | 347,902 | 346,067 |
| Restricted for debt retirement | 96,268 | 94,282 |
| Restricted - other | 1,308 | 968 |
| Unrestricted | 1,157,488 | 1,107,357 |
| | 1,157,488 | 1,107,357 |

| | | |
|---------------------------|---------------------|---------------------|
| Total Net Position | \$ 8,369,984 | \$ 8,398,552 |
|---------------------------|---------------------|---------------------|

MONROE COUNTY WATER DISTRICT
Statements of Revenues, Expenses and Change in Net Position
For the Years Ended December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|
| Operating revenues: | | |
| Residential water sales | \$ 1,501,990 | \$ 1,385,523 |
| Commerical water sales | 79,044 | 76,608 |
| Penalty collections | 30,833 | 29,147 |
| Miscellaneous | 19,407 | 44,621 |
| Total operating revenues | <u>1,631,274</u> | <u>1,535,899</u> |
| Operating expenses: | | |
| Water purchases | 488,474 | 340,015 |
| Utilities | 62,309 | 55,452 |
| Repairs and maintenance | 44,970 | 23,101 |
| Meter readers | 41,346 | 41,324 |
| Office expense | 42,101 | 34,760 |
| Transportation expenses | 26,768 | 26,281 |
| Insurance | 32,810 | 31,899 |
| Commissioners' fees | 6,000 | 6,000 |
| Employees' salaries and wages | 322,222 | 305,306 |
| Employees' pensions and benefits | 135,150 | 114,836 |
| Depreciation | 334,670 | 327,330 |
| PSC tax assessment | 2,998 | 2,594 |
| Meter deposit interest expense | 153 | 80 |
| Bad debt expense | 9,630 | 6,943 |
| Professional fees | 10,660 | 9,145 |
| Miscellaneous | 23,618 | 16,759 |
| Total operating expenses | <u>1,583,879</u> | <u>1,341,825</u> |
| Operating income | <u>47,395</u> | <u>194,074</u> |
| Non-operating revenue (expenses): | | |
| Interest income | 7,781 | 7,437 |
| Interest expense on bonds | <u>(123,438)</u> | <u>(127,848)</u> |
| Total non-operating revenue (expenses) | <u>(115,657)</u> | <u>(120,411)</u> |
| Income/(loss) before capital contributions | <u>(68,262)</u> | <u>73,663</u> |
| Capital contributions | | |
| Tap fees | <u>39,694</u> | <u>36,674</u> |
| Total capital contributions | <u>39,694</u> | <u>36,674</u> |
| Change in net position | (28,568) | 110,337 |
| Net position: | | |
| Beginning of year | <u>8,398,552</u> | <u>8,288,215</u> |
| End of year | <u>\$ 8,369,984</u> | <u>\$ 8,398,552</u> |

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

MONROE COUNTY WATER DISTRICT
Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Cash receipts from customers | \$ 1,581,034 | \$ 1,462,131 |
| Cash payments to suppliers for goods and services | (650,009) | (477,588) |
| Cash payments to employees for services | (504,718) | (467,466) |
| Net cash provided (used) by operating activities | <u>426,307</u> | <u>517,077</u> |
| Cash flows from capital and related financing activities: | | |
| Principal paid on long-term debt | (91,500) | (87,000) |
| Interest paid on long-term debt | (125,644) | (129,950) |
| Additions to capital assets | (151,014) | (101,081) |
| Capital contributions | 39,694 | 36,674 |
| Net cash provided (used) in financing activities | <u>(328,464)</u> | <u>(281,357)</u> |
| Cash flows from investing activities: | | |
| Interest income | <u>7,781</u> | <u>7,437</u> |
| Net cash provided by (used) in investing activities | <u>7,781</u> | <u>7,437</u> |
| Net increase (decrease) in cash and cash equivalents | 105,624 | 243,157 |
| Cash and cash equivalents, beginning of year | 1,538,375 | 1,295,218 |
| Cash and cash equivalents, end of year | <u>\$ 1,643,999</u> | <u>\$ 1,538,375</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 47,395 | \$ 194,074 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 334,670 | 327,330 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (18,721) | 160,012 |
| (Increase) decrease in inventory | 30,493 | 4,612 |
| Increase (decrease) in accounts payable | 15,310 | (187,135) |
| Increase (decrease) in customer deposits | 767 | 723 |
| Increase (decrease) in accrued expenses | 16,393 | 17,461 |
| Net cash provided (used) by operating activities | <u>\$ 426,307</u> | <u>\$ 517,077</u> |

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

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2014 and 2013

Note 1 – Description of Entity and Summary of Significant Accounting Policies

Organization

The Monroe County Water District was organized in 1975 under KRS 74.010 to provide water service to the residents of Monroe County, Kentucky. The District's commissioners are appointed by the Monroe County Judge-Executive.

The District grants credit to customers, substantially all of whom are local residents and commercial businesses in Monroe County, Kentucky.

Measurement Focus and Basis of Accounting

The term *measurement focus* is used to denote what is being measured and reported in the District's financial statements. The District is accounted for on the flow of economic resources measurement focus. Under this measurement focus, all assets and all liabilities associated with the operations are included in the Statement of Net Position.

The term *basis of accounting* is used to determine when a transaction or event is recognized on the District's financial statements. The District uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Financial Statement Presentation

The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities; (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

On January 1, 2004, the District adopted the provisions of Governmental Accounting Standards Board (GASB) No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*" GASB 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of activities and changes in net position and a statement of cash flows. It requires the classification of net position into three components: (i) invested in capital assets, net of related debt, (ii) restricted, and (iii) unrestricted.

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2014 and 2013

Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued

These classifications are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- *Restricted* - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net position* - This component of net position consists of net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Use of Restricted Funds

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Receivables

The District uses the direct write-off method to account for bad debts. No allowance for bad debts has been provided, as no material write-offs are expected for receivables as of December 31, 2014. The direct write-off method does not significantly depart from generally accepted accounting principles.

Capital Assets

The utility plant in service is stated at cost. The cost of additions to the utility plant and major replacements of retired units of property is capitalized. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense as incurred. Depreciation has been provided over estimated useful lives of the assets using the straight-line method. Depreciation expense for the year ending December 31, 2014 and 2013 was \$334,670 and \$327,330, respectively.

The estimated useful lives of capital assets are as follows:

| | |
|---------------|-------------|
| Utility plant | 20-63 years |
| Equipment | 7-13 years |
| Other | 23 years |

Cash and Investments

The District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Investments are reported at fair market value.

Long-Term Obligations

Long-term debt and other obligations are reported as liabilities on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds.

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2014 and 2013

Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued

Operating Revenues and Expenses

Operating revenues consist of those revenues that result from the ongoing principal operations of the District. Operating expenses consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions.

Capital Contributions

Transmission and distribution system assets contributed to the District by installers are capitalized at the installers' costs and recorded as capital contributions when received. Also included in capital contributions are various grants received for infrastructure and payments received from customers for tap fees.

Income Taxes

The District is exempt from federal and state income taxes.

Extraordinary and Special Items

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses and changes in net position.

Bond and Interest Redemption Fund

The ordinances authorizing the bond issues require monthly deposits of one-twelfth of the annual bond principal requirement and one-sixth of the semi-annual interest requirement. For the year ending December 31, 2014, the District had complied with this requirement.

Inventory

Inventory is valued at cost using the first in, first out method. Inventory in the Proprietary Funds consists of expendable supplies held for future consumption or capitalization. The cost is recorded as an expense or capital addition as inventory items are consumed.

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences

Accumulated unpaid vacation and sick pay amounts are accrued when benefits vest to employees and the unpaid liability is reflected in accrued liabilities.

Depreciation Fund

The ordinances authorizing the various bond issues of the District require monthly transfers into a depreciation fund until the maximum requirement of \$209,520 is reached. These funds can be used for capital improvements, expansions and extraordinary repairs. For the years ended December 31, 2014 and 2013, the District had a balance in excess of the required amount in the depreciation fund.

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2014 and 2013

Note 2 – Capital Assets

Capital asset activity for the year ended December 31, 2014 and 2013, was as follows:

| | Balance 01/01/14 | Additions | Deletions | Balance 12/31/14 |
|--|---------------------|----------------|------------------|---------------------|
| <i>Capital Assets not being depreciated</i> | | | | |
| Land and Rights | \$ 126,842 | \$ - | \$ - | \$ 126,842 |
| Construction In Progress | 869,481 | 3,606 | - | 873,087 |
| Total Non-Depreciable Capital Assets | <u>996,323</u> | <u>3,606</u> | <u>-</u> | <u>999,929</u> |
| <i>Capital Assets being depreciated</i> | | | | |
| Structures and Improvements | 427,778 | - | - | 427,778 |
| Pumping Equipment | 492,960 | - | - | 492,960 |
| Distribution Reservoirs | 1,801,108 | - | - | 1,801,108 |
| Transmission and Distribution Mains | 8,607,355 | 31,204 | - | 8,638,559 |
| Services | 120,774 | - | - | 120,774 |
| Meters and Installations | 820,517 | 63,941 | (4,290) | 880,168 |
| Other Plant | 32,370 | - | - | 32,370 |
| Furniture and Equipment | 98,768 | - | - | 98,768 |
| Transportation Equipment | 188,725 | - | - | 188,725 |
| Power Operated Equipment | 278,703 | 52,263 | - | 330,966 |
| Total Depreciable Capital Assets | <u>12,869,058</u> | <u>147,408</u> | <u>(4,290)</u> | <u>13,012,176</u> |
| Less: Accumulated Depreciation and Amortization | <u>4,308,207</u> | <u>334,670</u> | <u>(4,290)</u> | <u>4,638,587</u> |
| Total Net Capital Assets | <u>\$ 9,557,174</u> | | | <u>\$ 9,373,518</u> |
| | | | | |
| | Balance 01/01/13 | Additions | Deletions | Balance 12/31/13 |
| <i>Capital Assets not being depreciated</i> | | | | |
| Land and Rights | \$ 126,842 | \$ - | \$ - | \$ 126,842 |
| Construction In Progress | 869,481 | - | - | 869,481 |
| Total Non-Depreciable Capital Assets | <u>996,323</u> | <u>-</u> | <u>-</u> | <u>996,323</u> |
| <i>Capital Assets being depreciated</i> | | | | |
| Structures and Improvements | 427,778 | - | - | 427,778 |
| Pumping Equipment | 491,992 | 968 | - | 492,960 |
| Distribution Reservoirs | 1,999,725 | 1,383 | (200,000) | 1,801,108 |
| Transmission and Distribution Mains | 8,572,313 | 35,042 | - | 8,607,355 |
| Services | 120,774 | - | - | 120,774 |
| Meters and Installations | 773,328 | 47,189 | - | 820,517 |
| Other Plant | 32,370 | - | - | 32,370 |
| Furniture and Equipment | 98,249 | 519 | - | 98,768 |
| Transportation Equipment | 188,725 | - | - | 188,725 |
| Power Operated Equipment | 268,723 | 15,980 | (6,000) | 278,703 |
| Total Depreciable Capital Assets | <u>12,973,977</u> | <u>101,081</u> | <u>(206,000)</u> | <u>12,869,058</u> |
| Less: Accumulated Depreciation and Amortization | <u>4,186,877</u> | <u>327,330</u> | <u>(206,000)</u> | <u>4,308,207</u> |
| Total Net Capital Assets | <u>\$ 9,783,423</u> | | | <u>\$ 9,557,174</u> |

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2014 and 2013

Note 3 – Long-Term Debt

Long-term debt consists of the following at December 31, 2014 and 2013:

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|
| Series 1978 Water Revenue Bonds issued through the Rural Development of the USDA in the amount of \$277,000; due in annual installments on January 1 ranging from \$1,000 to \$15,000 through January 2018; interest rate of 5% due semi-annually on January 1 and July 1. | \$ 56,000 | \$ 68,000 |
| Series 1987 Water Revenue Bonds issued through the Rural Development of the USDA in the amount of \$391,000; due in annual installments on January 1 ranging from \$4,000 to \$21,000 through January 2027; interest rate of 5% due semi-annually on January 1 and July 1. | 216,000 | 228,000 |
| Series 1990 Water Revenue Bonds issued through the Rural Development of the USDA in the amount of \$811,000; due in annual installments on January 1 ranging from \$8,000 to \$45,000 through January 2031; interest rate of 5% due semi-annually on January 1 and July 1. | 519,000 | 540,000 |
| Series 1992 Water Revenue Bonds issued through the Rural Development of the USDA in the amount of \$490,000; due in annual installments on January 1 ranging from \$4,500 to \$27,000 through January 2031; interest rate of 5% due semi-annually on January 1 and July 1. | 327,000 | 339,000 |
| Series 1994 Water Revenue Bonds issued through the Rural Development of the USDA in the amount of \$570,000; due in annual installments on January 1 ranging from \$5,000 to \$32,000 through January 2033; interest rate of 4.5% due semi-annually on January 1 and July 1. | 405,000 | 418,000 |
| Series 1998 Water Revenue Bonds issued through the Rural Development of the USDA in the amount of \$500,000; due in annual installments on January 1 ranging from \$5,000 to \$26,500 through January 2038; interest rate of 4.5% due semi-annually on January 1 and July 1. | 402,500 | 412,000 |
| Series 1999 Water Revenue Bonds issued through the Rural Development of the USDA in the amount of \$270,000; due in annual installments on January 1 ranging from \$2,500 to \$15,500 through January 2038; interest rate of 4.75% due semi-annually on January 1 and July 1. | 222,000 | 226,500 |
| Series 2003 Water Revenue Bonds issued through the Rural Development of the USDA in the amount of \$517,000; due in annual installments on January 1 ranging from \$5,500 to \$27,500 through January 2043; interest rate of 4.5% due semi-annually on January 1 and July 1. | 459,000 | 466,500 |
| Total debt | <u>\$ 2,606,500</u> | <u>\$ 2,698,000</u> |

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2014 and 2013

Note 3 – Long-Term Debt, Continued

Principal and interest maturities of long-term debt are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|---------------------|---------------------|---------------------|
| 2015 | \$ 95,000 | \$ 123,438 | \$ 218,438 |
| 2016 | 101,000 | 118,853 | 219,853 |
| 2017 | 105,500 | 113,978 | 219,478 |
| 2018 | 111,000 | 108,886 | 219,886 |
| 2019 | 100,500 | 103,530 | 204,030 |
| 2020-2024 | 583,000 | 440,218 | 1,023,218 |
| 2025-2029 | 685,500 | 287,575 | 973,075 |
| 2030-2034 | 459,500 | 137,144 | 596,644 |
| 2035-2039 | 263,000 | 56,189 | 319,189 |
| 2040-2043 | 102,500 | 11,790 | 114,290 |
| | <u>\$ 2,606,500</u> | <u>\$ 1,501,601</u> | <u>\$ 4,108,101</u> |

Long-term debt activities for the year ended December 31, 2014 and 2013 are as follows:

| | <u>Balance</u> <u>01/01/14</u> | <u>Additions</u> | <u>Debt Payments</u> <u>and Reductions</u> | <u>Balance</u> <u>12/31/14</u> | <u>Amount Due</u> <u>within One Year</u> |
|-------------|-----------------------------------|------------------|---|-----------------------------------|---|
| Series 1978 | \$ 68,000 | \$ - | \$ (12,000) | \$ 56,000 | \$ 13,000 |
| Series 1987 | 228,000 | - | (12,000) | 216,000 | 12,000 |
| Series 1990 | 540,000 | - | (21,000) | 519,000 | 22,000 |
| Series 1992 | 339,000 | - | (12,000) | 327,000 | 12,500 |
| Series 1994 | 418,000 | - | (13,000) | 405,000 | 13,000 |
| Series 1998 | 412,000 | - | (9,500) | 402,500 | 9,500 |
| Series 1999 | 226,500 | - | (4,500) | 222,000 | 5,000 |
| Series 2003 | 466,500 | - | (7,500) | 459,000 | 8,000 |
| | <u>\$ 2,698,000</u> | <u>\$ -</u> | <u>\$ (91,500)</u> | <u>\$ 2,606,500</u> | <u>\$ 95,000</u> |

| | <u>Balance</u> <u>01/01/13</u> | <u>Additions</u> | <u>Debt Payments</u> <u>and Reductions</u> | <u>Balance</u> <u>12/31/13</u> | <u>Amount Due</u> <u>within One Year</u> |
|-------------|-----------------------------------|------------------|---|-----------------------------------|---|
| Series 1978 | \$ 80,000 | \$ - | \$ (12,000) | \$ 68,000 | \$ 12,000 |
| Series 1987 | 239,000 | - | (11,000) | 228,000 | 12,000 |
| Series 1990 | 560,000 | - | (20,000) | 540,000 | 21,000 |
| Series 1992 | 350,500 | - | (11,500) | 339,000 | 12,000 |
| Series 1994 | 430,000 | - | (12,000) | 418,000 | 13,000 |
| Series 1998 | 420,500 | - | (8,500) | 412,000 | 9,500 |
| Series 1999 | 231,000 | - | (4,500) | 226,500 | 4,500 |
| Series 2003 | 474,000 | - | (7,500) | 466,500 | 7,500 |
| | <u>\$ 2,785,000</u> | <u>\$ -</u> | <u>\$ (87,000)</u> | <u>\$ 2,698,000</u> | <u>\$ 91,500</u> |

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2014 and 2013

Note 3 – Long-Term Debt, Concluded

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. During the current year, the District performed calculations of excess investment earnings on various bonds and at December 31, 2014 does not expect to incur a liability.

Note 4 – Cash and Investments

The carrying amount of the District's cash deposits was \$1,643,997 and \$1,538,375 for the years ending December 31, 2014 and 2013, respectively and the bank balances were \$1,645,921 and \$1,540,917. The difference between book and bank balances primarily represents checks that have been issued, but have not cleared the bank. The District's deposits included five certificates of deposit totaling approximately \$250,000 for 2014 and 2013 that matured annually. All were with the same financial institution at rates between .79% and 1.30% for the year ending December 31, 2014 and 2013, respectively. All of the District's deposits were either insured by FDIC or by collateral pledged by South Central Bank of Monroe County.

Note 5 – Pension Plan

The District provided a defined contribution plan, as of January 1, 2006, to its employees, who meet certain age and length of service requirements set forth by the Board of Commissioners. The plan is a deferred compensation plan as defined by the IRC 457(b). The District contributes 8% of covered payroll and each employee contributes 4% of their wages. For the years ended December 31, 2014 and 2013, employer contributions were \$24,988 and \$24,005 respectively and employee contributions were \$12,494 and \$12,003, respectively. Voluntary contributions were \$1,560 in 2014 and \$1,680 in 2013. Covered payroll was approximately \$313,000 and \$305,000 for years 2014 and 2013, respectively.

Note 6 – Commitments

The District has plans for a new regional water treatment facility to supply Monroe county and other water districts. The total cost of the project is projected to be \$12,000,000. The District has secured grant and loan funds of \$8,000,000 for the plant through KIA. The District has secured grant funds from KIA and EPA of \$1,158,535, as of December 31, 2014 the District has not received any of these funds. These grant funds are for future upgrades to the transmission and distribution system. Construction in Process balance of \$873,087 relates to engineering fees associated with the design of the water treatment plant.

Note 7- Subsequent Events

Management has evaluated subsequent events through February 23, 2015, the date which the financial statements were available to be issued.

Supplemental Information

MONROE COUNTY WATER DISTRICT
Statement of Revenues, Expenses and Change
in Net Position – Budget and Actual

| | Original and Final Budget | Actual | Variance Favorable (Unfavorable) |
|--|------------------------------|--------------------|--|
| Operating revenues: | | | |
| Water sales | \$ 1,471,486 | \$ 1,581,034 | \$ 109,548 |
| Penalties and other | 74,108 | 50,240 | (23,868) |
| | <u>1,545,594</u> | <u>1,631,274</u> | <u>85,680</u> |
| Operating expenses: | | | |
| Water purchases | 409,250 | 488,474 | (79,224) |
| Salaries and benefits | 382,800 | 62,309 | 320,491 |
| Materials | 75,000 | 44,970 | 30,030 |
| Contractual | 54,600 | 41,346 | 13,254 |
| Insurance | 24,700 | 32,810 | (8,110) |
| Utilities | 59,000 | 463,372 | (404,372) |
| Depreciation | 390,000 | 334,670 | 55,330 |
| Other | 48,400 | 115,928 | (67,528) |
| | <u>1,443,750</u> | <u>1,583,879</u> | <u>(140,129)</u> |
| Total operating expenses | | | |
| Operating income | <u>101,844</u> | <u>47,395</u> | <u>(54,449)</u> |
| Non-operating revenue (expenses): | | | |
| Interest income and other | 8,000 | 7,781 | (219) |
| Interest expense on bonds | (131,985) | (123,438) | 8,547 |
| | <u>(123,985)</u> | <u>(115,657)</u> | <u>8,328</u> |
| Total non-operating revenue (expenses) | | | |
| Income before capital contributions | <u>(22,141)</u> | <u>(68,262)</u> | <u>(46,121)</u> |
| Capital contributions | | | |
| Grant proceeds | 1,134,000 | - | (1,134,000) |
| Tap fees | 41,000 | 39,694 | (1,306) |
| | <u>1,175,000</u> | <u>39,694</u> | <u>(1,135,306)</u> |
| Total capital contributions | | | |
| Increase/(Decrease) in net position | <u>\$ 1,152,859</u> | <u>\$ (28,568)</u> | <u>\$ (1,181,427)</u> |



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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

Monroe County Water District
Tompkinsville, 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 Monroe County Water District, as of and for the years ended December 31, 2014 and 2013 and the related notes to the financial statements, which collectively comprise Monroe County Water District's basic financial statements, and have issued our report thereon dated February 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Monroe County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Monroe County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Monroe County Water 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 Monroe County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

February 23, 2015

