

**Monroe County Water District**  
**Financial Statements**  
**December 31, 2015 and 2014**



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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 the business-type activities of the Monroe County Water District as of and for the years ended December 31, 2015 and 2014 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 the business type activities of the Monroe County Water District, as of December 31, 2015 and 2014, 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 March 28, 2016 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

March 28, 2016

## **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, 2015 and 2014. 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, 2015, total operating and non-operating revenues (including capital contributions) totaled \$2,110,786. This represents a 20% increase in revenues from the prior year. This change was primarily due to a pass through rate increase during the year and an increase in grant revenues.

Total operating and non-operating expenses amounted to \$1,765,982 an increase of approximately \$58,665 from the prior year. This increase was primarily the result of an increase in water purchases, office expense, employee wages and benefits, and general repairs and maintenance on building and equipment.

Total assets increased by \$566,345, and total liabilities increased by \$221,541. These changes resulted in an increase in net position of \$344,804.

### **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, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Total Current Assets	\$ 1,436,735	\$ 1,339,137
Total Restricted Assets	570,712	562,341
Net Capital Assets	<u>9,833,894</u>	<u>9,373,518</u>
<b>Total Assets</b>	<u>\$ 11,841,341</u>	<u>\$ 11,274,996</u>
<b>Liabilities</b>		
Total Current Liabilities	\$ 498,509	\$ 181,649
Total Liabilities Payable from Restricted Assets	211,544	211,863
Total Long-term Liabilities	<u>2,416,500</u>	<u>2,511,500</u>
<b>Total Liabilities</b>	<u>\$ 3,126,553</u>	<u>\$ 2,905,012</u>
<b>Net Position</b>		
Invested in capital assets, net of related debt	\$ 7,322,394	\$ 6,767,018
Restricted for equipment replacement	349,771	347,902
Restricted for debt retirement	102,660	96,268
Restricted - other	1,737	1,308
Unrestricted	<u>938,226</u>	<u>1,157,488</u>
<b>Total Net Position</b>	<u>\$ 8,714,788</u>	<u>\$ 8,369,984</u>

The largest portion (84%) 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 3% percent increase from the prior year.

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

The balance (11%) 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, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Total operating revenues	\$ 1,681,401	\$ 1,631,274
Total operating expenses	<u>1,647,129</u>	<u>1,583,879</u>
Operating Income	\$ 34,272	\$ 47,395
Total non-operating revenue (expenses)	<u>(111,014)</u>	<u>(115,657)</u>
Income before capital contributions	\$ (76,742)	\$ (68,262)
Capital contributions	<u>421,546</u>	<u>39,694</u>
Increase in net position	\$ 344,804	\$ (28,568)
Net position, beginning of year	<u>8,369,984</u>	<u>8,398,552</u>
Net position, end of year	<u>\$ 8,714,788</u>	<u>\$ 8,369,984</u>

Net position increased by \$344,804, from the prior year.

Capital Asset Changes

At December 31, 2015, the District had invested \$9,833,894 in capital assets net of accumulated depreciation. This amount represents a net increase of \$460,376 from the previous year. This increase is the result of having more capital asset additions than depreciation expense.

The Monroe County Water District completed projects including 1200 feet of water line extensions during the year of 2015. There were 43 new water connections set for service during the year of 2015. The Monroe County Water District has a very active meter testing program, having tested 227 meters during the year of 2015.

Monroe County Water District has worked diligently on the Monroe – Tompkinsville Regional Water Treatment Plant Project since 2006. The total project cost is \$15,962,694 which consists of the treatment plant, intake, transmission lines, storage tank, 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 2015. 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, 2015, the District had \$2,511,500 bonds outstanding, a decrease of \$95,000 from the prior year's balance of \$2,606,500. The District incurred \$118,853 in interest expense associated with long term debt, a decrease of \$4,585 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, 2015 and 2014**

<b>Assets</b>	<u>2015</u>	<u>2014</u>
<b>Current Assets</b>		
Cash	\$ 952,167	\$ 1,081,658
Accounts receivable	133,177	150,145
Grant receivable	247,810	-
Inventory	103,581	107,334
Total Current Assets	<u>1,436,735</u>	<u>1,339,137</u>
<b>Non-current Assets</b>		
Restricted Assets		
Cash - Depreciation fund	349,771	347,902
Cash - Bond and interest redemption fund	162,086	157,987
Cash - Meter deposits	58,855	56,452
Total Restricted Assets	<u>570,712</u>	<u>562,341</u>
Capital Assets		
Land and land rights	126,842	126,842
Utility plant in service	11,963,613	11,868,387
Furniture and equipment	1,171,776	1,143,789
Construction in progress	1,540,869	873,087
Accumulated depreciation and amortization	<u>(4,969,206)</u>	<u>(4,638,587)</u>
Net Capital Assets	<u>9,833,894</u>	<u>9,373,518</u>
Total Non-current Assets	<u>10,404,606</u>	<u>9,935,859</u>
 Total Assets	 <u>\$ 11,841,341</u>	 <u>\$ 11,274,996</u>

**MONROE COUNTY WATER DISTRICT**  
**Statements of Net Position**  
**December 31, 2015 and 2014**

**Liabilities**

**Current Liabilities**

Accounts payable	\$ 61,330	\$ 64,403
Construction accounts payable	305,893	-
Accrued liabilities	<u>131,286</u>	<u>117,246</u>
Total Current Liabilities	<u>498,509</u>	<u>181,649</u>

**Liabilities Payable from Restricted Assets**

Current maturities of long-term debt	101,000	95,000
Customer deposits	57,118	55,144
Accrued interest	<u>59,426</u>	<u>61,719</u>
Total Liabilities Payable from Restricted Assets	<u>217,544</u>	<u>211,863</u>

**Long-term Liabilities**

Long-term debt, less current maturities	<u>2,410,500</u>	<u>2,511,500</u>
Total Long-term Liabilities	<u>2,410,500</u>	<u>2,511,500</u>

Total Liabilities	<u>3,126,553</u>	<u>2,905,012</u>
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**Net Position**

**Net Position**

Invested in capital assets, net of related debt	7,322,394	6,767,018
Restricted for equipment replacement	349,771	347,902
Restricted for debt retirement	102,660	96,268
Restricted - other	1,737	1,308
Unrestricted	<u>938,226</u>	<u>1,157,488</u>

<b>Total Net Position</b>	<u>\$ 8,714,788</u>	<u>\$ 8,369,984</u>
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**MONROE COUNTY WATER DISTRICT**  
**Statements of Revenues, Expenses and Change in Net Position**  
**For the Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Operating revenues:</b>		
Residential water sales	\$ 1,525,226	\$ 1,501,990
Commerical water sales	81,837	79,044
Penalty collections	29,946	30,833
Miscellaneous	<u>44,392</u>	<u>19,407</u>
Total operating revenues	<u>1,681,401</u>	<u>1,631,274</u>
<b>Operating expenses:</b>		
Water purchases	511,628	488,474
Utilities	63,119	62,309
Repairs and maintenance	46,954	44,970
Meter readers	41,823	41,346
Office expense	52,918	42,101
Transportation expenses	18,197	26,768
Insurance	31,392	32,810
Commissioners' fees	6,000	6,000
Employees' salaries and wages	350,184	322,222
Employees' pensions and benefits	145,663	135,150
Depreciation	334,393	334,670
PSC tax assessment	3,101	2,998
Meter deposit interest expense	65	153
Bad debt expense	8,224	9,630
Professional fees	8,100	10,660
Miscellaneous	<u>25,368</u>	<u>23,618</u>
Total operating expenses	<u>1,647,129</u>	<u>1,583,879</u>
Operating income	<u>34,272</u>	<u>47,395</u>
<b>Non-operating revenue (expenses):</b>		
Interest income	7,839	7,781
Interest expense on bonds	<u>(118,853)</u>	<u>(123,438)</u>
Total non-operating revenue (expenses)	<u>(111,014)</u>	<u>(115,657)</u>
Income/(loss) before capital contributions	<u>(76,742)</u>	<u>(68,262)</u>
<b>Capital contributions</b>		
Grant proceeds	382,088	-
Tap fees	<u>39,458</u>	<u>39,694</u>
Total capital contributions	<u>421,546</u>	<u>39,694</u>
Change in net position	344,804	(28,568)
<b>Net position:</b>		
Beginning of year	<u>8,369,984</u>	<u>8,398,552</u>
End of year	<u>\$ 8,714,788</u>	<u>\$ 8,369,984</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, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>		
Cash receipts from customers	\$ 1,607,063	\$ 1,581,034
Cash payments to suppliers for goods and services	(602,983)	(650,009)
Cash payments to employees for services	<u>(543,670)</u>	<u>(504,718)</u>
Net cash provided (used) by operating activities	<u>460,410</u>	<u>426,307</u>
<b>Cash flows from capital and related financing activities:</b>		
Principal paid on long-term debt	(95,000)	(91,500)
Interest paid on long-term debt	(121,146)	(125,644)
Additions to capital assets	(794,769)	(151,014)
Capital contributions	<u>421,546</u>	<u>39,694</u>
Net cash provided (used) in financing activities	<u>(589,369)</u>	<u>(328,464)</u>
<b>Cash flows from investing activities:</b>		
Interest income	<u>7,839</u>	<u>7,781</u>
Net cash provided by (used) in investing activities	<u>7,839</u>	<u>7,781</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(121,120)	105,624
Cash and cash equivalents, beginning of year	<u>1,643,999</u>	<u>1,538,375</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,522,879</u>	<u>\$ 1,643,999</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 34,272	\$ 47,395
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	334,393	334,670
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	16,968	(18,721)
(Increase) decrease in grant receivable	(247,810)	-
(Increase) decrease in inventory	3,753	30,493
Increase (decrease) in accounts payable	302,820	15,310
Increase (decrease) in customer deposits	1,974	767
Increase (decrease) in accrued expenses	<u>14,040</u>	<u>16,393</u>
Net cash provided (used) by operating activities	<u>\$ 460,410</u>	<u>\$ 426,307</u>

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

**MONROE COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

**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, 2015 and 2014**

**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, 2015. 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, 2015 and 2014 was \$334,493 and \$334,670, 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, 2015 and 2014**

**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, 2015, 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, 2015 and 2014, 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, 2015 and 2014**

**Note 2 – Capital Assets**

Capital asset activity for the year ended December 31, 2015 and 2014, was as follows:

	Balance 01/01/15	Additions	Deletions	Balance 12/31/15
<i>Capital Assets not being depreciated</i>				
Land and Rights	\$ 126,842	\$ -	\$ -	\$ 126,842
Construction In Progress	873,087	667,782	-	1,540,869
Total Non-Depreciable Capital Assets	<u>999,929</u>	<u>667,782</u>	<u>-</u>	<u>1,667,711</u>
<i>Capital Assets being depreciated</i>				
Structures and Improvements	427,778	-	-	427,778
Pumping Equipment	492,960	1,625	-	494,585
Distribution Reservoirs	1,801,108	18,440	(3,774)	1,815,774
Transmission and Distribution Mains	8,638,559	32,621	-	8,671,180
Services	120,774	-	-	120,774
Meters and Installations	880,168	47,939	-	928,107
Other Plant	32,370	-	-	32,370
Furniture and Equipment	98,768	-	-	98,768
Transportation Equipment	188,725	26,362	-	215,087
Power Operated Equipment	330,966	-	-	330,966
Total Depreciable Capital Assets	<u>13,012,176</u>	<u>126,987</u>	<u>(3,774)</u>	<u>13,135,389</u>
Less: Accumulated Depreciation and Amortization	<u>4,638,587</u>	<u>334,393</u>	<u>(3,774)</u>	<u>4,969,206</u>
Total Net Capital Assets	<u>\$ 9,373,518</u>			<u>\$ 9,833,894</u>
	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>

**MONROE COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

**Note 3 – Long-Term Debt**

Long-term debt consists of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</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	\$ 43,000	\$ 56,000
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	204,000	216,000
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	497,000	519,000
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	314,500	327,000
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 a	392,000	405,000
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 a	393,000	402,500
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	217,000	222,000
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 a	<u>451,000</u>	<u>459,000</u>
Total debt	<u>\$ 2,511,500</u>	<u>\$ 2,606,500</u>

**MONROE COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

**Note 3 – Long-Term Debt, Continued**

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

	Principal	Interest	Total
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
	\$ 2,511,500	\$ 1,378,161	\$ 3,889,661

Long-term debt activities for the year ended December 31, 2015 and 2014 are as follows:

	Balance 01/01/15	Additions	Debt Payments and Reductions	Balance 12/31/15	Amount Due within One Year
Series 1978	\$ 56,000	\$ -	\$ (13,000)	\$ 43,000	\$ 14,000
Series 1987	216,000	-	(12,000)	204,000	13,000
Series 1990	519,000	-	(22,000)	497,000	23,000
Series 1992	327,000	-	(12,500)	314,500	13,500
Series 1994	405,000	-	(13,000)	392,000	14,000
Series 1998	402,500	-	(9,500)	393,000	10,000
Series 1999	222,000	-	(5,000)	217,000	5,000
Series 2003	459,000	-	(8,000)	451,000	8,500
	\$ 2,606,500	\$ -	\$ (95,000)	\$ 2,511,500	\$ 101,000

	Balance 01/01/14	Additions	Debt Payments and Reductions	Balance 12/31/14	Amount Due within One Year
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
	\$ 2,698,000	\$ -	\$ (91,500)	\$ 2,606,500	\$ 95,000

**MONROE COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

**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, 2015 does not expect to incur a liability.

**Note 4 – Cash and Investments**

The carrying amount of the District's cash deposits was \$1,522,879 and \$1,643,999 for the years ending December 31, 2015 and 2014, respectively and the bank balances were \$1,534,280 and \$1,645,921. 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 2015 and 2014 that matured annually. All were with the same financial institution at rates between .79% and 1.30% for the year ending December 31, 2015 and 2014, 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, 2015 and 2014, employer contributions were \$26,775 and \$24,988 respectively and employee contributions were \$13,388 and \$12,494, respectively. Voluntary contributions were \$3,070 in 2015 and \$1,560 in 2014. Covered payroll was approximately \$350,000 and \$313,000 for years 2015 and 2014, 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 approximately \$16,000,000, and the District has secured grant and loan funds for that amount through KIA. Construction in process related to the water treatment facility at December 31, 2015 was \$1,134,841 which includes engineering fees all paid by the District. At December 31, 2015, no loan or grant funds related to the Water Treatment project had been received. Construction of the plant is expected to begin in 2016.

Also the District secured grant funds of \$820,000 from KIA and EPA for upgrades to the transmission and distribution system. At December 31, 2015, the District had construction in process related to Edmonton Interconnection and Tooley Ridge Tank of \$208,896 and \$197,132 respectively. The District had expended \$382,088 of the grant funds at December 31, 2015.

**Note 7- Subsequent Events**

Management has evaluated subsequent events through March 28, 2016, 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)
<b>Operating revenues:</b>			
Water sales	\$ 1,614,489	\$ 1,607,063	\$ (7,426)
Penalties and other	75,000	74,338	(662)
Total operating revenues	1,689,489	1,681,401	(8,088)
<b>Operating expenses:</b>			
Water purchases	475,000	511,628	(36,628)
Salaries and benefits	401,940	501,847	(99,907)
Materials	64,185	46,954	17,231
Contractual	56,000	41,823	14,177
Insurance	27,000	31,392	(4,392)
Utilities	64,000	63,119	881
Depreciation	395,000	334,393	60,607
Other	71,000	115,973	(44,973)
Total operating expenses	1,554,125	1,647,129	(93,004)
Operating income	135,364	34,272	(101,092)
<b>Non-operating revenue (expenses):</b>			
Interest income and other	8,500	7,839	(661)
Interest expense on bonds	(123,438)	(118,853)	4,585
Total non-operating revenue (expenses)	(114,938)	(111,014)	3,924
Income before capital contributions	20,426	(76,742)	(97,168)
<b>Capital contributions</b>			
Grant proceeds	1,217,361	382,088	(835,273)
Tap fees	-	39,458	39,458
Total capital contributions	1,217,361	421,546	(795,815)
Increase/(Decrease) in net position	\$ 1,237,787	\$ 344,804	\$ (892,983)



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 of the business type activities of the Monroe County Water District, as of and for the years ended December 31, 2015 and 2014 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 March 28, 2016.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weaknesses, 2015-1.

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.

## **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*.

## **Monroe County Water District's Response to Findings**

Monroe County Water District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Monroe County Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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

March 28, 2016



**MONROE COUNTY WATER DISTRICT  
Schedule of Findings and Responses  
December 31, 2015**

**2015-1**

***Criteria:***

Invoices should be reviewed before payment approval.

***Condition:***

We noted that blank checks were being signed by one check signer in advance of payment.

***Cause:***

Invoices were then paid without approval by both check signers.

***Effect:***

The internal control of having dual signatures on checks is negated when the check is signed in advance of payment.

***Recommendation:***

We recommend checks made out to vendors be presented to the Treasurer along with invoice at the time of signing, to ensure proper payment approval, and add the Manager as an authorized check signer for when this is not possible.

***Management Response:***

Management will have the Treasurer review invoices and sign checks on a weekly basis, including the Manager as a backup so no blank checks are signed.

