

NEBO WATER DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED DECEMBER 31, 2015

NEBO WATER DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Nebo Water District
Nebo, Kentucky

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Nebo Water District as of and for the year ended December 31, 2015, 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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebo Water District, as of December 31, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated January 30, 2015, on my consideration of the Nebo Water District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Nebo Water District's internal control over financial reporting and compliance.



Providence, Kentucky
January 22, 2016

**NEBO WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	Business-Type Activities
Assets	
Current Assets	
Cash and cash equivalents	\$ 102,204
Accounts receivable	63,797
Inventories	43,378
Prepaid insurance	13,358
Total current assets	222,737
Noncurrent Assets	
Restricted cash	372,502
Capital assets, net of depreciation	1,700,212
Unamortized bond issue costs	5,670
Total noncurrent assets	2,078,384
Total assets	2,301,121
Liabilities	
Current Liabilities	
Accounts payable	22,782
Accrued expenses	21,920
Customer deposits	18,825
Current portion of bonds payable	15,936
Total current liabilities	79,463
Noncurrent Liabilities	
Noncurrent portion of bonds payable	159,423
Total noncurrent liabilities	159,423
Total liabilities	238,886
Net Position	
Contributed capital	2,312,284
Retained earnings (deficit)	(250,049)
Total net position	\$ 2,062,235

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

**NEBO WATER DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>		
					<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Business-type activities							
Water	\$ (995,408)	\$ 892,088	\$ 4,200	\$ -		\$ (99,120)	\$ (99,120)
Total business-type activities	<u>(995,408)</u>	<u>892,088</u>	<u>4,200</u>	<u>-</u>	<u>-</u>	<u>(99,120)</u>	<u>(99,120)</u>
Total government	<u>\$ (995,408)</u>	<u>\$ 892,088</u>	<u>\$ 4,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(99,120)</u>	<u>(99,120)</u>
General Revenues:							
Interest income						<u>3,320</u>	<u>3,320</u>
Total general revenues						<u>3,320</u>	<u>3,320</u>
Change in Net Position						(95,800)	(95,800)
Net position, beginning						<u>2,158,035</u>	<u>2,158,035</u>
Net position, ending						<u>\$ 2,062,235</u>	<u>\$ 2,062,235</u>

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

**NEBO WATER DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2015**

	<u>Business-type Activities Enterprise Fund</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 102,204
Accounts receivable	63,797
Inventories	43,378
Prepaid insurance	<u>13,358</u>
Total current assets	<u>222,737</u>
Noncurrent Assets	
Restricted cash	372,502
Capital assets, net of depreciation	1,700,212
Unamortized bond issue costs	<u>5,670</u>
Total noncurrent assets	<u>2,078,384</u>
Total assets	<u>2,301,121</u>
Liabilities	
Current Liabilities	
Accounts payable	22,782
Accrued expenses	21,920
Customer deposits	18,825
Current portion of bonds payable	<u>15,936</u>
Total current liabilities	<u>79,463</u>
Noncurrent Liabilities	
Noncurrent portion of bonds payable	<u>159,423</u>
Total noncurrent liabilities	<u>159,423</u>
Total liabilities	<u>238,886</u>
Net Position	
Contributed capital	2,312,284
Retained earnings (deficit)	<u>(250,049)</u>
Total net position	<u><u>\$ 2,062,235</u></u>

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

**NEBO WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Business-type Activities Enterprise Fund</u>
Operating Revenues:	
Charges for services	\$ 885,523
Other income	<u>6,565</u>
Total operating revenues	<u>892,088</u>
Operating Expenses:	
Purchased water	470,068
Purchased power	14,303
Salaries and wages	194,246
Contract services	16,130
Depreciation	126,555
Material and supplies	24,743
Insurance	17,458
Payroll taxes and benefits	66,155
Miscellaneous expense	17,361
Utilities	7,148
Repairs	4,922
Office expense	13,889
Vehicle expense	16,007
Advertising	<u>230</u>
Total operating expenses	<u>989,215</u>
Operating income (loss)	<u>(97,127)</u>
Nonoperating revenues (expenses):	
Interest income	3,320
Interest expense	(5,653)
Amortization of bond issue costs	(540)
Tap on fees	<u>4,200</u>
Total nonoperating revenues (expenses)	<u>1,327</u>
Change in net position	(95,800)
Total net position, beginning	<u>2,158,035</u>
Total net position, ending	<u><u>\$ 2,062,235</u></u>

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

**NEBO WATER DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Business-type Activities Enterprise Fund</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 885,523
Payments to suppliers	(649,180)
Payments to employees	(194,246)
Other receipts (payments)	<u>6,565</u>
Net cash provided by operating activities	<u>48,662</u>
Cash Flows from Capital and Related Financing Activities	
Principal paid on bonds and notes payable	(14,858)
Interest paid on bonds and notes payable	(5,653)
Capital contributions from customers	<u>4,200</u>
Net cash (used) in capital and related financing activities	<u>(16,311)</u>
Cash Flows from Investing Activities	
Interest income	<u>3,320</u>
Net increase in cash and cash equivalents	35,671
Balances, beginning of year	<u>439,035</u>
Balances, ending of year	<u><u>\$ 474,706</u></u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income (loss)	\$ (97,127)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	126,555
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	14,791
(Increase) decrease in inventory	42
(Increase) decrease in prepaid insurance	(580)
Increase (decrease) in accounts payable	1,418
Increase (decrease) in accrued expense	(337)
Increase (decrease) in customer deposits	<u>3,900</u>
Net cash provided by operating activities	<u><u>\$ 48,662</u></u>

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

**NEBO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015**

Note 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity.

The Nebo Water District (the "District") was created on September 2, 1965, under the provisions of chapter 74 of the Kentucky Revised Statutes of the Commonwealth of Kentucky. The principal office of the District is located in Nebo, Kentucky. The District is comprised of three commissioners who are appointed by the Hopkins County Judge Executive and provides water to customers in Hopkins County, Kentucky.

B. Basis of Presentation.

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all activities of the District. The government-wide financial statements are divided into two types: governmental activities and business-type activities. The District only has business-type activities due to its reliance to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expense of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers as applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Fund Financial Statements:

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliances.

Governmental funds are those funds through which most governmental functions typically are financial. The District does not maintain governmental funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. Operating expenses for the proprietary funds include the costs of operational and contracted services, revenues and expenses no meeting this definition are reported as non-operating revenues and expenses.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts

and reported in the financial statements. Basis of accounting relates to the timing of the measurement made regardless of the measurement focus applied.

The government-wide statements and the fund financial statements for the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized when earned including unbilled water service which is accrued. Expenses are recognized at the time the liability is incurred.

D. Cash and Investments

For the purpose of the proprietary fund of the Nebo Water District, cash on hand, cash in bank and certificates of deposits are considered to be cash and cash equivalents.

Unrestricted cash is available to be expended for normal operating costs. Restricted cash is limited to payments of bond principal and interest, emergency capital improvements, and construction projects.

State statute requires that all deposits and investments in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Kentucky or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The District's deposits, including certificates of deposit, were fully collateralized as required by state statutes at December 31, 2015.

At year end, bank balances totaled \$474,706. These balances were fully covered by FDIC Insurance.

E. Inventory

Inventory is stated at the lower of cost or market. Cost is determined primarily by the first in first-out method.

F. Capital Assets

Capital assets, which include property, plant and equipment are reported in the business-type activities column in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance is recorded as expenses. Renewals and betterments are capitalized. Depreciation is provided in the proprietary fund in an amount sufficient to relate the cost of the depreciable assets, to operations over their estimated lives on the straight-line basis. The service lives range from 3 to 50 years.

Note 2. Capital Assets

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

	<u>Balances January 1</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balances December 31</u>
Business-type Activities				
Land and land rights	\$ 38,258	\$ -	\$ -	\$ 38,258
Structures and improvements	89,751	-	-	89,751
Distribution reservoirs	878,339	-	-	878,339
Transmission mains	2,593,496	-	-	2,593,496
Water meters	420,183	-	-	420,183
Hydrants	27,367	-	-	27,367
Office equipment	58,731	-	-	58,731
Transportation equipment	28,801	-	-	28,801
Tools and shop equipment	238,372	-	-	238,372
Pumping equipment	107,264	-	-	107,264
Communication equipment	12,981	-	-	12,981
Total capital assets	4,493,543	-	-	4,493,543
Less accumulated depreciation	(2,666,776)	(126,555)	-	(2,793,331)
Business-type Activities:				
Capital Assets, Net	<u>\$ 1,826,767</u>	<u>\$ (126,555)</u>	<u>\$ -</u>	<u>\$ 1,700,212</u>

Note 3 Noncurrent Liabilities

At December 31, 2015, noncurrent liabilities consisted of the following:

	<u>Business-type</u>
Loan payable (B12-03) payable to the Kentucky Infrastructural Authority in the amount of \$ 92,000 maturing in semi-annual installments through 2022. Interest is payable semi-annually on June 1 and December 1 at a rate of 2.0% per annum and principal is payable semi-annually on June 1 and December 1.	84,359
Bonds payable (Series 2007A) payable to the Kentucky Rural Water Corporation in the amount of \$ 168,000 maturing in annual installments through 2022. Interest is payable semi-annually on January 1 and July 1 at a rate of 4.05% per annum and principal is payable annually on January 1.	<u>91,000</u>
Total	175,359
Less amount due in one year	<u>(15,936)</u>
Amount due in more than one year	<u>\$ 159,423</u>

The following is a summary of the revenue bond transaction of the District for the year ended December 31, 2015:

	Balances 12/31/14	Additions	Reductions	Balances 12/31/15	Due Within One Year
KIA Loan B12-03	\$ 88,217	\$ -	\$ 3,858	\$ 84,359	\$ 3,936
2007A Series	102,000	-	11,000	91,000	12,000
Total	\$ 190,217	\$ -	\$ 14,858	\$ 175,359	\$ 15,936

The following is a bond retirement schedule for each issue:

KIA Loan B12-03

Year Ending December 31	Bonds Due	Interest Due	Total	Bonds Outstanding End of Year
2015				\$ 84,359
2016	\$ 3,936	\$ 1,668	\$ 5,604	80,423
2017	4,015	1,589	5,604	76,408
2018	4,096	1,508	5,604	72,312
2019	4,178	1,425	5,603	68,134
2020	4,262	1,341	5,603	63,872
2021-2033	63,872	8,979	72,851	-
Total	\$ 84,359	\$ 16,510	\$ 100,869	

Series of 2007A

Year Ending December 31	Bonds Due	Interest Due	Total	Bonds Outstanding End of Year
2015				\$ 91,000
2016	\$ 12,000	\$ 3,442	\$ 15,442	79,000
2017	12,000	2,957	14,957	67,000
2018	12,000	2,471	14,471	55,000
2019	13,000	1,964	14,964	42,000
2020	13,000	1,438	14,438	29,000
2021-2022	29,000	1,195	30,195	-
Total	\$ 91,000	\$ 13,467	\$ 104,467	

Note 4. Purchase Contracts

The District entered into a purchase agreement with the City of Madisonville, Kentucky. The District is billed monthly for the water usage.

Note 5. Litigation

The District attorney is unaware of any pending litigation against the District.

Note 6. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchased commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION



Michael L. Overby, CPA, PLLC

Certified Public Accountant

2201 Westerfield Drive, Suite C

Providence, KY 42450

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*

Independent Auditor's Report

To The Commissioners
Nebo Water District

I 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Nebo Water District, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Nebo Water District's basic financial statements, and have issued my report thereon dated January 22, 2016.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Nebo 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Nebo Water District's internal control. Accordingly, I do not express an opinion on the effectiveness of Nebo 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.

My 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 my audit I did not identify any deficiencies in internal control that I 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 Nebo Water District's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express an opinion. The results of my 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 my 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.



Providence, Kentucky
January 22, 2016