

NORTH MARSHALL WATER DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2013

**NORTH MARSHALL WATER DISTRICT
TABLE OF CONTENTS**

Introductory Section

Directory 1

Financial Section

Independent Auditor’s Report 2
Management’s Discussion and Analysis..... 5
Financial Statements:
 Statements of Net Position 10
 Statements of Revenues, Expenses, and Changes in Net Position 12
 Statements of Cash Flows 13
 Notes to Financial Statements 15

Other Supplementary Information Section

Schedules of Operating Income and Expenses 22
Schedule of Long-term Debt 24
Water Rates in Force 25

Internal Control and Compliance Section

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* 26
Summary of Findings and Recommendations 28

INTRODUCTORY SECTION

**NORTH MARSHALL WATER DISTRICT
DIRECTORY**

December 31, 2013

BOARD MEMBERS

Jerry Miller, Chairman
Kendra Capps
Billy Driskill
Joe Draffen
James Leonard

MANAGEMENT TEAM

Bobby Gifford, Interim Superintendent
Kimberly Smith, Bookkeeper

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



Certified Public Accountants
Offices in Tennessee & Kentucky

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Independent Auditor's Report

Board of Commissioners
North Marshall Water District
Benton, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the North Marshall Water District (the District), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of December 31, 2013, and the respective financial changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 5 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the District's internal control over financial reporting and compliance.

Jackson, Tennessee
March 5, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the North Marshall Water District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2013. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

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

- Total assets at year-end were \$5.23 million and exceeded liabilities in the amount of \$4.62 million (i.e. net position).
- Total assets increased by \$136,399, mainly due to a significant amount of capital asset additions.
- Operating revenues were \$1.54 million, an increase from year 2012 in the amount of \$41,525 or 2.76%.
- Operating expenses were \$1.29 million, a decrease from year 2012 in the amount of \$58,720 or 4.37%. Maintenance expenses decreased \$36,535 in 2013.
- The operating income for the year was \$259,692 as compared to \$159,447 in 2012. This increase was due to less maintenance needing to be performed in 2013.
- Ratios of operating income (loss) to total operating revenue were .168 and .106 for 2013, and 2012, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

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

REQUIRED FINANCIAL STATEMENTS

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

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

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

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

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

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

FINANCIAL ANALYSIS

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District, and the changes in the net position. Net position is one way to measure the financial health or financial position of the District. Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates. The District's total net position increased by \$354,587 for the fiscal year ended December 31, 2013. The District's total net position decreased by \$57,102 for the fiscal year ended December 31, 2012. The analysis below focuses on the District's net position (Table 1A & Table 1B) and changes in net position (Table 2) during the year.

Table 1A
CONDENSED STATEMENTS OF NET POSITION

	December 31, 2013	December 31, 2012	Increase (Decrease)	
			\$	%
Current and other assets	\$ 497,179	\$ 390,385	106,794	27.36%
Restricted noncurrent assets	53,884	50,862	3,022	5.94%
Capital assets	4,679,315	4,652,732	26,583	0.57%
Total assets	<u>5,230,378</u>	<u>5,093,979</u>	<u>136,399</u>	<u>2.68%</u>
Long-term liabilities	406,312	543,195	(136,883)	-25.20%
Other liabilities	208,640	289,945	(81,305)	-28.04%
Total liabilities	<u>614,952</u>	<u>833,140</u>	<u>(218,188)</u>	<u>-26.19%</u>
Net investment in capital assets	4,138,765	3,923,711	215,054	5.48%
Unrestricted	476,661	337,128	139,533	41.39%
Total net position	<u>\$ 4,615,426</u>	<u>\$ 4,260,839</u>	<u>\$ 354,587</u>	<u>8.32%</u>

Table 1B
CONDENSED STATEMENTS OF NET POSITION

	December 31, 2012	December 31, 2011	Increase (Decrease)	
			\$	%
Current and other assets	\$ 390,385	\$ 374,349	\$ 16,036	4.28%
Restricted noncurrent assets	50,862	45,834	5,028	10.97%
Capital assets	4,652,732	5,022,525	(369,793)	-7.36%
Total assets	<u>5,093,979</u>	<u>5,442,708</u>	<u>(348,729)</u>	-6.41%
Long-term liabilities	543,195	730,266	(187,071)	-25.62%
Other liabilities	289,945	394,501	(104,556)	-26.50%
Total liabilities	<u>833,140</u>	<u>1,124,767</u>	<u>(291,627)</u>	-25.93%
Net investment in capital assets	3,923,711	4,113,374	(189,663)	-4.61%
Unrestricted	337,128	204,567	132,561	64.80%
Total net position	<u>\$ 4,260,839</u>	<u>\$ 4,317,941</u>	<u>\$ (57,102)</u>	-1.32%

The increase in current assets in 2013 was due to cash increasing significantly mainly due to an operating income of \$259,692. Total liabilities decreased during the current year due to current year debt payments.

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

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

	December 31, 2013	December 31, 2012	Increase (Decrease)	
			\$	%
Operating revenues	\$ 1,544,699	\$ 1,503,174	\$ 41,525	2.76%
Non-operating revenues	445	344	101	29.36%
Total revenues	<u>1,545,144</u>	<u>1,503,518</u>	<u>41,626</u>	2.77%
Costs of sales and services	163,711	170,057	(6,346)	-3.73%
Customer accounts expense	31,495	28,562	2,933	10.27%
Administrative and general expense:	521,475	545,883	(24,408)	-4.47%
Maintenance expense	249,373	285,908	(36,535)	-12.78%
Provision for depreciation	318,953	313,317	5,636	1.80%
Non-operating expenses	33,873	46,219	(12,346)	-26.71%
Total expenses	<u>1,318,880</u>	<u>1,389,946</u>	<u>(71,066)</u>	-5.11%
Contributed capital	<u>128,323</u>	<u>23,160</u>	<u>105,163</u>	454.07%
Change in net position	354,587	136,732	217,855	159.33%
Beginning net position	4,260,839	4,317,941	(57,102)	-1.32%
Prior period adjustment	-	(193,834)	193,834	0.00%
Beginning net position - restated	<u>4,260,839</u>	<u>4,124,107</u>	<u>136,732</u>	3.32%
Ending net position	<u>\$ 4,615,426</u>	<u>\$ 4,260,839</u>	<u>\$ 354,587</u>	8.32%

Table 2B

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	December 31, 2012	December 31, 2011	Increase (Decrease)	
			\$	%
Operating revenues	\$ 1,503,174	\$ 1,388,652	\$ 114,522	8.25%
Non-operating revenues	344	366	(22)	-6.01%
Total revenues	<u>1,503,518</u>	<u>1,389,018</u>	<u>114,500</u>	8.24%
Costs of sales and services	170,057	193,790	(23,733)	-12.25%
Customer accounts expense	28,562	37,218	(8,656)	-23.26%
Administrative and general expense:	545,883	500,213	45,670	9.13%
Maintenance expense	285,908	241,219	44,689	18.53%
Provision for depreciation	313,317	323,177	(9,860)	-3.05%
Non-operating expenses	46,219	60,457	(14,238)	-23.55%
Total expenses	<u>1,389,946</u>	<u>1,356,074</u>	<u>33,872</u>	2.50%
Contributed capital	<u>23,160</u>	<u>32,887</u>	<u>(9,727)</u>	-29.58%
Change in net position	136,732	65,831	70,901	107.70%
Beginning net position	4,317,941	4,252,110	65,831	1.55%
Prior period adjustment	(193,834)	-	(193,834)	0.00%
Beginning net position - restated	<u>4,124,107</u>	<u>4,252,110</u>	<u>(128,003)</u>	-3.01%
Ending net position	<u>\$ 4,260,839</u>	<u>\$ 4,317,941</u>	<u>\$ (57,102)</u>	-1.32%

Operating revenues showed 2.76% and 8.25% increases in 2013 to 2012, respectively. The significant increase in 2012 was a result of an increase in utility rates in the middle of 2011.

CAPITAL ASSETS AND DEBT ADMINISTRATION**Capital Assets**

At the end of fiscal year 2013 the system had \$4.68 million (net of accumulated depreciation) invested in a broad range of utility capital assets. This investment includes land, distribution systems and their related equipment, and various types of equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as land, utility plant in service, and construction in progress.

The following tables summarizes the District's capital assets, net of accumulated depreciation, and changes therein, for the years ended December 31, 2013 and 2012. These changes are presented in detail in Note 3E to the financial statements.

Table 3A

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	December 31, 2013	December 31, 2012	Increase (Decrease)	
			\$	%
Land	\$ 143,164	\$ 129,096	\$ 14,068	10.90%
Construction in progress	204,412	-	204,412	0.00%
Utility plant in service	9,811,298	9,698,242	113,056	1.17%
Accumulated depreciation	(5,479,559)	(5,174,606)	(304,953)	5.89%
Total capital assets	<u>\$ 4,679,315</u>	<u>\$ 4,652,732</u>	<u>\$ 26,583</u>	0.57%

Table 3B
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	December 31, 2012	December 31, 2011	Increase (Decrease)	
			\$	%
Land	\$ 129,096	\$ 129,096	\$ -	0.00%
Utility plant in service	9,698,242	9,948,927	(250,685)	-2.52%
Accumulated depreciation	(5,174,606)	(5,055,498)	(119,108)	2.36%
Total capital assets	<u>\$ 4,652,732</u>	<u>\$ 5,022,525</u>	<u>\$ (369,793)</u>	-7.36%

Debt Administration

The District has outstanding bonds and notes payable of \$541 and \$729 thousand as of December 31, 2013 and 2012, respectively. Principal payments are due in the upcoming fiscal year in the amount of \$136,883 with interest payments totaling \$22,707 also due. Details relating to the outstanding debt can be found in Note 3F. The District also has no current plans to issue new debt or refund outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The District will continue to function under the current operations. Management will do everything possible to keep the customer costs as low as possible and continue to maintain the District’s financial position. The District has no current plans to expand or increase costs to its customers.

CONTACTING THE AUTHORITY’S FINANCIAL MANAGEMENT

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

**NORTH MARSHALL WATER DISTRICT
STATEMENTS OF NET POSITION**

December 31, 2013

	2013	2012
ASSETS		
Current assets:		
Cash on hand	\$ 1,000	\$ 700
Cash in bank - unrestricted	227,841	123,196
Accounts receivable - customer (less allowance of \$36,759)	180,796	195,822
Other receivable	34,541	-
Inventory	34,672	50,671
Prepaid expenses	17,503	17,513
Total current assets	496,353	387,902
Noncurrent assets:		
Cash in bank - restricted	53,884	50,862
Total restricted cash accounts	53,884	50,862
Capital assets:		
Land	143,164	129,096
Construction in progress	204,412	-
Utility plant in service	9,811,298	9,698,242
Less: Provision for depreciation	(5,479,559)	(5,174,606)
Total capital assets	4,679,315	4,652,732
Total noncurrent assets	4,733,199	4,703,594
Other assets:		
Unamortized debt issuance costs	826	2,483
Total other assets	826	2,483
Total assets	5,230,378	5,093,979

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

NORTH MARSHALL WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2013

	2013	2012
LIABILITIES		
Current liabilities (payable from current assets):		
Accounts payable	4,766	36,740
Other accrued liabilities	12,631	13,368
Current portion of bonds and notes payable	136,883	188,471
Total Current liabilities (payable from current assets)	154,280	238,579
 Current liabilities (payable from restricted assets):		
Customer deposits	54,360	51,366
Total Current liabilities	208,640	289,945
 Noncurrent liabilities:		
Accrued vacation	2,645	2,645
Bonds payable	403,667	540,550
Total noncurrent liabilities	406,312	543,195
Total liabilities	614,952	833,140
 NET POSITION		
Net investment in capital assets	4,138,765	3,923,711
Unrestricted	476,661	337,128
Total net position	\$ 4,615,426	\$ 4,260,839

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

NORTH MARSHALL WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
December 31, 2013

	2013	2012
Operating revenues:		
Charges for sales and services	\$ 1,350,701	\$ 1,450,825
Other operating revenue	193,998	52,349
Total operating revenues	1,544,699	1,503,174
Operating expenses:		
Costs of sales and service	163,711	170,057
Maintenance	249,373	285,908
Customer accounts	31,495	28,562
Administrative and general expenses	521,475	545,883
Provision for depreciation	318,953	313,317
Total operating expenses	1,285,007	1,343,727
Operating income (loss)	259,692	159,447
Nonoperating revenues (expenses):		
Interest income	445	344
Interest expense	(32,216)	(44,562)
Provision for amortization	(1,657)	(1,657)
Total nonoperating revenues (expenses)	(33,428)	(45,875)
Income (loss) before contributed capital	226,264	113,572
Contributions from property owners	128,323	23,160
Change in net position	354,587	136,732
Net position - beginning	4,260,839	4,317,941
Prior period adjustment	-	(193,834)
Net position - beginning - restated	4,260,839	4,124,107
Net position - ending	\$ 4,615,426	\$ 4,260,839

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

**NORTH MARSHALL WATER DISTRICT
STATEMENTS OF CASH FLOWS**

December 31, 2013

	2013	2012
Cash flows from operating activities:		
Cash received from consumers	\$ 1,525,184	\$ 1,486,287
Cash paid to suppliers of goods and services	(600,382)	(666,855)
Cash paid to employees for services	(382,374)	(352,598)
Change in customer deposits	2,994	4,966
Net cash provided by (used in) operating activities	545,422	471,800
Cash flows from investing activities:		
Interest received from investments	445	344
Net cash provided by (used in) investing activities	445	344
Cash flows from capital and related financing activities:		
Payment on long-term debt	(188,471)	(180,130)
Payment on short-term debt	-	(125,478)
Construction and acquisition of plant	(345,536)	(138,198)
Loss on sale of assets	-	840
Contributed capital from grants and consumers	128,323	23,160
Interest and other non-operating expenses	(32,216)	(44,562)
Net cash provided by (used in) financing activities:	(437,900)	(464,368)
Increase (decrease) in cash and cash equivalents	107,967	7,776
Cash and cash equivalents - beginning	174,758	166,982
Cash and cash equivalents - ending	\$ 282,725	\$ 174,758
Cash and cash equivalents:		
Restricted cash in bank	\$ 53,884	\$ 50,862
Unrestricted cash on hand	1,000	700
Unrestricted cash in bank	227,841	123,196
Net cash and cash equivalents	\$ 282,725	\$ 174,758

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

NORTH MARSHALL WATER DISTRICT
STATEMENTS OF CASH FLOWS
December 31, 2013

	2013	2012
Reconciliation of operating income to net cash provided (used) by operating activities:		
Net operating income (loss)	\$ 259,692	\$ 159,447
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	318,953	313,317
(Increase) decrease in current assets:		
Accounts receivable	(19,515)	(16,887)
Inventory	15,999	-
Prepaid expenses	10	1,942
Increase (decrease) in current liabilities:		
Accounts payable	(31,974)	10,311
Other current liabilities	(737)	(2,693)
Accrued vacation	-	1,397
Customer deposits	2,994	4,966
Net cash provided by (used in) operating activities	\$ 545,422	\$ 471,800

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

**NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**
December 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

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

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

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

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

C. Assets, Liabilities, and Net Position

Deposits and Investments

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

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

Accounts Receivable

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

Inventories and Prepaid Items

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

Restricted Assets

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

Capital Assets

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

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

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

Accrued Vacation

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

**NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013**

Long-term Obligations

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Deferred outflows/inflows of resources

During the year ended December 31, 2012, the District adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. The objective of the statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until that time.

Net Position flow assumption

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

Net Position

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

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

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The fiscal year 2013 budget was approved unanimously at the December 2012 Board meeting. The budget is not legally adopted but only used as a management tool.

NOTE 3 – DETAILED NOTES

A. Deposits and Investments

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

Custodial Credit Risk

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

The District's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statute authorize the District to invest in obligations of the United States and its agencies and instrumentalities; bond or certificates of indebtedness of the Commonwealth of Kentucky and its agencies and municipalities; interest bearing deposit accounts in financial institutions chartered in the Commonwealth of Kentucky insured by an agency of the United States up to the amount thus insured and in larger amounts, provided such financial institutions pledge as security obligations of the United States having such value as may be satisfactory to the District. As of December 31, 2013, all bank deposits were fully covered by federal depository insurance.

B. Receivables

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

	2013	2012
Billed service for utility customers	\$ 217,555	\$ 232,581
Less: allowance for doubtful	(36,759)	(36,759)
Total	\$ 180,796	\$ 195,822

C. Restricted Assets

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

	2013	2012
Cash in bank - restricted	\$ 53,884	\$ 50,862

D. Net Position

Net Position represent the difference between assets, deferred outflows, liabilities, and deferred inflows. The restricted net asset amounts were as follows:

	2013	2012
Net investment in capital assets		
Net property, plant and equipment	\$ 4,679,315	\$ 4,652,732
Less: Debt as disclosed in Note 3F	(540,550)	(729,021)
	4,138,765	3,923,711
Unrestricted	476,661	337,128
Total net position	\$ 4,615,426	\$ 4,260,839

E. Capital Assets

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

Capital asset activity during the year was as follows:

Description	Balance at December 31, 2012	Additions	Disposals	Adjustments	Balance at December 31, 2013
Capital assets, not being depreciated					
Land	\$ 129,096	\$ 14,068	\$ -	\$ -	\$ 143,164
Construction in progress	-	204,412	-	-	204,412
Total capital assets not being depreciated	<u>129,096</u>	<u>218,480</u>	<u>-</u>	<u>-</u>	<u>347,576</u>
Capital assets, being depreciated					
Utility plant in service	<u>9,698,242</u>	<u>127,056</u>	<u>(14,000)</u>	<u>-</u>	<u>9,811,298</u>
Less accumulated depreciation for:					
Utility plant in service	<u>5,174,606</u>	<u>318,953</u>	<u>(14,000)</u>	<u>-</u>	<u>5,479,559</u>
Total capital assets, being depreciated, net	<u>4,523,636</u>	<u>(191,897)</u>	<u>-</u>	<u>-</u>	<u>4,331,739</u>
Total capital assets, net	<u>\$ 4,652,732</u>	<u>\$ 26,583</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,679,315</u>

Description	Balance at December 31, 2011	Additions	Disposals	Adjustments	Balance at December 31, 2012
Capital assets, not being depreciated					
Land	\$ 129,096	\$ -	\$ -	\$ -	\$ 129,096
Total capital assets not being depreciated	<u>129,096</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>129,096</u>
Capital assets, being depreciated					
Utility plant in service	<u>9,948,927</u>	<u>138,198</u>	<u>(49,597)</u>	<u>(339,286)</u>	<u>9,698,242</u>
Less accumulated depreciation for:					
Utility plant in service	<u>5,055,498</u>	<u>313,317</u>	<u>(48,757)</u>	<u>(145,452)</u>	<u>5,174,606</u>
Total capital assets, being depreciated, net	<u>4,893,429</u>	<u>(175,119)</u>	<u>(840)</u>	<u>(193,834)</u>	<u>4,523,636</u>
Total capital assets, net	<u>\$ 5,022,525</u>	<u>\$ (175,119)</u>	<u>\$ (840)</u>	<u>\$ (193,834)</u>	<u>\$ 4,652,732</u>

Depreciation expense amounted to \$318,953 and \$313,317 for the fiscal years ended December 31, 2013 and 2012, respectively.

F. Long-term Debt

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

- (1) Kentucky Infrastructure Authority (KIA), which payable monthly at interest rates graduated from 2.25% to 5.29%. The balance of the loan at December 31, 2013 is \$57,500.
- (2) First Kentucky Bank, which is payable monthly at \$8,254 (including principal and interest) at an interest rate of 4.34%. The balance of the loan at December 31, 2013 was \$483,050.

The following is a summary of long-term debt transactions for the year ended December 31, 2013.

**NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013**

	Balance 12/31/12	Issued	Retired	Balance 12/31/13	Due Within One Year
KIA Loan	170,000	-	112,500	57,500	57,500
First KY Bank	559,021	-	75,971	483,050	79,383
Total Long-Term Liabilities	\$ 729,021	\$ -	\$ 188,471	\$ 540,550	\$ 136,883

The scheduled annual requirements for long-term debt at December 31, 2013, including interest of \$64,755 is as follows:

Year Ended 12/31/2013	Total Principal	Total Interest	Total
2014	\$ 136,883	\$ 22,707	\$ 159,590
2015	82,947	16,100	99,047
2016	86,633	12,414	99,047
2017	90,561	8,486	99,047
2018	94,628	4,420	99,048
2019	48,898	628	49,526
	<u>\$ 540,550</u>	<u>\$ 64,755</u>	<u>\$ 605,305</u>

NOTE 4 – OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During the year ended December 31, 2013, the District purchased commercial insurance for all of the above risks. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in the amount of coverage provided.

B. Retirement Plan

The District's employees participate in the County Employees Retirement System (CERS) which is a cost-sharing, multiple-employer defined benefit public employee retirement system administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. The CERS provides for retirement, disability and death benefits to plan members and beneficiaries. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the CERS. That report may be obtained by writing to the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124.

Plan members are required to contribute 5% of creditable compensation and the District is required to contribute at an actuarially determined rate, which was 16.93% until July, 2011, at which time the

NORTH MARSHALL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

rate was increased to 18.96%. Employees hired on or after September 1, 2008 pay an additional 1% of their salary to the medical insurance fund.

The contribution requirements of plan members and the District are established and may be amended by the CERS Board of Trustees. The District's contributions to the CERS for the year ended December 31, 2013 was \$66,464, equal to the required contributions for the year.

C. Prior Period Adjustment

During 2012, a prior period adjustment was made by the District. The restatement was made in order to adjust capital assets to actual at year-end. The client reviewed the listing of capital assets during the year and discovered that there were assets on the listing that were no longer in the use of the District. After adjusting off the asset and the accumulated depreciation, the net effect was a decrease in net position of \$193,834.

OTHER SUPPLEMENTARY INFORMATION SECTION

NORTH MARSHALL WATER DISTRICT
SCHEDULES OF OPERATING INCOME AND EXPENSES
December 31, 2013

	2013	2012
Operating revenues:		
Gross water sales	\$ 1,359,132	\$ 1,462,315
Less: Bad debt expense	-	(7,594)
Less: leak adjustments	(8,431)	(3,896)
Net water sales	1,350,701	1,450,825
 Fees:		
Connect and reconnect fees	23,787	23,512
Other water revenues	170,211	28,837
	193,998	52,349
 Total operating revenues	\$ 1,544,699	\$ 1,503,174
Operating expenses:		
Cost of sales and services		
Purchased power	\$ 122,639	\$ 134,960
Salaries and wages	4,725	5,677
Treatment chemicals	28,156	18,534
Contractual services	8,191	10,886
	163,711	170,057
 Maintenance:		
Salaries and wages	167,509	174,921
Materials and supplies	58,586	45,280
Contractual services	23,278	65,707
	249,373	285,908
 Customer accounts expense:		
Meter reading	12,215	9,838
Accounting and collection	19,280	18,724
	31,495	28,562

See independent auditor's report.

NORTH MARSHALL WATER DISTRICT
SCHEDULES OF OPERATING INCOME AND EXPENSES
December 31, 2013

	<u>2013</u>	<u>2012</u>
Administrative and general expenses		
Salaries and wages	215,177	197,674
Employee benefits and payroll taxes	100,733	92,873
Employee pensions	66,464	60,654
Office supplies	31,272	23,331
Office and shop utilities	2,533	2,589
Insurance	35,739	38,764
Advertising	696	573
Professional fees	23,163	64,275
Educational and training	10,879	7,633
Transportation	11,928	33,853
Uniforms	3,056	4,180
Office phones	8,393	9,839
Rental	1,200	2,700
Miscellaneous	10,242	6,945
	<u>521,475</u>	<u>545,883</u>
Provision for depreciation	<u>318,953</u>	<u>313,317</u>
Total operating expense	<u>\$ 1,285,007</u>	<u>\$ 1,343,727</u>

See independent auditor's report

**NORTH MARSHALL WATER DISTRICT
SCHEDULE OF LONG-TERM DEBT**

December 31, 2013

Year Ended November 30,	KIA Loan		First KY Bank		Total	Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2014	\$ 57,500	\$ 3,042	\$ 79,383	\$ 19,665	\$ 136,883	\$ 22,707	\$ 159,590
2015	-	-	82,947	16,100	82,947	16,100	99,047
2016	-	-	86,633	12,414	86,633	12,414	99,047
2017	-	-	90,561	8,486	90,561	8,486	99,047
2018	-	-	94,628	4,420	94,628	4,420	99,048
2019	-	-	48,898	628	48,898	628	49,526
	<u>\$ 57,500</u>	<u>\$ 3,042</u>	<u>\$ 483,050</u>	<u>\$ 61,713</u>	<u>\$ 540,550</u>	<u>\$ 64,755</u>	<u>\$ 605,305</u>

See independent auditor's report.

NORTH MARSHALL WATER DISTRICT
WATER RATES IN FORCE
December 31, 2013

Water

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

Residential Rate Schedule	Base	
Residential 5/8"		\$12.94
Residential 1"		\$20.44
Residential 1 1/2"		\$32.95
Residential 2"		\$47.99
Residential 3"		\$83.03
Commercial Rate Schedule		
Commerical 5/8"		\$12.94
Commercial 1"		\$20.44
Commercial 1 1/2"		\$32.95
Commercial 2"		\$47.99
Commercial 3"		\$83.03
Commercial 4"		\$133.12
Commercial 6"		\$258.30
4" Two-Meters		\$266.24
Reidland 4"		\$133.12

Sewer

\$2.64 per every 1,000 gallons of sewer plus a base charge of \$60 dollars

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Board of Commissioners
North Marshall Water District
Benton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Marshall Water District (the District) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated March 5, 2014.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Jackson, Tennessee
March 5, 2014

**NORTH MARSHALL WATER DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
December 31, 2013**

Current Year Findings

None reported.

Prior Year Findings

11-4 Processing of Work Orders (Significant Deficiency) (Corrected)