

**Monroe County Water District**

**Financial Statements**

**December 31, 2014 and 2013**



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## INDEPENDENT AUDITOR'S REPORT

Monroe County Water District  
Tompkinsville, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Monroe County Water District as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

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

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

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

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Monroe County Water District, as of December 31, 2014 and 2013, and the respective changes in financial position, and cash flows thereof for the years then

ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Monroe County Water District's basic financial statements. The supplemental information is presented for additional analysis and is not a required part of the basic financial statements.

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2015 on our consideration of the Monroe County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Monroe County Water District's internal control over financial reporting and compliance.

*Campbell, Myers & Rutledge, PLLC*

Certified Public Accountants  
Glasgow, Kentucky

February 23, 2015

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

### **Financial Highlights**

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

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

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

### **Overview of the Financial Statements**

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

### **Required Financial Statements**

The financial statements of Monroe County Water District report information of Monroe County Water District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of Monroe County Water District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Monroe County Water District creditors (liabilities). It also provides the basis for evaluation of the capital structure of Monroe County Water District and assessing the liquidity and financial flexibility of Monroe County Water District.

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

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

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

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

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

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

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

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

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

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

Capital Asset Changes

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

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

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

### **Budgetary Highlights**

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

### **Debt Administration**

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

### **Request for Information**

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

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

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

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

**Liabilities**

**Current Liabilities**

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

**Liabilities Payable from Restricted Assets**

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

**Long-term Liabilities**

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

Total Liabilities	2,905,012	2,966,248
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**Net Position**

**Net Position**

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

<b>Total Net Position</b>	<b>\$ 8,369,984</b>	<b>\$ 8,398,552</b>
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**MONROE COUNTY WATER DISTRICT**  
**Statements of Revenues, Expenses and Change in Net Position**  
**For the Years Ended December 31, 2014 and 2013**

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

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

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

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

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

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

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

Organization

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

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

Measurement Focus and Basis of Accounting

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

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

Financial Statement Presentation

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

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

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

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

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

These classifications are defined as follows:

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

Use of Restricted Funds

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

Receivables

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

Capital Assets

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

The estimated useful lives of capital assets are as follows:

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

Cash and Investments

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

Long-Term Obligations

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

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

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

Operating Revenues and Expenses

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

Capital Contributions

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

Income Taxes

The District is exempt from federal and state income taxes.

Extraordinary and Special Items

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

Bond and Interest Redemption Fund

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

Inventory

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

Use of Estimates

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

Compensated Absences

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

Depreciation Fund

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

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

**Note 2 – Capital Assets**

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

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

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

**Note 3 – Long-Term Debt**

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

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

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

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

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

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

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

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

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

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

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

Arbitrage

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

**Note 4 – Cash and Investments**

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

**Note 5 – Pension Plan**

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

**Note 6 – Commitments**

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

**Note 7- Subsequent Events**

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

## **Supplemental Information**

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

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



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Monroe County Water District  
Tompkinsville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements Monroe County Water District, as of and for the years ended December 31, 2014 and 2013 and the related notes to the financial statements, which collectively comprise Monroe County Water District's basic financial statements, and have issued our report thereon dated February 23, 2015.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Campbell, Myers & Rutledge, PLLC*

Certified Public Accountants  
Glasgow, Kentucky

February 23, 2015

