

Monroe County Water District
Financial Statements
December 31, 2019 and 2018

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 6
Statements of Net Position	7 - 8
Statements of Revenues, Expenses and Change in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11 - 17
Supplemental Information	
Statement of Revenues, Expenses and Change in Net Position – Budget and Actual	18
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 <i>Government Auditing Standards</i>	19 – 20



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INDEPENDENT AUDITOR'S REPORT

Monroe County Water District
Tompkinsville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Monroe County Water District, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Monroe County Water District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of the Monroe County Water District, as of December 31, 2019, and 2018, and the respective changes in financial position, and, where applicable, 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 the Monroe County Water District's basic financial statements. The budgetary comparison information, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison information is the responsibility of management and was derived from and relate 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 budgetary comparison information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2020 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 the Monroe County Water District's internal control over financial reporting and compliance.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

March 17, 2020

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, 2019 and 2018. 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, 2019, total operating and non-operating revenues (including capital contributions) totaled \$2,361,163. This represents a 4% increase in revenues from the prior year. This change was primarily due to an increase in grant revenues.

Total operating and non-operating expenses amounted to \$2,435,300 an increase of \$61,073 from the prior year. This increase was primarily the result of an increase in depreciation expense on the water treatment plant.

Total assets decreased by \$457,428 and total liabilities decreased by \$383,291. These changes resulted in a decrease in net position of \$74,137.

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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Assets		
Total Current Assets	\$ 1,902,944	\$ 1,745,708
Total Restricted Assets	569,979	534,448
Net Capital Assets	<u>25,036,830</u>	<u>25,687,024</u>
Total Assets	<u>27,509,753</u>	<u>27,967,180</u>
Liabilities		
Total Current Liabilities	252,254	426,532
Total Liabilities Payable from Restricted Assets	547,148	165,700
Total Long-term Liabilities	<u>14,163,655</u>	<u>14,754,116</u>
Total Liabilities	<u>14,963,057</u>	<u>15,346,348</u>
Net Position		
Invested in capital assets, net of related debt	10,367,653	10,810,406
Restricted for equipment replacement	360,427	357,572
Restricted for debt retirement	167,926	133,678
Unrestricted	<u>1,650,690</u>	<u>1,319,176</u>
Total Net Position	<u>\$ 12,546,696</u>	<u>\$ 12,620,832</u>

The largest portion (83%) 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 a 10% decrease from the prior year.

Restricted net position (4%) represent resources that are subject to external restrictions on how they may be used.

The balance (13%) 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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Total operating revenues	\$ 2,221,183	\$ 2,206,358
Total operating expenses	<u>2,234,472</u>	<u>2,221,910</u>
Operating Income	(13,289)	(15,552)
Total non-operating revenue (expenses)	<u>(166,339)</u>	<u>(120,932)</u>
Income before capital contributions	(179,628)	(136,484)
Capital contributions	<u>105,491</u>	<u>28,040</u>
Increase (decrease) in net position	(74,137)	(108,444)
Net position, beginning of year	<u>12,620,833</u>	<u>12,729,277</u>
Net position, end of year	<u>\$ 12,546,696</u>	<u>\$ 12,620,833</u>

Net position decreased by \$74,137 from the prior year.

Capital Asset Changes

At December 31, 2019, the District had invested \$25,036,830 in capital assets net of accumulated depreciation. This amount represents a net decrease of \$650,194 from the previous year. This decrease is the result of having more depreciation expense than capital asset additions in the current year.

The Monroe County Water District completed projects during 2019, including 7,000 feet of water line extensions and the relocation of water lines for the East Tompkinsville By-Pass KY 163 South Approach project funded by the Kentucky Department of Transportation. There were 25 new water connections set for service during the year of 2019. The Monroe County Water District has a very active meter testing program, having tested 207 meters during 2019.

The past year has been a transition for Monroe County Water District, adjusting from being a purchasing system to a producing system. We are proud to have a full year of operations at the 2MGD water treatment plant facility. In September 2019, the District attended the Kentucky Rural Water Association's 40th annual conference and was selected as a top ten finalist for the "Wooden Bucket Award" and received second place in the "Best Tasting Water Contest". An inventory program was implemented to assist in tracking all materials for maintenance and treatment. Management and staff have focused greatly on conservative measures in all departments and are satisfied with the results of working together. Monroe County Water District is proud to have added another certified treatment operator which has decreased overtime hours greatly in 2019. The GPS program has been a slow process, but we look forward to seeing more production in 2020. The District has an alternative rate case on file with Kentucky Public Service Commission which should be implemented in 2020 and we are working diligently on a new wholesale rate.

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 budgetary comparison and analysis is presented on page 18 of this report.

Debt Administration

At December 31, 2019, the District had \$14,669,177 long term debt outstanding, a decrease of \$207,441 from the prior year's balance of \$14,876,618. The District incurred \$199,364 in interest expense associated with long term debt, an increase of \$48,549 from prior year.

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, 2019 and 2018

Assets	<u>2019</u>	<u>2018</u>
Current Assets		
Cash	\$ 1,522,192	\$ 1,385,312
Accounts receivable	272,458	251,877
Inventory	108,294	108,519
Total Current Assets	<u>1,902,944</u>	<u>1,745,708</u>
Non-current Assets		
Restricted Assets		
Cash - Depreciation fund	360,427	357,572
Cash - Bond and interest redemption fund	<u>209,552</u>	<u>176,876</u>
Total Restricted Assets	<u>569,979</u>	<u>534,448</u>
Capital Assets		
Land and land rights	249,842	249,842
Utility plant in service	30,523,232	30,408,387
Furniture and equipment	1,223,761	1,208,054
Accumulated depreciation and amortization	<u>(6,960,005)</u>	<u>(6,179,259)</u>
Net Capital Assets	<u>25,036,830</u>	<u>25,687,024</u>
Total Non-current Assets	<u>25,606,809</u>	<u>26,221,472</u>
 Total Assets	 <u>\$ 27,509,753</u>	 <u>\$ 27,967,180</u>

MONROE COUNTY WATER DISTRICT
Statements of Net Position, Concluded
December 31, 2019 and 2018

Liabilities	<u>2019</u>	<u>2018</u>
Current Liabilities		
Accounts payable	\$ 52,582	\$ 59,710
Construction accounts payable	-	163,279
Customer deposits	65,084	62,356
Accrued liabilities	<u>134,588</u>	<u>141,187</u>
Total Current Liabilities	<u>252,254</u>	<u>426,532</u>
Liabilities Payable from Restricted Assets		
Current maturities of long-term debt	505,522	122,502
Accrued interest	<u>41,626</u>	<u>43,198</u>
Total Liabilities Payable from Restricted Assets	<u>547,148</u>	<u>165,700</u>
Long-term Liabilities		
Bonds, noncurrent portion, net of discount	1,964,833	2,084,831
KIA loan	<u>12,198,822</u>	<u>12,669,285</u>
Total Long-term Liabilities	<u>14,163,655</u>	<u>14,754,116</u>
Total Liabilities	<u>14,963,057</u>	<u>15,346,348</u>
Net Position		
Net Position		
Invested in capital assets, net of related debt	10,367,653	10,810,406
Restricted for equipment replacement	360,427	357,572
Restricted for debt retirement	167,926	133,678
Unrestricted	<u>1,650,690</u>	<u>1,319,176</u>
Total Net Position	<u>\$ 12,546,696</u>	<u>\$ 12,620,832</u>

MONROE COUNTY WATER DISTRICT
Statements of Revenues, Expenses and Change in Net Position
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Residential water sales	\$ 2,040,332	\$ 2,027,884
Commerical water sales	95,890	84,092
Penalty collections	30,224	29,548
Miscellaneous	54,737	64,834
Total operating revenues	<u>2,221,183</u>	<u>2,206,358</u>
Operating expenses:		
Water purchases	-	271,531
Employees' salaries and wages	545,537	518,042
Employees' pensions and benefits	175,152	182,114
Utilities	197,844	141,240
Repairs and maintenance	72,694	66,324
Chemicals	128,637	91,525
Water analysis fees	28,132	12,694
Meter readers	44,092	47,567
Office expense	65,484	72,134
Transportation expenses	18,202	21,854
Insurance	53,315	62,808
Commissioners' fees	6,000	6,000
Payroll tax expense	43,131	41,226
Telephone	15,309	11,776
Depreciation	785,146	611,104
PSC tax assessment	4,316	3,839
Meter deposit interest expense	461	405
Bad debt expense	4,182	7,818
Professional fees	18,275	27,905
Miscellaneous	28,563	24,004
Total operating expenses	<u>2,234,472</u>	<u>2,221,910</u>
Operating income	<u>(13,289)</u>	<u>(15,552)</u>
Non-operating revenue (expenses):		
Rental income	20,160	20,160
Interest income	14,329	11,225
Amortization of bond discount	(1,464)	(1,502)
Interest expense on bonds	(199,364)	(150,815)
Total non-operating revenue (expenses)	<u>(166,339)</u>	<u>(120,932)</u>
Income/(loss) before capital contributions	<u>(179,628)</u>	<u>(136,484)</u>
Capital contributions:		
Grant proceeds	77,111	2,000
Tap fees	28,380	26,040
Total capital contributions	<u>105,491</u>	<u>28,040</u>
Change in net position	(74,137)	(108,444)
Net position:		
Beginning of year	<u>12,620,833</u>	<u>12,729,277</u>
End of year	<u>\$ 12,546,696</u>	<u>\$ 12,620,833</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash receipts from customers	\$ 2,203,330	\$ 2,212,511
Cash payments to suppliers for goods and services	(729,540)	(1,033,023)
Cash payments to employees for services	(733,288)	(735,017)
Net cash provided (used) by operating activities	<u>740,502</u>	<u>444,471</u>
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(311,208)	(5,500)
Interest paid on long-term debt	(200,936)	(112,522)
Additions to capital assets	(298,231)	(2,458,272)
Proceeds from issuance of debt	102,303	2,340,815
Capital contributions	105,491	100,029
Net cash provided (used) in financing activities	<u>(602,581)</u>	<u>(135,450)</u>
Cash flows from investing activities:		
Rental income	20,160	20,160
Interest income	14,329	11,225
Net cash provided by (used) in investing activities	<u>34,489</u>	<u>31,385</u>
Net increase (decrease) in cash and cash equivalents	172,410	340,406
Cash and cash equivalents, beginning of year	<u>1,919,761</u>	<u>1,579,355</u>
Cash and cash equivalents, end of year	<u>\$ 2,092,171</u>	<u>\$ 1,919,761</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ (13,289)	\$ (15,552)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	785,146	611,104
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(20,581)	4,395
(Increase) decrease in inventory	225	4,343
Increase (decrease) in accounts payable	(7,128)	(132,716)
Increase (decrease) in customer deposits	2,728	1,758
Increase (decrease) in accrued expenses	(6,599)	(28,861)
Net cash provided (used) by operating activities	<u>\$ 740,502</u>	<u>\$ 444,471</u>

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

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2019 and 2018

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).

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.

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2019 and 2018

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.”

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, 2019 and 2018. 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 years ending December 31, 2019 and 2018 was \$785,146 and \$611,104, respectively.

The estimated useful lives of capital assets are as follows:

Transmission and Distribution	62.5 years
Distribution Reservoirs	45 years
Meter Installs and Services	40 years
Structures and Improvements	38 years
Pumping Equipment	20 years
Vehicles and Equipment	10 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, 2019 and 2018

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 years ending December 31, 2019 and 2018, the District had complied with this requirement.

Inventory

Inventory is valued at the lower of cost or net realizable value 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.

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2019 and 2018

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

Depreciation Fund

The ordinances authorizing the various debt issues of the District require monthly transfers into a depreciation fund until the maximum requirement of \$709,520 is reached. These funds can be used for capital improvements, expansions and extraordinary repairs. For the years ended December 31, 2019 and 2018, the District had complied with this requirement.

Note 2 – Capital Assets

Capital asset activity for the years ended December 31, 2019 and 2018, was as follows:

	Balance 01/01/19	Additions	Deletions	Balance 12/31/19
<i><u>Capital Assets not being depreciated</u></i>				
Land and Rights	\$ 249,842	\$ -	\$ -	\$ 249,842
Total Non-Depreciable Capital Assets	<u>249,842</u>	<u>-</u>	<u>-</u>	<u>249,842</u>
<i><u>Capital Assets being depreciated</u></i>				
Structures and Improvements	427,778	-	-	427,778
Pumping Equipment	530,863	-	-	530,863
Distribution Reservoirs	3,427,587	-	-	3,427,587
Transmission and Distribution Mains	12,822,572	89,986	-	12,912,558
Services	120,774	-	-	120,774
Meters and Installations	1,074,121	29,259	(4,400)	1,098,980
Other Plant	32,370	-	-	32,370
Furniture and Equipment	98,768	-	-	98,768
Transportation Equipment	215,087	6,800	-	221,887
Power Operated Equipment	330,966	8,907	-	339,873
Source of Supply-Structures	469,428	-	-	469,428
Source of Supply-Intakes	1,721,484	-	-	1,721,484
Pumping Plant-Structures	442,646	-	-	442,646
Pumping Plant-Equipment	2,520,447	-	-	2,520,447
Water Treatment Plant-Structures	2,730,981	-	-	2,730,981
Water Treatment Plant-Equipment	4,650,569	-	-	4,650,569
Total Depreciable Capital Assets	<u>31,616,441</u>	<u>134,952</u>	<u>(4,400)</u>	<u>31,746,993</u>
Less: Accumulated Depreciation and Amortization	<u>6,179,259</u>	<u>785,146</u>	<u>(4,400)</u>	<u>6,960,005</u>
Total Net Capital Assets	<u>\$ 25,687,024</u>			<u>\$ 25,036,830</u>

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2019 and 2018

Note 2 – Capital Assets, Concluded

	Balance 01/01/18	Additions	Deletions	Balance 12/31/18
<i><u>Capital Assets not being depreciated</u></i>				
Land and Rights	\$ 249,842	\$ -	\$ -	\$ 249,842
Construction In Progress	15,580,007	1,629,843	(17,209,850)	-
Total Non-Depreciable Capital Assets	<u>15,829,849</u>	<u>1,629,843</u>	<u>(17,209,850)</u>	<u>249,842</u>
<i><u>Capital Assets being depreciated</u></i>				
Structures and Improvements	427,778	-	-	427,778
Pumping Equipment	526,766	4,097	-	530,863
Distribution Reservoirs	2,367,594	1,059,993	-	3,427,587
Transmission and Distribution Mains	9,203,619	3,618,953	-	12,822,572
Services	120,774	-	-	120,774
Meters and Installations	1,035,934	38,187	-	1,074,121
Other Plant	32,370	-	-	32,370
Furniture and Equipment	98,768	-	-	98,768
Transportation Equipment	215,087	-	-	215,087
Power Operated Equipment	330,966	-	-	330,966
Source of Supply-Structures	-	469,428	-	469,428
Source of Supply-Intakes	-	1,721,484	-	1,721,484
Pumping Plant-Structures	-	442,646	-	442,646
Pumping Plant-Equipment	-	2,520,447	-	2,520,447
Water Treatment Plant-Structures	-	2,730,981	-	2,730,981
Water Treatment Plant-Equipment	-	4,650,569	-	4,650,569
Total Depreciable Capital Assets	<u>14,359,656</u>	<u>17,256,785</u>	<u>-</u>	<u>31,616,441</u>
Less: Accumulated Depreciation and Amortization	<u>5,568,155</u>	<u>611,104</u>	<u>-</u>	<u>6,179,259</u>
Total Net Capital Assets	<u>\$ 24,621,350</u>			<u>\$ 25,687,024</u>

Note 3 – Long-Term Debt

Long-term debt consists of the following at December 31, 2019 and 2018:

Bonds payable:	<u>2019</u>	<u>2018</u>
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.	\$ 195,000	\$ 201,000
Series 2017 Water Revenue Bonds issued through KACo in the amount of \$2,170,000; due in annual installments on January 1 ranging from \$130,000 to \$20,000 through January 2042; interest rate of 3.37% due semi-annually on January 1 and July 1.	<u>1,925,000</u>	<u>2,040,000</u>
Total bonds payable	<u>\$ 2,120,000</u>	<u>\$ 2,241,000</u>

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2019 and 2018

Note 3 – Long-Term Debt, Continued

Loan Payable, Kentucky Infrastructure Authority:

A loan in the amount of \$15,675,679 was approved for construction of the regional water treatment plant and system improvements. During construction, \$2,904,091 of the loan was forgiven. Principal payments ranging from \$190,207 to \$237,211 are due semi-annually through year 2049 along with interest of 1% due June 1 and December 1

	<u>\$ 12,581,380</u>	<u>\$ 12,669,285</u>
Total loans payable	<u>\$ 12,581,380</u>	<u>\$ 12,669,285</u>

Long-term debt activities for the years ended December 31, 2019 and 2018 are as follows:

	Balance 01/01/19	Additions	Debt Payments and Reductions	Balance 12/31/19	Amount Due within One Year
Bond Series 1999	\$ 201,000	\$ -	\$ (6,000)	\$ 195,000	\$ 6,500
Bond Series 2017	2,040,000	-	(115,000)	1,925,000	115,000
KIA Loan	<u>12,669,285</u>	<u>102,303</u>	<u>(190,208)</u>	<u>12,581,380</u>	<u>382,558</u>
	14,910,285	102,303	(311,208)	14,701,380	504,058
Bond discount	<u>(33,667)</u>	-	1,464	<u>(32,203)</u>	1,464
Debt, net of discount	<u>\$ 14,876,618</u>	<u>\$ 102,303</u>	<u>\$ (309,744)</u>	<u>\$ 14,669,177</u>	<u>\$ 505,522</u>

	Balance 01/01/18	Additions	Debt Payments and Reductions	Balance 12/31/18	Amount Due within One Year
Bond Series 1999	\$ 206,500	\$ -	\$ (5,500)	\$ 201,000	\$ 6,000
Bond Series 2017	2,040,000	-	-	2,040,000	115,000
KIA Loan	<u>10,328,470</u>	<u>2,340,815</u>	-	<u>12,669,285</u>	-
	12,574,970	2,340,815	(5,500)	14,910,285	121,000
Bond discount	<u>(35,169)</u>	-	1,502	<u>(33,667)</u>	1,502
Debt, net of discount	<u>\$ 12,539,801</u>	<u>\$ 2,340,815</u>	<u>\$ (3,998)</u>	<u>\$ 14,876,618</u>	<u>\$ 122,502</u>

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

	Principal	Interest	Total
2020	\$ 504,058	\$ 195,423	\$ 699,481
2021	511,932	188,645	700,577
2022	520,328	181,088	701,416
2023	523,746	172,789	696,535
2024	531,686	164,376	696,062
2025-2029	2,731,307	690,155	3,421,462
2030-2034	2,545,188	481,175	3,026,363
2035-2039	2,414,501	313,845	2,728,346
2040-2044	2,315,359	172,448	2,487,807
2045-2049	<u>2,103,275</u>	<u>52,844</u>	<u>2,156,119</u>
	<u>\$ 14,701,380</u>	<u>\$ 2,612,788</u>	<u>\$ 17,314,168</u>

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2019 and 2018

Note 3 – Long-Term Debt, Concluded

Capitalization of Interest:

Interest costs incurred during construction are capitalized, net of interest income from proceeds of tax-exempt debt as part of the cost of the related assets of the District. Interest capitalized for the years ended December 31, 2019 and 2018, was \$0 and \$41,224, respectively.

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, 2019 does not expect to incur a liability.

Note 4 – Cash and Investments

The carrying amount of the District's cash deposits was \$2,092,171 and \$1,919,761 for the years ending December 31, 2019 and 2018, respectively and the bank balances were \$2,106,903 and \$1,923,668. 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 \$150,000 for 2019 and 2018 that matured annually. All were with the same financial institution at rates between .79% and 1.76% for the years ending December 31, 2019 and 2018. All of the District's deposits were either insured by FDIC or by collateral pledged by the financial institution.

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, 2019 and 2018, employer contributions were \$43,340 and \$41,910 respectively and employee contributions were \$21,670 and \$21,064, respectively. Voluntary contributions were \$2,290 in 2019 and \$4,250 in 2018. Covered payroll was approximately \$542,000 and \$524,000 for years 2019 and 2018, respectively.

Note 6- Subsequent Events

Management has evaluated subsequent events through March 17, 2020, the date which the financial statements were available to be issued. The District has an alternative rate case on file with Kentucky Public Service Commission for a rate increase which should be implemented in 2020.

Supplemental Information

MONROE COUNTY WATER DISTRICT
Statement of Revenues, Expenses and Change in Net Position- Budget and Actual
For the Year Ended December 31, 2019

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating revenues:			
Water sales	\$ 2,259,000	\$ 2,136,222	\$ (122,778)
Penalties and other	<u>63,000</u>	<u>84,961</u>	<u>21,961</u>
Total operating revenues	<u>2,322,000</u>	<u>2,221,183</u>	<u>(100,817)</u>
Operating expenses:			
Salaries and benefits	665,500	769,820	(104,320)
Materials	410,000	229,463	180,537
Contractual	72,500	44,092	28,408
Insurance	95,000	53,315	41,685
Utilities	164,000	213,153	(49,153)
Depreciation	750,000	785,146	(35,146)
Other	<u>132,000</u>	<u>139,483</u>	<u>(7,483)</u>
Total operating expenses	<u>2,289,000</u>	<u>2,234,472</u>	<u>54,528</u>
Operating income	<u>33,000</u>	<u>(13,289)</u>	<u>(46,289)</u>
Non-operating revenue (expenses):			
Interest income and other	11,000	12,865	1,865
Rental income	-	20,160	20,160
Interest expense on bonds	<u>(150,000)</u>	<u>(199,364)</u>	<u>(49,364)</u>
Total non-operating revenue (expenses)	<u>(139,000)</u>	<u>(166,339)</u>	<u>(27,339)</u>
Income before capital contributions	<u>(106,000)</u>	<u>(179,628)</u>	<u>(73,628)</u>
Capital contributions			
Grant proceeds	80,000	77,111	(2,889)
Tap fees	<u>-</u>	<u>28,380</u>	<u>28,380</u>
Total capital contributions	<u>80,000</u>	<u>105,491</u>	<u>25,491</u>
Increase/(Decrease) in net position	<u>\$ (26,000)</u>	<u>\$ (74,137)</u>	<u>\$ (48,137)</u>



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

Monroe County Water District
Tompkinsville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, of the Monroe County Water District, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Monroe County Water District's basic financial statements, and have issued our report thereon dated March 17, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Monroe County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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

Glasgow, Kentucky

March 17, 2020

