

Monroe County Water District
Financial Statements
December 31, 2020 and 2019

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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, 2020 and 2019, 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, 2020, and 2019, 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 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 23, 2021 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 23, 2021

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, 2020 and 2019. 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, 2020, total operating and non-operating revenues (including capital contributions) totaled \$2,524,610. This represents a 11% increase in revenues from the prior year. This change was primarily due to an increase in residential water sales.

Total operating and non-operating expenses amounted to \$2,413,430 a decrease of \$21,870 from the prior year. This decrease was primarily the result of a decrease in employees' salaries and wages.

Total assets decreased by \$402,298 and total liabilities decreased by \$513,478. These changes resulted in an increase in net position of \$111,180.

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, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Assets		
Total Current Assets	\$ 2,198,198	\$ 1,902,944
Total Restricted Assets	575,633	569,979
Net Capital Assets	<u>24,333,624</u>	<u>25,036,830</u>
Total Assets	<u>27,107,455</u>	<u>27,509,753</u>
Liabilities		
Total Current Liabilities	236,170	252,254
Total Liabilities Payable from Restricted Assets	560,223	547,148
Total Long-term Liabilities	<u>13,653,186</u>	<u>14,163,655</u>
Total Liabilities	<u>14,449,579</u>	<u>14,963,057</u>
Net Position		
Invested in capital assets, net of related debt	10,167,042	10,367,653
Restricted for equipment replacement	362,082	360,427
Restricted for debt retirement	166,724	167,926
Unrestricted	<u>1,962,028</u>	<u>1,650,690</u>
Total Net Position	<u>\$ 12,657,876</u>	<u>\$ 12,546,696</u>

The largest portion (80%) of the District's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding.

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

The balance (16%) 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, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Total operating revenues	\$ 2,418,642	\$ 2,221,183
Total operating expenses	<u>2,211,342</u>	<u>2,234,472</u>
Operating Income	207,300	(13,289)
Total non-operating revenue (expenses)	<u>(162,940)</u>	<u>(166,339)</u>
Income before capital contributions	44,360	(179,628)
Capital contributions	<u>66,820</u>	<u>105,491</u>
Increase (decrease) in net position	111,180	(74,137)
Net position, beginning of year	<u>12,546,696</u>	<u>12,620,833</u>
Net position, end of year	<u>\$ 12,657,876</u>	<u>\$ 12,546,696</u>

Net position increased by \$111,180 from the prior year.

Capital Asset Changes

At December 31, 2020, the District had invested \$24,333,624 in capital assets net of accumulated depreciation. This amount represents a net decrease of \$703,206 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 2020, including 8,700 feet of water line extensions. There were 45 new water connections set for service during the year of 2020. Two repair projects were completed in 2020; White Cemetery Relocation and Intake transmission line at the Cumberland River. The Monroe County Water District has a very active meter testing program, having tested 221 meters during 2020.

The past year has been one of transition and of adjustments for Monroe County Water District due to the Coronavirus pandemic. In March 2020, Kentucky Governor declared a state of emergency and Kentucky Public Service Commission mandating no late penalties assessed nor disconnection of water service to customers who were delinquent. In April of 2020 Monroe County Water District received an Area Wide Optimization Program Award (AWOP) for 2019. General Manager Robert Capps was recognized in an article published nationally by RCAP Great Lakes Communication magazine for his professional service to our community. Most events and meeting were transitioned to virtual or postponed. Kentucky Division of Water postponed testing for operator's certification but we have two employees scheduled for treatment testing in 2021, which will be a benefit to the scheduling at the Water Treatment Plant. The Tri-Annual Division of Water Sanitary Survey was completed in 2020 with no deficiencies. In July 2020, the approved water rate increase by Kentucky Public Service Commission was implemented for residential and commercial customers but no change to the wholesale rate. The office received a much-needed paint project. A new meter reader contract was approved for \$1.00 per meter beginning in September 2020. Monroe County Water District began a Fleet and Leasing Program in 2020, leasing five new Dodge work trucks and selling five older work trucks. Again 2020 has been a year of uncertainty but work has continued and conservative measures have continued to be in place in all departments.

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, 2020, the District had \$14,166,582 long term debt outstanding, a decrease of \$207,441 from the prior year's balance of \$14,669,177. The District incurred \$200,624 in interest expense associated with long term debt, an increase of \$1,260 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, 2020 and 2019

Assets	<u>2020</u>	<u>2019</u>
Current Assets		
Cash	\$ 1,724,729	\$ 1,522,192
Accounts receivable	346,993	272,458
Inventory	126,476	108,294
Total Current Assets	<u>2,198,198</u>	<u>1,902,944</u>
Non-current Assets		
Restricted Assets		
Cash - Depreciation fund	362,082	360,427
Cash - Bond and interest redemption fund	<u>213,551</u>	<u>209,552</u>
Total Restricted Assets	<u>575,633</u>	<u>569,979</u>
Capital Assets		
Land and land rights	249,842	249,842
Utility plant in service	30,586,454	30,523,232
Furniture and equipment	1,246,521	1,223,761
Accumulated depreciation and amortization	<u>(7,749,193)</u>	<u>(6,960,005)</u>
Net Capital Assets	<u>24,333,624</u>	<u>25,036,830</u>
Total Non-current Assets	<u>24,909,257</u>	<u>25,606,809</u>
 Total Assets	 <u>\$ 27,107,455</u>	 <u>\$ 27,509,753</u>

MONROE COUNTY WATER DISTRICT
Statements of Net Position, Concluded
December 31, 2020 and 2019

Liabilities	<u>2020</u>	<u>2019</u>
Current Liabilities		
Accounts payable	\$ 53,949	\$ 52,582
Customer deposits	70,638	65,084
Accrued liabilities	<u>111,583</u>	<u>134,588</u>
Total Current Liabilities	<u>236,170</u>	<u>252,254</u>
Liabilities Payable from Restricted Assets		
Current maturities of long-term debt	513,396	505,522
Accrued interest	<u>46,827</u>	<u>41,626</u>
Total Liabilities Payable from Restricted Assets	<u>560,223</u>	<u>547,148</u>
Long-term Liabilities		
Bonds, noncurrent portion, net of discount	1,839,796	1,582,275
KIA loan	<u>11,813,390</u>	<u>12,581,380</u>
Total Long-term Liabilities	<u>13,653,186</u>	<u>14,163,655</u>
 Total Liabilities	 <u>14,449,579</u>	 <u>14,963,057</u>
Net Position		
Net Position		
Invested in capital assets, net of related debt	10,167,042	10,367,653
Restricted for equipment replacement	362,082	360,427
Restricted for debt retirement	166,724	167,926
Unrestricted	<u>1,962,028</u>	<u>1,650,690</u>
 Total Net Position	 <u>\$ 12,657,876</u>	 <u>\$ 12,546,696</u>

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

MONROE COUNTY WATER DISTRICT
Statements of Revenues, Expenses and Change in Net Position
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Residential water sales	\$ 2,268,458	\$ 2,040,332
Commerical water sales	111,726	95,890
Penalty collections	5,834	30,224
Miscellaneous	32,624	54,737
Total operating revenues	<u>2,418,642</u>	<u>2,221,183</u>
Operating expenses:		
Employees' salaries and wages	508,438	545,537
Employees' pensions and benefits	192,522	175,152
Utilities	188,887	197,844
Repairs and maintenance	80,806	72,694
Chemicals	122,433	128,637
Water analysis fees	28,655	28,132
Meter readers	43,869	44,092
Office expense	60,237	65,484
Transportation expenses	13,777	18,202
Insurance	53,362	53,315
Commissioners' fees	6,000	6,000
Payroll tax expense	41,657	43,131
Telephone	17,199	15,309
Depreciation	792,228	785,146
PSC tax assessment	4,442	4,316
Meter deposit interest expense	463	461
Bad debt expense	11,296	4,182
Professional fees	14,910	18,275
Miscellaneous	30,161	28,563
Total operating expenses	<u>2,211,342</u>	<u>2,234,472</u>
Operating income	<u>207,300</u>	<u>(13,289)</u>
Non-operating revenue (expenses):		
Rental income	20,160	20,160
Interest income	18,988	14,329
Amortization of bond discount	(1,464)	(1,464)
Interest expense on bonds	(200,624)	(199,364)
Total non-operating revenue (expenses)	<u>(162,940)</u>	<u>(166,339)</u>
Income/(loss) before capital contributions	<u>44,360</u>	<u>(179,628)</u>
Capital contributions:		
Grant proceeds	-	77,111
Tap fees	66,820	28,380
Total capital contributions	<u>66,820</u>	<u>105,491</u>
Change in net position	111,180	(74,137)
Net position:		
Beginning of year	<u>12,546,696</u>	<u>12,620,833</u>
End of year	<u>\$ 12,657,876</u>	<u>\$ 12,546,696</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash receipts from customers	\$ 2,349,661	\$ 2,203,330
Cash payments to suppliers for goods and services	(728,970)	(729,540)
Cash payments to employees for services	<u>(729,965)</u>	<u>(733,288)</u>
Net cash provided (used) by operating activities	<u>890,726</u>	<u>740,502</u>
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(504,058)	(311,208)
Interest paid on long-term debt	(195,423)	(200,936)
Additions to capital assets	(89,022)	(298,231)
Proceeds from issuance of debt	-	102,303
Capital contributions	<u>66,820</u>	<u>105,491</u>
Net cash provided (used) in financing activities	<u>(721,683)</u>	<u>(602,581)</u>
Cash flows from investing activities:		
Rental income	20,160	20,160
Interest income	<u>18,988</u>	<u>14,329</u>
Net cash provided by (used) in investing activities	<u>39,148</u>	<u>34,489</u>
Net increase (decrease) in cash and cash equivalents	208,191	172,410
Cash and cash equivalents, beginning of year	<u>2,092,171</u>	<u>1,919,761</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,300,362</u></u>	<u><u>\$ 2,092,171</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 207,300	\$ (13,289)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	792,228	785,146
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(74,535)	(20,581)
(Increase) decrease in inventory	(18,182)	225
Increase (decrease) in accounts payable	1,367	(7,128)
Increase (decrease) in customer deposits	5,554	2,728
Increase (decrease) in accrued expenses	<u>(23,006)</u>	<u>(6,599)</u>
Net cash provided (used) by operating activities	<u><u>\$ 890,726</u></u>	<u><u>\$ 740,502</u></u>

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

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2020 and 2019

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, 2020 and 2019

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, 2020 and 2019. 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, 2020 and 2019 was \$792,228 and \$785,146, 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, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019

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, 2020 and 2019, the District had complied with this requirement.

Note 2 – Capital Assets

Capital asset activity for the years ended December 31, 2020 and 2019, was as follows:

	Balance 01/01/20	Additions	Deletions	Balance 12/31/20
<u>Capital Assets not being depreciated</u>				
Land and Rights	\$ 249,842	\$ -	\$ -	\$ 249,842
Total Non-Depreciable Capital Assets	<u>249,842</u>	<u>-</u>	<u>-</u>	<u>249,842</u>
<u>Capital Assets being depreciated</u>				
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	12,912,558	51,591	-	12,964,149
Services	120,774	-	-	120,774
Meters and Installations	1,098,980	14,671	(3,040)	1,110,611
Other Plant	32,370	-	-	32,370
Furniture and Equipment	98,768	22,760	-	121,528
Transportation Equipment	221,887	-	-	221,887
Power Operated Equipment	339,873	-	-	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>31,746,993</u>	<u>89,022</u>	<u>(3,040)</u>	<u>31,832,975</u>
Less: Accumulated Depreciation and Amortization	<u>6,960,005</u>	<u>792,228</u>	<u>(3,040)</u>	<u>7,749,193</u>
Total Net Capital Assets	<u>\$ 25,036,830</u>			<u>\$ 24,333,624</u>

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2020 and 2019

Note 2 – Capital Assets, Concluded

	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>

Note 3 – Long-Term Debt

Long-term debt consists of the following at December 31, 2020 and 2019:

Bonds payable:	<u>2020</u>	<u>2019</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.	\$ 188,500	\$ 195,000
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>1,810,000</u>	<u>1,925,000</u>
Total bonds payable	<u>\$ 1,998,500</u>	<u>\$ 2,120,000</u>

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2020 and 2019

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>\$ 12,198,822</u>	<u>\$ 12,581,380</u>
Total loans payable	<u>\$ 12,198,822</u>	<u>\$ 12,581,380</u>

Long-term debt activities for the years ended December 31, 2020 and 2019 are as follows:

	Balance 01/01/20	Additions	Debt Payments and Reductions	Balance 12/31/20	Amount Due within One Year
Bond Series 1999	\$ 195,000	\$ -	\$ (6,500)	\$ 188,500	\$ 6,500
Bond Series 2017	1,925,000	-	(115,000)	1,810,000	120,000
KIA Loan	<u>12,581,380</u>	-	<u>(382,558)</u>	<u>12,198,822</u>	<u>385,432</u>
	14,701,380	-	(504,058)	14,197,322	511,932
Bond discount	<u>(32,204)</u>	-	1,464	<u>(30,740)</u>	1,464
Debt, net of discount	<u>\$ 14,669,176</u>	<u>\$ -</u>	<u>\$ (502,594)</u>	<u>\$ 14,166,582</u>	<u>\$ 513,396</u>

	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>(33,668)</u>	-	1,464	<u>(32,204)</u>	1,464
Debt, net of discount	<u>\$ 14,876,617</u>	<u>\$ 102,303</u>	<u>\$ (309,744)</u>	<u>\$ 14,669,176</u>	<u>\$ 505,522</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 14,197,322</u>	<u>\$ 2,417,365</u>	<u>\$ 16,614,687</u>

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2020 and 2019

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, 2020 and 2019, was \$0 and \$0, 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, 2020 does not expect to incur a liability.

Note 4 – Operating Lease

The District entered into an agreement with Don Franklin Inc. to lease five 2021 Dodge Ram trucks, payable monthly for a period of three years. For the year ended December 31, 2020, total rental expense was \$667. Future minimum rental commitments for the trucks operating leases as of December 31, 2020 are as follows:

2021	\$	20,000
2022		20,000
2023		19,333
	\$	<u>59,333</u>

Note 5 – Cash and Investments

The carrying amount of the District's cash deposits was \$2,300,362 and \$2,092,171 for the years ending December 31, 2020 and 2019, respectively and the bank balances were \$2,297,429 and \$2,106,903. 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 six certificates of deposit totaling approximately \$650,000 for 2020 and five certificates of deposit totaling approximately \$150,000 for 2019 that mature annually. All were with the same financial institution at rates between .79% and 1.76% for the years ending December 31, 2020 and 2019. All of the District's deposits were either insured by FDIC or by collateral pledged by the financial institution.

Note 6 – 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, 2020 and 2019, employer contributions were \$41,203 and \$43,340 respectively and employee contributions were \$20,602 and \$21,670, respectively. Voluntary contributions were \$4,070 in 2020 and \$2,290 in 2019. Covered payroll was approximately \$515,000 and \$542,000 for years 2020 and 2019, respectively.

Note 7- Subsequent Events

Management has evaluated subsequent events through March 23, 2021, 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
For the Year Ended December 31, 2020

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:			
Water sales	\$ 2,200,000	\$ 2,380,184	\$ 180,184
Penalties and other	108,550	38,458	(70,092)
Total operating revenues	<u>2,308,550</u>	<u>2,418,642</u>	<u>110,092</u>
Operating expenses:			
Salaries and benefits	675,000	748,617	(73,617)
Materials	300,000	231,894	68,106
Contractual	64,000	43,869	20,131
Insurance	80,000	53,362	26,638
Utilities	225,000	206,086	18,914
Depreciation	815,000	792,228	22,772
Other	164,000	135,286	28,714
Total operating expenses	<u>2,323,000</u>	<u>2,211,342</u>	<u>111,658</u>
Operating income	<u>(14,450)</u>	<u>207,300</u>	<u>221,750</u>
Non-operating revenue (expenses):			
Interest income and other	11,500	17,524	6,024
Rental income	-	20,160	20,160
Interest expense on bonds	<u>(195,424)</u>	<u>(200,624)</u>	<u>(5,200)</u>
Total non-operating revenue (expenses)	<u>(183,924)</u>	<u>(162,940)</u>	<u>20,984</u>
Income before capital contributions	<u>(198,374)</u>	<u>44,360</u>	<u>242,734</u>
Capital contributions			
Grant proceeds	30,000	-	(30,000)
Tap fees	<u>-</u>	<u>66,820</u>	<u>66,820</u>
Total capital contributions	<u>30,000</u>	<u>66,820</u>	<u>36,820</u>
Increase/(Decrease) in net position	<u>\$ (168,374)</u>	<u>\$ 111,180</u>	<u>\$ 279,554</u>



CAMPBELL, MYERS AND RUTLEDGE, PLLC

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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*

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, 2020 and 2019, 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 23, 2021.

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 23, 2021

