

Monroe County Water District

Financial Statements

December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

Monroe County Water District
Tompkinsville, Kentucky

Report on the Audit of the Financial Statements

Opinions

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, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Monroe County Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Monroe County Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of

internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Monroe County Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Monroe County Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7 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.

Supplementary 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 accompanying budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 schedule 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 21, 2023 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 the effectiveness of Monroe County Water District's 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 21, 2023

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, 2022 and 2021. 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, 2022, total operating and non-operating revenues (including capital contributions) totaled \$2,869,541. This represents less than a 1% decrease in revenues from the prior year.

Total operating and non-operating expenses amounted to \$2,716,575 an increase of \$219,916 from the prior year. This decrease was primarily the result of a decrease in employees' salaries and wages.

Total assets decreased by \$360,405 and total liabilities decreased by \$513,371. These changes resulted in an increase in net position of \$152,966.

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, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Assets		
Total current assets	\$ 2,539,602	\$ 2,785,704
Total restricted assets	1,132,437	620,043
Net capital assets	<u>22,970,193</u>	<u>23,596,889</u>
Total Assets	<u>26,642,232</u>	<u>27,002,636</u>
Liabilities		
Total current liabilities	259,158	258,168
Total liabilities payable from restricted assets	563,278	555,357
Total long-term liabilities	<u>12,612,040</u>	<u>13,134,322</u>
Total Liabilities	<u>13,434,476</u>	<u>13,947,847</u>
Net Position		
Invested in capital assets, net of related debt	9,832,943	9,947,775
Restricted for equipment replacement	915,766	413,400
Restricted for debt retirement	178,603	166,078
Unrestricted	<u>2,280,444</u>	<u>2,527,536</u>
Total Net Position	<u>\$ 13,207,756</u>	<u>\$ 13,054,789</u>

The largest portion (75%) 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 (8%) represents resources that are subject to external restrictions on how they may be used.

The balance (17%) 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 Net Position
December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Total operating revenues	\$ 2,808,823	\$ 2,780,088
Total operating expenses	<u>2,540,843</u>	<u>2,308,490</u>
Operating Income	267,980	471,598
Total non-operating revenue (expenses)	<u>(161,453)</u>	<u>(138,160)</u>
Income before capital contributions	106,527	333,438
Capital contributions	<u>46,440</u>	<u>63,475</u>
Increase (decrease) in net position	152,967	396,913
Net position, beginning of year	<u>13,054,789</u>	<u>12,657,876</u>
Net position, end of year	<u><u>\$ 13,207,756</u></u>	<u><u>\$ 13,054,789</u></u>

Net position increased by \$152,966 from the prior year.

Capital Asset Changes

At December 31, 2022, the District had invested \$22,970,193 in capital assets net of accumulated depreciation. This amount represents a net decrease of \$626,696 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 2022, including 4,100 feet of water line extensions. There were 36 new water connections set for service during the year of 2022. The Board has been collaborating with Barren River Area Development District and Precision Engineering and has allocated ARPA funds from Monroe County Fiscal Court. MCWD has submitted applications with CDBG and ARC grant funding for the water improvement project consisting of Tank Rehabilitation and Gamaliel Upgrade. The Water Treatment Plant has been in need of an additional backwash pump and plans began in 2022 for this upgrade. The Monroe County Water District has been very active in a meter testing program but had transitioned to a replacement program, changing out 635 meters in 2022.

In 2022 Monroe County Water District received an Area Wide Optimization Program Award (AWOP) for 2021 which was extremely difficult with the pandemic. Also, was awarded the Champion Award which is the top utility in the AWOP program for four consecutive years. This is a huge accomplishment. In August, MCWD submitted a water sample to the Best Tasting Water Challenge hosted by Kentucky Rural Water Association and we won first place over the state of Kentucky! What an honor this was to be part of this elite group. The winner is eligible to submit a sample to the National Water Rally in Washington DC in February 2023. Each department has strived to maintain excellent service to the customers of the utility. The district has four licensed treatment operators and four licensed distribution operators. Plans are in place for other employees to test for operator certifications and continuing training in 2023. It has been a repairs and maintenance year for 2022 but several plans for improvements are in store for 2023.

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, 2022, the District had \$13,137,250 long term debt outstanding, a decrease of \$511,864 from the prior year's balance of \$13,649,114. The District incurred \$174,268 in interest expense associated with long term debt, a decrease of \$12,437 from the 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, 2022 and 2021

Assets	<u>2022</u>	<u>2021</u>
Current Assets		
Cash	\$ 1,994,501	\$ 2,275,583
Accounts receivable	325,377	303,649
Inventory	219,724	206,472
Total Current Assets	<u>2,539,602</u>	<u>2,785,704</u>
Non-current Assets		
Restricted Assets		
Cash - Depreciation fund	915,766	413,400
Cash - Bond and interest redemption fund	<u>216,671</u>	<u>206,643</u>
Total Restricted Assets	<u>1,132,437</u>	<u>620,043</u>
Capital Assets		
Land and land rights	249,842	249,842
Utility plant in service	30,772,285	30,646,616
Furniture and equipment	1,171,325	1,148,952
Accumulated depreciation and amortization	<u>(9,223,259)</u>	<u>(8,448,521)</u>
Net Capital Assets	<u>22,970,193</u>	<u>23,596,889</u>
Total Non-current Assets	<u>24,102,630</u>	<u>24,216,932</u>
Total Assets	<u>\$ 26,642,232</u>	<u>\$ 27,002,636</u>

MONROE COUNTY WATER DISTRICT
Statements of Net Position, Concluded
December 31, 2022 and 2021

Liabilities

	<u>2022</u>	<u>2021</u>
Current Liabilities		
Accounts payable	\$ 64,478	\$ 56,805
Customer deposits	78,688	76,065
Accrued liabilities	<u>115,992</u>	<u>125,298</u>
Total Current Liabilities	<u>259,158</u>	<u>258,168</u>
 Liabilities Payable from Restricted Assets		
Current maturities of long-term debt	525,210	514,792
Accrued interest	<u>38,068</u>	<u>40,565</u>
Total Liabilities Payable from Restricted Assets	<u>563,278</u>	<u>555,357</u>
 Long-term Liabilities		
Bonds, noncurrent portion, net of discount	1,578,224	1,320,932
KIA loan	<u>11,033,816</u>	<u>11,813,390</u>
Total Long-term Liabilities	<u>12,612,040</u>	<u>13,134,322</u>
 Total Liabilities	<u>13,434,476</u>	<u>13,947,847</u>

Net Position

Net Position		
Invested in capital assets, net of related debt	9,832,943	9,947,775
Restricted for equipment replacement	915,766	413,400
Restricted for debt retirement	178,603	166,078
Unrestricted	<u>2,280,444</u>	<u>2,527,536</u>
 Total Net Position	<u>\$ 13,207,756</u>	<u>\$ 13,054,789</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating revenues:		
Residential water sales	\$ 2,576,622	\$ 2,566,592
Commerical water sales	147,747	129,031
Penalty collections	37,236	36,688
Miscellaneous	47,218	47,777
Total operating revenues	<u>2,808,823</u>	<u>2,780,088</u>
Operating expenses:		
Employees' salaries and wages	589,389	524,191
Employees' pensions and benefits	218,863	194,955
Utilities	242,569	217,160
Repairs and maintenance	131,175	76,808
Chemicals	190,832	160,147
Water analysis fees	14,033	17,982
Meter readers	55,181	46,227
Office expense	69,885	60,186
Transportation expenses	47,159	38,332
Insurance	52,127	55,506
Commissioners' fees	6,000	6,000
Payroll tax expense	46,198	40,378
Telephone	18,329	18,003
Depreciation	791,407	794,212
PSC tax assessment	4,151	4,837
Meter deposit interest expense	361	346
Bad debt expense	12,939	16,499
Professional fees	17,810	14,365
Miscellaneous	32,435	22,356
Total operating expenses	<u>2,540,843</u>	<u>2,308,490</u>
Operating income	<u>267,980</u>	<u>471,598</u>
Non-operating revenue (expenses):		
Rental income	-	22,579
Interest income	14,279	14,893
Amortization of bond discount	(1,464)	(1,464)
Interest expense on bonds	(174,268)	(186,705)
Gain on sale of assets	-	12,537
Total non-operating revenue (expenses)	<u>(161,453)</u>	<u>(138,160)</u>
Income/(loss) before capital contributions	<u>106,527</u>	<u>333,438</u>
Capital contributions:		
Tap fees	46,440	63,475
Total capital contributions	<u>46,440</u>	<u>63,475</u>
Change in net position	152,967	396,913
Net position:		
Beginning of year	<u>13,054,789</u>	<u>12,657,876</u>
End of year	<u>\$ 13,207,756</u>	<u>\$ 13,054,789</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash receipts from customers	\$ 2,789,719	\$ 2,828,859
Cash payments to suppliers for goods and services	(940,764)	(866,273)
Cash payments to employees for services	<u>(823,558)</u>	<u>(711,431)</u>
Net cash provided (used) by operating activities	<u>1,025,397</u>	<u>1,251,155</u>
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(513,328)	(518,932)
Interest paid on long-term debt	(176,765)	(192,967)
Additions to capital assets	(164,711)	(62,577)
Proceeds from sale of assets	-	17,638
Capital contributions	<u>46,440</u>	<u>63,475</u>
Net cash provided (used) in financing activities	<u>(808,364)</u>	<u>(693,363)</u>
Cash flows from investing activities:		
Rental income	-	22,579
Interest income	<u>14,279</u>	<u>14,893</u>
Net cash provided by (used) in investing activities	<u>14,279</u>	<u>37,472</u>
Net increase (decrease) in cash and cash equivalents	231,312	595,264
Cash and cash equivalents, beginning of year	<u>2,895,626</u>	<u>2,300,362</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,126,938</u></u>	<u><u>\$ 2,895,626</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 267,980	\$ 471,598
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	791,407	794,212
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(21,728)	43,344
(Increase) decrease in inventory	(13,252)	(79,996)
Increase (decrease) in accounts payable	7,673	2,856
Increase (decrease) in customer deposits	2,623	5,427
Increase (decrease) in accrued expenses	<u>(9,306)</u>	<u>13,714</u>
Net cash provided (used) by operating activities	<u><u>\$ 1,025,397</u></u>	<u><u>\$ 1,251,155</u></u>

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

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2022 and 2021

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, 2022 and 2021

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, 2022 and 2021. 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, 2022 and 2021 was \$791,407 and \$794,212, 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, 2022 and 2021

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, 2022 and 2021, 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, 2022 and 2021

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, 2022 and 2021, the District had complied with this requirement.

New Accounting Principle

For 2022, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 87, Leases. GASB Statement No. 87 enhances the relevance and consistency information of the government's leasing activities. It established requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

Note 2 – Capital Assets

Capital asset activity for the years ended December 31, 2022 and 2021, was as follows:

	Balance 01/01/22	Additions	Deletions	Balance 12/31/22
<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	27,576	-	455,354
Pumping Equipment	530,863	-	-	530,863
Distribution Reservoirs	3,427,587	-	-	3,427,587
Transmission and Distribution Mains	12,999,525	2,661	-	13,002,186
Services	120,774	-	-	120,774
Meters and Installations	1,135,397	75,015	(16,669)	1,193,743
Other Plant	32,370	-	-	32,370
Furniture and Equipment	121,528	-	-	121,528
Transportation Equipment	124,318	-	-	124,318
Power Operated Equipment	339,873	22,372	-	362,245
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	37,087	-	2,557,534
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>31,795,568</u>	<u>164,711</u>	<u>(16,669)</u>	<u>31,943,610</u>
Less: Accumulated Depreciation and Amortization	<u>8,448,521</u>	<u>791,407</u>	<u>(16,669)</u>	<u>9,223,259</u>
Total Net Capital Assets	<u>\$ 23,596,889</u>			<u>\$ 22,970,193</u>

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2022 and 2021

Note 2 – Capital Assets, Concluded

	Balance 01/01/21	Additions	Deletions	Balance 12/31/21
<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	12,964,149	35,376	-	12,999,525
Services	120,774	-	-	120,774
Meters and Installations	1,110,611	27,201	(2,415)	1,135,397
Other Plant	32,370	-	-	32,370
Furniture and Equipment	121,528	-	-	121,528
Transportation Equipment	221,887	-	(97,569)	124,318
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>31,832,975</u>	<u>62,577</u>	<u>(99,984)</u>	<u>31,795,568</u>
Less: Accumulated Depreciation and Amortization	<u>7,749,193</u>	<u>794,212</u>	<u>(94,884)</u>	<u>8,448,521</u>
Total Net Capital Assets	<u>\$ 24,333,624</u>			<u>\$ 23,596,889</u>

Note 3 – Long-Term Debt

Long-term debt consists of the following at December 31, 2022 and 2021:

Bonds payable:	<u>2022</u>	<u>2021</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.	\$ 175,000	\$ 175,000
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>1,565,000</u>	<u>1,690,000</u>
Total bonds payable	<u>\$ 1,740,000</u>	<u>\$ 1,865,000</u>

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2022 and 2021

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>\$ 11,425,062</u>	<u>\$ 11,813,390</u>
Total loans payable	<u>\$ 11,425,062</u>	<u>\$ 11,813,390</u>

Long-term debt activities for the years ended December 31, 2022 and 2021 are as follows:

	Balance 01/01/22	Additions	Debt Payments and Reductions	Balance 12/31/22	Amount Due within One Year
Bond Series 1999	\$ 175,000	\$ -	\$ -	\$ 175,000	\$ 7,500
Bond Series 2017	1,690,000	-	(125,000)	1,565,000	125,000
KIA Loan	11,813,390	-	(388,328)	11,425,062	391,246
	13,678,390	-	(513,328)	13,165,062	523,746
Bond discount	(29,276)	-	1,464	(27,812)	1,464
Debt, net of discount	<u>\$ 13,649,114</u>	<u>\$ -</u>	<u>\$ (511,864)</u>	<u>\$ 13,137,250</u>	<u>\$ 525,210</u>

	Balance 01/01/21	Additions	Debt Payments and Reductions	Balance 12/31/21	Amount Due within One Year
Bond Series 1999	\$ 188,500	\$ -	\$ (13,500)	\$ 175,000	\$ -
Bond Series 2017	1,810,000	-	(120,000)	1,690,000	125,000
KIA Loan	12,198,822	-	(385,432)	11,813,390	388,328
	14,197,322	-	(518,932)	13,678,390	513,328
Bond discount	(30,740)	-	1,464	(29,276)	1,464
Debt, net of discount	<u>\$ 14,166,582</u>	<u>\$ -</u>	<u>\$ (517,468)</u>	<u>\$ 13,649,114</u>	<u>\$ 514,792</u>

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

	Principal	Interest	Total
2023	\$ 523,746	\$ 172,789	\$ 696,535
2024	531,686	164,376	696,062
2025	540,648	155,747	696,395
2026	548,632	146,901	695,533
2027	552,139	137,928	690,067
2028-2032	2,659,090	560,078	3,219,168
2033-2037	2,431,216	378,337	2,809,553
2038-2042	2,362,343	225,141	2,587,484
2043-2047	2,306,584	99,236	2,405,820
2048-2052	708,978	7,099	716,077
	<u>\$ 13,165,062</u>	<u>\$ 2,047,632</u>	<u>\$ 15,212,694</u>

MONROE COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2022 and 2021

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, 2022 and 2021, 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, 2021 does not expect to incur a liability.

Note 4 – Cash and Investments

The carrying amount of the District's cash deposits was \$3,126,937 and \$2,895,626 for the years ending December 31, 2022 and 2021, respectively and the bank balances were \$3,125,554 and \$2,894,524. 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 2022 and 2021 that mature annually. All were with the same financial institution at rates between .79% and 1.76% for the years ending December 31, 2022 and 2021. 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, 2022 and 2021, employer contributions were \$45,891 and \$40,605 respectively and employee contributions were \$22,946 and \$20,303, respectively. Voluntary contributions were \$530 in 2022 and \$540 in 2021. Covered payroll was approximately \$581,000 and \$508,000 for years 2022 and 2021, respectively.

Note 6 – Subsequent Events

Management has evaluated subsequent events through March 21, 2023, 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, 2022

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:			
Water sales	\$ 2,815,000	\$ 2,724,369	\$ (90,631)
Penalties and other	<u>77,000</u>	<u>84,454</u>	<u>7,454</u>
Total operating revenues	<u>2,892,000</u>	<u>2,808,823</u>	<u>(83,177)</u>
Operating expenses:			
Salaries and benefits	630,000	860,450	(230,450)
Materials	350,000	336,040	13,960
Contractual	61,000	55,181	5,819
Insurance	62,000	52,127	9,873
Utilities	238,000	260,898	(22,898)
Depreciation	790,000	791,407	(1,407)
Other	<u>125,000</u>	<u>184,740</u>	<u>(59,740)</u>
Total operating expenses	<u>2,256,000</u>	<u>2,540,843</u>	<u>(284,843)</u>
Operating income	<u>636,000</u>	<u>267,980</u>	<u>(368,020)</u>
Non-operating revenue (expenses):			
Interest income and other	16,500	12,815	(3,685)
Rental income	18,696	-	(18,696)
Interest expense on bonds	<u>(181,088)</u>	<u>(174,268)</u>	<u>6,820</u>
Total non-operating revenue (expenses)	<u>(145,892)</u>	<u>(161,453)</u>	<u>(15,561)</u>
Income before capital contributions	<u>490,108</u>	<u>106,527</u>	<u>(383,581)</u>
Capital contributions			
Grant proceeds	28,500	-	(28,500)
Tap fees	<u>-</u>	<u>46,440</u>	<u>46,440</u>
Total capital contributions	<u>28,500</u>	<u>46,440</u>	<u>17,940</u>
Increase/(Decrease) in net position	<u>\$ 518,608</u>	<u>\$ 152,967</u>	<u>\$ (365,641)</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, 2022 and 2021, 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 21, 2023.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that have not been identified.

Report on 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 21, 2023

