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**Montgomery County Water  
District #1**

**Financial Statements and  
Independent Auditor's Report**

**December 31, 2013 and 2012**

PREPARED BY  
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# Montgomery County Water District #1

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***Vickie C. Richardson, CPA, PSC***

*114 East High Street  
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**INDEPENDENT AUDITOR'S REPORT**

To the Commissioners  
Montgomery County Water District #1  
Mt. Sterling, Kentucky

**Report on the Financial Statements**

I have audited the accompanying financial statements of the business-type activities of the Montgomery County Water District #1, component unit of Montgomery County Fiscal Court, as of and for the years ended December 31, 2013 and December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

***Opinions***

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Montgomery County Water District #1, as of December 31, 2013, and the respective changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Management has not presented the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. My opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, I have also issued my report dated May 30, 2014, on my consideration of the Montgomery County Water District #1's internal control over financial reporting and on my 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 my 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 Montgomery County Water District #1's internal control over financial reporting and compliance.

*Vicki C. Richardson, CPA, PSC*

May 30, 2014

This report contains 11 pages.

**Montgomery County Water District #1**  
**COMPARATIVE BALANCE SHEET**  
For the years ended December 31, 2013 and 2012

ASSETS		
	<u>2013</u>	<u>2012</u>
Current assets		
Cash	\$ 152,432	\$ 123,555
Accounts receivable	<u>35,273</u>	<u>34,358</u>
Total current assets	<u>187,705</u>	<u>157,913</u>
Restricted assets		
Cash – reserve accounts	169,474	158,655
Property and equipment		
Water system	2,541,488	2,541,488
Vehicle	18,027	18,027
Office equipment	41,768	41,768
Land	<u>58,609</u>	<u>58,609</u>
	2,659,892	2,659,892
Less accumulated depreciation	<u>(1,049,296)</u>	<u>(987,133)</u>
Net property and equipment	<u>1,610,596</u>	<u>1,672,759</u>
Total assets	<u>\$1,967,775</u>	<u>\$1,989,327</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 54,948	\$ 56,005
Customer deposits	25,155	21,995
Accrued taxes	4,436	2,356
Accrued interest payable	4,658	4,900
Payable from restricted cash	58	61
Notes payable - current portion	<u>17,000</u>	<u>30,000</u>
Total current liabilities	<u>106,255</u>	<u>115,317</u>
Notes payable- long term	<u>163,000</u>	<u>166,000</u>
Total liabilities	<u>269,255</u>	<u>281,317</u>
Fund equity		
Contributed capital	2,036,486	2,033,486
Unrestricted net assets	<u>(337,966)</u>	<u>(325,476)</u>
Total fund equity	<u>1,698,520</u>	<u>1,708,010</u>
Total liabilities and fund equity	<u>\$1,967,775</u>	<u>\$1,989,327</u>

See accompanying notes.

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**Montgomery County Water District #1**  
**COMPARATIVE STATEMENT OF ACTIVITIES**  
For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Revenues</b>		
User fees	\$ 311,521	\$ 312,260
Late charges	6,817	6,320
Reconnect fees	1,450	2,000
Miscellaneous	-0-	1
Jobbing & contract	<u>12,254</u>	<u>11,297</u>
Total revenues	<u>332,042</u>	<u>331,878</u>
<b>Expenses</b>		
Water purchased	98,433	101,436
Salaries, taxes and benefits	92,676	82,392
Office expense	5,402	7,212
Insurance	7,643	6,996
Utilities	10,014	8,154
Legal and accounting	6,017	5,800
Water tests	1,185	1,750
Contract labor	12,588	7,634
Maintenance and repairs	14,208	9,602
Supplies	11,831	8,569
Depreciation	62,163	62,163
Advertising	237	633
Miscellaneous	8,415	699
Vehicle expense	<u>2,391</u>	<u>1,394</u>
Total operating expenses	<u>333,203</u>	<u>304,434</u>
Operating income	<u>(1,161)</u>	<u>27,444</u>
<b>Nonoperating revenues (expenses)</b>		
Interest income	402	683
Interest expense	<u>(11,731)</u>	<u>(12,550)</u>
Net nonoperating expenses	<u>(11,329)</u>	<u>(11,867)</u>
Net increase/(decrease) in unrestricted net assets	<u>\$ (12,490)</u>	<u>\$ 15,577</u>

See accompanying notes.

**Montgomery County Water District #1**  
**COMPARATIVE STATEMENT OF CHANGES IN FUND EQUITY**  
For the years ended December 31, 2013 and 2012

	<u>Net Assets</u>	<u>Contributed Capital</u>	<u>Total</u>
Balances, January 1, 2012	\$ (341,053)	\$ 2,028,735	\$ 1,687,682
Net increase in unrestricted net assets	15,577		15,577
Grant revenue & tap on fees	<u>                    </u>	<u>4,751</u>	<u>4,751</u>
Balances, December 31, 2012 as previously reported	(325,476)	2,033,486	1,708,010
Net decrease in unrestricted net assets	(12,490)		(12,490)
Grant revenue & tap on fees	<u>                    </u>	<u>3,000</u>	<u>3,000</u>
Balances, December 31, 2013	<u>\$ (337,966)</u>	<u>\$ 2,036,486</u>	<u>\$1,698,520</u>

See accompanying notes.

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*Vickie C. Richardson, CPA, PSC*

**Montgomery County Water District #1**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Tap on fees	\$ 3,000	\$ 4,751
Receipts from customers	316,872	312,042
Jobbing and contract	13,542	12,487
Water purchased	(98,513)	(99,593)
Payments to and for employees	(97,066)	(83,209)
Payments to contractors and suppliers	<u>(73,141)</u>	<u>(57,501)</u>
Net cash provided by operating activities	<u>64,694</u>	<u>88,977</u>
Cash flows from investing activities:		
Capital expenditures	0	(5,958)
Interest income	<u>402</u>	<u>683</u>
Net cash provided by investing activities	<u>402</u>	<u>(5,275)</u>
Cash flows from financing activities:		
Interest expense	(9,400)	(12,550)
Note payments	<u>(16,000)</u>	<u>(15,000)</u>
Net cash used by financing activities	<u>(25,400)</u>	<u>(27,550)</u>
Increase in cash	39,696	56,152
Cash at beginning of year	<u>282,210</u>	<u>226,058</u>
Cash at end of year	<u>\$ 321,906</u>	<u>\$ 282,210</u>
Cash consists of:		
Cash - unrestricted	\$ 152,432	\$ 123,555
Cash - restricted	<u>169,474</u>	<u>158,655</u>
	<u>\$ 321,906</u>	<u>\$ 282,210</u>

See accompanying notes.

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**Montgomery County Water District #1**  
**COMPARATIVE STATEMENT OF CASH FLOWS-CONTINUED**  
For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Operating increase/decrease in unrestricted net assets	\$ (3,492)	\$ 27,444
Adjustments to reconcile operating increase/decrease in unrestricted net assets to net cash provided by operating activities:		
Depreciation	62,163	62,163
Tap on fees	3,000	4,751
(Increase)/decrease in accounts receivable	(915)	(5,309)
Increase/(decrease) in accounts payable	<u>3,938</u>	<u>(72)</u>
Net cash provided by operating activities	<u>\$ 64,694</u>	<u>\$ 88,977</u>

See accompanying notes.

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**Montgomery County Water District #1**  
NOTES TO FINANCIAL STATEMENTS  
For the year ended December 31, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Organization

Montgomery County Water District #1 (the District) is a public water utility which operates in Montgomery County, Kentucky, and its sales are to residential customers, business customers, and the Jeffersonville Water System. The District was organized on April 1, 1961.

Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Montgomery County Water District #1.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria, there are no other organizations included in these financial statements.

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission (PSC) pursuant to KRS 278.040.

Basis of Accounting

The accrual basis of accounting is used for financial statement reporting purposes. Revenues are recorded when earned. Expenses are recorded when a liability is incurred

Cash and Cash Equivalents

The District considers all highly liquid investments with a maturity of twelve months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable consist of customer receivables. The amounts reflected in the financial statements are net of allowance for uncollectible accounts in the amount of \$.00 for December 31, 2013 and 2012.

Depreciation

Depreciation is applied using the straight-line basis over the estimated useful lives of the assets.

# Montgomery County Water District #1

## NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2013

### NOTE 1 - CONTINUED

#### Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### NOTE 2 - CASH

Cash is carried at cost, which approximates fair value. At December 31, 2013 the carrying amount of restricted and unrestricted cash was \$321,906 and the bank balances were \$323,760.

The debt agreement with USDA Rural Development requires the following accounts be maintained by the District:

Revenue account - All operating funds received shall be deposited in this account. Funds will be transferred to other accounts as needed. The balances as of December 31, 2013 and 2012 were \$122,294 and \$104,794, respectively.

Operations and maintenance account - Monthly transfers are made into this account as needed. The Districts operating expenses are paid from this account. The balances as of December 31, 2013 and 2012 were \$30,039 and \$18,661, respectively.

Depreciation fund - The required balance in this account as of December 31, 2002 was \$26,000. As the balance of the loan with USDA Rural Development decreases, the required balance in the Depreciation fund also decreases. Only expenditures for capital improvements or extraordinary expenses are permitted to be paid from this fund and with approval from the Rural Development. The balances as of December 31, 2013 and 2012 were \$34,626 and \$34,572, respectively.

Bond and interest sinking fund - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. This fund is used to make the semi-annual interest payments and annual principal payments on the debt agreement with Rural Development. The balances as of December 31, 2013 and 2012 were \$134,848 and \$103,183, respectively.

**Montgomery County Water District #1**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2013

NOTE 3 - NOTES PAYABLE

Notes payable as of December 31, 2013 and 2012 consists of the following:

	<u>2013</u>		<u>2012</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
USDA Rural Development, dated February 1, 1984, principal payment due each January, interest payments due January and July, interest rate of 5%	\$ 17,000	\$ 163,000	\$ 30,000	\$ 166,000

	<u>2013</u>	<u>2012</u>
Beginning Balance	\$ 196,000	\$ 211,000
Payments	16,000	15,000
New Loans	<u>-0-</u>	<u>-0-</u>
Ending Balance	<u>\$ 180,000</u>	<u>\$ 196,000</u>

Five-year maturities are as follows:

2014	17,000
2015	17,000
2016	18,000
2017	19,000
2018	20,000
Thereafter	<u>89,000</u>
Total	<u>\$ 180,000</u>

NOTE 4 - CHANGES IN FIXED ASSETS

	<u>2013</u>	<u>2012</u>
Beginning Balance	\$ 2,659,892	\$ 2,653,934
Additions:		
Land	0	0
Water system	0	5,958
Vehicle	0	0
Office equipment	<u>0</u>	<u>0</u>
Total additions	0	5,958
Disposals	<u>0</u>	<u>0</u>
Ending balance	<u>\$ 2,659,892</u>	<u>\$ 2,659,892</u>

# Montgomery County Water District #1

## NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2013

### NOTE 5 - CONCENTRATIONS

The District is economically dependent on Mt. Sterling Water and Sewer System as the sole supplier of water. Water purchased from Mt. Sterling Water and Sewer System was \$98,434 and \$101,436 for the years ended December 31, 2013 and 2012, respectively.

### NOTE 6 - PENSION PLAN

All of the District's eligible employees are covered by the County Employees Retirement System (CERS), which is part of the Kentucky Retirement System. Employees participating in CERS contribute 5% of their gross wages and the District contributed 19.55 % through June 30, 2013 and 18.89 % through December 31, 2013. Total pension plan expense to the District as of December 31, 2013 and 2012 was \$8,024 and \$5,819, respectively. A Comprehensive Annual Financial Report on the Kentucky Retirement System may be requested from the following address:

Kentucky Retirement System  
Perimeter Park West  
1260 Louisville Road  
Frankfort, KY 40601-6124

### NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the District also carries commercial insurance for other risks of losses such as workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### NOTE 8 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 30, 2014 the date on which the financial statements were issued.