

**MONTGOMERY COUNTY WATER
DISTRICT #1**

**Financial Statements and
Independent Auditors' Report**

December 31, 2022 and 2021

*Vickie C. Richardson, CPA, PSC
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Montgomery County Water District #1
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Montgomery County Water District #1
Mt. Sterling, Kentucky

Opinion

We have audited the accompanying modified cash basis financial statements of the business-type activities of the Montgomery County Water District #1 (the District), a component unit of the Montgomery County Fiscal Court as of and for the years ended December 31, 2022 and December 31, 2021, and the related notes to the financial statements, which collectively comprise the 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 modified cash basis financial position of the business-type activities of the Montgomery County Water District #1 as of December 31, 2022 and December 31, 2021, and the respective changes in modified cash basis financial position, and, cash flows for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Montgomery County Water District #1, 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.

Emphasis of Matter-Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

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 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 a 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, 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 Montgomery County Water District #1'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 Montgomery County Water District #1'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 matter, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2023 on our consideration of the Montgomery County Water District #1'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 the Montgomery County Water District #1'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 Montgomery County Water District #1's internal control over financial reporting and compliance.

Vickie C. Richardson, CPA, PSC

Mount Sterling, Kentucky

June 2, 2023

Montgomery County Water District #1
Statement of Net Position-Modified Cash Basis
December 31, 2022 and 2021

ASSETS		
	<u>2022</u>	<u>2021</u>
Current Assets		
Cash and cash equivalents	\$ 92,521	\$ 113,749
Accounts receivable	34,131	30,020
Allowance for doubtful accounts	<u>(5,842)</u>	<u>(5,042)</u>
Total Current Assets	<u>120,810</u>	<u>138,727</u>
 Noncurrent Assets		
Property and equipment		
Buildings	298,790	298,790
Water system	2,353,667	2,339,301
Vehicle	18,027	18,027
Office equipment	62,431	61,753
Land	102,609	102,609
Less: accumulated depreciation	<u>(1,537,147)</u>	<u>(1,487,715)</u>
Total Noncurrent Assets	<u>1,298,377</u>	<u>1,332,765</u>
Total Assets	<u>\$ 1,419,187</u>	<u>\$ 1,471,492</u>
 LIABILITIES		
Current Liabilities		
Accounts payable	\$ 48,457	\$ 56,323
Accrued taxes	6,227	5,580
Payable from restricted cash	<u>31</u>	<u>29</u>
Total Liabilities - Current	<u>54,715</u>	<u>61,932</u>
 Noncurrent Liabilities		
Customer deposits	<u>32,570</u>	<u>31,790</u>
Total Liabilities - Noncurrent	<u>32,570</u>	<u>31,790</u>
Total Liabilities	<u>87,285</u>	<u>93,722</u>
 NET POSITION		
Net investment in capital assets	1,298,377	1,332,765
Unrestricted net assets	<u>33,525</u>	<u>45,005</u>
Total Net Position	<u>\$ 1,331,902</u>	<u>\$ 1,377,770</u>

Montgomery County Water District #1
Statement of Revenue, Expenses
and Changes in Net Position-Modified Cash Basis
For the years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Revenues		
User fees	\$ 345,210	\$ 347,605
Late charges	9,909	9,564
Connect/Reconnect fees	3,650	3,975
Jobbing & contract	7,373	9,284
Other income	22,881	4,314
	<hr/>	<hr/>
Total Operating Revenues	389,023	374,742
	<hr/>	<hr/>
Operating Expenses		
Water purchased	143,183	129,690
Salaries, taxes and benefits	158,849	151,472
Office expense	3,108	2,668
Insurance	8,171	7,790
Utilities	18,652	17,254
Legal and accounting	11,540	5,765
Water tests	3,847	3,484
Contract labor	7,470	4,950
Maintenance and repairs	13,139	14,453
Supplies	5,967	15,935
Depreciation	49,432	53,168
Advertising	126	6
Miscellaneous	12,099	10,684
Bad debt	800	0
Vehicle expense	1,503	1,569
	<hr/>	<hr/>
Total Operating Expenses	437,886	418,888
	<hr/>	<hr/>
Operating Income (Loss)	(48,863)	(44,146)
	<hr/>	<hr/>
Nonoperating Revenues (Expenses)		
Interest income	138	160
Interest expense	(2,143)	(2,257)
	<hr/>	<hr/>
Total Nonoperating Revenues (Expenses)	(2,005)	(2,097)
	<hr/>	<hr/>
Income(Loss) Before Capital Contributions	(50,868)	(46,243)
	<hr/>	<hr/>
Capital Contributions	5,000	5,000
	<hr/>	<hr/>
Change in Net Position	(45,868)	(41,243)
	<hr/>	<hr/>
Total Net Position - beginning	1,377,770	1,419,013
	<hr/>	<hr/>
Total Net Position - ending	\$ 1,331,902	\$ 1,377,770
	<hr/> <hr/>	<hr/> <hr/>

Montgomery County Water District #1
Statement of Cash Flows
For the years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Tap on fees	\$ 5,000	\$ 5,000
Receipts from customers	355,458	367,488
Jobbing and contracting	12,660	9,284
Other income	5,102	2,461
Water purchased	(139,178)	(133,126)
Cash paid for salaries	(123,975)	(119,000)
Cash paid for general operating expenses	<u>(120,026)</u>	<u>(116,376)</u>
Net cash provided/ (used) by operating activities	<u>(4,959)</u>	<u>15,731</u>
Cash Flows From Investing Activities		
Interest earned	<u>138</u>	<u>160</u>
Cash Flows from Capital And Financing Activities		
Interest expense	(2,143)	(2,257)
Purchase of capital assets	<u>(15,044)</u>	<u>(14,028)</u>
Net cash used by capital and financing activities	<u>(17,187)</u>	<u>(16,285)</u>
Cash Flows From Non Capital Financing Activities		
Customer deposits	<u>780</u>	<u>325</u>
Net Increase in Cash and Cash Equivalents	(21,228)	(69)
Cash and Cash Equivalents Beginning of Year	<u>113,749</u>	<u>113,818</u>
Cash and Cash Equivalents End of Year	<u>\$ 92,521</u>	<u>\$ 113,749</u>
Reconciliation Of Cash Provided By Operating Activities		
Net operating income (loss)	\$ (48,863)	\$ (44,146)
Adjustments to reconcile net income		
to net cash provided by operating activities:		
depreciation	49,432	53,168
(increase)/decrease in receivables	(3,311)	6,344
increase/(decrease) in payables	(7,217)	(4,635)
tap on fees	<u>5,000</u>	<u>5,000</u>
Net cash provided by operating activities	<u>\$ (4,959)</u>	<u>\$ 15,731</u>

MONTGOMERY COUNTY WATER DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

Note 1 - Summary of 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 and business customers. The District was organized on April 1, 1961.

The 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 financial statements of the Montgomery County Water District #1 are prepared using the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, effective January 1, 2016. The financial statements for the year ended December 31, 2015, and the preceding years, were prepared in accordance with GAAP. The variances between the presentation of the modified cash basis of accounting and accounting principles generally accepted in the United States of America (GAAP) include omission of net pension liabilities and deferred outflows of resources related to pensions. Such variances are presumed to be material. However, similar to financial statements prepared in accordance with GAAP, these financial statements reflect the capitalized cost of property and equipment and related depreciation, accounts receivable, accounts payable, accrued liabilities, and notes payable.

Starting in 2015, GAAP required entities participating in pension plans, as described in Note 4, to account for net pension liabilities and deferred outflows of resources related to pensions. The commissioners determined that the financials were more appropriate, from a management perspective, presented on the modified cash basis of accounting.

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.

MONTGOMERY COUNTY WATER DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 December 31, 2022

Note 1 - Summary of Significant Accounting Policies (continued)

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 \$5,842 and \$5,042 for December 31, 2022 and 2021.

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, 2022, the carrying amount of the District's deposits was \$92,521 and the bank balance was \$97,012. At December 31, 2021, the carrying amount of the District's deposits was \$113,749 and the bank balance was \$116,371. All the bank balances at December 31, 2022 & 2021 were covered by federal deposit insurance.

Note 3 – Property & Equipment

The following is a summary of changes in the capital assets for the fiscal year ending 12/31/2022:

	<u>Balance</u> <u>12/31/21</u>	<u>Transfer/</u> <u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/22</u>
Land, non depreciable	\$102,609	\$-	\$-	\$102,609
Buildings	298,790	-	-	298,790
Equipment & vehicles	79,780	678	-	80,458
Water system	<u>2,339,301</u>	<u>14,366</u>	<u>-</u>	<u>2,353,667</u>
	<u>2,820,480</u>	<u>15,044</u>	<u>-</u>	<u>2,835,524</u>
Accumulated depreciation	<u>1,487,715</u>	<u>49,432</u>	<u>-</u>	<u>1,537,147</u>
Net capital assets	<u>\$1,332,765</u>			<u>\$1,298,377</u>

MONTGOMERY COUNTY WATER DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 December 31, 2022

Note 3 – Property & Equipment (continued)

The following is a summary of changes in the capital assets for the fiscal year ending 12/31/2021:

	<u>Balance</u> <u>12/31/20</u>	<u>Transfer/</u> <u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/21</u>
Land, non depreciable	\$102,609	\$-	\$-	\$102,609
Buildings	298,790	-	-	298,790
Equipment & vehicles	65,752	14,028	-	79,780
Water system	<u>2,339,301</u>	<u>-</u>	<u>-</u>	<u>2,339,301</u>
	<u>2,806,452</u>	<u>14,028</u>	<u>-</u>	<u>2,820,480</u>
Accumulated depreciation	<u>1,434,547</u>	<u>53,168</u>	<u>-</u>	<u>1,487,715</u>
Net capital assets	<u>\$1,371,905</u>			<u>\$1,332,765</u>

MCWD#1 capitalizes property and equipment over \$500, and all water meters in any dollar amount. Lesser amounts of other property and equipment are expensed. Purchased property and equipment is capitalized at cost. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Software is amortized over three years.

Note 4 – Pension Plan

Montgomery County Water District #1 is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website. CERS is on a June 30 fiscal year end, but MCWD#1 is on a calendar year end.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

MONTGOMERY COUNTY WATER DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 December 31, 2021

Note 4 – Pension Plan (continued)

Contributions – For the years ended June 30, 2022 and 2021, plan members were required to contribute 5% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rate shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the years ended June 30, 2022 and June 30, 2021, participating employers contributed (for pension and insurance combined) 26.95% and 24.06 %, respectively, of each employee’s wages.

MCWD#1 contributed \$14,215 for the year ended December 31, 2021, and \$15,715 for the year ended December 31, 2022. All of the contributions were allocated to the CERS pension and insurance funds.

Note 5- Concentrations

The District is economically dependent on Mt Sterling Water & Sewer as the sole supplier of water. Water purchased from Mt Sterling Water & Sewer was \$129,690 and \$143,183 for the years ended December 31, 2021 & 2022, respectively.

Note 6 – Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District management. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7 – Long Term Liabilities

Long term liabilities consist of customer deposits.

	<u>Balance</u> <u>12/31/21</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/22</u>	<u>Due within</u> <u>one year</u>
Customer Deposits	\$31,790	\$780	\$-	\$32,570	\$-

	<u>Balance</u> <u>12/31/20</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/21</u>	<u>Due within</u> <u>one year</u>
Customer Deposits	\$31,465	\$325	\$-	\$31,790	\$-

MONTGOMERY COUNTY WATER DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2021

Note 8-Water and Waste System Grant Agreement

The District was notified in February 2020 that it had been approved for a loan from the United States Department of Agriculture-Rural Utilities Services for capital improvements. The agreement is for financing of \$225,000 and a grant not to exceed \$75,000 or 25% of development costs. The loan and grant proceeds, repayment of said loan and expenditures of loan/grant proceeds will be recognized in future fiscal years.

Note 9- Subsequent Events

During February 2022 the District was notified that it was awarded a grant for \$129,262 from the State of Kentucky to replace water lines and valves. The revenues and expenditures associated with this grant will be recognized in future fiscal years.

The District has evaluated subsequent events through June 2, 2023 the date which the financial statements were available to be issued.

Vickie C. Richardson, CPA, PSC
114 East High Street
Mount Sterling, KY 40353

INDEPENDENT AUDITORS' 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*

Montgomery County Water District #1
Mt Sterling, 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 modified cash basis financial statements of the business-type activities of the Montgomery County Water District #1 (the District), as of and for the years ended December 31, 2022 and December 31, 2021, and the related notes to the financial statements, which collectively comprise the Montgomery County Water District #1's basic financial statements, and have issued our report thereon dated June 2, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Montgomery County Water District #1'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 Montgomery County Water District #1's internal control. Accordingly, we do not express an opinion on the effectiveness of the Montgomery County Water District #1'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described below that we consider to be significant deficiencies.

Finding 1

- Condition: There is a lack of segregation of duties. The office staff consists of one full-time employee and one part-time employee. However the duties are not segregated between the two employees. With such a small staff, it is impossible to have complete segregation of duties, but efforts should be made to attempt segregation of duties when possible
- Management's response & corrective action plan: The Commissioners will continue to review past due reports, reconciliations and other financial reports to compensate for the lack of segregation of duties.

Finding 2

- Condition: The District does not have personnel that have the skills to prepare the financial statements.
- It is not economically feasible for the District to hire personnel with appropriate accounting skills and expertise. The Commissioners will provide oversight.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Montgomery County Water District #1'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*.

Montgomery County Water District #1's Response to Findings

The District's response to the findings identified in our audit is described previously. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Vickie C. Richardson, CPA PSC

Mount Sterling, Kentucky

June 2, 2023