

**MORGAN COUNTY WATER DISTRICT**

**AUDIT OF FINANCIAL STATEMENTS**

**For The Years Ended December 31, 2014 and 2013**

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## **Independent Auditors' Report**

To the Board of Directors  
Morgan County Water District  
West Liberty, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Morgan County Water District, as of and for the years ended December 31, 2014 and 2013, 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion 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 auditors' 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 auditors consider 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

To the Board of Directors  
Morgan County Water District  
West Liberty, Kentucky

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 opinion.

### ***Opinion***

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 Morgan County Water District, as of December 31, 2014 and 2013, 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***

Management has omitted the management's discussion and analysis that 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. Our opinion on the basic financial statements is not affected by this missing information.

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Morgan County Water District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Board of Directors  
Morgan County Water District  
West Liberty, Kentucky

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2014, on our consideration of the 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 District's internal control over financial reporting and compliance.

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC  
West Liberty, Kentucky

March 25, 2015

**MORGAN COUNTY WATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**December 31, 2014 and 2013**

	2014	2013
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash - Unrestricted	\$ 24,919	\$ 23,815
Cash - Restricted	165,604	165,360
Accounts Receivable	87,951	81,996
Unbilled Receivables	49,569	43,957
Allowance for Doubtful Accts.	(8,011)	(8,011)
Prepaid Insurance	7,412	7,412
 Total Current Assets	 327,444	 314,529
<b>NONCURRENT ASSETS</b>		
Prepaid Capital Lease (Net of Accumulated Amortization of \$12,828 and \$8,552)	410,535	414,811
Cash - Restricted	107,928	175,300
 Total Noncurrent Assets	 518,463	 590,111
<b>PROPERTY AND EQUIPMENT</b>		
Construction in Progress	1,558,691	49,233
Water Lines	20,172,162	20,172,162
Accum. Depr. Water Lines	(4,000,377)	(3,596,455)
Office Equipment	1,099	1,099
Accum. Depr. Office Equipment	(1,099)	(1,099)
Equipment and Vehicles	472,403	472,403
Accum. Depr. Equipment and Vehicles	(321,357)	(288,746)
Land	75,200	75,200
 Total Property and Equipment	 17,956,722	 16,883,797
 <b>TOTAL ASSETS</b>	 <b>\$ 18,802,629</b>	 <b>\$ 17,788,437</b>

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

**MORGAN COUNTY WATER DISTRICT  
STATEMENTS OF NET POSITION  
December 31, 2014 and 2013**

	2014	2013
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accrued Interest	\$ 97,986	\$ 97,986
Accrued Expenses	57,079	52,133
Accrued Salaries	3,000	3,000
Accounts Payable-Construction	110,823	
Accounts Payable-Retirement	2,842	2,842
Bonds Payable	71,440	69,260
Total Current Liabilities	343,170	225,221
<b>LONG-TERM LIABILITIES</b>		
Compensated Absences	10,953	10,953
Bonds Payable	3,840,720	3,912,160
	3,851,673	3,923,113
<b>OTHER LIABILITIES</b>		
Customer Deposits	19,645	18,429
<b>TOTAL LIABILITIES</b>	4,214,488	4,166,763
<b>NET POSITION:</b>		
Restricted for Debt Service	165,604	165,360
Restricted for Depreciation Reserve	84,190	152,867
Restricted for Construction	645	580
Unrestricted	(6,572)	(14,321)
Invested in Capital Assets, Net of Related Debt	14,344,274	13,317,188
<b>TOTAL NET POSITION</b>	14,588,141	13,621,674
<b>TOTAL LIABILITIES AND NET POSITION</b>	\$ 18,802,629	\$ 17,788,437

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

**MORGAN COUNTY WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET POSITION**  
**For The Years Ended December 31, 2014 and 2013**

	2014	2013
<b>OPERATING REVENUES</b>		
Water Collection	\$ 1,150,949	\$ 1,097,639
Sales Tax	(1,639)	(1,516)
Utility And Local Tax	(32,625)	(30,944)
State Reimb. Relocation Projects	196,956	22,800
Tap-On Fees	37,578	38,725
Miscellaneous	29,795	25,018
 Net Operating Revenues	 1,381,014	 1,151,722
 <b>OPERATING EXPENSES</b>		
Advertising	736	451
Bank Charges	388	311
Depreciation	436,533	438,442
Fuel	16,379	16,920
Insurance	51,185	49,062
Miscellaneous	5,160	4,543
Office Supplies	4,022	7,327
Outside Services	22,985	37,290
Payroll Taxes	12,328	11,405
Postage	12,234	11,349
Relocation Project Expenses	196,956	25,192
Repairs & Maintenance	5,331	6,524
Retirement	31,008	30,170
Salaries	166,679	153,321
Supplies & Testing	79,937	85,734
Travel	819	613
Uniforms	1,999	1,434
Unemployment Insurance	436	318
Utilities and Telephone	35,996	32,971
Water Purchased	557,322	475,150
Worker's Compensation	4,771	4,784
 Total Operating Expenses	 1,643,204	 1,393,311
 NET OPERATING INCOME	 (262,190)	 (241,589)

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



**MORGAN COUNTY WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET POSITION**  
**For The Years Ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
NON OPERATING REVENUES (EXPENSES)		
Interest and Amortization Expense	(170,704)	(173,580)
Interest Income	347	324
Grant Proceeds	<u>1,399,014</u>	<u>51,233</u>
Total Other Income (Expenses)	<u>1,228,657</u>	<u>(122,023)</u>
Change in Net Position	966,467	(363,612)
Total Net Position - Beginning	<u>13,621,674</u>	<u>13,985,286</u>
Total Net Position - Ending	<u><u>\$ 14,588,141</u></u>	<u><u>\$ 13,621,674</u></u>

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

**MORGAN COUNTY WATER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**December 31, 2014 and 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments from Customers	\$ 1,203,227	\$ 1,103,904
State Reimb. Relocation Projects	196,956	22,800
Miscellaneous Income	3,526	25,018
Payments to Vendors	(985,171)	(725,126)
Payments for Payroll and Related Expenses	(250,817)	(234,328)
Net Cash Provided/(Used) by Operating Activities:	167,721	192,268
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Net (Deposits)/Withdrawals Customer Deposit Account	(1,240)	(424)
Net Cash Provided/(Used) by Noncapital Financing Activities	(1,240)	(424)
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Interest	(166,427)	(173,580)
Net (Deposits)/Withdrawals into or from Bond Sinking Fund	(244)	(676)
Net (Deposits)/Withdrawals into or from Dep. Reserve Fund	68,677	35,642
Net (Deposits)/Withdrawals into or from Cash - Construction	(65)	6,069
Net (Deposits)/Withdrawals into or from Storm Damage Account		18,940
Net Customer Deposits (Returned)/Collected	1,216	296
Grant Proceeds	1,399,014	51,233
Prepaid Capital Lease		4,276
Constructed Fixed Assets	(1,398,635)	(49,233)
Land Purchased		(1,000)
Reduction in Bonds Payable	(69,260)	(66,910)
Net Cash Provided/(Used) by Capital and Related Financing Activities	(165,724)	(174,943)

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

**MORGAN COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS  
December 31, 2014 and 2013**

	2014	2013
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash Received from Interest	347	324
Net Cash Provided/(Used) by Investing Activities	347	324
<b>INCREASE/(DECREASE) IN CASH</b>	1,104	17,225
<b>CASH AT BEGINNING OF YEAR</b>	23,815	6,590
<b>CASH AT END OF YEAR</b>	\$ 24,919	\$ 23,815

Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:

Net Operating Income	\$ (262,190)	\$ (241,589)
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	436,533	438,442
Accounts Receivable	(11,568)	
Accounts Payable	4,946	(4,585)
Net Cash Provided/Used by Operating Activities	\$ 167,721	\$ 192,268

Supplementary Information

	2014	2013
Total Interest Cost	\$ 166,427	\$ 169,309

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

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the Morgan County Water District (the District) is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, who are responsible for their integrity and objectivity. These accounting policies, as applied to the aforementioned financial statements, conform to generally accepted accounting principles applicable to governmental units.

Organization & Activity

The Morgan County Water District was created in accordance with Chapter 74 of the Kentucky Revised Statutes in February 1992. The purpose of the District is to provide water service to residents of Morgan County.

Financial Reporting Entity

The District complies with GASB Statements No. 14, "The Financial Reporting Entity" and No. 39, "Determining Whether Certain Organizations Are Component Units." These Statements establish standards for defining and reporting on the financial reporting entity. They define component units as legally separate organizations for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District is not considered a component unit of any other governmental unit for financial reporting purposes.

The District considered all potential component units in determining what organizations should be included in its financial statements. Based on an evaluation of the established criteria, management determined that there were no component units to include in the District's financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basic financial statements provide information about the District's business-type activities. The financial statements for the business-type activities are also often referred to as enterprise fund financial statements.

"Measurement Focus" is an accounting term used to describe which transaction and types of balances are recorded within the various financial statements. The expression, "Basis of Accounting," refers to when transactions or events are recorded regardless of measurement focus applied.

Because of the "businesslike" characteristics of the District's operations, the accompanying financial statements report the economic resources measurement focus and the accrual basis of accounting. The accounting objective of the "economic resources" measurement focus is the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District utilizes an enterprise fund to record its financial operating activities. In governmental accounting, the enterprise fund is used to account for operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

As the means for delivering services to its customers, the District utilizes an office building, infrastructure, office equipment, equipment and vehicles. To provide the resources that are necessary to pay for water services and the related support functions, the District charges its customers monthly user fees, which are based on the specific level of services that they are receiving. Because the operations of the District closely mirror those of a typical, commercial company, its accounting records reflect a similar approach for measuring its business activity.

The District's various bond resolutions or ordinances require the establishment of certain accounts, which are referred to as "funds." These required accounts are maintained as part of accounting records of the Water Fund. They include the Sinking Fund (Debt Service), Revenue Fund and Depreciation Reserve Fund (Repairs and Maintenance). These are not "funds" as the term is used in generally accepted accounting principles, but are separate "accounts" used to delineate the accounting and reporting for bond related money and repayment security requirements. The balances and activity that occur in these various accounts represent specific segments of the Water Utility enterprise fund as reported in the District's financial statements.

The enterprise fund used by the District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the District's ongoing operations. The principal operating revenues are charges to customers for sales and services that are provided to them. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water system. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Budgeting

The District prepares annual operating budgets for the managerial control of expenditures and for the monitoring of cash flows during the fiscal year. Project-length budgets, which generally encompass more than one fiscal year, are also prepared for major construction projects. Both the operating and project-length expenditure plans are prepared on the cash basis of accounting, which significantly differs from the accrual basis of accounting that the District uses in the preparation of its financial statements.

These managerial budgets that are prepared for operations each year or at the inception of a major construction project are not adopted by the Board as legally imposed restrictions on expenditures. Basically, the operating budgets provide management with a tool for estimating and monitoring cash flows in each fiscal period. Accordingly, budgetary comparisons are not presented in the accompanying financial statements.

Allowance for Doubtful Accounts

An allowance for doubtful accounts has been established for utility accounts receivables that are 30+ days delinquent at year-end. Bills are due by the tenth of each month. It is the policy of the District to shut off water service seven days after the due date. Customer deposits held are applied to outstanding bills.

Accounts and Unbilled Receivables

Accounts receivable are stated at face amount. Unbilled receivables represent income earned during the current year, but not yet billed to the customer. The billing mailed on December 23, 2014 was for customer usage from approximately November 15 through December 15, 2014. The entire amount is considered accounts receivable as of December 31, 2014. The billing mailed on January 26, 2014 was for usage from approximately December 15, 2014 through January 15, 2015. Fifty percent of this billing is considered unbilled receivables at December 31, 2014.

Deposits and Investments

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Property, Plant and Equipment

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water distribution systems, sewer collection systems and similar items) are reported as a component of noncurrent assets in the basic financial statement. Capital assets are generally defined by the District as being those assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The reported value excludes the costs of normal maintenance and repairs that are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

Depreciation is charged as an expense against operations. Capital assets of the District are depreciated using the straight-line method over their estimated useful lives in years as set forth as follows.

<u>Category</u>	<u>Life in years</u>
Buildings	10-75
Equipment and Vehicles	3-25
Water Lines	10-50
Office Equipment	3-25

The depreciation expense provided on proprietary fund assets during the period ended December 31, 2014 is \$436,564.

Capitalized Interest On Indebtedness

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed. The total interest expense incurred by the District during the current fiscal year was \$166,427. Of this year's amount, \$0 was considered to be capitalized interest.

Cash and Cash Equivalents

For the purpose of these financial statements, cash and cash equivalents consist of unrestricted cash on hand, demand and savings deposits and certificates of deposit.

Inventory and Prepaid Items

The District does not maintain an inventory of supplies. Supplies are purchased as needed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. An example of a prepaid item for the District is property and liability insurance premiums.

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Restricted Net Position

Some of the District's assets have certain constraints that have been placed on how they can be used. By definition, restricted assets are cash or other assets, whose use in whole or in part are restricted for specific purposes bound by virtue of contractual agreements, legal requirements or enabling legislation.

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. The "debt service" accounts are used to segregate resources accumulated for debt service payments over the next twelve months. The "depreciation reserve" account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals, replacements and extensions.

Federal Income Tax

The District is exempt from federal income tax.

Use of Estimates

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

**NOTE B - CASH AND INVESTMENTS**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the District and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 31, 2014, these requirements were met.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.



**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE C - RESTRICTIONS ON CASH**

Bond Sinking Fund

Deposits into Bond Sinking Funds are required to be made monthly in order to accumulate funds for payment of bond principle and interest. At December 31, 2014, \$154,412 was required to be on deposit to meet payments of interest and principal due on bonds at January 1, 2014. The balance in this account at December 31, 2014 was \$165,604.

Depreciation Reserve

The Depreciation Reserve Account is being maintained as required in various bond documents. The District was required to deposit \$1,485 per month into the account. At December 31, 2014, \$15,942 was required to be on deposit. The District had \$84,190 on deposit in this account for the purpose of maintaining the water system.

Restricted Cash Accounts

The District is required to maintain special deposit accounts for customer deposits, construction projects, and long-term debt obligations. The following is a listing of restricted cash accounts of the District at December 31, 2014:

Customer Deposit Accounts	\$	23,093
Bond and Interest Sinking Fund		165,604
Depreciation Reserve Fund		84,190
Construction Account		645
Total Restricted Cash Accounts	\$	273,532

**NOTE D – CAPITAL LEASES**

The District has entered into two lease agreements as lessee with the Morgan County Fiscal Court for the use of 2,500 square feet of office space at 1009 Hwy 172, West Liberty, Kentucky 41472 and 2,500 square feet of office and storage space at 150 County Garage Road, West Liberty, Kentucky 41472. The lease agreements qualify as capital leases for accounting purposes (the terms of the leases are equal to seventy-five percent or more of the estimated economic life of the leased properties). The terms of the leases are ninety-nine years. In 2012, the District prepaid \$423,364 in full payment of all future lease payments. Amortization expense for the fiscal year ended December 31, 2014 was \$4,276.

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE E - PROPERTY, PLANT AND EQUIPMENT**

The District's property, plant and equipment consist of the following:

<b>Primary Government:</b>	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
<u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 75,200	\$	\$	\$ 75,200
Construction In Progress	<u>49,233</u>	<u>1,509,458</u>		<u>1,558,691</u>
Total Capital Assets Not Being Depreciated	124,433	1,509,458		1,633,891
Capital Assets, Being Depreciated:				
Office Equipment	1,099			1,099
Vehicles and Equipment	472,403			472,403
Waterlines	<u>20,172,162</u>			<u>20,172,162</u>
Total Capital Assets Being Depreciated	20,645,664			20,645,664
Less Accumulated Depreciation for:				
Office Equipment	(1,099)			(1,099)
Vehicles and Equipment	(288,746)	(32,611)		(321,357)
Waterlines	<u>(3,596,455)</u>	<u>(403,922)</u>		<u>(4,000,377)</u>
Total Accumulated Depreciation	<u>(3,886,300)</u>	<u>(436,533)</u>		<u>(4,322,833)</u>
Total Capital Assets, Being Depreciated, Net	<u>16,759,364</u>	<u>(436,533)</u>		<u>16,322,831</u>
Business-Type Activities Capital Assets, Net	<u>\$ 16,883,797</u>	<u>\$ 1,072,925</u>	<u>\$ 0</u>	<u>\$ 17,956,722</u>

**NOTE F - BONDS PAYABLE**

The following is a summary of the long-term debt transactions of the Morgan County Water District for the year ended December 31, 2014

<u>Water Utility Fund Revenue Bonds</u>	<u>2014</u>	<u>2013</u>
Bonds Payable - Beginning	\$ 3,981,420	\$ 4,048,330
Bonds Retired	<u>(69,260)</u>	<u>(66,910)</u>
Bonds Payable - Ending	<u>\$ 3,912,160</u>	<u>\$ 3,981,420</u>

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE F - BONDS PAYABLE (CONTINUED)**

Bonds payable at December 31, 2014 consists of the following issues:

\$300,000 Water revenue bonds, Series A 1993 maturing through January 1, 2033, with interest at 5.0 percent	\$ 212,000
\$17,000 Water revenue bonds, Series B 1993, maturing through January 1, 2033, with interest at 5.0 percent	12,200
\$375,000 Water revenue bonds, Series 1995, maturing through January 1, 2035, with interest at 4.5 percent	278,000
\$75,000 Water revenue bonds, Series 1999, maturing through January 1, 2039, with interest at 4.5 percent	61,500
\$332,000 Water revenue bonds, Series 2001, maturing through January 1, 2040, with interest at 3.25 percent	266,500
\$300,000 Water revenue bonds, Series 2002, maturing through January 1, 2042, with interest at 4.50 percent	261,600
\$600,000 Water revenue bonds, Series 2003, maturing through January 1, 2043, with interest at 4.375 percent	533,000
\$1,000,000 Water revenue bonds, Series 2006, maturing through January 1, 2045, with interest at 4.125 percent	911,000
\$1,446,000 Water revenue bonds, Series 2008, maturing through January 1, 2048, with interest at 4.125 percent	<u>1,376,360</u>
Total	<u>\$ 3,912,160</u>

Bond Collateralization Requirements

According to Bond documents, the Bonds shall be payable solely out of the gross revenues of the System. In addition to the revenue pledge securing the Bonds, a lien is created and granted in favor of the Bond owners on all contracts and on all other rights of the District pertaining to the System.

Compliance with Bond Ordinances

The bond ordinances contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverages. Funds held in the various reserves at December 31, 2014, required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash.

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE F - BONDS PAYABLE (CONTINUED)**

Sinking Fund Requirements

Sinking fund requirements are equal to the debt service requirements. The annual requirements to amortize all bonds as of December 31, 2014, according to the bond documents, including interest payments are as follows:

**WATER REVENUE BOND – SERIES A 1993**

<b>YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>
2015	\$ 7,000	\$ 10,600	\$ 17,600
2016	8,000	10,250	18,250
2017	8,000	9,850	17,850
2018	8,000	9,450	17,450
2019	9,000	9,050	18,050
2020	9,000	8,600	17,600
2021	10,000	8,150	18,150
2022	10,000	7,650	17,650
2023	11,000	7,150	18,150
2024	11,000	6,600	17,600
2025	12,000	6,050	18,050
2026	11,000	5,450	16,450
2027	12,000	4,900	16,900
2028	13,000	4,300	17,300
2029	13,000	3,650	16,650
2030	14,000	3,000	17,000
2031	15,000	2,300	17,300
2032	15,000	1,550	16,550
2033	16,000	800	16,800
	\$ 212,000	\$ 119,350	\$ 331,350

**WATER REVENUE BOND – SERIES B 1993**

<b>YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>
2015	\$ 400	\$ 610	\$ 1,010
2016	420	590	1,010
2017	440	569	1,009

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE F - BONDS PAYABLE (CONTINUED)**

**WATER REVENUE BOND – SERIES B 1993 (CONTINUED)**

2018	460	547	1,007
2019	480	524	1,004
2020	510	500	1,010
2021	530	475	1,005
2022	560	448	1,008
2023	590	420	1,010
2024	620	391	1,011
2025	650	360	1,010
2026	680	327	1,007
2027	720	293	1,013
2028	750	257	1,007
2029	790	220	1,010
2030	830	180	1,010
2031	870	139	1,009
2032	910	95	1,005
2033	990	50	1,040
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>\$          12,200</u>	<u>\$          6,995</u>	<u>\$          19,195</u>

**WATER REVENUE BOND – SERIES 1995**

<b>YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>
2015	\$          8,000	\$          12,510	\$          20,510
2016	9,000	12,150	21,150
2017	9,000	11,745	20,745
2018	9,500	11,340	20,840
2019	10,000	10,913	20,913
2020	10,000	10,463	20,463
2021	11,000	10,013	21,013
2022	11,000	9,518	20,518
2023	12,000	9,023	21,023
2024	12,000	8,483	20,483
2025	13,000	7,943	20,943
2026	13,500	7,358	20,858
2027	14,000	6,750	20,750
2028	14,500	6,120	20,620

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE F - BONDS PAYABLE (CONTINUED)**

**WATER REVENUE BOND – SERIES 1995 (CONTINUED)**

2029	15,500	5,468	20,968
2030	16,000	4,770	20,770
2031	16,500	4,050	20,550
2032	17,500	3,308	20,808
2033	18,000	2,520	20,520
2034	19,000	1,710	20,710
2035	19,000	855	19,855
	<u>278,000</u>	<u>157,010</u>	<u>435,010</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>

**WATER REVENUE BOND – SERIES 1999**

YEAR	PRINCIPAL	INTEREST	TOTAL
2015	\$ 1,400	\$ 2,768	\$ 4,168
2016	1,400	2,705	4,105
2017	1,500	2,642	4,142
2018	1,600	2,574	4,174
2019	1,600	2,502	4,102
2020	1,800	2,430	4,230
2021	1,800	2,349	4,149
2022	1,900	2,268	4,168
2023	2,000	2,183	4,183
2024	2,000	2,093	4,093
2025	2,200	2,003	4,203
2026	2,200	1,904	4,104
2027	2,400	1,805	4,205
2028	2,400	1,697	4,097
2029	2,600	1,589	4,189
2030	2,700	1,472	4,172
2031	2,800	1,350	4,150
2032	2,900	1,224	4,124
2033	3,100	1,094	4,194
2034	3,200	954	4,154
2035	3,300	810	4,110
2036	3,500	662	4,162

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE F - BONDS PAYABLE (CONTINUED)**

**WATER REVENUE BOND - SERIES 1999 (CONTINUED)**

2037	3,600	504	4,104
2038	3,800	342	4,142
2039	3,800	171	3,971
	\$ 61,500	\$ 42,095	\$ 103,595
	\$ 61,500	\$ 42,095	\$ 103,595

**WATER REVENUE BOND – SERIES 2001**

YEAR	PRINCIPAL	INTEREST	TOTAL
2015	\$ 6,500	\$ 8,661	\$ 15,161
2016	7,000	8,450	15,450
2017	7,000	8,223	15,223
2018	7,500	7,995	15,495
2019	7,500	7,751	15,251
2020	8,000	7,508	15,508
2021	8,000	7,248	15,248
2022	8,500	6,988	15,488
2023	8,500	6,711	15,211
2024	9,000	6,435	15,435
2025	9,000	6,143	15,143
2026	9,500	5,850	15,350
2027	10,000	5,541	15,541
2028	10,000	5,216	15,216
2029	10,500	4,891	15,391
2030	11,000	4,550	15,550
2031	11,000	4,193	15,193
2032	11,500	3,835	15,335
2033	12,000	3,461	15,461
2034	12,000	3,071	15,071
2035	13,000	2,681	15,681
2036	13,000	2,259	15,259
2037	13,500	1,836	15,336

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE F - BONDS PAYABLE (CONTINUED)**

**WATER REVENUE BOND – SERIES 2001 (CONTINUED)**

2038	14,000	1,398	15,398
2039	14,500	943	15,443
2040	14,500	471	14,971
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>\$ 266,500</u>	<u>\$ 132,309</u>	<u>\$ 398,809</u>

**WATER REVENUE BOND – SERIES 2002**

YEAR	PRINCIPAL	INTEREST	TOTAL
2015	\$ 4,900	\$ 11,772	\$ 16,672
2016	5,000	11,552	16,552
2017	5,300	11,327	16,627
2018	5,500	11,088	16,588
2019	5,800	10,841	16,641
2020	6,000	10,580	16,580
2021	6,300	10,310	16,610
2022	6,600	10,026	16,626
2023	6,900	9,729	16,629
2024	7,200	9,419	16,619
2025	7,500	9,095	16,595
2026	7,900	8,757	16,657
2027	8,200	8,402	16,602
2028	8,600	8,033	16,633
2029	9,000	7,646	16,646
2030	9,400	7,241	16,641
2031	9,800	6,818	16,618
2032	10,200	6,377	16,577
2033	10,700	5,918	16,618
2034	11,200	5,436	16,636
2035	11,700	4,932	16,632
2036	12,200	4,406	16,606
2037	12,800	3,857	16,657
2038	13,300	3,281	16,581
2039	14,000	2,682	16,682
2040	14,500	2,052	16,552
2041	15,300	1,400	16,700
2042	15,800	711	16,511
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>\$ 261,600</u>	<u>\$ 203,688</u>	<u>\$ 465,288</u>



**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE F - BONDS PAYABLE (CONTINUED)**

**WATER REVENUE BOND – SERIES 2003**

YEAR	PRINCIPAL	INTEREST	TOTAL
2015	\$ 9,000	\$ 23,319	\$ 32,319
2016	10,000	22,925	32,925
2017	10,000	22,488	32,488
2018	11,000	22,050	33,050
2019	11,000	21,569	32,569
2020	12,000	21,088	33,088
2021	12,000	20,563	32,563
2022	13,000	20,038	33,038
2023	13,000	19,469	32,469
2024	14,000	18,900	32,900
2025	14,000	18,288	32,288
2026	15,000	17,675	32,675
2027	16,000	17,019	33,019
2028	16,000	16,319	32,319
2029	17,000	15,619	32,619
2030	18,000	14,875	32,875
2031	19,000	14,088	33,088
2032	20,000	13,256	33,256
2033	21,000	12,381	33,381
2034	21,000	11,463	32,463
2035	22,000	10,544	32,544
2036	23,000	9,581	32,581
2037	24,000	8,575	32,575
2038	26,000	7,525	33,525
2039	27,000	6,388	33,388
2040	28,000	5,206	33,206
2041	29,000	3,981	32,981
2042	30,000	2,713	32,713
2043	32,000	1,400	33,400
	<u>\$ 533,000</u>	<u>\$ 419,305</u>	<u>\$ 952,305</u>

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE F - BONDS PAYABLE (CONTINUED)**

**WATER REVENUE BOND – SERIES 2006**

YEAR	PRINCIPAL	INTEREST	TOTAL
2015	\$ 15,000	\$ 37,579	\$ 52,579
2016	16,000	36,960	52,960
2017	16,000	36,300	52,300
2018	17,000	35,640	52,640
2019	18,000	34,939	52,939
2020	18,000	34,196	52,196
2021	19,000	33,454	52,454
2022	20,000	32,670	52,670
2023	21,000	31,845	52,845
2024	22,000	30,979	52,979
2025	22,000	30,071	52,071
2026	23,000	29,164	52,164
2027	24,000	28,215	52,215
2028	25,000	27,225	52,225
2029	26,000	26,194	52,194
2030	27,000	25,121	52,121
2031	29,000	24,008	53,008
2032	30,000	22,811	52,811
2033	31,000	21,574	52,574
2034	32,000	20,295	52,295
2035	34,000	18,975	52,975
2036	35,000	17,573	52,573
2037	36,000	16,129	52,129
2038	38,000	14,644	52,644
2039	39,000	13,076	52,076
2040	41,000	11,468	52,468
2041	43,000	9,776	52,776
2042	45,000	8,003	53,003
2043	46,000	6,146	52,146
2044	48,000	4,249	52,249
2045	55,000	2,269	57,269
	<u>\$ 911,000</u>	<u>\$ 721,548</u>	<u>\$ 1,632,548</u>

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE F - BONDS PAYABLE (CONTINUED)**

**WATER REVENUE BOND – SERIES 2008**

YEAR	PRINCIPAL	INTEREST	TOTAL
2015	\$ 19,240	\$ 56,775	\$ 76,015
2016	20,030	55,981	76,011
2017	20,860	55,155	76,015
2018	21,720	54,294	76,014
2019	22,620	53,399	76,019
2020	23,550	52,465	76,015
2021	24,520	51,494	76,014
2022	25,530	50,483	76,013
2023	26,590	49,429	76,019
2024	27,680	48,333	76,013
2025	28,820	47,191	76,011
2026	30,010	46,002	76,012
2027	31,250	44,764	76,014
2028	32,540	43,475	76,015
2029	33,880	42,133	76,013
2030	35,280	40,735	76,015
2031	36,740	39,280	76,020
2032	38,250	37,764	76,014
2033	39,830	36,187	76,017
2034	41,470	34,544	76,014
2035	43,180	32,833	76,013
2036	44,960	31,052	76,012
2037	46,820	29,197	76,017
2038	48,750	27,266	76,016
2039	50,760	25,255	76,015
2040	52,850	23,161	76,011
2041	55,030	20,981	76,011
2042	57,300	18,711	76,011
2043	59,670	16,347	76,017
2044	62,130	13,886	76,016
2045	64,690	11,323	76,013
2046	67,360	8,655	76,015
2047	70,140	5,876	76,016
2048	72,310	2,983	75,293
	<u>\$ 1,376,360</u>	<u>\$ 1,207,409</u>	<u>\$ 2,583,769</u>

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE F - BONDS PAYABLE (CONTINUED)**

**BONDS PAYABLE IN THE AGGREGATE**

Year Ended December 31	Scheduled Principal	Scheduled Interest
2015	\$ 71,440	\$ 164,594
2016	76,850	161,563
2017	78,100	158,299
2018	82,280	154,978
2019	86,000	151,488
2020-2024	486,180	699,567
2025-2029	591,590	587,372
2030-2034	713,670	449,848
2035-3039	707,470	300,232
2040-2044	689,080	150,662
2045-2048	329,500	31,106
Totals	<u>\$ 3,912,160</u>	<u>\$ 3,009,709</u>

**NOTE G - RETIREMENT**

The District has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement System. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to be allocated as follows: 5% will go to the member's account and 1% will go to the KRS insurance fund. The District's contribution rate for nonhazardous employees was 18.89 percent for the first six months of 2014 and 17.67 percent for the last six months of 2014.

The District's contribution for calendar year 2012 was \$28,767, calendar year 2013 was \$30,170 and calendar year 2014 was \$31,008.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE G - RETIREMENT (Continued)**

CERS also provides post-retirement health care coverage as follows:

For member participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**401K**

In January 2001, the district began a non-matching 401K deferred compensation plan. The employees may contribute twenty-five percent (25%) of their compensation, not to exceed \$10,500 annually. Participation is optional. Benefits are available upon separation of service or attainment of age fifty-nine and one-half (59.5) years. Benefits must commence by the later of: April 1 of the calendar year in which employment ends, or the calendar year in which the employee reaches age seventy and one-half (70.5) years of age.

**NOTE H - INSURANCE COVERAGE**

For the fiscal year ended December 31, 2014, the District was a member of the Kentucky Association of Counties All Lines Insurance Fund (KALF). KALF is a self- insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**MORGAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE I – COMPENSATED ABSENCES**

Upon termination of employment from the District, an employee who has been an employee of the District for a total of twelve months shall be compensated for a maximum of fifteen days of accrued annual leave. Employees accumulate 3.69 hours of annual leave per pay period. Employees employed less than six months upon termination will not be compensated for accrued annual leave, unless approved by the Water District Manager. Annual leave accrued as of December 31, 2013 is \$10,953 and as of December 31, 2014 is \$10,953.

**NOTE J – CONSTRUCTION IN PROGRESS**

Construction in progress consists of \$1,558,691 associated with the Phase 14 Waterline Extension Project funded with Abandoned Mine Land Grant funds.

**NOTE K – RELATED PARTY**

The District paid \$1,594 to Randy Risner dba R. Risner Construction for materials. Randy Risner is the father of Kyle Risner, Superintendent of the District.

**NOTE L – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through March 25, 2015, which is the date the financial statements were available to be issued.

**MORGAN COUNTY WATER DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ending December 31, 2014**

<u>Program Title</u>	<u>Pass- Through Grantor's Number</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>
<b>U.S. Department of Interior</b>			
Abandoned Mine Lands Reclamation (AMLR) Program	N/A	15.252	<u>\$ 1,509,458</u>
 <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			 <u><u>\$ 1,509,458</u></u>

**MORGAN COUNTY WATER DISTRICT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended December 31, 2014**

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Morgan County Water District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



# *Morgan-Franklin, LLC*

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## **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***

Board of Directors  
Morgan County Water District  
West Liberty, 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 Morgan County Water District (the District) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 25, 2015.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency.

**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**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Morgan 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*.

**Morgan County Water District's Response to the Finding**

Morgan County Water District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 result 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.

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC  
West Liberty, Kentucky

March 25, 2015

# *Morgan-Franklin, LLC*

Certified Public Accountants  
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## **Independent Auditors' Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By OMB Circular A-133**

Board of Directors  
Morgan County Water District  
West Liberty, Kentucky

### **Report on Compliance for Each Major Federal Program**

We have audited Morgan County Water District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Morgan County Water District's major federal programs for the year ended December 31, 2014. Morgan County Water District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Morgan County Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Morgan County Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Morgan County Water District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Morgan County Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

## **Independent Auditors' Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By OMB Circular A-133**

### **Report on Internal Control over Compliance**

Management of Morgan County Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Morgan County Water District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Morgan County Water District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

March 25, 2015

**MORGAN COUNTY WATER DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2014**

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statement of Morgan County Water District
2. One significant deficiency disclosed during the audit of the financial statements is reported in the auditors' report on compliance and internal control. The deficiency is not reported as a material weakness.
3. No instances of noncompliance material to the financial statement of Morgan County Water District were disclosed during the audit.
4. No material weaknesses in internal control over major federal award programs are reported in the auditors' report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Morgan County Water District expresses an unqualified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program is U.S. Department of Interior Abandoned Mine Land Reclamation (AMLR) Program (CFDA #15.252).
8. The threshold for distinguishing between Type A and B programs was \$300,000.
9. Morgan County Water District does not qualify as a low-risk auditee.

**B. FINDING - FINANCIAL STATEMENT AUDIT**

**SIGNIFICANT DEFICIENCY**

**2014-001 The District Should Have Adequate Controls Over The Preparation Of The Financial Statements Being Audited**

Condition: The District should have adequate controls over the preparation of the financial statements being audited.

Criteria: SAS 115 states that an entity must have sufficient controls in place to prepare a full set of GAAP financial statements, including full disclosures.

Effect: Management may not be able to identify deficiencies in reporting.

Cause: Lack of controls over the preparation of the financial statements.

Recommendation: We recommend that The District's management develop adequate controls over the preparation of the financial statements.

Management may engage a qualified individual with suitable skills to review the draft audit in order to advise management sufficiently for them to be able to take responsibility for the financial statements.

Or management could implement the following controls.

**MORGAN COUNTY WATER DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2014**

**SIGNIFICANT DEFICIENCY (Continued)**

**2014-001 The District Should Have Adequate Controls Over The Preparation Of The Financial Statements Being Audited**

1. Review draft financial statements by comparing to year-end QuickBooks reports that were prepared by management.
2. Read footnotes accompanying the financial statement to ensure no discrepancies between footnotes and financial statements.
3. Review a disclosure checklist and compare to the footnotes for omitted or inaccurate disclosures.

These controls could be documented by initialing and dating the draft financial statement and disclosure checklist.

*The District's Response: It would not be cost efficient at this time to hire an outside entity to prepare our Financial Statement.*

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

NONE

**D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**

NONE