

**NORTH MARSHALL WATER DISTRICT**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2014 AND 2013**

**NORTH MARSHALL WATER DISTRICT  
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## **INTRODUCTORY SECTION**

**NORTH MARSHALL WATER DISTRICT  
DIRECTORY**

December 31, 2014

**BOARD MEMBERS**

Jerry Miller, Chairman  
Kendra Capps  
Billy Driskill  
Joe Draffen  
James Leonard

**MANAGEMENT TEAM**

Bobby Gifford, Interim Superintendent  
Kimberly Smith, Bookkeeper

**INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Alexander Thompson Arnold PLLC  
Jackson, Tennessee

## **FINANCIAL SECTION**

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AICPA Center for Public Company Audit Firms  
AICPA Governmental Audit Quality Center  
AICPA Employee Benefit Plan Audit Quality Center  
Tennessee Society of Certified Public Accountants  
Kentucky Society of Certified Public Accountants



Certified Public Accountants

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## Independent Auditor's Report

Board of Commissioners  
North Marshall Water District  
Benton, Kentucky

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

We have audited the accompanying financial statements of the North Marshall Water District (the 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 financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 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*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section and other supplementary and other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary and other information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 supplementary and other information section is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2015 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.

Jackson, Tennessee  
February 20, 2015



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the North Marshall Water District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended December 31, 2014 and 2013. All amounts, unless otherwise indicated, are expressed in actual dollars.

### **FINANCIAL HIGHLIGHTS**

Management believes the District's financial condition is strong. The District is well within its more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- Total assets at year-end were \$5.44 million and exceeded liabilities in the amount of \$4.71 million (i.e. net position).
- Total assets increased by \$204,910, mainly due to a significant amount of capital asset additions.
- Operating revenues were \$1.45 million, a decrease from year 2013 in the amount of \$91,777 or 5.94%.
- Operating expenses were \$1.40 million, an increase from year 2013 in the amount of \$116,431 or 9.06%.
- The operating income for the year was \$51,484 as compared to \$259,692 in 2013.
- Ratios of operating income (loss) to total operating revenue were .035 and .168 for 2014, and 2013, respectively.

### **OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's strategic plan, budget, bond resolutions and other management tools were used for this analysis. The Financial Statements and Supplementary Information are made up of four sections: 1) the introductory section, 2) the financial section, 3) the supplementary and other information section, 4) and the internal control and compliance section. The introductory section includes the District's directory. The financial section includes the MD&A, the independent auditor's report, and the financial statements with accompanying notes. The supplementary and other information section includes selected financial and operational information. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

### **REQUIRED FINANCIAL STATEMENTS**

A Proprietary Fund is used to account for the operations of the District, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements report information about the District, using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities

The *Statement of Net Position* includes all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position and provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the District's operations and can be used to determine whether the District has successfully recovered all of its costs. This statement also measures the District's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises.

The *Notes to the Financial Statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

## FINANCIAL ANALYSIS

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District, and the changes in the net position. Net position is one way to measure the financial health or financial position of the District. Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates. The District's total net position increased by \$90,246 for the fiscal year ended December 31, 2014. The District's total net position increased by \$354,587 for the fiscal year ended December 31, 2013. The analysis below focuses on the District's net position (Table 1A & Table 1B) and changes in net position (Table 2) during the year.

Table 1A

### CONDENSED STATEMENTS OF NET POSITION

	December 31, 2014	December 31, 2013	Increase (Decrease)	
			\$	%
Current and other assets	\$ 510,230	\$ 497,179	13,051	2.63%
Restricted noncurrent assets	48,623	53,884	(5,261)	-9.76%
Capital assets	4,876,435	4,679,315	197,120	4.21%
Total assets	5,435,288	5,230,378	204,910	3.92%
Long-term liabilities	323,365	406,312	(82,947)	-20.41%
Other liabilities	406,251	208,640	197,611	94.71%
Total liabilities	729,616	614,952	114,664	18.65%
Net investment in capital assets	4,472,768	4,138,765	334,003	8.07%
Unrestricted	232,904	476,661	(243,757)	-51.14%
Total net position	\$ 4,705,672	\$ 4,615,426	\$ 90,246	1.96%

Table 1B  
**CONDENSED STATEMENTS OF NET POSITION**

	December 31, 2013	December 31, 2012	Increase (Decrease)	
			\$	%
Current and other assets	\$ 497,179	\$ 390,385	106,794	27.36%
Restricted noncurrent assets	53,884	50,862	3,022	5.94%
Capital assets	4,679,315	4,652,732	26,583	0.57%
Total assets	5,230,378	5,093,979	136,399	2.68%
Long-term liabilities	406,312	543,195	(136,883)	-25.20%
Other liabilities	208,640	289,945	(81,305)	-28.04%
Total liabilities	614,952	833,140	(218,188)	-26.19%
Net investment in capital assets	4,138,765	3,923,711	215,054	5.48%
Unrestricted	476,661	337,128	139,533	41.39%
Total net position	\$ 4,615,426	\$ 4,260,839	\$ 354,587	8.32%

The increase in capital assets in 2014 was due to the continued work on the various projects the District has in process. Total liabilities increased during the current year due to current year draws on the line of credit.

Changes in the District's net position can be determined by reviewing the following condensed Statement of Revenues, Expense, and Changes in Net Position for the year.

Table 2A  
**CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	December 31, 2014	December 31, 2013	Increase (Decrease)	
			\$	%
Operating revenues	\$ 1,452,922	\$ 1,544,699	\$ (91,777)	-5.94%
Non-operating revenues	425	445	(20)	-4.49%
Total revenues	1,453,347	1,545,144	(91,797)	-5.94%
Costs of sales and services	180,084	163,711	16,373	10.00%
Customer accounts expense	31,981	31,495	486	1.54%
Administrative and general expense:	596,809	521,475	75,334	14.45%
Maintenance expense	289,733	249,373	40,360	16.18%
Provision for depreciation	302,831	318,953	(16,122)	-5.05%
Non-operating expenses	25,034	33,873	(8,839)	-26.09%
Total expenses	1,426,472	1,318,880	107,592	8.16%
Contributed capital	63,371	128,323	(64,952)	-50.62%
Change in net position	90,246	354,587	(264,341)	-74.55%
Beginning net position	4,615,426	4,260,839	354,587	8.32%
Ending net position	\$ 4,705,672	\$ 4,615,426	\$ 90,246	1.96%

Table 2B

**CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	December 31, 2013	December 31, 2012	Increase (Decrease)	
			\$	%
Operating revenues	\$ 1,544,699	\$ 1,503,174	\$ 41,525	2.76%
Non-operating revenues	445	344	101	29.36%
Total revenues	<u>1,545,144</u>	<u>1,503,518</u>	<u>41,626</u>	<u>2.77%</u>
Costs of sales and services	163,711	170,057	(6,346)	-3.73%
Customer accounts expense	31,495	28,562	2,933	10.27%
Administrative and general expense:	521,475	545,883	(24,408)	-4.47%
Maintenance expense	249,373	285,908	(36,535)	-12.78%
Provision for depreciation	318,953	313,317	5,636	1.80%
Non-operating expenses	33,873	46,219	(12,346)	-26.71%
Total expenses	<u>1,318,880</u>	<u>1,389,946</u>	<u>(71,066)</u>	<u>-5.11%</u>
Contributed capital	<u>128,323</u>	<u>23,160</u>	<u>105,163</u>	<u>454.07%</u>
Change in net position	354,587	136,732	217,855	159.33%
Beginning net position	4,260,839	4,317,941	(57,102)	-1.32%
Prior period adjustment	-	(193,834)	193,834	0.00%
Beginning net position - restated	<u>4,260,839</u>	<u>4,124,107</u>	<u>136,732</u>	<u>3.32%</u>
Ending net position	<u>\$ 4,615,426</u>	<u>\$ 4,260,839</u>	<u>\$ 354,587</u>	<u>8.32%</u>

Operating revenues showed 2.76% and 8.25% increases in 2014 to 2013, respectively.

**CAPITAL ASSETS AND DEBT ADMINISTRATION****Capital Assets**

At the end of fiscal year 2014 the system had \$4.88 million (net of accumulated depreciation) invested in a broad range of utility capital assets. This investment includes land, distribution systems and their related equipment, and various types of equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as land, utility plant in service, and construction in progress.

The following tables summarizes the District's capital assets, net of accumulated depreciation, and changes therein, for the years ended December 31, 2014 and 2013. These changes are presented in detail in Note 3E to the financial statements.

Table 3A

**CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION**

	December 31, 2014	December 31, 2013	Increase (Decrease)	
			\$	%
Land	\$ 143,164	\$ 143,164	\$ -	0.00%
Construction in progress	455,936	204,412	251,524	0.00%
Utility plant in service	10,059,725	9,811,298	248,427	2.53%
Accumulated depreciation	(5,782,390)	(5,479,559)	(302,831)	5.53%
Total capital assets	<u>\$ 4,876,435</u>	<u>\$ 4,679,315</u>	<u>\$ 197,120</u>	<u>4.21%</u>

Table 3B  
**CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION**

	December 31, 2013	December 31, 2012	Increase (Decrease)	
			\$	%
Land	\$ 143,164	\$ 129,096	\$ 14,068	10.90%
Construction in progress	204,412	-	204,412	0.00%
Utility plant in service	9,811,298	9,698,242	113,056	1.17%
Accumulated depreciation	(5,479,559)	(5,174,606)	(304,953)	5.89%
Total capital assets	<u>\$ 4,679,315</u>	<u>\$ 4,652,732</u>	<u>\$ 26,583</u>	0.57%

**Debt Administration**

The District has outstanding bonds and notes payable of \$404 and \$541 thousand as of December 31, 2014 and 2013, respectively. Principal payments are due in the upcoming fiscal year in the amount of \$82,947 with interest payments totaling \$16,100 also due. Details relating to the outstanding debt can be found in Note 3F. The District also has plans to issue new debt and refund the outstanding debt in the upcoming years, however no plans have been finalized.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The District will continue to function under the current operations. Management will do everything possible to keep the customer costs as low as possible and continue to maintain the District's financial position. The District has no current plans to expand or increase costs to its customers.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the commissioners at the office located at 96 Carroll Road, Benton, Kentucky 42025, or by telephone at (270) 527-3208.

**NORTH MARSHALL WATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
December 31, 2014 and 2013

	2014	2013
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash on hand	\$ 1,000	\$ 1,000
Cash in bank - unrestricted	281,269	227,841
Accounts receivable - customer (less allowance of \$41,680 and \$36,759 respectively)	156,989	180,796
Other receivable	-	34,541
Inventory	52,120	34,672
Prepaid expenses	18,852	17,503
<b>Total current assets</b>	<b>510,230</b>	<b>496,353</b>
<b>Noncurrent assets:</b>		
Cash in bank - restricted	48,623	53,884
<b>Total restricted cash accounts</b>	<b>48,623</b>	<b>53,884</b>
<b>Capital assets:</b>		
Land	143,164	143,164
Construction in progress	455,936	204,412
Utility plant in service	10,059,725	9,811,298
Less: Provision for depreciation	(5,782,390)	(5,479,559)
<b>Total capital assets</b>	<b>4,876,435</b>	<b>4,679,315</b>
<b>Total noncurrent assets</b>	<b>4,925,058</b>	<b>4,733,199</b>
<b>Other assets:</b>		
Unamortized debt issuance costs	-	826
<b>Total other assets</b>	<b>-</b>	<b>826</b>
<b>Total assets</b>	<b>5,435,288</b>	<b>5,230,378</b>

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

**NORTH MARSHALL WATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
December 31, 2014 and 2013

	2014	2013
<b>LIABILITIES</b>		
<b>Current liabilities (payable from current assets):</b>		
Accounts payable	49,551	4,766
Other accrued liabilities	11,725	12,631
Line of credit payable	213,023	-
Current portion of bonds and notes payable	82,947	136,883
Total current liabilities (payable from current assets)	357,246	154,280
<b>Current liabilities (payable from restricted assets):</b>		
Customer deposits	49,005	54,360
Total current liabilities	406,251	208,640
<b>Noncurrent liabilities:</b>		
Accrued vacation	2,645	2,645
Bonds payable	320,720	403,667
Total noncurrent liabilities	323,365	406,312
<b>Total liabilities</b>	729,616	614,952
<b>NET POSITION</b>		
Net investment in capital assets	4,472,768	4,138,765
Unrestricted	232,904	476,661
<b>Total net position</b>	\$ 4,705,672	\$ 4,615,426

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

**NORTH MARSHALL WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
For the Years Ended December 31, 2014 and 2013

	2014	2013
<b>Operating revenues:</b>		
Charges for sales and services	\$ 1,408,381	\$ 1,350,701
Other operating revenue	44,541	193,998
Total operating revenues	1,452,922	1,544,699
<b>Operating expenses:</b>		
Costs of sales and service	180,084	163,711
Maintenance	289,733	249,373
Customer accounts	31,981	31,495
Administrative and general expenses	596,809	521,475
Provision for depreciation	302,831	318,953
Total operating expenses	1,401,438	1,285,007
Operating income (loss)	51,484	259,692
<b>Nonoperating revenues (expenses):</b>		
Interest income	425	445
Interest expense	(24,208)	(32,216)
Provision for amortization	(826)	(1,657)
Total nonoperating revenues (expenses)	(24,609)	(33,428)
Income (loss) before contributed capital	26,875	226,264
Capital contributions from property owners	63,371	128,323
<b>Change in net position</b>	90,246	354,587
<b>Net position - beginning</b>	4,615,426	4,260,839
<b>Net position - ending</b>	\$ 4,705,672	\$ 4,615,426

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



**NORTH MARSHALL WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2014 and 2013

	2014	2013
<b>Cash flows from operating activities:</b>		
Cash received from consumers	\$ 1,511,270	\$ 1,525,184
Cash paid to suppliers of goods and services	(654,654)	(600,382)
Cash paid to employees for services	(418,871)	(382,374)
Change in customer deposits	(5,355)	2,994
Net cash provided by (used in) operating activities	432,390	545,422
<b>Cash flows from investing activities:</b>		
Interest received from investments	425	445
Net cash provided by (used in) investing activities	425	445
<b>Cash flows from capital and related financing activities:</b>		
Payment on long-term debt	(136,883)	(188,471)
Construction and acquisition of plant	(499,951)	(345,536)
Proceeds from line of credit	213,023	-
Capital contributions from grants and consumers	63,371	128,323
Interest and other non-operating expenses	(24,208)	(32,216)
Net cash provided by (used in) financing activities:	(384,648)	(437,900)
 <b>Increase (decrease) in cash and cash equivalents</b>	 48,167	 107,967
<b>Cash and cash equivalents - beginning</b>	282,725	174,758
<b>Cash and cash equivalents - ending</b>	\$ 330,892	\$ 282,725
<b>Cash and cash equivalents:</b>		
Restricted cash in bank	\$ 48,623	\$ 53,884
Unrestricted cash on hand	1,000	1,000
Unrestricted cash in bank	281,269	227,841
Net cash and cash equivalents	\$ 330,892	\$ 282,725

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

**NORTH MARSHALL WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2014 and 2013

	2014	2013
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Net operating income (loss)	\$ 51,484	\$ 259,692
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation	302,831	318,953
(Increase) decrease in current assets:		
Accounts receivable	58,348	(19,515)
Inventory	(17,448)	15,999
Prepaid expenses	(1,349)	10
Increase (decrease) in current liabilities:		
Accounts payable	44,785	(31,974)
Other current liabilities	(906)	(737)
Customer deposits	(5,355)	2,994
Net cash provided by (used in) operating activities	\$ 432,390	\$ 545,422

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

**NORTH MARSHALL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The financial statements of the North Marshall Water District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to the governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

The North Marshall Water District's general purpose financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name),
- The District holds the corporate powers of the organization,
- The District appoints a voting majority of the organization's board,
- The District is able to impose its will on the organization,
- The organization has the potential to impose a financial benefit/burden on the District, and
- There is fiscal dependency by the organization on the District.

Based on the aforementioned criteria, the North Marshall Water District has no component units.

**B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows.

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses

**NORTH MARSHALL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**C. Assets, Liabilities, and Net Position**

***Deposits and Investments***

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool.

***Accounts Receivable***

Trade receivables result from unpaid billings for water service to customers and from unpaid billings related to work performed for or materials sold to certain entities. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible customer accounts recorded by the District is based on past history of uncollectible accounts and management's analysis of current accounts.

***Inventories and Prepaid Items***

All inventories are valued at the lower of average cost or market, using the first-in/first-out (FIFO) method at year end. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements as of year end.

***Restricted Assets***

Certain cash accounts and investments are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The District elects to use restricted assets before unrestricted assets when the situation arises when either can be used.

***Capital Assets***

The property, plant, and equipment are stated at original cost including all direct cost of materials and labor during the construction period. All donated material is stated at the current fair market value.

The costs of replacements, normal maintenance, and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Property, plant, and equipment of the District, with the exception of Land and Construction in Process, are depreciated, using the straight line method over the following useful lives:

Utility Plant	20 - 50 years
Office and other equipment	5 - 20 years
Vehicles	5 years

***Accrued Vacation***

It is the District's policy to permit employees to accumulate earned but unused vacation. All vacation pay has been accrued and the current year's is reflected as a current liability and the prior year's is reflected as a noncurrent liability on the financial statements.

**NORTH MARSHALL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

***Long-term Obligations***

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

***Net Position Flow Assumption***

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

***Net Position***

Equity is classified as net assets and displayed in the following two components:

- Net Investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.
- Unrestricted - All other net positions that do not meet the description of the above categories.

***Impact of Recently Issued Accounting Pronouncements***

In March 2012, the GASB issued Statement No.65, *Items Previously Reported as Assets and Liabilities*. GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. This statement did not change the reporting for the District for the current year.

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*, and Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. For governments to adopt Statement 68, the underlying pension plans must first adopt Statement 67. Statement 67 revises existing standards of financial reporting by state and local government pension plans and is effective for fiscal years beginning after June 15, 2013. Statement 68 improves accounting and financial reporting by state and local governments for pensions and is effective for fiscal years beginning after June 15, 2014. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. Statement 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers who employees are provided with defined contribution pensions. These pension standards include significant changes to how governmental employers will report liabilities related to pension obligations. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

**NORTH MARSHALL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013**

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information**

The fiscal year 2014 budget was approved unanimously at the December 2013 Board meeting. The budget is not legally adopted but only used as a management tool.

**NOTE 3 – DETAILED NOTES**

**A. Deposits and Investments**

*Custodial Credit Risk*

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. For an investment, this is the risk that, in the event of a failure of the counterpart, the District will not be able to recover the value of its investments or the collateral securities that are in the possession of an outside party.

The District's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statute authorize the District to invest in obligations of the United States and its agencies and instrumentalities; bond or certificates of indebtedness of the Commonwealth of Kentucky and its agencies and municipalities; interest bearing deposit accounts in financial institutions chartered in the Commonwealth of Kentucky insured by an agency of the United States up to the amount thus insured and in larger amounts, provided such financial institutions pledge as security obligations of the United States having such value as may be satisfactory to the District. As of December 31, 2014 and 2013, all bank deposits were fully covered by federal depository insurance.

**B. Receivables**

Receivables as of the fiscal year ends were made up of the following:

	2014	2013
Billed service for utility customers	\$ 198,669	\$ 217,555
Other receivables	-	34,541
Less: allowance for doubtful	(41,680)	(36,759)
Total	\$ 156,989	\$ 215,337

**C. Restricted Assets**

Restricted assets as of the fiscal year ends were made up of the following:

	2014	2013
Cash in bank - restricted	\$ 48,623	\$ 53,884

**D. Net Position**

Net Position represent the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The restricted net position amounts were as follows:

**NORTH MARSHALL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

	2014	2013
Net investment in capital assets		
Net property, plant and equipment	\$ 4,876,435	\$ 4,679,315
Less: Debt as disclosed in Note 3F	(403,667)	(540,550)
	4,472,768	4,138,765
Unrestricted	232,904	476,661
Total net position	\$ 4,705,672	\$ 4,615,426

**E. Capital Assets**

Capital asset activity during the year was as follows:

Description	Balance at December 31, 2013	Additions	Disposals	Reclass	Balance at December 31, 2014
Capital assets, not being depreciated					
Land	\$ 143,164	\$ -	\$ -	\$ -	\$ 143,164
Construction in progress	204,412	395,632	-	(144,108)	455,936
Total capital assets not being depreciated	347,576	395,632	-	(144,108)	599,100
Capital assets, being depreciated					
Utility plant in service	9,811,298	104,319	-	144,108	10,059,725
Less accumulated depreciation for:					
Utility plant in service	5,479,559	302,831	-	-	5,782,390
Total capital assets, being depreciated, net	4,331,739	(198,512)	-	144,108	4,277,335
Total capital assets, net	\$ 4,679,315	\$ 197,120	\$ -	\$ -	\$ 4,876,435

Description	Balance at December 31, 2012	Additions	Disposals	Adjustments	Balance at December 31, 2013
Capital assets, not being depreciated					
Land	\$ 129,096	\$ 14,068	\$ -	\$ -	\$ 143,164
Construction in progress	-	204,412	-	-	204,412
Total capital assets not being depreciated	129,096	218,480	-	-	347,576
Capital assets, being depreciated					
Utility plant in service	9,698,242	127,056	(14,000)	-	9,811,298
Less accumulated depreciation for:					
Utility plant in service	5,174,606	318,953	(14,000)	-	5,479,559
Total capital assets, being depreciated, net	4,523,636	(191,897)	-	-	4,331,739
Total capital assets, net	\$ 4,652,732	\$ 26,583	\$ -	\$ -	\$ 4,679,315

**NORTH MARSHALL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

Depreciation expense amounted to \$302,831 and \$318,953 for the fiscal years ended December 31, 2014 and 2013, respectively.

**F. Long-term Debt**

At year end, the District's long-term liabilities consisted of the following loan:

- (1) First Kentucky Bank, which is payable monthly at \$8,254 (including principal and interest) at an interest rate of 4.34%. The balance of the loan at December 31, 2014 was \$403,667.

The following is a summary of long-term debt transactions for the years ended December 31, 2014 and 2013.

	Balance 12/31/13	Issued	Retired	Balance 12/31/14	Due Within One Year
KIA Loan	57,500	-	57,500	-	-
First KY Bank	483,050	-	79,383	403,667	82,947
Total long-term debt	<u>540,550</u>	<u>-</u>	<u>136,883</u>	<u>403,667</u>	<u>82,947</u>
Accrued vacation	2,645	-	-	2,645	-
Total Long-Term Liabilities	<u>\$ 543,195</u>	<u>\$ -</u>	<u>\$ 136,883</u>	<u>\$ 406,312</u>	<u>\$ 82,947</u>

  

	Balance 12/31/12	Issued	Retired	Balance 12/31/13	Due Within One Year
KIA Loan	170,000	-	112,500	57,500	57,500
First KY Bank	559,021	-	75,971	483,050	79,383
Total long-term debt	<u>729,021</u>	<u>-</u>	<u>188,471</u>	<u>540,550</u>	<u>136,883</u>
Accrued vacation	2,645	-	-	2,645	-
Total Long-Term Liabilities	<u>\$ 731,666</u>	<u>\$ -</u>	<u>\$ 188,471</u>	<u>\$ 543,195</u>	<u>\$ 136,883</u>

The scheduled annual requirements for long-term debt at December 31, 2014, including interest of \$42,048 is as follows:

Year Ended 12/31/2014	Total Principal	Total Interest	Total
2015	\$ 82,947	\$ 16,100	\$ 99,047
2016	86,633	12,414	99,047
2017	90,561	8,486	99,047
2018	94,628	4,420	99,048
2019	48,898	628	49,526
	<u>\$ 403,667</u>	<u>\$ 42,048</u>	<u>\$ 445,715</u>



**NORTH MARSHALL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**G. Short-term Debt**

At year end, the District's short-term liabilities consisted of the following line-of-credit:

- (1) Community Financial Services Bank, which accrues interest at a rate of 4.50%. The balance of the loan at December 31, 2014 was \$213,023.

**NOTE 4 – OTHER INFORMATION**

**A. 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; and natural disasters. During the year ended December 31, 2014, the District purchased commercial insurance for all of the above risks. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in the amount of coverage provided.

**B. Retirement Plan**

The District's employees participate in the County Employees Retirement System (CERS) which is a cost-sharing, multiple-employer defined benefit public employee retirement system administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. The CERS provides for retirement, disability and death benefits to plan members and beneficiaries. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the CERS. That report may be obtained by writing to the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124.

Plan members are required to contribute 5% of creditable compensation and the District is required to contribute at an actuarially determined rate of 17.67%. Employees hired on or after September 1, 2008 pay an additional 1% of their salary to the medical insurance fund.

The contribution requirements of plan members and the District are established and may be amended by the CERS Board of Trustees. The District's contributions to the CERS for the year ended December 31, 2014 was \$65,626, equal to the required contributions for the year.

## **SUPPLEMENTARY AND OTHER INFORMATION SECTION**

**NORTH MARSHALL WATER DISTRICT  
SCHEDULES OF OPERATING INCOME AND EXPENSES**

For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Operating revenues:</b>		
Gross water sales	\$ 1,424,495	\$ 1,359,132
Less: Bad debt expense	(4,921)	-
Less: leak adjustments	<u>(11,193)</u>	<u>(8,431)</u>
Net water sales	<u>1,408,381</u>	<u>1,350,701</u>
 Fees:		
Connect and reconnect fees	23,437	23,787
Other water revenues	<u>21,104</u>	<u>170,211</u>
	<u>44,541</u>	<u>193,998</u>
 Total operating revenues	<u>\$ 1,452,922</u>	<u>\$ 1,544,699</u>
<b>Operating expenses:</b>		
Cost of sales and services		
Purchased power	\$ 126,565	\$ 122,639
Salaries and wages	5,697	4,725
Treatment chemicals	25,148	28,156
Contractual services	<u>22,674</u>	<u>8,191</u>
	<u>180,084</u>	<u>163,711</u>
 Maintenance:		
Salaries and wages	194,473	167,509
Materials and supplies	55,372	58,586
Contractual services	<u>39,888</u>	<u>23,278</u>
	<u>289,733</u>	<u>249,373</u>
 Customer accounts expense:		
Meter reading	11,338	12,215
Accounting and collection	<u>20,643</u>	<u>19,280</u>
	<u>31,981</u>	<u>31,495</u>

*See independent auditor's report.*

**NORTH MARSHALL WATER DISTRICT**  
**SCHEDULES OF OPERATING INCOME AND EXPENSES**

For the Years Ended December 31, 2014 and 2013

	2014	2013
Administrative and general expenses		
Salaries and wages	229,585	215,177
Employee benefits and payroll taxes	123,660	100,733
Employee pensions	65,626	66,464
Office supplies	35,896	31,272
Office and shop utilities	2,593	2,533
Insurance	38,444	35,739
Advertising	455	696
Professional fees	24,658	23,163
Educational and training	9,022	10,879
Transportation	45,617	11,928
Uniforms	3,785	3,056
Office phones	8,341	8,393
Rental	1,200	1,200
Miscellaneous	7,927	10,242
	596,809	521,475
 Provision for depreciation	 302,831	 318,953
 Total operating expense	 \$ 1,401,438	 \$ 1,285,007

*See independent auditor's report*

**NORTH MARSHALL WATER DISTRICT**  
**SCHEDULE OF LONG-TERM DEBT**  
December 31, 2014

Year Ended December 31,	First KY Bank		Total
	Principal	Interest	
2015	\$ 82,947	\$ 16,100	\$ 99,047
2016	86,633	12,414	99,047
2017	90,561	8,486	99,047
2018	94,628	4,420	99,048
2019	48,898	628	49,526
	<u>\$ 403,667</u>	<u>\$ 42,048</u>	<u>\$ 445,715</u>

*See independent auditor's report.*

**NORTH MARSHALL WATER DISTRICT**  
**WATER RATES IN FORCE**  
December 31, 2014

**Water**

\$2.64 per every 1,000 gallons of water plus a base charge

Residential Rate Schedule	Base	
Residential 5/8"		\$12.94
Residential 1"		\$20.44
Residential 1 1/2"		\$32.95
Residential 2"		\$47.99
Residential 3"		\$83.03

Commercial Rate Schedule

Commerical 5/8"	\$12.94
Commercial 1"	\$20.44
Commercial 1 1/2"	\$32.95
Commercial 2"	\$47.99
Commercial 3"	\$83.03
Commercial 4"	\$133.12
Commercial 6"	\$258.30
4" Two-Meters	\$266.24
Reidland 4"	\$133.12

**Sewer**

\$2.64 per every 1,000 gallons of sewer plus a base charge of \$60 dollars

*See independent auditor's report.*

## **INTERNAL CONTROL AND COMPLIANCE SECTION**

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**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

Board of Commissioners  
North Marshall Water District  
Benton, 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 North Marshall 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 February 20, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jackson, Tennessee  
February 20, 2015

**NORTH MARSHALL WATER DISTRICT  
SUMMARY OF FINDINGS AND RECOMMENDATIONS**  
December 31, 2014

**Current Year Findings**

None reported.

**Prior Year Findings**

None reported.