

# VICE AND SMITH, P.S.C.

Certified Public Accountants

2141 Pimlico Drive

P.O. Box 765

Richmond, Kentucky 40476-0765

Wayne D. Vice, CPA  
David A. Smith, CPA

Phone (859) 624-8877

Fax (859) 624-0390

## INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
Southern Madison Water District  
Berea, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Southern Madison 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 basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 opinions.

### Opinions

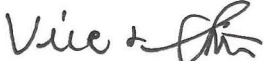
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Southern Madison Water District, as of December 31, 2014 and 2013, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The District has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March , 2015, on our consideration of the Southern Madison Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Southern Madison Water District's internal control over financial reporting and compliance.



Vice & Smith, PSC  
Certified Public Accountants  
Richmond, Kentucky  
March 27, 2015

**SOUTHERN MADISON WATER DISTRICT  
TABLE OF CONTENTS  
DECEMBER 31, 2014 AND 2013**

	Page
Independent Auditor's Report	1-2
Statements of Net Position	3
Statements of Revenue, Expenses and Changes in Net Position	4
Statements of Cash Flows	5-6
Notes to Financial Statements	7-11
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit Performed in Accordance with <i>Government Auditing Standards</i>	12-13

**SOUTHERN MADISON WATER DISTRICT**  
**Statements of Net Position**  
**December 31, 2014 and 2013**

<b>ASSETS</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Current assets:		
Cash and cash equivalents	\$ 415,381	\$ 398,272
Receivables, net	146,570	131,428
Inventories	124,298	131,550
Prepaid expenses	<u>17,015</u>	<u>18,388</u>
Total current assets	<u>703,264</u>	<u>679,638</u>
Noncurrent assets:		
Reserved cash and cash equivalents	529,768	423,802
Capital assets:		
Land and buildings	420,533	420,533
Distribution and storage systems	8,344,940	8,045,065
Vehicles and equipment	384,201	377,782
Less accumulated depreciation	<u>(4,224,479)</u>	<u>(3,971,654)</u>
Total capital assets	4,925,195	4,871,726
Unamortized bond discount and other	<u>1,970</u>	<u>1,970</u>
Total noncurrent assets	<u>5,456,933</u>	<u>5,297,498</u>
Total assets	<u>6,160,197</u>	<u>5,977,136</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	94,388	100,396
Customers' deposits	192,990	190,010
Interest payable	<u>285</u>	<u>235</u>
Total current liabilities	<u>287,663</u>	<u>290,641</u>
Total liabilities	<u>287,663</u>	<u>290,641</u>
<b>NET POSITION</b>		
Net investment in capital assets	4,925,195	4,871,726
Reserved for construction and equipment	404,768	298,802
Reserved for depreciation reserve	125,000	125,000
Unrestricted	<u>417,571</u>	<u>390,967</u>
Total net position	<u>\$ 5,872,534</u>	<u>\$ 5,686,495</u>

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

**SOUTHERN MADISON WATER DISTRICT**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the years ended December 31, 2014 and 2013**

<b>OPERATING REVENUES</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Sale of water	\$1,716,483	\$1,621,022
Late charges	36,661	35,662
Miscellaneous	<u>37,868</u>	<u>43,456</u>
Total operating revenues	<u>1,791,012</u>	<u>1,700,140</u>
<b>OPERATING EXPENSES</b>		
Purchased water	877,931	852,335
Amortization	-	27,937
Bad debt expense	3,148	2,973
Commissioners' salaries	14,400	14,400
Depreciation	252,825	238,450
Dues, taxes and licenses	7,498	4,517
Employee benefits	121,198	129,731
Insurance and bonding	26,167	22,635
Miscellaneous	18,294	21,473
Office expense	32,428	34,413
Payroll taxes	25,964	27,146
Professional services	17,663	17,145
Repairs and maintenance	66,056	30,438
Salaries and wages	331,960	356,537
Truck and equipment expense	29,010	32,658
Utilities and telephone	<u>38,879</u>	<u>35,647</u>
Total operating expenses	<u>1,863,421</u>	<u>1,848,435</u>
Operating income	<u>(72,409)</u>	<u>(148,295)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest and investment revenue	2,205	2,610
Interest expense	(230)	(537)
Miscellaneous revenue	<u>270</u>	<u>8,586</u>
Total nonoperating revenue (expenses)	<u>2,245</u>	<u>10,659</u>
Income (loss) before contributions	(70,164)	(137,636)
Capital contributions	<u>256,203</u>	<u>67,665</u>
Change in net position	186,039	(69,971)
Net position -beginning	<u>5,686,495</u>	<u>5,756,466</u>
Net position -ending	<u>\$ 5,872,534</u>	<u>\$ 5,686,495</u>

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

**SOUTHERN MADISON WATER DISTRICT**  
**Statements of Cash Flows**  
**For the years ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 1,775,870	\$ 1,768,692
Payments to suppliers	(1,029,539)	(1,008,126)
Payments to employees	(361,360)	(387,187)
Other receipts (payments)	<u>(214,010)</u>	<u>(242,853)</u>
Net cash provided by operating activities	<u>170,961</u>	<u>130,526</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital contributions	256,203	67,665
Purchases of capital assets	<u>(306,294)</u>	<u>(185,951)</u>
Net cash (used) by capital and related financing activities	<u>(50,091)</u>	<u>(118,286)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and dividends	<u>2,205</u>	<u>2,610</u>
Net cash provided by investing activities	<u>2,205</u>	<u>2,610</u>
Net increase (decrease) in cash and cash equivalents	123,075	14,850
Balances-beginning of year	<u>822,074</u>	<u>807,224</u>
Balances-end of year	<u>\$ 945,149</u>	<u>\$ 822,074</u>

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

**SOUTHERN MADISON WATER DISTRICT**  
**Statements of Cash Flows, cont'd**  
**For the years ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$ (72,409)	\$ (148,295)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	252,825	252,548
Amortization expense	-	27,937
Change in assets and liabilities:		
Receivables, net	(15,142)	2,973
Inventories	7,252	(1,276)
Prepaid expense	1,373	(5,648)
Accounts and other payables	<u>(2,938)</u>	<u>2,287</u>
 Net cash provided by operating activities	 <u>\$ 170,961</u>	 <u>\$ 130,526</u>

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

**SOUTHERN MADISON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 1 - SUMMARY OF ACCOUNTING POLICIES**

A summary of the District's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

*Financial Reporting Entity.* Southern Madison Water District was formed in 1969 by the Madison County, KY Fiscal Court under Kentucky Revised Statue Chapter 74 for the purpose of providing potable drinking water to residents and businesses in southern Madison County. At December 31, 2014 and 2013, the District had 4,936 and 4,896 customers, respectively. The district is overseen by a three member board of commissioners appointed by the county judge/executive and approved by the Fiscal Court. The District is self-supporting through the charges it makes for water sold. The Fiscal Court makes no financial contribution to the District nor do they have any management function with the District. The District is subject to the Public Service Commission of the Commonwealth of Kentucky as to what rates it may charge for water and other service fees. The District is also subject to safe drinking water regulations issued by the Division of Water. The District purchases treated water, ready for distribution, from the City of Berea.

*Inventories* Inventories are stated at the lower of cost or market. Cost is determined principally by the first-in, first-out method.

*Accounts Receivable* The District uses the allowance method to account for uncollectible accounts receivable.

	<u><b>2014</b></u>	<u><b>2013</b></u>
Trade accounts receivable	\$ 156,180	\$ 137,891
Less: Allowance for doubtful accounts	<u>(9,610)</u>	<u>(6,463)</u>
Net accounts receivable	<u>\$ 146,570</u>	<u>\$ 131,428</u>

*Utility Plant* The utility plant is stated at cost and depreciation is provided for in amounts sufficient to relate the cost to operations over the estimated service lives on a straight-line basis.

Estimated useful lives, in years, for depreciable assets are as follows:

Transmission main lines	50-75
Meters and settings	20-25
Hydrants and flush valves	40-50
Buildings	40
Vehicles	3-5
Equipment	7-20
Office furniture, fixtures	5-10



**SOUTHERN MADISON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (CONT'D)**

*Basis of Accounting and Measurement Focus* The District is accounted for as a governmental propriety fund and as such, its financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. The District is financed and operated in a manner similar to a private business where the intent of the governing body is that cost (expenses, including depreciation) of providing goods or services to the public on a continuing basis are financed primarily through user charges. The District is accounted for using the "economic resources" measurement focus and the accrual basis of accounting.

*Cash and Investments* The District considers highly liquid investments with an original maturity of twelve months or less when purchased to be cash equivalents. Cash deposits are reported at carrying amount which reasonably estimates fair value. Investments, which consist of U.S. Government bonds, are reported at fair value.

*Deposits and Investments* It is the District's policy for deposits to be 100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. The District has only non-pooled deposits and are categorized to give an indication of the level of risk assumed by the District at year-end. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Uncollateralized

Deposits, categorized by level of risk are:

	Bank	<u>Category</u>			Carrying
	<u>Balance</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>
<u>NON-POOLED DEPOSITS</u>					
Non-pooled cash and					
cash equivalents:	12/31/2014	\$945,149	\$945,149		\$945,149
	12/31/2013	\$822,074	\$822,074		\$822,074

Investing is performed in accordance with investment policies complying with state statutes. The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. The categories are described as follows.

Category 1 - Insured, registered, or securities held by the District or its agent in the District's name.

Category 2 - Uninsured and unregistered, with securities held by the counter party's trust department or agent in the District's name.

Category 3 - Uninsured and unregistered, with securities held by the counter party's, or its trust department or agent but not in the District's name.

*Estimates* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**SOUTHERN MADISON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 2 - RELATED PARTY DISCLOSURES**

The District engaged in no financial transactions with any board commissioner or staff.

**NOTE 3 - CAFETERIA PLAN**

Effective October 1, 1995, the District adopted a cafeteria plan in accordance with Section 125 of the U.S. Internal Revenue Code. The plan allows eligible employees to reduce their taxable compensation by allocating an amount from each pay period to pay health insurance premiums. Total contributions to the plan in 2014 and 2013, respectively, were \$21,336 and \$26,617. The District pays for the cost of a single person plan. Any additional coverage is paid by the employee.

**NOTE 4 - RETIREMENT PLAN**

Effective October 1, 1998, the District became a participating member of the Kentucky County Employees Retirement System (CERS). CERS is a multiple employer cost sharing public employee retirement system which covers substantially all regular full-time employees of each county, school board, and any additional local agencies electing to participate in the system. The Commonwealth of Kentucky is a non-employer and non-contributor to this system.

Under the terms of the plan each eligible employee contributes 5.0 percent of his or her gross wages to the plan while the District contributed 19.55 percent through June 30, 2013, 18.89 percent through June 30, 2014, and 17.67 percent through December 31, 2014. The plan is a qualified plan under IRC Section 401. Total employee contributions in 2014 and 2013 were \$17,336 and \$18,639 respectively. Total employer contributions in 2014 and 2013 were \$63,477 and \$71,624 respectively.

The amount shown below as the "pension benefit obligation" is a standard disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. This measure is intended to help users assess the funding status of the retirement systems on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among government employers. This measure is the actuarial present value of credited projected benefits and is independent of the funding methods used to determine contributions to the retirement systems.

The pension benefit obligations were computed as a part of the actuarial valuations performed as of June 30, 2014 and 2013. Significant actuarial assumptions used in the valuations include: a) a rate of return on the investment of present and future assets of 7.75% a year, b) projected salary increases of 4.50%, average, including inflation and c) an inflation rate of 3.5% a year.

These retirement systems do not conduct separate measurements of assets and pension benefit obligations for individual employers.

The pension benefit obligation at June 30, 2014 & 2013, of CERS as a whole, determined through actuarial valuation performed as of that date, was \$13,061,349,000 and \$12,503,081,707 respectively. CERS net assets available for benefits on that date were \$8,615,149,000 and \$7,438,785,893 respectively resulting in unfunded pension benefit obligations of \$4,446,200,000 and \$5,064,295,814 respectively.

1

1

**SOUTHERN MADISON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 5 - INSURANCE**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for liability, property and crime damage and for the risks related to injuries to employees. Amounts of settlements have not exceeded insurance coverage in the past three years. There have been no significant reductions in insurance coverage. As of 12/31/14 and 12/31/13, no additional premium assessment had been made.

**NOTE 6 - SUBSEQUENT EVENTS**

The District has evaluated subsequent events through March 27, 2015, for possible adjustments to the financial statements or disclosure, that date which the financial statements were available to be issued.

**SOUTHERN MADISON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 7 - ECONOMIC DEPENDENCY/CREDIT RISK**

The District is a governmental entity operating with one office in Berea, KY. It grants credit to customers who are primarily local residential customers and businesses. The District earns all of its operating revenues from customers in Madison County, KY.

**NOTE 8 - PROPERTY, PLANT AND EQUIPMENT**

A summary of changes in property, plant and equipment is as follows:

	<u>12/31/2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2013</u>
Land and Building	\$ 412,198	\$ 8,335	\$ -	\$ 420,533
Water system	7,937,577	107,488	-	8,045,065
Vehicles and equipment	<u>307,653</u>	<u>70,129</u>	-	<u>377,782</u>
	8,657,428	185,952		8,843,380
Accumulated depreciation	<u>(3,726,954)</u>	<u>(244,700)</u>	-	<u>(3,971,654)</u>
Total net property, plant and equipment	<u>\$ 4,930,474</u>	<u>\$ (58,748)</u>	<u>\$ -</u>	<u>\$ 4,871,726</u>
	<u>12/31/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2014</u>
Land and Building	\$ 420,533	\$ -	\$ -	\$ 420,533
Water system	8,045,065	299,875	-	8,344,940
Vehicles and equipment	<u>377,782</u>	<u>6,419</u>	-	<u>384,201</u>
	8,843,380	306,294	-	9,149,674
Accumulated depreciation	<u>(3,971,654)</u>	<u>(252,825)</u>	-	<u>(4,224,479)</u>
Total net property, plant and equipment	<u>\$ 4,871,726</u>	<u>\$ 53,469</u>	<u>\$ -</u>	<u>\$ 4,925,195</u>

# VICE AND SMITH, P.S.C.

Certified Public Accountants

2141 Pimlico Drive

P.O. Box 765

Richmond, Kentucky 40476-0765

Wayne D. Vice, CPA

David A. Smith, CPA

Phone (859) 624-8877

Fax (859) 624-0390

## 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*

To the Board of Commissioners of  
Southern Madison Water District  
Berea, Kentucky

We have audited, 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, the financial statements of the business-type activities of the Southern Madison 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 Southern Madison Water District's basic financial statements and have issued our report thereon dated March 27, 2015.

### Internal Control over Financial Reporting

In planning and performing our audits, we considered Southern Madison Water District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control was for the limited purposes described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described at the end of this paragraph, we identified certain deficiencies in internal control that we consider to be significant deficiencies. The District staff is not sufficiently educated in accounting matters to draft complete financial statements and accompanying notes.

*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 misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiency described above to not be a material weakness.

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. We consider the above deficiency to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Southern Madison Water District's financial statements are free of material misstatements, 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 audits 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.



Vice & Smith, PSC  
Certified Public Accountants  
Richmond, Kentucky  
March 27, 2015