

REPORT OF

NORTH HOPKINS WATER DISTRICT
MADISONVILLE, KENTUCKY

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

TABLE OF CONTENTS

	Pages
Independent Auditors' Report	1-2
Required Supplementary Information: Management's Discussion and Analysis	3-7
Financial Statements:	
Statement of Net Position	8
Statement of Revenues, Expenses and Changes in Fund Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	11-17
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 <i>Government Auditing Standards</i>	18-20

Alexander, Toney & Knight PLLC

CERTIFIED PUBLIC ACCOUNTANTS

28 Court Street
Madisonville, Kentucky 42431
(270) 821-4824
FAX: (270) 825-4554
Email: atkcpas@yahoo.com

Larry R. Alexander, CPA
Harold R. Toney, Jr., CPA
Anthony Knight, CPA

Members
American Institute of Certified Public Accountants
Kentucky Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Commissioners
North Hopkins Water District
Madisonville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of North Hopkins Water District as of and for the years ended December 31, 2015 and 2014, and the related notes to the 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 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 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 financial position of North Hopkins Water District as of December 31, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in conformity 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 3-7 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 responses 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2016, on our consideration of North Hopkins 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 North Hopkins Water District's internal control over financial reporting and compliance.

Alexander, Foley & Knight, PLLC

Madisonville, Kentucky
March 21, 2016

NORTH HOPKINS WATER DISTRICT
Management's Discussion and Analysis
December 31, 2015 and 2014

The discussion and analysis of the North Hopkins Water District's financial performance provides an overview and analysis of the District's financial activities for the years ended December 31, 2015 and 2014. It should be read in conjunction with the accompanying basic financial statements.

Financial Highlights for the Year 2015

- * The District's net position increased \$9.6 thousand or 0.4% from \$2.253 million to \$2.262 million.

Overview Of The Financial Statements

This report consists of this management's discussion and analysis, basic financial statements, and notes to the financial statements. The basic financial statements are reported using the full accrual basis of accounting.

Basic financial statements:

The Statement of Net Assets include information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). In simple terms, this statement presents a snap-shot view of the assets the District owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.

The Statement of Revenues, Expenses, and Changes in Net Fund Position include the District's revenues and expenses for the years ended December 31, 2015 and 2014. This statement provides information on the District's operations and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges.

The Statement of Cash Flows includes information on the District's cash receipts and payments and the changes in cash balances resulting from operating activities, investing activities, and financing activities.

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the District's financial condition.

District Financial Analysis

A summary of the District's Statement of Net Position is presented below.

Table 1
Condensed Statement of Net Position
(in thousands)

	<u>2015</u>	<u>2014</u>	<u>dollar</u> <u>change</u>	<u>percent</u> <u>change</u>	<u>2013</u>	<u>dollar</u> <u>change</u>	<u>percent</u> <u>change</u>
Current assets	\$ 152.5	\$ 186.1	(\$ 33.6)	(18.1%)	\$ 170.4	\$ 15.7	9.2%
Capital assets	2,769.7	2,753.3	16.4	0.6%	2,728.2	25.1	0.9%
Other noncurrent assets	<u>219.7</u>	<u>288.3</u>	(68.6)	(23.8%)	<u>365.9</u>	(77.6)	(21.2%)
Total assets	<u>3,141.9</u>	<u>3,227.7</u>	(85.8)	(2.7%)	<u>3,264.5</u>	(36.8)	(1.1%)
Deferred outflows of resources	<u>24.4</u>	<u>27.9</u>	(3.5)	(12.5%)	<u>31.4</u>	(3.5)	(11.1%)
Current liabilities	139.3	144.8	(5.5)	(3.8%)	122.5	22.3	18.2%
Long-term liabilities	<u>764.7</u>	<u>858.1</u>	(93.4)	(10.9%)	<u>954.9</u>	(96.8)	(10.1%)
Total liabilities	<u>904.0</u>	<u>1,002.9</u>	(98.9)	(9.9%)	<u>1,077.4</u>	(74.5)	(6.9%)
Net position invested in capital assets, net of related debt	1,935.9	1,829.7	106.2	5.8%	1,720.1	109.6	6.4%
Net position restricted for debt service	93.1	79.8	13.3	16.7%	69.0	10.8	15.7%
Net position restricted for capital projects	111.5	188.2	(76.7)	(40.8%)	281.8	(93.6)	(33.2%)
Unrestricted net position	<u>121.8</u>	<u>155.0</u>	(33.2)	(21.4%)	<u>147.6</u>	7.4	5.0%
Total net position	<u>\$2,262.3</u>	<u>\$2,252.7</u>	\$ 9.6	0.4%	<u>\$2,218.5</u>	\$ 34.2	1.5%

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2.3 million at the close of the current year.

2014 to 2015

As shown in table 1, the District's total assets decreased \$85,800 from \$3,227,700 to \$3,141,900. Current assets decreased \$33,600 as the District's unrestricted cash decreased \$48,000. The District had less cash inflows from operating activities than the prior year. The District also had an \$11,000 increase in accounts receivable as compared to the prior year. The District had higher water sales at the end of the current year. Capital assets increased \$16,400 as new capital additions outpaced depreciation expense. Other noncurrent assets decreased \$68,600 as purchases of capital additions were paid for out of the depreciation reserve account.

The District's total liabilities decreased \$98,900. Noncurrent liabilities decreased \$99,000 as the District made debt service payments as scheduled.

The District's total net position increased \$9,600, due to the net effect of the decrease in total assets and decrease in total liabilities referred to above.

2013 to 2014

As shown in table 1, the District's total assets decreased \$36,800 from \$3,264,500 to \$3,227,700. Current assets increased \$15,700 as the District had an \$10,000 increase in accounts receivable as compared to the prior year. The District had higher water sales at the end of the current year. Capital assets increased \$25,100 as new capital additions outpaced depreciation expense. Other noncurrent assets decreased \$77,600 as purchases of capital additions were paid for out of the depreciation reserve account.

The District's total liabilities decreased \$74,500. Current liabilities increased \$22,300 as payroll liabilities and current amounts payable on the District's bond issue were higher at the end of the current year. Noncurrent liabilities decreased \$96,800 as the District made debt service payments as scheduled.

The District's total net position increased \$34,200, due to the net effect of the decrease in total assets and decrease in total liabilities referred to above.

A summary of the District's Statement of Revenues, Expenses and Changes in Net Position is presented below.

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Position
(in thousands)

	<u>2015</u>	<u>2014</u>	<u>dollar change</u>	<u>percent change</u>	<u>2013</u>	<u>dollar change</u>	<u>percent change</u>
Operating revenues	\$ 768.3	\$ 743.5	\$ 24.8	3.3%	\$ 710.6	\$ 32.9	4.6%
Nonoperating revenues	<u>0.1</u>	<u>0.0</u>	0.1	0.0%	<u>0.0</u>	0.0	0.0%
Total revenues	<u>768.4</u>	<u>743.5</u>	24.9	3.3%	<u>710.6</u>	32.9	4.6%
Operating expenses	725.0	681.9	43.1	6.3%	657.6	24.3	3.7%
Nonoperating expenses	<u>38.6</u>	<u>35.4</u>	3.2	9.0%	<u>37.0</u>	(1.6)	(4.3%)
Total expenses	<u>763.6</u>	<u>717.3</u>	46.3	6.5%	<u>694.6</u>	22.7	3.3%
Income before capital contributions	4.8	26.2	(21.4)	(81.7%)	16.0	10.2	63.8%
Capital contributions	<u>4.8</u>	<u>8.0</u>	(3.2)	(40.0%)	<u>5.0</u>	3.0	60.0%
Changes in net position	9.6	34.2	(24.6)	(71.9%)	21.0	13.2	62.9%
Beginning net position	<u>2,252.7</u>	<u>2,218.5</u>	34.2	1.5%	<u>2,197.5</u>	21.0	1.0%
Ending net position	<u>\$2,262.3</u>	<u>\$2,252.7</u>	\$ 9.6	0.4%	<u>\$2,218.5</u>	\$ 34.2	1.5%

2014 to 2015

The District's total revenues increased \$24,900. The District's gross profit percentage improved from 55.9% in the prior year to 57.33% in the current year. The District also had a purchased water adjustment of 6%.

The District's total expenses increased \$46,300. Operating expenses increased \$43,000 as the District's expenditures for salaries increased \$47,000 due to additional employees hired during the year. Payroll taxes increased \$3,000 due to the increase in salaries. Materials and supplies decreased \$13,000 as less repairs were made. Rent expense decreased \$8,500 as the District no longer rents office and shop space. Nonoperating expenses remained similar to the prior year.

Capital contributions decreased \$3,200 as the District's tap fees were at a similar level as the prior year.

Change in net position, which increased \$9,600, resulted from the above increases.

2013 to 2014

The District's total revenues increased \$32,900. The District sold more water during the year as gross profit percentage of 55.9% remains similar to the prior year gross profit percentage of 57.5%.

The District's total expenses increased \$22,700. Operating expenses increased \$24,300 as the District's expenditures for water purchases increased \$26,800. Other operating expenditures remained similar to the prior year. Nonoperating expenses remained similar to the prior year.

Capital contributions increased \$3,000 as the District's tap fees were at a similar level as the prior year.

Change in net position, which increased \$34,200, resulted from the above increases.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2015 the District had \$2,769,661 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, and office furniture and equipment. This amount represents a net increase (additions, retirements, depreciation) of \$16,434 from the prior year. The increase is due to capital asset additions outpacing depreciation expense of \$100,649 in 2015.

Significant additions during the year included \$11,896 in meters and taps, \$10,374 for new hand held meter readers, \$8,515 for two used trucks, and \$184,131 for the District's new office and shop building of which construction was completed in 2015.

At December 31, 2014 the District had \$2,753,227 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, and office furniture and equipment. This amount represents a net increase (additions, retirements, depreciation) of \$25,007 from the prior year. The increase is due to capital asset additions outpacing depreciation expense of \$95,408 in 2014.

Significant additions during the year included \$12,338 in meters and taps and \$95,921 for construction, which is still in process at year end, of the District's new water office.

A comparison of the District's capital assets over the past three years is presented in Note E of the financial statements.

Long-Term Debt

At December 31, 2015, the District had \$858,121 in revenue bonds and revenue refunding bonds outstanding, which was a decrease of \$93,289 from the prior year balance of \$951,410. The District's bond issue was paid as scheduled and there were no new borrowings.

At December 31, 2014, the District had \$951,410 in revenue bonds and revenue refunding bonds outstanding, which was a decrease of \$88,117 from the prior year balance of \$1,039,527. The District's bond issue was paid as scheduled and there were no new borrowings.

Additional information on the District's long-term debt can be found in Note F of the financial statements.

Currently Known Facts, Decisions, or Conditions

There are no currently known facts, decisions, or conditions that District management expects to have a significant effect on financial position or results of operations.

Requests For Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the North Hopkins Water District, 316 Liberty Church Loop, Madisonville, Kentucky 42431.

North Hopkins Water District
Statement of Net Position
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 37,790	\$ 85,904
Accounts receivable	78,578	67,558
Material and parts inventory	29,028	26,319
Prepaid expenses	<u>7,114</u>	<u>6,343</u>
Total current assets	<u>152,510</u>	<u>186,124</u>
Noncurrent assets		
Restricted cash and cash equivalents	219,642	288,327
Capital assets:		
Nondepreciable	15,731	110,158
Depreciable, net of accumulated depreciation	2,753,930	2,643,069
Refundable deposit	<u>100</u>	<u>100</u>
Total noncurrent assets	<u>2,989,403</u>	<u>3,041,654</u>
Total assets	<u>3,141,913</u>	<u>3,227,778</u>
<u>Deferred outflows of resources</u>		
Deferred amount on refunding	<u>24,400</u>	<u>27,886</u>
Total deferred outflows of resources	<u>24,400</u>	<u>27,886</u>
<u>Liabilities</u>		
Current liabilities payable from current assets		
Accounts payable	26,116	19,985
Accrued taxes and other payables	<u>5,233</u>	<u>12,886</u>
	<u>31,349</u>	<u>32,871</u>
Current liabilities payable from restricted assets		
Customer meter deposits	3,250	6,500
Accrued interest-meter deposits	2	25
Bonds payable	93,465	93,289
Accrued interest-bonds	<u>11,273</u>	<u>12,144</u>
	<u>107,990</u>	<u>111,958</u>
Total current liabilities	<u>139,339</u>	<u>144,829</u>
Long-term liabilities		
Bonds payable	<u>764,656</u>	<u>858,121</u>
Total long-term liabilities	<u>764,656</u>	<u>858,121</u>
Total liabilities	<u>903,995</u>	<u>1,002,950</u>
<u>Net position</u>		
Invested in capital assets, net of related debt	1,935,940	1,829,702
Restricted for:		
Debt service	93,064	79,796
Capital projects	111,521	188,220
Unrestricted	<u>121,793</u>	<u>154,996</u>
Total net position	<u>\$2,262,318</u>	<u>\$2,252,714</u>

The accompanying notes are an integral part of these statements.

North Hopkins Water District
Statement of Revenues, Expenses and Changes in Fund Net Position
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues		
Water sales	\$ 767,331	\$ 742,496
Other operating revenues	<u>1,003</u>	<u>994</u>
Total operating revenues	<u>768,334</u>	<u>743,490</u>
Operating expenses		
Purchased water	329,348	326,949
Salaries-employees	148,474	101,803
Salaries-officers	10,800	10,800
Employee benefits	8,861	8,723
Depreciation	100,649	95,408
Transportation	8,539	7,555
Contract services	23,352	18,723
Taxes	12,974	9,857
Purchased power	15,372	14,752
Materials and supplies	48,594	61,472
Insurance	10,850	10,827
Miscellaneous	3,430	2,906
Regulatory commission expense	1,413	1,387
Rent	0	8,547
Advertising	1,304	765
Uncollectible accounts	<u>1,029</u>	<u>1,489</u>
Total operating expenses	<u>724,989</u>	<u>681,963</u>
Operating income (loss)	43,345	61,527
Non-operating revenues (expenses)		
Loss on disposition of assets	(5,169)	0
Interest income	102	110
Interest expense	<u>(33,474)</u>	<u>(35,462)</u>
Total non-operating revenues (expenses)	<u>(38,541)</u>	<u>(35,352)</u>
Income (loss) before contributions	4,804	26,175
Capital contributions-tap fees	<u>4,800</u>	<u>8,000</u>
Change in net position	9,604	34,175
Net position at beginning of year	<u>2,252,714</u>	<u>2,218,539</u>
Net position at end of year	<u><u>\$2,262,318</u></u>	<u><u>\$2,252,714</u></u>

The accompanying notes are an integral part of these statements.

North Hopkins Water District
Statement of Cash Flows
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>Cash flows from operating activities</u>		
Cash received from customers	\$ 756,311	\$ 734,690
Cash payments to suppliers for goods and services	(484,118)	(459,269)
Cash payments to employees for services	(148,474)	(112,603)
Other operating revenues	<u>1,003</u>	<u>994</u>
Net cash provided (used) by operating activities	124,722	163,812
<u>Cash flows from capital and related financing activities</u>		
Acquisition and construction of capital assets	(122,252)	(120,415)
Principal paid on revenue bonds	(95,000)	(90,000)
Interest paid on revenue bonds	(29,146)	(30,763)
Interest paid on customer deposits	(25)	(2)
Capital contributions received from customers/developers	<u>4,800</u>	<u>8,000</u>
Net cash provided (used) by capital and related financing activities	(241,623)	(233,180)
<u>Cash flows from investing activities</u>		
Interest earned on bank deposits	<u>102</u>	<u>110</u>
Net cash provided (used) by investing activities	102	110
Net increase (decrease) in cash and cash equivalents	(116,799)	(69,258)
Cash and cash equivalents at beginning of year	<u>374,231</u>	<u>443,489</u>
Cash and cash equivalents at end of year	<u>\$ 257,432</u>	<u>\$ 374,231</u>

Reconciliation of operating income to net cash provided (used) by operating activities

Operating income	\$ 43,345	\$ 61,527
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	100,649	95,408
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(11,020)	(9,667)
(Increase) decrease in other receivables	0	1,950
(Increase) decrease in inventory	(2,709)	548
(Increase) decrease in prepaid expenses	(771)	(315)
Increase (decrease) in accounts payable	6,131	881
Increase (decrease) in accrued taxes and other payables	(7,653)	10,130
Increase (decrease) in customer deposits	<u>(3,250)</u>	<u>3,350</u>
Total adjustments	<u>81,377</u>	<u>102,285</u>
Net cash provided (used) by operating activities	<u>\$ 124,722</u>	<u>\$ 163,812</u>

The accompanying notes are an integral part of these statements.

North Hopkins Water District
 Notes to Financial Statements
December 31, 2015 and 2014

NOTE A - SUMMARY OF ACCOUNTING POLICIES

The accounting policies of the North Hopkins Water District (the "District") conform to Generally Accepted Accounting Principles (GAAP) as applicable to governments. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The following is a summary of the more significant policies:

The Financial Reporting Entity

North Hopkins Water District (the "District") was created on June 3, 1965, under the provisions of chapter 74 of the Kentucky Revised Statutes of the Commonwealth of Kentucky. The principal office of the District is located at 316 Liberty Church Drive, Madisonville, Kentucky. The District is composed of three commissioners who are appointed by the Hopkins County Judge Executive and provides water to its customers in and around northern Hopkins County, Kentucky.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 - *The Financial Reporting Entity*.

Basis of Presentation, Measurement Focus, and Basis of Accounting

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues, and expenses. Enterprise Funds account for activities 1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or 2) that are required by laws or regulations that the activities costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or 3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statements of net position. Net position is required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net position is those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net position not otherwise classified as restricted, are shown as unrestricted. The statements of revenue, expenses, and changes in net position present increases (revenues) and decreases (expenses) in net position.

North Hopkins Water District
Notes to Financial Statements
December 31, 2015 and 2014

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accounts of the District are maintained on the accrual basis of accounting. Its revenues are recognized when they are earned, and its expenses are recognized when they are incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues and expenses of the District's enterprise fund are charges to customers for sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Unbilled water receivables for utility services provided through December 31 are included in the financial statements.

When both restricted and unrestricted resources are available for use, the District generally first uses restricted resources, then unrestricted resources as they are needed.

Cash and Cash Equivalents

All cash except for a small amount kept "on hand" is deposited in financial institutions. Deposits are interest bearing checking accounts. Unrestricted cash is available to be expended for normal operating expenses. Restricted cash is limited to payments of bond principal and interest, emergency capital improvements, and other designated purposes. Cash and cash equivalents are defined as being all monies on deposit in banks and investments with a maturity of 90 days or less.

Inventory

Inventory consists primarily of replacement parts and supplies. Inventory is stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

Capital Assets

Capital assets, which include property, plant, and equipment, are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset 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. No interest was capitalized during the years ended December 31, 2015 and 2014.

North Hopkins Water District
Notes to Financial Statements
December 31, 2015 and 2014

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

Capital assets of the District are depreciated using a straight-line method over the following estimated useful lives:

Structures, improvements and water system	5 to 65 years
Furniture, machinery and equipment	3 to 7 years

Restricted Net Position

Restricted net position is cash set aside for the repayment of debt in compliance with bond covenants and cash restricted for future operations in compliance with escrow reserve agreements.

Long-Term Liabilities

Long-term debt is reported as liabilities in the statement of net position. Long-term debt is reported at face value plus applicable issuance premiums and net of applicable discounts. Deferred amounts on refunding is reported separately as deferred outflows of resources. Discounts on debt issuances and amounts deferred on refunding are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter. Premiums on debt issuances are deferred and amortized as a reduction of interest expense over the life of the bonds.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for the deferred outflow of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The District currently has one item which qualifies for reporting in this category. It is the deferred amount of refunding with the District's bond issue. A deferred amount of refunding results from the difference in the carrying value of refunded debt and its reacquisition price.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represent an acquisition of net position that applies to a future period(s) and so will not be recognized as a inflow of resources (revenue) until that time.

Uncollectible Accounts

All accounts receivable are considered by management to be collectible, therefore no provision for uncollectible accounts has been established. Uncollectible accounts are expensed using the direct write-off method.

Use of Estimates

The preparation of financial statements in accordance with accounting principals generally accepted in the United States requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from those estimates.

North Hopkins Water District
Notes to Financial Statements
December 31, 2015 and 2014

NOTE B - DEPOSITS

The District maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount 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 of securities should be evidenced by an agreement that is (1) in writing, (2) 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 (3) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. Deposits are categorized to give an indication of risk assumed by the District at the end of the year. Category 1 includes deposits that are insured, Category 2 includes collateralized deposits held by the pledging institution's trust department or agent in the District's name, and Category 3 includes uncollateralized and uninsured deposits.

On December 31, 2015, the reconciled balance of the District's deposits totaled \$257,203 and the bank balances were \$296,568. Of the bank balances \$296,568 was covered by federal depository insurance (category 1).

On December 31, 2014, the reconciled balance of the District's deposits totaled \$374,001 and the bank balances were \$389,319. Of the bank balances \$329,796 was covered by federal depository insurance (category 1). Also of the bank balances, \$59,523 was collateralized by additional securities held by the pledging depository institution's trust department or agent in the District's name (category 2).

NOTE C - PREPAID EXPENSES

Prepaid expenses include prepaid insurance which represents the amount of unexpired insurance which the District had previously paid for at the balance sheet date and prepaid interest which represents the amount of interest expense paid prior to scheduled debt service.

At December 31, 2015, the District's prepaid expenses consisted of \$7,114 of insurance. At December 31, 2014, the District's prepaid expenses consisted of \$6,343 of insurance.

North Hopkins Water District
Notes to Financial Statements
December 31, 2015 and 2014

NOTE D - RESTRICTED CASH AND CASH EQUIVALENTS

The District has cash set aside for the repayment of debt in compliance with bond covenants, cash restricted for future operations in compliance with escrow reserve agreements, cash set aside for future capital assets, and cash set aside for repayment of customer deposits.

Restricted balances as of December 31 are as follows:

	<u>2015</u>	<u>2014</u>
Bond and interest redemption fund	\$ 93,064	\$ 79,796
Bond depreciation fund	111,521	188,220
Meter deposit fund	<u>15,057</u>	<u>20,311</u>
Totals	<u>\$ 219,642</u>	<u>\$ 288,327</u>

NOTE E - CAPITAL ASSETS

Capital asset activities for the years ended December 31, 2015 and 2014, were as follows:

	<u>Balances</u> <u>12/31/13</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Retirements</u>	<u>Balances</u> <u>12/31/14</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Retirements</u>	<u>Balances</u> <u>12/31/15</u>
Business-type activities:							
Capital assets not being depreciated							
Land & land rights	\$ 14,237	\$ 0	\$ 0	\$ 14,237	\$ 0	\$ 0	\$ 14,237
Construction in progress	<u>0</u>	<u>95,921</u>	<u>0</u>	<u>95,921</u>	<u>89,704</u>	<u>184,131</u>	<u>1,494</u>
Total	<u>14,237</u>	<u>95,921</u>	<u>0</u>	<u>110,158</u>	<u>89,704</u>	<u>184,131</u>	<u>15,731</u>
Capital assets being depreciated							
Structures, improvements, & water system	4,707,734	18,565	0	4,726,299	197,317	7,361	4,916,255
Office furniture & equipment	<u>124,089</u>	<u>5,929</u>	<u>0</u>	<u>130,018</u>	<u>19,362</u>	<u>21,602</u>	<u>127,778</u>
Total	<u>4,831,823</u>	<u>24,494</u>	<u>0</u>	<u>4,856,317</u>	<u>216,679</u>	<u>28,963</u>	<u>5,044,033</u>
Total capital assets	<u>4,846,060</u>	<u>120,415</u>	<u>0</u>	<u>4,966,475</u>	<u>306,383</u>	<u>213,094</u>	<u>5,059,764</u>
Less accumulated depreciation for:							
Structures, improvements, & water system	2,068,741	86,147	0	2,154,888	90,781	6,413	2,239,256
Office furniture & equipment	<u>49,099</u>	<u>9,261</u>	<u>0</u>	<u>58,360</u>	<u>9,868</u>	<u>17,381</u>	<u>50,847</u>
Total accumulated depreciation	<u>2,117,840</u>	<u>95,408</u>	<u>0</u>	<u>2,213,248</u>	<u>100,649</u>	<u>23,794</u>	<u>2,290,103</u>
Total business-type activities capital assets, net	<u>\$2,728,220</u>	<u>\$ 25,007</u>	<u>\$ 0</u>	<u>\$2,753,227</u>	<u>\$ 205,734</u>	<u>\$ 189,300</u>	<u>\$2,769,661</u>

North Hopkins Water District
Notes to Financial Statements
December 31, 2015 and 2014

NOTE F - LONG-TERM LIABILITIES

Long-term liability activity

Long-term liability activity for the years ended December 31, 2015 and 2014, were as follows:

	Balances 12/31/13	Additions	Reductions	Balances 12/31/14	Additions	Reductions	Balances 12/31/15	Amounts Due Within One Year
Revenue Bonds:								
Series 2010	1,050,000	0	90,000	960,000	0	95,000	865,000	95,000
Total	1,050,000	0	90,000	960,000	0	95,000	865,000	95,000
Less/Add Amounts:								
Issuance Discount	(10,473)	0	(1,883)	(8,590)	0	(1,711)	(6,879)	(1,535)
Sub total	1,039,527	0	88,117	951,410	0	93,289	858,121	93,465
Unamortized deferred amount on refunding	(31,371)	0	(3,486)	(27,885)	0	(3,486)	(24,399)	(3,486)
Total Bonds and Business-Type Activities Long- Term Liabilities	\$1,008,156	\$ 0	\$ 84,631	\$ 923,525	\$ 0	\$ 89,803	\$ 833,722	\$ 89,979

Description of debt

Waterworks Refunding Revenue Bonds, Series 2010

In November 2010, the District entered into an assistance agreement with Kentucky Rural Water Finance Corporation authorizing issuance of \$1,245,000 of revenue refunding bonds as part of the Kentucky Rural Water Finance Corporation Public Projects Revenue and Refunding Bonds (Flexible Term Program), Series 2010D for the current refunding of the Waterworks Refunding Revenue Bonds, Series 1998. Due to the decline in interest rates, the District determined that by issuing the refunding bonds, the District could realize savings in annual debt service payments. Total debt service payments would be reduced over the next thirteen years by \$316,859 and resulted in an economic gain of \$100,354. The refunding was accomplished by selling the \$1,245,000 2010 bonds at a discount of \$17,430 which provided net proceeds of \$1,227,570. The discount on bonds will be amortized as interest expense using the bonds outstanding/straight line method over the term of the bonds. The difference between the reacquisition price and the net carrying amount of the old bonds was \$42,410 (the deferred amount of refunding). The deferred amount of refunding will be amortized as interest expense using the straight line method over the term of the bonds.

The 2010 bonds mature in annual installments through the year 2023. Interest is payable semi-annually on February 1 and August 1. The interest rate varies over the term of maturity from 0.80% to 3.40%. \$22,420 of proceeds from the issue was expense as bond issue cost.

North Hopkins Water District
Notes to Financial Statements
December 31, 2015 and 2014

NOTE F - LONG-TERM LIABILITIES continued

The 2010 bonds are presented on the financial statements net of unamortized discount on bonds which was \$6,879 as of December 31, 2015 and \$8,590 as of December 31, 2014. In 2015, deferred amount of refunding of \$3,486 and discount on bonds of \$1,771 were amortized as interest expense. In 2014, deferred amount of refunding of \$3,486 and discount on bonds of \$1,883 were amortized as interest expense.

Debt Maturity

Annual debt service requirements at December 31, 2015 are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	95,000	27,053
2017	95,000	24,725
2018	105,000	21,970
2019	105,000	18,715
2020	110,000	15,355
2021-2023	<u>355,000</u>	<u>23,955</u>
Totals	<u>\$ 865,000</u>	<u>\$ 131,773</u>

NOTE G - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The District purchases commercial insurance for all risks of losses. Settlements resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE H - RELATED PARTY TRANSACTIONS

Prior to his appointment as commissioner in January 2007, James D. Ashby performed mowing services for the District. Mr. Ashby continues to perform mowing services for the District. Mowing services for 2015 totaled \$3,500 and mowing services for 2014 totaled \$2,500.

Alexander, Toney & Knight PLLC

CERTIFIED PUBLIC ACCOUNTANTS

28 Court Street
Madisonville, Kentucky 42431
(270) 821-4824
FAX: (270) 825-4554
Email: atkcpas@yahoo.com

Larry R. Alexander, CPA
Harold R. Toney, Jr., CPA
Anthony Knight, CPA

Members
American Institute of Certified Public Accountants
Kentucky Society of Certified Public Accountants

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

To The Commissioners
North Hopkins Water District
Madisonville, 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 North Hopkins Water District as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, and have issued our report thereon dated March 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Hopkins Water 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Hopkins Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of North Hopkins Water 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. We did identify certain deficiencies in internal control, as discussed below, that we consider to be significant deficiencies.

2015-1 Segregation of Duties

Condition: The internal control relating to receipts and disbursements is inadequate due to a lack of segregation of duties.

Criteria: Adequate segregation of duties is essential to an adequate internal control over financial reporting by allocating various duties among employees.

Effect: The lack of proper segregation of duties may permit errors or irregularities to go undetected.

Cause: There is a small number of accounting personnel. The cost versus benefit relationship prevents the District from hiring enough accounting personnel to properly segregate key accounting functions.

Recommendation: While the small number of employees that exist will never provide proper segregation of duties, the District should continually review job responsibilities for better accounting controls.

Response: The District concurs with the recommendation and will continually review job responsibilities to improve accounting controls when possible.

2015-2 Lack of Controls over Preparation of Financial Statements

Condition: The District outsources drafting of financial statements to the auditors. Management lacks the knowledge to apply generally accepted accounting principles in preparing the District's financial statements, including required disclosures.

Criteria: A proper control environment would be to employ or outsource an individual with the necessary accounting expertise to prevent, detect, and correct a potential misstatement in the financial statements and disclosures drafted by the auditor, or to internally prepare such financial statements and disclosures.

Effect: The absence of such controls may allow errors to go undetected.

Cause: Lack of personnel who possess the required knowledge to detect material misstatement in auditor drafted financial statements.

Recommendation: We recommend the District consider additional training for staff in charge of accounting and financial statement presentation. The District may consider adding manuals and disclosure checklists regarding preparation of financial statements to the control environment.

Response: We concur and will explore our options.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Hopkins Water District's financial statements are free of 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*.

North Hopkins Water District's Response to Findings

North Hopkins Water District's response to the findings identified in our audit is described above. North Hopkins Water 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 purposes.

Alexander, Poney & Knight, PLLC

Madisonville, Kentucky

March 21, 2016