

Elkhorn Water District
Independent Auditor's Report
For Years Ended December 31, 2020 and 2019

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ELKHORN WATER DISTRICT
INDEPENDENT AUDITOR'S REPORT
December 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board Members of the Elkhorn Water District
Frankfort, Kentucky 40601

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, of the Elkhorn Water District as of and for the year ended December 31, 2020 & 2019, and the related notes to the financial statements, which collectively comprise the Elkhorn Water District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 respective financial position of the business-type activities of the Elkhorn Water District, as of December 31, 2020 & 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2021, on our consideration of the Elkhorn 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 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 Elkhorn Water District's internal control over financial reporting and compliance.

Rick R. Waddle, Jr., CPA, PLLC

September 14, 2021

Elkhorn Water District
Statements of Net Position
December 31, 2020 and 2019

Assets	2020	2019
Current Assets		
Cash in Bank and on Hand	\$ 167,344	\$ 155,217
Investments at Cost	83,566	83,316
Accounts Receivable	30,925	31,914
Total Current Assets	281,835	270,447
Non-Current Assets		
Restricted Assets - Cash	36,929	29,178
Property, Plant, & Equipment		
Property, Plant, & Equipment	1,268,604	1,256,605
Accumulated Depreciation	(1,091,739)	(1,079,556)
Total Property, Plant & Equipment	176,865	177,049
Total Non-Current Assets	213,794	206,227
Total Assets	\$ 495,629	\$ 476,674
Liabilities & Net Assets		
Current Liabilities		
Accounts Payable	\$ 19,914	\$ 16,013
Accrued Taxes Payable	902	2,057
Current Portion of Bonds Payable	7,200	6,700
Total Current Liabilities	28,016	24,770
Long Term Liabilities		
Bonds Payable	106,600	113,800
Total Long Term Liabilities	106,600	113,800
Total Liabilities	134,616	138,570
Net Assets		
Investment in Capital Assets, Net of Related Debt	63,065	56,549
Restricted	36,929	29,178
Unrestricted	261,019	252,377
Total Net Assets	361,013	338,104
Total Liabilities and Net Assets	\$ 495,629	\$ 476,674

The Accompanying Notes are an integral part of these financial statements.

Elkhorn Water District
 Statements of Revenues, Expenses, And
 Changes In Net Position
 For The Years Ended December 31, 2020 and 2019

	2020	2019
Operating Income		
Water Revenue	\$ 329,429	\$ 339,417
Total Operating Income	329,429	339,417
Operating Expenses		
Purchased Water	180,062	178,297
Purchased Power	7,751	8,375
Contractual Services	40,119	44,591
Advertising	636	1,385
Payroll taxes	551	1,449
Postage	2,640	2,715
Maintenance	8,645	3,000
Office Supplies	4,059	6,076
Insurance	4,189	4,818
Legal & Professional	14,120	18,032
Commissioner's Fees	7,928	7,692
Utilities & Telephone	1,678	1,499
Rent	92	-
Chemical & Lab Analysis	2,398	1,730
Miscellaneous	3,048	787
Administrative Fee	19,314	20,596
Depreciation	12,183	18,898
Total Operating Expenses	309,413	319,940
Operating Income	20,016	19,477
Net Operating Revenue (Expenses)		
Interest Revenue	879	610
Interest Expense	(6,326)	(6,657)
Total Non-Operating Revenue (Expenses)	(5,447)	(6,047)
Net Income Before Contributions	14,569	13,430
Capital Contributions	8,340	3,140
Change In Position	22,909	16,570
Net Position - Beginning of Year	338,104	321,534
Net Position - End of Year	\$ 361,013	\$ 338,104

The accompanying notes are an integral part of these financial statements

Elkhorn Water District
Statements of Cash Flows
For The Years Ended December 31, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 330,418	\$ 332,039
Cash Payments for Employee Services and Benefits	(8,479)	(9,141)
Cash Payments to Suppliers for Goods and Services	(286,005)	(296,027)
Net Cash Provided (Used) by Operating Activities	<u>35,934</u>	<u>26,871</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	(11,999)	
Capital Contributions Received	8,340	3,140
Bond and Bond Interest Payments	(13,026)	(12,957)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(16,685)</u>	<u>(9,817)</u>
Cash Flows From Investing Activities:		
Investment Income Received	879	610
Cash Purchases of Investments	(250)	(250)
Net Cash Provided (Used) by Investing Activities	<u>629</u>	<u>360</u>
Net Increase (Decrease) in Cash & Cash Equivalents	19,878	17,414
Cash and Cash Equivalents, Beginning of Year	184,395	166,981
Cash and Cash Equivalents, End of Year	<u>\$ 204,273</u>	<u>\$ 184,395</u>
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities		
Operating Income (Loss)	\$ 20,016	\$ 19,477
Adjustment to Reconcile Operating Income (Loss) to		
Net Cash Provided (Used) in Operating Activities:		
Depreciation	12,183	18,898
(Increase)/Decrease in Accounts Receivable	989	(7,378)
Increase/(Decrease) in Accounts Payable	3,901	(5,248)
Increase/(Decrease) in Accrued Liabilities	(1,155)	1,122
Net Cash Provided (Used) by Operating Activities	<u>\$ 35,934</u>	<u>\$ 26,871</u>
Components of Cash on the Statement of Net Position		
Cash	\$ 167,344	\$ 155,217
Restricted Cash	36,929	29,178
	<u>\$ 204,273</u>	<u>\$ 184,395</u>

The accompanying notes are an integral part of these financial statements

Note A - Summary of Significant Accounting Policies

The Elkhorn Water District (the District) was organized in 1974 to provide water service to residents of its district. It is a political subdivision of Franklin County, Kentucky and purchases water from the Frankfort Plant Board for resale to the residents. The District is subject to the regulatory authority of Kentucky Public Service Commission ("PSC") pursuant to KRS 278.040.

Assets and Liabilities, and revenues and expenses are recognized on the accrual basis of accounting. The District incorporates current GASB pronouncements in its proprietary fund activities. The District does not utilize encumbrance accounting in its proprietary fund activities. The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position and cash flows. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into net investment in capital assets, restricted, and unrestricted components.

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

Operating revenue and expenses consist of revenue and expenses directly related to providing water service to residents of the district. Water revenues are reflected as earned when the customers are billed. Non-operating revenue and expenses consist of interest revenue and interest expenses related to capital and related financing activities. Capital contributions consist of water meters purchased during the year.

The District does not have an allowance for uncollectible accounts. The District writes off balances due when they become uncollectible.

Fixed Assets are recorded at cost and depreciated using the straight-line method at the following rates:

Pumps, lines, and meters	2.50%
Tanks	3.00%
Office Equipment	10.00%
Meter testing equipment	10.00%

Land and land rights are not subject to depreciation. The District capitalizes interest cost incurred during construction of fixed assets.

Investments are stated at cost, which approximates fair value, unless the market value is less than cost and there is evidence the decline in market value is due to other than temporary conditions.

Note B - Cash and Investments

Statutory Requirements

Kentucky Revised Statute 66.480 authorizes the District to invest in obligations of the U.S. treasury, and U.S. agencies, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest-bearing deposits of insured national or state banks.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principle, plus accrued interest.

The District's deposits and investments at December 31, 2020 and 2019 were entirely covered by Federal Depository Insurance.

The table presented below is designed to disclose the level of custody credit risk assumed by the District, based upon how its deposits were insured or secured with collateral at December 31, 2020 and 2019.

The categories of credit risk are defined as follows:

- 1) Insured by the FDIC or collateralized with securities held by government or by its agent in the governments name.
- 2) Collateralized with securities held by pledging financial institution's trust department or agent in the government's name.
- 3) Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the governments name.

2020 Type of Deposit	CATEGORY			Total Bank Amount	Total Carrying Amount
	1	2	3		
Cash	\$ 204,273.00	\$ -	\$ -	\$ 204,273.00	\$ 204,273.00
Certificate of Deposit	83,566.00	-	-	83,566.00	83,566.00
	<u>\$ 287,839.00</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 287,839.00</u>	<u>\$ 287,839.00</u>

2019	CATEGORY			Total Bank Amount	Total Carrying Amount
	1	2	3		
Cash	\$ 184,359.00	\$ -	\$ -	\$ 184,359.00	\$ 184,395.00
Certificate of Deposit	83,316.00	-	-	83,316.00	83,316.00
	<u>\$ 267,711.00</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 267,711.00</u>	<u>\$ 267,711.00</u>

Statement of Cash Flows

The Statement of Cash Flows includes the following as cash and cash equivalents:

	2020	2019
Cash		
Operations & Maintenance Fund	\$ 7,221	\$ 31,880
Revenue Fund	160,123	123,337
Total Cash in Bank	<u>167,344</u>	<u>155,217</u>
Investments		
CD	83,566	83,316
Restricted Cash		
Sinking Fund	1,483	1,510
Reserve Fund	15,649	15,626
Construction Account	19,797	12,042
Total Restricted Cash	<u>36,929</u>	<u>29,178</u>
Total Cash & Cash Equivalents	<u>\$ 287,839</u>	<u>\$ 267,711</u>

Note C - Accounts Payable

Accounts payable at December 31, 2020 and 2019 consist of the following:

	2020	2019
Water Purchases	\$15,292	\$12,420
Electric	813	787
Chemicals	460	440
Accounting	400	505
Legal & Professional	400	1712
Office Expense	40	0
Advertising	0	11
Repairs & Maintenance	2360	0
Utilities & Telephone	149	138
TOTAL	\$19,914	\$16,013

Most Accounts were paid in January or February, 2021, and all checks cleared the bank.

Note D- Insurance and Related Activities

The District is exposed to various forms of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries general liability and commercial insurance for workers compensation and employee health and accident claims. Settlement claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note E - Purchased Water Contracts

The Elkhorn Water District purchases treated water from the Frankfort Plant Board as the District does not produce it's own water.

Note F - Long-Term Debt

In December 1993 the District issued and sold \$200,000 of USDA Rural Development Bonds for the purpose of extending water service to other customers. The bonds pay interest at 5.25% and mature ratably through the year 2032. The District's annual principle payments are due January 1st of each year. The District paid it's principle and interest requirement for January 1, 2020 at December 31, 2019. The following is a summary of the bonds and notes outstanding for the District for the year ended December 31, 2019:

USDA, Rural Development Bond - \$200,000, date December 6, 1993 with payments through 2032, bearing interest at a rate of 5.25%:

	\$ 113,800
Less Current Portion of Debt	7,200
Long-Term Debt	\$ 106,600

The outstanding amount of the bonds were \$113,800 at December 31, 2020 and \$120,500 at December 31, 2019. The annual debt service requirements to retire the bonds outstanding at December 31, 2020 for each of the next five years and in remaining five year increments are as follows:

Year Ending	Bond/Note Principle	Bond/Note Interest	Total
2021	7,200	5,974	13,174
2022	7,700	5,596	13,296
2023	8,200	5,192	13,392
2024	8,800	4,760	13,560
Thereafter	81,900	9,203	91,103
Total	\$ 113,800	\$ 30,725	144,525

Changes in Long-Term Debt:		December 31, 2020				
Description	31-Dec-19	Additions	Retirements	31-Dec-20	Current Retirement	
Long-term Debt	\$ 120,500	\$ -	\$ (6,700)	\$ 113,800	\$ 7,200	

		December 31, 2019				
Description	31-Dec-18	Additions	Retirements	31-Dec-19	Current Retirement	
Long-Term Debt	\$ 126,800.00	\$ -	\$ (6,300.00)	\$ 120,500.00	\$ 6,700.00	

Note G - Reserves

Debt Service Reserve - There is to be a monthly deposit of \$130 until a balance of \$15,600 is accumulated for all bond issues. The Reserve Fund balance totaled \$15,649 at December 31, 2020 and \$15,626 at December 31, 2019, and are included in Restrictions of Net Assets for December 31, 2020 and 2019.

Note H - Concentrations of Credit Risk

The District did not have cash, and cash equivalents in excess of FDIC insurance as of December 31, 2020. All cash and cash equivalent amounts were under category 1 of credit risk and were insured by the FDIC.

Note I - Related Party Transactions

The District utilized the services of Gatewood Water Service as an independent contractor in 2020, and 2019. The District utilized the services of the Peaks Mill Water District for administrative support in 2020, and 2019.

Note J - Management's Review of Subsequent Events

Management did not indicate financially impacting information regarding subsequent events. An evaluation of subsequent events through September 14, 2021, found no events that appeared to have a material effect regarding the accompanying financial statements of Elkhorn Water District as of and for the year ended December 31, 2020 and 2019.

Note K - Property, Plant, & Equipment

Capital Assets Being Depreciated

Description	December 31, 2019	Additions	Retirements	December 31, 2020
Pumps, Lines, & Meters	936,137	11,999		948,136
Tanks	294,318			294,318
Meters	16,352			16,352
Office Equipment	8,798			8,798
Total	\$ 1,255,605	\$ 11,999	\$ -	\$ 1,267,604
Less: Accumulated Depreciation	1,079,556	12,183		1,091,739
Net Depreciable Assets	176,049	(184)		175,865
Land	1,000			1,000
Total Capital Assets, Net	\$ 177,049	\$ (184)		\$ 176,865

Capital Assets Being Depreciated

Description	December 31, 2018	Additions	Retirements	December 31, 2019
Pumps, Lines, & Meters	936,137	-		936,137
Tanks	294,318	-		294,318
Meters	16,352	-		16,352
Office Equipment	8,798			8,798
Total	\$ 1,255,605	\$ -	\$ -	\$ 1,255,605
Less: Accumulated Depreciation	1,060,658	18,898		1,079,556
Net Depreciable Assets	194,947	(18,898)		176,049
Land	1,000			1,000
Total Capital Assets, Net	\$ 195,947	\$ (18,898)		\$ 177,049

Depreciation for the years ended December 31, 2020 and 2019 was \$12,183 and \$18,898.

Note L-Interest Expense

Interest expense incurred and charged to expense for the years ended December 31, 2020 and 2019 was \$6,326 and \$6,657. No interest was capitalized in 2020 and 2019.

Note M-Schedule of Annual Debt Requirements

Year End	Bond	Interest		Total	Total
	Prin. Due January 1, 2020	January 1, 2020	July 1, 2020	Interest	Requirements
2020	6,700	3,163	3,163	6,326	13,026
2021	7,200	2,987	2,987	5,974	13,174
2022	7,700	2,798	2,798	5,596	13,296
2023	8,200	2,596	2,596	5,192	13,392
2024	8,800	2,380	2,380	4,760	13,560
2025	9,400	2,149	2,149	4,298	13,698
2026	10,100	1,903	1,903	3,806	13,906
2027	10,800	1,638	1,638	3,276	14,076
2028	11,500	1,354	1,354	2,708	14,208
2029	12,400	1,052	1,052	2,104	14,504
2030	13,200	727	727	1,454	14,654
2031	14,500	380	380	760	15,260
	\$ 120,500	\$ 23,127	\$ 23,127	\$ 46,254	\$ 166,754

**Independent Auditor's Report on Control over Financial Reporting and
on Compliance and Other Matters on an Audit of Financial Statements
Performed in Accordance with *Governmental Auditing Standards***

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

**To the Board Members of the Elkhorn Water District
Frankfort, Kentucky 40601**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, of the Elkhorn Water District, as of and for the year ended December 31, 2020 & 2019, and the related notes to the financial statements, which collectively comprise the Elkhorn Water District's basic financial statements, and have issued our report thereon dated September 14, 2021.

Internal Control over Financial Reporting

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

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.

Rick R. Waddle, Jr., CPA, PLLC

Frankfort, Kentucky 40601
September 14, 2021