

Hyden–Leslie County Water District
Hyden, Kentucky

Independent Auditor's Report
And Financial Statements
For the Years Ended
December 31, 2021 and 2020

Hyden-Leslie County Water District
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Independent Auditor's Report

To the Commissioners
Hyden-Leslie County Water District
Hyden, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Hyden-Leslie County Water District (the District) as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 Hyden-Leslie County Water District, as of December 31, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the date that the financial statements are available to be issued, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2022 on our consideration of Hyden-Leslie County 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 solely 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 effectiveness of Hyden-Leslie County Water District's 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 Hyden-Leslie County Water District's internal control over financial reporting and compliance.

Sturgeon Collins CPAs, PLLC

Sturgeon Collins CPAs, PLLC
London, Kentucky

May 31, 2022

Hyden-Leslie County Water District
Statements of Net Position
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 272,598	\$ 167,193
Investments	450,448	450,951
Receivables, less allowance for doubtful accounts of \$5,000	296,976	275,389
Unbilled accounts receivable	48,329	39,124
Inventories	72,939	58,566
Prepaid expenses	30,877	64,956
Grants receivable	-	6,233
Other current assets	1,165	2,803
Total Current Assets	<u>1,173,332</u>	<u>1,065,215</u>
Noncurrent Assets		
Restricted Assets		
Customer deposits	61,286	55,362
Depreciation reserves	149,780	128,760
Debt and interest funds	170,749	229,500
PSC surcharge	64,142	-
Total Restricted Assets	<u>445,957</u>	<u>413,622</u>
Capital Assets		
Land and improvements	32,169	32,169
Buildings and improvements	5,632,405	5,632,405
Source of supply and pumping	2,554,944	2,554,944
Water treatment equipment	3,649,437	3,647,342
Transmission and distribution plant	22,007,177	21,949,088
Vehicles and other equipment	1,080,207	1,080,207
Construction in progress	231,045	199,686
Less: accumulated depreciation	(12,144,945)	(11,345,223)
Net Capital Assets	<u>23,042,439</u>	<u>23,750,618</u>
Total Noncurrent Assets	<u>23,488,396</u>	<u>24,164,240</u>
Total Assets	<u>\$ 24,661,728</u>	<u>\$ 25,229,455</u>

See accompanying notes to financial statements.

Hyden-Leslie County Water District
Statements of Net Position (Continued)
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Liabilities and Net Position		
Current Liabilities		
Current portion of long-term debt	\$ 190,799	\$ 185,644
Accounts payable	52,176	56,851
Accrued interest payable	8,394	6,945
Accrued salaries and taxes payable	25,497	23,368
Other current liabilities	16	25
Total Current Liabilities	<u>276,882</u>	<u>272,833</u>
Noncurrent Liabilities		
Customer deposits	61,286	55,362
Unearned tap fees	8,200	7,500
Unearned grant revenue	48,205	-
Long-term debt, less current portion	5,697,062	5,919,356
Total Noncurrent Liabilities	<u>5,814,753</u>	<u>5,982,218</u>
Total Liabilities	<u>6,091,635</u>	<u>6,255,051</u>
Net Position		
Net investment in capital assets	17,154,578	17,645,618
Restricted	445,957	413,622
Unrestricted	969,558	915,164
Total Net Position	<u>18,570,093</u>	<u>18,974,404</u>
Total Liabilities and Net Position	<u>\$ 24,661,728</u>	<u>\$ 25,229,455</u>

Hyden-Leslie County Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Water sales	\$ 1,990,871	\$ 1,547,560
Service charges	2,474	1,729
Tap fees	11,388	20,262
Penalties	-	7,833
PSC surcharge	68,145	11,429
Other revenues	6,179	289
Total Operating Revenues	<u>2,079,057</u>	<u>1,589,102</u>
Operating Expenses		
Salaries and wages	529,648	519,126
Employee benefits	286,558	261,692
Utilities	284,771	248,689
Chemicals	89,939	68,230
Materials and supplies	129,688	139,348
Contracted services	42,906	78,838
Vehicle and equipment expenses	40,552	51,549
Insurance	59,927	57,753
Bad debt expense, net of recoveries	24,710	26,742
Depreciation	799,722	787,998
Other operating expenses	106,253	105,353
Total Operating Expenses	<u>2,394,674</u>	<u>2,345,318</u>
Operating Loss	<u>(315,617)</u>	<u>(756,216)</u>
Non-operating Revenues (Expenses)		
Interest income	531	8,101
Grant revenue	24,815	23,214
Reimbursed line relocation income	1,855	5,399
Line relocation expense	(1,855)	(5,399)
Interest expense	(114,040)	(182,650)
Total Non-operating Revenues (Expenses)	<u>(88,694)</u>	<u>(151,335)</u>
Change in Net Position	(404,311)	(907,551)
Net Position, Beginning of Year	<u>18,974,404</u>	<u>19,881,955</u>
Net Position, End of Year	<u><u>\$ 18,570,093</u></u>	<u><u>\$ 18,974,404</u></u>

See accompanying notes to financial statements.

Hyden-Leslie County Water District
Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 2,024,000	\$ 1,517,171
Receipts from other activities	6,179	289
Payments to employees	(527,519)	(537,431)
Payments to suppliers	(955,007)	(914,767)
Payments for other activities	<u>(106,253)</u>	<u>(105,353)</u>
Net Cash Provided (Used) by Operating Activities	<u>441,400</u>	<u>(40,091)</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(91,543)	(207,936)
Principal payments on debt	(3,040,644)	(93,800)
Interest payments on debt	(76,903)	(218,481)
Proceeds from debt	2,823,505	120,000
Grants	<u>79,253</u>	<u>16,981</u>
Net Cash Used by Capital and Related Financing Activities	<u>(306,332)</u>	<u>(383,236)</u>
Cash Flows From Investing Activities		
Purchases of investments	(1,926)	(13,944)
Proceeds from investments	-	470,000
Interest on investments	<u>4,598</u>	<u>14,256</u>
Net Cash Provided by Investing Activities	<u>2,672</u>	<u>470,312</u>
Net Increase in Cash and Cash Equivalents	137,740	46,985
Cash and Cash Equivalents at Beginning of Year	<u>580,815</u>	<u>533,830</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 718,555</u></u>	<u><u>\$ 580,815</u></u>
Reconciliation of cash per Statements of Net Position to cash per Statements of Cash Flows:		
Cash and cash equivalents	\$ 272,598	\$ 167,193
Customer deposits	61,286	55,362
Depreciation reserves	149,780	128,760
Debt and interest funds	170,749	229,500
PSC surcharge	<u>64,142</u>	<u>-</u>
Cash and Cash Equivalents per Statements of Cash Flows	<u><u>\$ 718,555</u></u>	<u><u>\$ 580,815</u></u>

See accompanying notes to financial statements.

Hyden-Leslie County Water District
Statements of Cash Flows (Continued)
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Operating loss	\$ (315,617)	\$ (756,216)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation	799,722	787,998
(Increase) Decrease in operating assets		
Accounts receivable	(21,587)	(36,951)
Unbilled accounts receivable	(9,205)	(11,204)
Inventory	(14,373)	(11,290)
Other current assets and prepaid expenses	(1,609)	(1,134)
Increase (Decrease) in operating liabilities		
Accounts payable	(4,675)	7,918
Accrued expenses and other liabilities	2,120	(22,467)
Customer deposits	5,924	3,555
Unearned tap fees	700	(300)
Net Cash Provided (Used) by Operating Activities	<u>\$ 441,400</u>	<u>\$ (40,091)</u>

Hyden-Leslie County Water District
Notes to Financial Statements
December 31, 2021 and 2020

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Hyden-Leslie County Water District, of Leslie County, Kentucky ("District") was created in 1968 under Chapter 74 of the Kentucky Revised Statutes. The District is governed by a five-person board of Commissioners which is appointed by the Leslie County Fiscal Court. The District is regulated by the Kentucky Public Service Commission.

The District is a rural water utility system whose purpose is to establish, develop and operate a water supply and distribution system for its customers in Leslie County, Kentucky. The District's primary source of revenue is from water sales to its customers, including public bodies and local businesses in its service area.

Basis of Accounting, Financial Presentation and Measurement Focus

The basic financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The District applies all relevant Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails. In addition, the District applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

The Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position display information about the District as a whole. These statements include all funds of the District.

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported by the District includes revenues and expenses related to the continuing operation of water service for its customers. Principal operating revenues are charges to customers for services. Principal operating expenses are the costs of providing the services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Cash and Cash Equivalents

The District considers demand deposits and certificates of deposit with maturities of less than three months to be cash equivalents.

Investments

Investments include certificates of deposit with maturity dates of three months or more and a government money market fund.

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2021 and 2020

Note 1 - Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Receivables include amounts due from customers for water services. These receivables are due at the time the services are billed and are considered past due on the first day of the following month. Accounts receivable are presented net of uncollectible accounts. The allowance amount is estimated using a percentage of accounts past due more than 30 days. At December 31, 2021 and 2020, the allowance for doubtful accounts was \$5,000.

Unbilled Accounts Receivable

Estimated unbilled revenues from water sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billing during the month following the close of the fiscal year.

Inventories and Prepaid Expenses

Inventories consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost and are recorded as an expense at the time individual items are used. Prepaid expenses include payments to vendors that benefit future reporting periods and are reported on the consumption basis.

Capital Assets

The District's property, plant and equipment with useful lives of more than one year are stated at historical cost. The District has established a capitalization threshold of \$2,000. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Depreciation expense for the years ended December 31, 2021 and 2020 was \$799,722 and \$787,998, respectively.

Estimated useful lives for depreciable assets are as follows:

Asset Classification	Range of Lives
Structures and improvements	35-40 years
Transmission distribution mains	50-75 years
Plant equipment	10-60 years
Meters and services	30-50 years
Other equipment and vehicles	7-25 years

Compensated Absences

The District grants annual vacation of 80 hours to regular full-time employees. Time is accrued in January of each year. Employees may be paid out for a maximum of 80 hours each calendar year for unused earned vacation time at the employee's regular rate of pay. A maximum of 160 hours of unused vacation time may be rolled over to the next year. An employee who terminates employment in good standing will receive pay for unused vacation time earned at the time of termination. The District's accrued compensated absences as of December 31, 2021 and 2020 were \$14,977 and \$14,253, respectively.

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2021 and 2020

Note 1 - Summary of Significant Accounting Policies (Continued)

Customer Deposits

The District collects and holds in escrow a \$30 (increased to \$74 in November 2020) deposit from customers to ensure collection of its water charges. Interest at an annual rate of 0.12% is paid on these deposits.

Net Position

Net position is comprised of the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted – This component of net position consists of restricted assets less liabilities and deferred inflows of resources related to those assets. Restricted assets are those with limits on their use that are externally imposed constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net amounts of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or the restricted component of net position.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District would typically use restricted assets first, but reserves the right to selectively spend unrestricted assets first.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires 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 reporting period. Actual results could differ from those estimates.

Note 2 – Restricted Assets

Under the terms of all loan resolutions, the District is required to maintain certain accounts and funds for the benefit and protection of the creditors. In addition, the District is also required to collect reasonable and sufficient rates and charges for services rendered, prohibited from selling, leasing or mortgaging any part of the system without prior approval, required to maintain the operating system in good condition and to carry adequate insurance on all properties to protect against loss or damage.

The resolutions require the District to establish a depreciation fund or reserve to be used to finance the cost of unusual repairs, renewals and replacements not included in the annual budget and to pay for future system extensions. The balance of these accounts at December 31, 2021 and 2020 was \$320,529 and \$358,260, respectively. The balance of customer deposits held at December 31, 2021 and 2020 was \$61,286 and \$55,362, respectively.

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2021 and 2020

Note 2 – Restricted Assets (Continued)

In conjunction with approval of the District's rate increase that was effective November 2020, the Public Service Commission (PSC) established a requirement of the District to assess a monthly surcharge of \$1.53 per customer for 48 months, or until \$263,124 has been assessed, whichever occurs first, to fund its unaccounted for water loss reduction efforts. Surcharge collections are required to be deposited in a separate interest-bearing account which was opened during 2021. The balance of the PSC surcharge account at December 31, 2021 was \$64,142.

Note 3 – Kentucky Revised Statute

At December 31, 2021 and 2020, \$1,240,678 and \$1,063,090, respectively, of the cash and certificates of deposit of the District was covered by federal depository insurance and securities pledged as collateral on behalf of the District. In accordance with Kentucky Revised Statute (KRS) 91A.060, the deposits are to be insured by the Federal Depository Insurance Corporation or collateralized to the extent uninsured by any obligations permitted by KRS 41.240(4). According to KRS 41.240(4), financial institutions shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. According to KRS 66.480, the District is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, interest bearing deposits of insured savings and loans, or interest-bearing deposits of insured national or state banks. For additional cash descriptive information, see Note 1.

Note 4 – Custodial Credit Risk - Deposits

The fair market value of deposits was equivalent to the carrying values as of December 31, 2021 and 2020. All deposits were checking or savings accounts. The carrying amounts of the District's bank deposits were \$718,120 and \$580,380 for the years ended December 31, 2021 and 2020, respectively. The bank balances were \$790,230 and \$615,223 for the years ended December 31, 2021 and 2020, respectively. The bank balances were covered by \$250,000 of FDIC insurance for each year. The remaining bank balances were collateralized. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2021, and 2020, \$540,230 and \$365,223, respectively, of the District's total deposits at banks were exposed to custodial credit risk as follows:

	<u>2021</u>	<u>2020</u>
Uninsured and uncollateralized	\$ -	\$ -
Uninsured and collateral held by pledging bank	540,230	365,223
Uninsured and collateral held by pledging bank's trust department not in the District's name	-	-
Total	<u>\$ 540,230</u>	<u>\$ 365,223</u>

The District also held \$435 of petty cash on hand for the years ended December 31, 2021 and 2020.

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2021 and 2020

Note 5 – Investments

The investments of the District have been categorized to give an indication of the level of risk assumed by the District at year end. The risk categories are described as follows:

Risk category 1 – Investments that are insured, registered, or for which the securities are held by the District or its agents in the District's name.

Risk category 2 – Uninsured and unregistered investments for which the securities are held by the bank's trust department or agents in the District's name.

Risk category 3 – Uninsured and unregistered investments for which the securities are held by the banks, or by their trust departments or agents, but not in the District's name.

As of December 31, 2021, and 2020, the District had the following investments, categorized by level of risk:

	<u>Risk Category</u>	<u>Fair Value</u>	
		<u>2021</u>	<u>2020</u>
Government Money Market Fund	1	\$ 450,448	\$ 127,743
Certificates of Deposit	1	-	323,208
Total		<u>\$ 450,448</u>	<u>\$ 450,951</u>

Interest Rate Risk – Investments. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value arising from increasing interest rates.

Concentration of Credit Risk – Investments. The District places no limit on the amount the District may invest in any one fund. At December 31, 2021 and 2020, all of the District's investments consisted of certificates of deposit and a money market fund.

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2021 and 2020

Note 6 – Capital Assets

The following is a summary of capital asset transactions for the year ended December 31, 2021:

	Balance Dec. 31, 2020	Additions	Dispositions	Balance Dec. 31, 2021
Land and improvements	\$ 32,169	\$ -	\$ -	\$ 32,169
Building and improvements	5,632,405	-	-	5,632,405
Source of supply and pumping	2,554,944	-	-	2,554,944
Water treatment equipment	3,647,342	2,095	-	3,649,437
Transmission and distribution plant	21,949,088	58,089	-	22,007,177
Vehicles and other equipment	1,080,207	-	-	1,080,207
Construction in progress	199,686	79,109	47,750	231,045
Totals at historical cost	<u>35,095,841</u>	<u>139,293</u>	<u>47,750</u>	<u>35,187,384</u>
Less accumulated depreciation for:				
Building and improvements	1,192,578	150,198	-	1,342,776
Source of supply and pumping	839,238	88,294	-	927,532
Water treatment equipment	781,884	124,393	-	906,277
Transmission and distribution plant	7,971,029	368,692	-	8,339,721
Vehicles and other equipment	560,494	68,145	-	628,639
Total accumulated depreciation	<u>11,345,223</u>	<u>799,722</u>	<u>-</u>	<u>12,144,945</u>
Capital assets - net	<u>\$ 23,750,618</u>	<u>\$ (660,429)</u>	<u>\$ 47,750</u>	<u>\$ 23,042,439</u>

The following is a summary of capital asset transactions for the year ended December 31, 2020:

	Balance Dec. 31, 2019	Additions	Dispositions	Balance Dec. 31, 2020
Land and improvements	\$ 32,169	\$ -	\$ -	\$ 32,169
Building and improvements	5,632,405	-	-	5,632,405
Source of supply and pumping	2,554,944	-	-	2,554,944
Water treatment equipment	3,647,342	-	-	3,647,342
Transmission and distribution plant	21,926,748	22,340	-	21,949,088
Vehicles and other equipment	989,563	90,644	-	1,080,207
Construction in progress	104,734	94,952	-	199,686
Totals at historical cost	<u>34,887,905</u>	<u>207,936</u>	<u>-</u>	<u>35,095,841</u>
Less accumulated depreciation for:				
Building and improvements	1,042,380	150,198	-	1,192,578
Source of supply and pumping	750,910	88,328	-	839,238
Water treatment equipment	657,578	124,306	-	781,884
Transmission and distribution plant	7,602,037	368,992	-	7,971,029
Vehicles and other equipment	504,320	56,174	-	560,494
Total accumulated depreciation	<u>10,557,225</u>	<u>787,998</u>	<u>-</u>	<u>11,345,223</u>
Capital assets - net	<u>\$ 24,330,680</u>	<u>\$ (580,062)</u>	<u>\$ -</u>	<u>\$ 23,750,618</u>

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2021 and 2020

Note 7 – Long-Term Debt

On February 1, 2016, the District entered into an assistance agreement with the Kentucky Rural Water Finance Corporation (KRWFC) to borrow funds with a fixed rate of 2.00%. The District entered into the agreement and used all loan proceeds to advance refund their outstanding Series 2013F loan with KRWFC. As a result, the Series 2013F bonds are considered defeased. The agreement matured February 1, 2018. The agreement was refinanced in 2018, 2019, 2020, and 2021 at varying interest rates with a final maturity date of February 1, 2022. As of March 29, 2021 permanent financing was obtained with Kentucky Infrastructure Authority. Upon payoff of the KRWFC bonds, capitalized interest of \$35,687.50 was refunded to the District and reduced the final payoff amount. This prepaid interest was included in prepaid expenses on the Statements of Net Position as of December 31, 2020. Principal and interest payments on the KIA loan began as scheduled on June 1, 2021.

The following is a summary of long-term debt transactions for the year ended December 31, 2021:

	<u>Balance</u> <u>Dec. 31, 2020</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2021</u>	<u>Due Within</u> <u>One Year</u>
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due June 1, 2028; interest payable on a semi-annual basis at the rate of 5.0%	\$ 312,500	\$ -	\$ 37,083	\$ 275,417	\$ 40,000
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due June 1, 2040; interest payable on a semi-annual basis at the rate of 4.5%	223,500	-	7,100	216,400	7,400
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due June 1, 2051; interest payable on a semi-annual basis at the rate of 3.75%	1,001,000	-	16,000	985,000	16,500

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2021 and 2020

Note 7 – Long-Term Debt (Continued)

	<u>Balance</u> <u>Dec. 31, 2020</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2021</u>	<u>Due Within</u> <u>One Year</u>
Loan payable to United States Department of Agriculture, payable annually in variable principal amounts, with final payment due June 1, 2051; interest payable on a semi-annual basis at the rate of 2.25%	\$ 1,713,000	\$ -	\$ 38,000	\$ 1,675,000	\$ 39,000
Loan payable to Kentucky Rural Water Finance Corporation, principal payable upon maturity on February 1, 2022; interest payable on a semi-annual basis at the rate of 1.25%. Permanent financing obtained with Kentucky Infrastructure Authority in March 2021	2,855,000	-	2,855,000	-	-
Loan payable to Kentucky Infrastructure Authority, payable semi-annually in varying principal and interest amounts, interest rate of 0.5%, with final payment due December 1, 2050	-	2,823,505	87,461	2,736,044	87,899
	<u>\$ 6,105,000</u>	<u>\$ 2,823,505</u>	<u>\$ 3,040,644</u>	<u>\$ 5,887,861</u>	<u>\$ 190,799</u>

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2021 and 2020

Note 7 – Long-Term Debt (Continued)

The following is a summary of long-term debt transactions for the year ended December 31, 2020:

	<u>Balance</u> <u>Dec. 31, 2019</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2020</u>	<u>Due Within</u> <u>One Year</u>
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due June 1, 2028; interest payable on a semi-annual basis at the rate of 5.0%	\$ 347,500	\$ -	\$ 35,000	\$ 312,500	\$ 37,083
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due June 1, 2040; interest payable on a semi-annual basis at the rate of 4.5%	230,300	-	6,800	223,500	7,100
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due June 1, 2051; interest payable on a semi-annual basis at the rate of 3.75%	1,016,000	-	15,000	1,001,000	16,000
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due June 1, 2051; interest payable on a semi-annual basis at the rate of 2.25%	1,750,000	-	37,000	1,713,000	38,000

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2021 and 2020

Note 7 – Long-Term Debt (Continued)

	<u>Balance</u> <u>Dec. 31, 2019</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2020</u>	<u>Due Within</u> <u>One Year</u>
Loan payable to Kentucky Rural Water Finance Corporation, principal payable upon maturity on February 1, 2022; interest payable on a semi-annual basis at the rate of 1.25%. Permanent financing obtained with Kentucky Infrastructure Authority in March 2021	\$ 2,735,000	\$ 120,000	\$ -	\$ 2,855,000	\$ 87,461
	<u>\$ 6,078,800</u>	<u>\$ 120,000</u>	<u>\$ 93,800</u>	<u>\$ 6,105,000</u>	<u>\$ 185,644</u>

The aggregate annual principal repayments on long-term debt are summarized as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 190,799	\$ 104,008	\$ 294,807
2023	193,139	100,498	293,637
2024	195,881	97,121	293,002
2025	199,309	93,259	292,568
2026	206,072	89,392	295,464
2027-2031	914,175	396,122	1,310,297
2032-2036	925,848	321,142	1,246,990
2037-2041	1,003,246	233,767	1,237,013
2042-2046	1,029,042	146,766	1,175,808
2047-2051	1,030,350	51,230	1,081,580
	<u>\$ 5,887,861</u>	<u>\$ 1,633,305</u>	<u>\$ 7,521,166</u>

Note 8 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage for the year and settlements have not exceeded coverage in the past three years.

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2021 and 2020

Note 9 – Related Party Transactions

There is one business that the District uses as a vendor which is owned by a related party of the District. During the years ended December 31, 2021 and 2020, the District purchased materials and supplies from a hardware store, which is owned by a Commissioner's brother, in the amounts of \$1,266 and \$695, respectively.

Note 10 - Subsequent Events

The world-wide outbreak of COVID-19 has had a major impact on the normal business activities in the United States, including the state of Kentucky. On March 16, 2020, the Public Service Commission (PSC) ordered all utility companies to temporarily suspend all disconnections for non-payment, as well as late payment fees, in order to provide relief for customers during the COVID-19 pandemic. Customers were not relieved of their obligation to pay for services, but payment plans were required to be established for customers with arrearages during the time period of March 16 through October 1, 2020. Although the moratorium on disconnections for non-payment was lifted, the moratorium on the assessment of late payment charges for residential customers was extended until December 31, 2020. During this time period, in conjunction with a rate increase case, the PSC ordered the District to suspend late fees indefinitely. The effect of the PSC orders has been reflected in this report. However, COVID-19 continues to spread across the globe and continues to impact worldwide economic activity. Any future impacts COVID-19 may make on the District are uncertain and cannot be predicted. As a result, the District has not determined the impact COVID-19 may have on its financial statements for the year ending December 31, 2022 and subsequent periods.

Management of the District has evaluated subsequent events through May 31, 2022, the date on which the financial statements were available to be issued.



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
Hyden-Leslie County Water District
Hyden, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Hyden-Leslie County Water District as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Hyden-Leslie County Water District's basic financial statements and have issued our report thereon dated May 31, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hyden-Leslie County Water District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hyden-Leslie County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-1 and 2021-2 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hyden-Leslie County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

Hyden-Leslie County Water District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Hyden-Leslie County Water District's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. Hyden-Leslie County Water District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 District'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.

Sturgeon Collins CPAs, PLLC

Sturgeon Collins CPAs, PLLC
London, Kentucky

May 31, 2022

Hyden-Leslie County Water District
Schedule of Findings and Responses
December 31, 2021

Findings – Financial Statements

2021-1

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

The District's limited internal resources prevent the preparation of financial statements and related note disclosures in accordance with generally accepted accounting principles.

Effect:

The District was unable to prepare their financial statements and related note disclosures in accordance with generally accepted accounting principles.

Views of responsible officials and planned corrective actions:

The District feels that it would not be cost beneficial to hire the personnel required to complete these tasks.

2021-2

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

The size of the District's office staff does not allow proper segregation of duties with regard to cash collections, billings and postings to the accounts receivable ledger.

Effect:

This condition creates a weakness in internal controls which could result in unauthorized transactions being processed.

Views of responsible officials and planned corrective actions:

The District feels that it would not be cost beneficial to hire the personnel required to complete these tasks.