

Hyden–Leslie County Water District
Hyden, Kentucky

Independent Auditor's Report
And Financial Statements
For the Years Ended
December 31, 2022 and 2021

Hyden-Leslie County Water District
Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-3
Basic Financial Statements:	
Statements of Net Position	4-5
Statements of Revenues, Expenses and Changes in Net Position	6
Statements of Cash Flows	7-8
Notes to Financial Statements	9-19
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 <i>Government Auditing Standards</i>	20-21
Schedule of Findings and Responses	22-23



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, 2022 and 2021, 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, 2022 and 2021, 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 financial statement date, 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 for 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 March 31, 2023 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

March 31, 2023

Hyden-Leslie County Water District
 Statements of Net Position
 December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 507,684	\$ 272,598
Investments	449,091	450,448
Receivables, less allowance for doubtful accounts of \$5,000	289,488	296,976
Unbilled accounts receivable	51,957	48,329
Inventories	96,534	72,939
Prepaid expenses	29,499	30,877
Other current assets	4,369	1,165
Total Current Assets	<u>1,428,622</u>	<u>1,173,332</u>
Noncurrent Assets		
Restricted Assets		
Customer deposits	67,910	61,286
Depreciation reserves	170,800	149,780
Debt and interest funds	189,277	170,749
PSC surcharge	130,101	64,142
Total Restricted Assets	<u>558,088</u>	<u>445,957</u>
Capital Assets		
Land and improvements	32,169	32,169
Buildings and improvements	5,632,405	5,632,405
Source of supply and pumping	2,552,306	2,554,944
Water treatment equipment	3,649,437	3,649,437
Transmission and distribution plant	22,016,444	22,007,177
Vehicles and other equipment	1,080,207	1,080,207
Construction in progress	265,438	231,045
Less: accumulated depreciation	<u>(12,937,699)</u>	<u>(12,144,945)</u>
Net Capital Assets	<u>22,290,707</u>	<u>23,042,439</u>
Total Noncurrent Assets	<u>22,848,795</u>	<u>23,488,396</u>
Total Assets	<u>\$ 24,277,417</u>	<u>\$ 24,661,728</u>

See accompanying notes to financial statements.

Hyden-Leslie County Water District
 Statements of Net Position (Continued)
 December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Liabilities and Net Position		
Current Liabilities		
Current portion of long-term debt	\$ 193,139	\$ 190,799
Accounts payable	84,033	52,176
Accrued interest payable	8,189	8,394
Accrued salaries and taxes payable	34,243	25,497
Other current liabilities	6,470	16
Total Current Liabilities	<u>326,074</u>	<u>276,882</u>
Noncurrent Liabilities		
Customer deposits	67,910	61,286
Unearned tap fees	7,900	8,200
Unearned grant revenue	44,156	48,205
Long-term debt, less current portion	5,503,923	5,697,062
Total Noncurrent Liabilities	<u>5,623,889</u>	<u>5,814,753</u>
Total Liabilities	<u>5,949,963</u>	<u>6,091,635</u>
Net Position		
Net investment in capital assets	16,593,645	17,154,578
Restricted	558,088	445,957
Unrestricted	1,175,721	969,558
Total Net Position	<u>18,327,454</u>	<u>18,570,093</u>
Total Liabilities and Net Position	<u>\$ 24,277,417</u>	<u>\$ 24,661,728</u>

Hyden-Leslie County Water District
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Water sales	\$ 2,346,067	\$ 1,990,871
Service charges	2,265	2,474
Tap fees	15,235	11,388
PSC surcharge	67,449	68,145
Other revenues	7,364	6,179
Total Operating Revenues	<u>2,438,380</u>	<u>2,079,057</u>
Operating Expenses		
Salaries and wages	562,663	529,648
Employee benefits	285,389	286,558
Utilities	324,191	284,771
Chemicals	115,423	89,939
Materials and supplies	177,942	129,688
Contracted services	30,674	42,906
Vehicle and equipment expenses	54,167	40,552
Insurance	62,653	59,927
Bad debt expense, net of recoveries	21,667	24,710
Depreciation	798,357	799,722
Other operating expenses	141,640	106,253
Total Operating Expenses	<u>2,574,766</u>	<u>2,394,674</u>
Operating Loss	<u>(136,386)</u>	<u>(315,617)</u>
Non-operating Revenues (Expenses)		
Interest income	1,119	531
Grant revenue	4,049	24,815
Reimbursed line relocation income	-	1,855
Line relocation expense	-	(1,855)
Interest expense	(111,421)	(114,040)
Total Non-operating Revenues (Expenses)	<u>(106,253)</u>	<u>(88,694)</u>
Change in Net Position	(242,639)	(404,311)
Net Position, Beginning of Year	<u>18,570,093</u>	<u>18,974,404</u>
Net Position, End of Year	<u>\$ 18,327,454</u>	<u>\$ 18,570,093</u>

See accompanying notes to financial statements.

Hyden-Leslie County Water District
 Statements of Cash Flows
 For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 2,419,533	\$ 2,024,000
Receipts from other activities	7,364	6,179
Payments to employees	(553,917)	(527,519)
Payments to suppliers	(1,051,338)	(955,007)
Payments for other activities	<u>(141,640)</u>	<u>(106,253)</u>
Net Cash Provided by Operating Activities	<u>680,002</u>	<u>441,400</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(32,532)	(91,543)
Principal payments on debt	(190,799)	(3,040,644)
Interest payments on debt	(111,626)	(76,903)
Proceeds from debt	-	2,823,505
Grants	<u>-</u>	<u>79,253</u>
Net Cash Used by Capital and Related Financing Activities	<u>(334,957)</u>	<u>(306,332)</u>
Cash Flows From Investing Activities		
Purchases of investments	(2,861)	(1,926)
Proceeds from investments	-	-
Interest on investments	<u>5,033</u>	<u>4,598</u>
Net Cash Provided by Investing Activities	<u>2,172</u>	<u>2,672</u>
Net Increase in Cash and Cash Equivalents	347,217	137,740
Cash and Cash Equivalents at Beginning of Year	<u>718,555</u>	<u>580,815</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,065,772</u>	<u>\$ 718,555</u>
Reconciliation of cash per Statements of Net Position to cash per Statements of Cash Flows:		
Cash and cash equivalents	\$ 507,684	\$ 272,598
Customer deposits	67,910	61,286
Depreciation reserves	170,800	149,780
Debt and interest funds	189,277	170,749
PSC surcharge	<u>130,101</u>	<u>64,142</u>
Cash and Cash Equivalents per Statements of Cash Flows	<u>\$ 1,065,772</u>	<u>\$ 718,555</u>

See accompanying notes to financial statements.

Hyden-Leslie County Water District
 Statements of Cash Flows (Continued)
 For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Operating loss	\$ (136,386)	\$ (315,617)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation	798,357	799,722
(Increase) Decrease in operating assets		
Accounts receivable	7,488	(21,587)
Unbilled accounts receivable	(3,628)	(9,205)
Inventory	(23,595)	(14,373)
Other current assets and prepaid expenses	(1,522)	(1,609)
Increase (Decrease) in operating liabilities		
Accounts payable	17,764	(4,675)
Accrued expenses and other liabilities	15,200	2,120
Customer deposits	6,624	5,924
Unearned tap fees	(300)	700
Net Cash Provided by Operating Activities	\$ 680,002	\$ 441,400

Hyden-Leslie County Water District
Notes to Financial Statements
December 31, 2022 and 2021

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 a government money market fund and corporate bonds.

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2022 and 2021

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, 2022 and 2021, 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, 2022 and 2021 was \$798,357 and \$799,722, 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, 2022 and 2021 were \$15,325 and \$14,977, respectively.

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2022 and 2021

Note 1 - Summary of Significant Accounting Policies (Continued)

Customer Deposits

The District collects and holds in escrow a \$74 (\$30 prior to 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.

New Accounting Principle

During 2022, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. GASB Statement No. 87 enhances the relevance and consistency of information about governmental entities' leasing activities. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. GASB Statement No. 87 was effective for fiscal years beginning after June 15, 2021. Early application was permitted. The District has adopted the new Statement and it did not have a material effect on the financial statements.

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2022 and 2021

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, 2022 and 2021 was \$360,077 and \$320,529, respectively. The balance of customer deposits held at December 31, 2022 and 2021 was \$67,910 and \$61,286, respectively.

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, 2022 and 2021 was \$130,101 and \$64,142, respectively.

Note 3 – Kentucky Revised Statute

At December 31, 2022 and 2021, \$979,102 and \$1,240,678, respectively, of the cash and investments 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.

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2022 and 2021

Note 4 – Custodial Credit Risk - Deposits

The fair market value of deposits was equivalent to the carrying values as of December 31, 2022 and 2021. All deposits were checking or savings accounts. The carrying amounts of the District's bank deposits were \$1,065,337 and \$718,120 for the years ended December 31, 2022 and 2021, respectively. The bank balances were \$1,096,844 and \$790,230 for the years ended December 31, 2022 and 2021, respectively. The bank balances were covered by \$250,000 of FDIC insurance for each year. The remaining bank balances were collateralized as of December 31, 2021. As of December 31, 2022, \$471,260 of the remaining bank balances were uninsured and not collateralized by obligations permitted by KRS 41.240. 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, 2022, and 2021, \$846,844 and \$540,230, respectively, of the District's total deposits at banks were exposed to custodial credit risk as follows:

	<u>2022</u>	<u>2021</u>
Uninsured and uncollateralized	\$ 471,260	\$ -
Uninsured and collateral held by pledging bank	375,584	540,230
Uninsured and collateral held by pledging bank's trust department not in the District's name	-	-
Total	\$ 846,844	\$ 540,230

The District also held \$435 of petty cash on hand for the years ended December 31, 2022 and 2021.

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, 2022, and 2021, the District had the following investments, categorized by level of risk:

	<u>Rating</u>	<u>Risk Category</u>	<u>Fair Value</u>	
			<u>2022</u>	<u>2021</u>
Government Money Market Fund	Not Rated	1	\$ 353,519	\$ 450,448
Corporate Bonds	A	1	95,572	-
Total			\$ 449,091	\$ 450,448

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. The investment in corporate bonds at December 31, 2022 was 22.05% of the District's total investments. The investments in a government money market fund at December 31, 2022 and 2021 were 77.95% and 100%, respectively, of the District's total investments.

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2022 and 2021

Note 6 – Capital Assets

The following is a summary of capital asset transactions for the year ended December 31, 2022:

	Balance Dec. 31, 2021	Additions	Dispositions	Balance Dec. 31, 2022
Land and improvements	\$ 32,169	\$ -	\$ -	\$ 32,169
Building and improvements	5,632,405	-	-	5,632,405
Source of supply and pumping	2,554,944	2,965	5,603	2,552,306
Water treatment equipment	3,649,437	-	-	3,649,437
Transmission and distribution plant	22,007,177	9,267	-	22,016,444
Vehicles and other equipment	1,080,207	-	-	1,080,207
Construction in progress	231,045	34,393	-	265,438
Totals at historical cost	<u>35,187,384</u>	<u>46,625</u>	<u>5,603</u>	<u>35,228,406</u>
Less accumulated depreciation for:				
Building and improvements	1,342,776	150,197	-	1,492,973
Source of supply and pumping	927,532	88,316	5,603	1,010,245
Water treatment equipment	906,277	124,516	-	1,030,793
Transmission and distribution plant	8,339,721	367,274	-	8,706,995
Vehicles and other equipment	628,639	68,054	-	696,693
Total accumulated depreciation	<u>12,144,945</u>	<u>798,357</u>	<u>5,603</u>	<u>12,937,699</u>
Capital assets - net	<u>\$ 23,042,439</u>	<u>\$ (751,732)</u>	<u>\$ -</u>	<u>\$ 22,290,707</u>

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>

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2022 and 2021

Note 7 – Long-Term Debt

The following is a summary of long-term debt transactions for the year ended December 31, 2022:

	<u>Balance</u> <u>Dec. 31, 2021</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2022</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%	\$ 275,417	\$ -	\$ 40,000	\$ 235,417	\$ 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%	216,400	-	7,400	209,000	7,800
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%	985,000	-	16,500	968,500	17,000
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%	1,675,000	-	39,000	1,636,000	40,000

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2022 and 2021

Note 7 – Long-Term Debt (Continued)

	<u>Balance</u> <u>Dec. 31, 2021</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2022</u>	<u>Due Within</u> <u>One Year</u>
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	\$ 2,736,044	\$ -	\$ 87,899	\$ 2,648,145	\$ 88,339
	<u>\$ 5,887,861</u>	<u>\$ -</u>	<u>\$ 190,799</u>	<u>\$ 5,697,062</u>	<u>\$ 193,139</u>

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. 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

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2022 and 2021

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 varying principal amounts, with final payment due June 2051; interest payable on a semi-annual basis at the rate of 3.75%	\$ 1,001,000	\$ -	\$ 16,000	\$ 985,000	\$ 16,500
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, 2022 and 2021

Note 7 – Long-Term Debt (Continued)

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

Year Ending <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	208,921	84,770	293,691
2028-2032	883,754	382,063	1,265,817
2033-2037	943,484	304,516	1,248,000
2038-2042	1,005,241	216,007	1,221,248
2043-2047	1,048,498	128,766	1,177,264
2048-2052	812,763	32,905	845,668
	<u>\$ 5,697,062</u>	<u>\$ 1,529,297</u>	<u>\$ 7,226,359</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.

Note 9 – Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. GASB Statement No. 72 defines fair value as the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between participants at the measurement date. GASB Statement No. 72 also establishes a three level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

Level 1 – Quoted prices in active markets for identical assets and liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of net position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Hyden-Leslie County Water District
Notes to Financial Statements (Continued)
December 31, 2022 and 2021

Note 9 – Fair Value Measurements (Continued)

The fair value of the Toronto-Dominion Bank corporate bonds is based on quoted net asset values of the investment held by the District at year-end.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of net position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall.

	Fair Value Measurements at Reporting Date			
	Fair Value	Quoted Prices In Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2022</u>				
Corporate Bonds	\$ 95,572		\$ 95,572	\$ -
<u>2021</u>				
Corporate Bonds	\$ -	\$ -	\$ -	\$ -

Note 10 – 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, 2022 and 2021, the District purchased materials and supplies from a hardware store, which is owned by a Commissioner's brother, in the amounts of \$1,703 and \$1,266, respectively.

Note 11 - Subsequent Events

Management of the District has evaluated subsequent events through March 31, 2023, 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, 2022, 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 March 31, 2023.

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 2022-1 and 2022-2 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2022-3 and 2022-4.

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

March 31, 2023

Hyden-Leslie County Water District
Schedule of Findings and Responses
December 31, 2022

Findings – Financial Statements

2022-1

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.

2022-2

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.

Hyden-Leslie County Water District
Schedule of Findings and Responses (Continued)
December 31, 2022

Findings – Compliance

2022-3

Criteria:

As discussed in KRS 41.240, public funds must be insured by the Federal Depository Insurance Corporation or collateralized to the extent uninsured by obligations permitted by KRS 41.240(4) and KRS 66.480. According to KRS 41.240(1)(a), the financial institution shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value of at least equal to the deposits. 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 cash balances were not sufficiently insured and/or collateralized in accordance with KRS 41.240 and KRS 66.480.

Effect:

This condition creates a risk that in the event of a bank failure, the deposits may not be returned to the District.

Views of responsible officials and planned corrective actions:

The District agrees with this finding. Management has contacted their financial representative and the finding has been corrected.

2022-4

Criteria:

As discussed in KRS 66.480, public funds may be invested in investments permitted by KRS 66.480(1), subject to the limitations outlined in KRS 66.480(2). 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 investment in foreign corporate bonds does not meet the criteria of permissible investments listed in KRS 66.480(1), subject to the limitations outlined in KRS 66.480(2).

Effect:

This condition creates a risk that in the event of market volatility, the invested funds may not be able to be liquidated by the District.

Views of responsible officials and planned corrective actions:

The District agrees with this finding. Management has contacted their investment broker and the finding has been corrected.