

NEBO WATER DISTRICT

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2021

NEBO WATER DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Nebo Water District
Nebo, Kentucky

Report on the Financial Statements

I have audited the accompanying financial statements of the Nebo Water District as of and for the year ended December 31, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Nebo Water District, as of December 31, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted the Management Discussion and Analysis and Budgetary Comparison information, 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. My 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*, I have also issued my report dated March 9, 2022, on my consideration of the Nebo Water District’s internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Nebo Water District’s internal control over financial reporting and compliance.



Providence, Kentucky
March 9, 2022

**NEBO WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2021**

	2021
Assets	
Current Assets	
Cash and cash equivalents	\$ 143,752
Accounts receivable	92,173
Inventories	45,895
Prepaid insurance	7,544
Total current assets	289,364
Noncurrent Assets	
Restricted cash	406,457
Capital assets, net of depreciation	1,241,644
Unamortized bond issue costs	2,430
Total noncurrent assets	1,650,531
Total assets	1,939,895
Liabilities	
Current Liabilities	
Accounts payable	17,155
Accrued expenses	17,146
Customer deposits	36,750
Current portion of bonds payable	19,435
Current portion of notes payable	45,701
Total current liabilities	136,187
Noncurrent Liabilities	
Noncurrent portion of bonds payable	55,087
Total noncurrent liabilities	55,087
Total liabilities	191,274
Net Position	
Contributed capital	2,358,254
Retained earnings (deficit)	(609,633)
Total net position	\$ 1,748,621

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

**NEBO WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2021**

	2021
Operating Revenues:	
Charges for services	\$ 959,288
Other income	14,463
	973,751
Operating Expenses:	
Purchased water	447,722
Purchased power	13,224
Salaries and wages	223,201
Contract services	16,808
Depreciation	79,550
Material and supplies	29,284
Insurance	13,777
Payroll taxes and benefits	63,520
Miscellaneous expense	10,772
Utilities and telephone	7,371
Repairs	10,232
Office expense	17,017
Vehicle expense	22,850
Advertising	77
	955,405
Operating income (loss)	18,346
Nonoperating revenues (expenses):	
Interest income	5,932
Interest expense	(4,625)
Amortization of bond issue costs	(540)
Tap on fees	18,645
Contributed capital	39,528
	58,940
Change in net position	77,286
Total net position, beginning	1,671,335
Total net position, ending	\$ 1,748,621

**NEBO WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	2021
Cash Flows from Operating Activities	
Receipts from customers	\$ 959,288
Payments to suppliers	(657,551)
Payments to employees	(223,201)
Other receipts (payments)	14,463
Net cash (used) in operating activities	92,999
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(15,351)
Principal paid on bonds and notes payable	(54,329)
Interest paid on bonds and notes payable	(4,625)
Capital contributions from customers	18,645
Net cash (used) in capital and related financing activities	(55,660)
Cash Flows from Investing Activities	
Interest income	5,932
Net increase in cash and cash equivalents	43,271
Balances, beginning of year	506,938
Balances, ending of year	\$ 550,209
Reconciliation of operating income to net cash provided by operating activities	
Operating income (loss)	\$ 18,346
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	79,550
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	165
(Increase) decrease in inventory	(3,617)
(Increase) decrease in prepaid insurance	(394)
Increase (decrease) in accounts payable	(8,273)
Increase (decrease) in accrued expense	3,922
Increase (decrease) in customer deposits	3,300
Net cash (used) in operating activities	\$ 92,999

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

**NEBO WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2021**

Note 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity.

The Nebo Water District (the "District") was created on September 2, 1965, under the provisions of chapter 74 of the Kentucky Revised Statutes of the Commonwealth of Kentucky. The principal office of the District is located in Nebo, Kentucky. The District is comprised of three commissioners who are appointed by the Hopkins County Judge Executive and provides water to customers in Hopkins County, Kentucky.

B. Basis of Presentation.

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all activities of the District. The government-wide financial statements are divided into two types: governmental activities and business-type activities. The District only has business-type activities due to its reliance to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expense of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers as applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Fund Financial Statements:

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliances.

Governmental funds are those funds through which most governmental functions typically are financial. The District does not maintain governmental funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. Operating expenses for the proprietary funds include the costs of operational and contracted services, revenues and expenses no meeting this definition are reported as non-operating revenues and expenses.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts

and reported in the financial statements. Basis of accounting relates to the timing of the measurement made regardless of the measurement focus applied.

The government-wide statements and the fund financial statements for the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized when earned including unbilled water service which is accrued. Expenses are recognized at the time the liability is incurred.

D. **Cash and Investments**

For the purpose of the proprietary fund of the Nebo Water District, cash on hand, cash in bank and certificates of deposits are considered to be cash and cash equivalents.

Unrestricted cash is available to be expended for normal operating costs. Restricted cash is limited to payments of bond principal and interest, emergency capital improvements, and construction projects.

State statute requires that all deposits and investments in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Kentucky or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The District's deposits, including certificates of deposit, were fully collateralized as required by state statutes at December 31, 2021.

At year end, bank balances totaled \$550,209. These balances were fully covered by FDIC Insurance.

E. **Inventory**

Inventory is stated at the lower of cost or market. Cost is determined primarily by the first in first-out method.

F. **Capital Assets**

Capital assets, which include property, plant and equipment are reported in the business-type activities column in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance is recorded as expenses. Renewals and betterments are capitalized. Depreciation is provided in the proprietary fund in an amount sufficient to relate the cost of the depreciable assets, to operations over their estimated lives on the straight-line basis. The service lives range from 3 to 50 years.

Note 2. Capital Assets

Capital asset activity for the year ended December 31, 2021, was as follows:

	<u>Balances January 1</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balances December 31</u>
Business-type Activities				
Land and land rights	\$ 38,258	\$ -	\$ -	\$ 38,258
Structures and improvements	89,751	-	-	89,751
Distribution reservoirs	1,039,545	-	-	1,039,545
Transmission mains	2,593,496	-	-	2,593,496
Water meters	429,912	6,127	-	436,039
Hydrants	29,128	-	-	29,128
Office equipment	68,125	-	-	68,125
Transportation equipment	56,226	-	-	56,226
Tools and shop equipment	239,217	2,669	-	241,886
Pumping equipment	108,384	1,155	-	109,539
Communication equipment	12,981	5,400	-	18,381
Total capital assets	4,705,023	15,351	-	4,720,374
Less accumulated depreciation	<u>(3,399,180)</u>	<u>(79,550)</u>	-	<u>(3,478,730)</u>
Business-type Activities:				
Capital Assets, Net	<u>\$ 1,305,843</u>	<u>\$ (64,199)</u>	<u>\$ -</u>	<u>\$ 1,241,644</u>

Note 3 Noncurrent Liabilities

At December 31, 2021, noncurrent liabilities consisted of the following:

	<u>2021</u>
Loan payable (B12-03) payable to the Kentucky Infrastructural Authority in the amount of \$ 92,000 maturing in semi-annual installments through 2022. Interest is payable semi-annually on June 1 and December 1 at a rate of 2.0% per annum and principal is payable semi-annually on June 1 and December 1.	\$ 59,522
Bonds payable (Series 2007A) payable to the Kentucky Rural Water Corporation in the amount of \$ 168,000 maturing in annual installments through 2022. Interest is payable semi-annually on January 1 and July 1 at a rate of 4.05% per annum and principal is payable annually on January 1.	<u>15,000</u>
Total	74,522
Less amount due in one year	<u>(19,435)</u>
Amount due in more than one year	<u>\$ 55,087</u>

The following is a summary of the revenue bond transaction of the District for the year ended December 31, 2021:

	Balances 12/31/20	Additions	Reductions	Balances 12/31/21	Due Within One Year
KIA Loan B12-03	\$ 63,870	\$ -	\$ 4,348	\$ 59,522	\$ 4,435
2007A Series	29,000	-	14,000	15,000	15,000
Total	<u>\$ 92,870</u>	<u>\$ -</u>	<u>\$ 18,348</u>	<u>\$ 74,522</u>	<u>\$ 19,435</u>

The following is a bond retirement schedule for each issue:

KIA Loan B12-03

Year Ending December 31	Bonds Due	Interest Due	Total	Bonds Outstanding End of Year
2021				\$ 59,522
2022	\$ 4,435	\$ 1,169	\$ 5,604	55,087
2023	4,525	1,079	5,604	50,562
2024	4,615	989	5,604	45,947
2025	4,619	985	5,604	41,328
2026	4,803	801	5,604	36,525
2027-2033	36,525	2,704	39,229	-
Total	<u>\$ 59,522</u>	<u>\$ 7,727</u>	<u>\$ 67,249</u>	

Series of 2007A

Year Ending December 31	Bonds Due	Interest Due	Total	Bonds Outstanding End of Year
2021				\$ 15,000
2022	\$ 15,000	\$ 304	\$ 15,304	-
Total	<u>\$ 15,000</u>	<u>\$ 304</u>	<u>\$ 15,304</u>	

Note 4. Purchase Contracts

The District entered into a purchase agreement with the City of Madisonville, Kentucky. The District is billed monthly for the water usage.

Note 5. Litigation

The District attorney is unaware of any pending litigation against the District.

Note 6. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchased commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION



Michael L. Overby, CPA, PLLC

Certified Public Accountant

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Providence, KY 42450

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*

Independent Auditor's Report

To The Commissioners
Nebo Water District

I 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 Nebo Water District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Nebo Water District's basic financial statements, and have issued my report thereon dated March 9, 2022.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Nebo Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Nebo Water District's internal control. Accordingly, I do not express an opinion on the effectiveness of Nebo Water District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

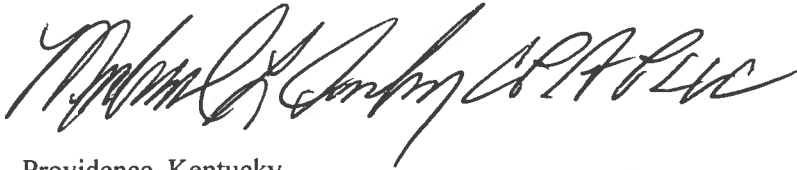
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nebo Water District's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Robert R. Campbell CPA LLC". The signature is written in a cursive, flowing style.

Providence, Kentucky
March 9, 2022