

REPORT OF

NORTH HOPKINS WATER DISTRICT  
MADISONVILLE, KENTUCKY

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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# Alexander, Toney & Knight PLLC

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## INDEPENDENT AUDITORS' REPORT

To the Commissioners  
North Hopkins Water District  
Madisonville, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of North Hopkins Water District as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Hopkins Water District as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2014, on our consideration of North Hopkins Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Hopkins Water District's internal control over financial reporting and compliance.

*Alexander, Toney & Knight PLLC*

Madisonville, Kentucky  
March 17, 2014

NORTH HOPKINS WATER DISTRICT  
Management's Discussion and Analysis  
December 31, 2013 and 2012

The discussion and analysis of the North Hopkins Water District's financial performance provides an overview and analysis of the District's financial activities for the years ended December 31, 2013 and 2012. It should be read in conjunction with the accompanying basic financial statements.

Financial Highlights for the Year 2013

- \* The District's net position increased \$21 thousand or 1.0% from \$2.198 million to \$2.219 million.

Overview Of The Financial Statements

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

Basic financial statements:

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

The Statement of Revenues, Expenses, and Changes in Net Position include the District's revenues and expenses for the years ended December 31, 2013 and 2012. This statement provides information on the District's operations and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges.

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

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

## District Financial Analysis

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

Table 1  
Condensed Statement of Net Position  
(in thousands)

	<u>2013</u>	<u>2012</u>	<u>dollar</u> <u>change</u>	<u>percent</u> <u>change</u>	<u>2011</u>	<u>dollar</u> <u>change</u>	<u>percent</u> <u>change</u>
Current assets	\$ 170.4	\$ 175.5	(\$ 5.1)	( 2.9%)	\$ 134.7	\$ 40.8	30.3%
Capital assets	2,728.2	2,802.1	( 73.9)	( 2.6%)	2,882.0	( 79.9)	( 2.8%)
Other noncurrent assets	<u>365.9</u>	<u>357.1</u>	8.8	2.5%	<u>366.4</u>	( 9.3)	( 2.5%)
Total assets	<u>3,264.5</u>	<u>3,334.7</u>	( 70.2)	( 2.1%)	<u>3,383.1</u>	( 48.4)	( 1.4%)
Current liabilities	122.5	129.0	( 6.5)	( 5.0%)	120.2	8.8	7.3%
Long-term liabilities	<u>923.5</u>	<u>1,008.2</u>	( 84.7)	( 8.4%)	<u>1,092.6</u>	( 84.4)	( 7.7%)
Total liabilities	<u>1,046.0</u>	<u>1,137.2</u>	( 91.2)	( 8.0%)	<u>1,212.8</u>	( 75.6)	( 6.2%)
Net position invested in capital assets, net of related debt	1,720.1	1,709.5	10.6	0.6%	1,711.0	( 1.5)	( 0.1%)
Net position restricted for debt service	69.0	64.6	4.4	6.8%	76.0	( 11.4)	( 15.0%)
Net position restricted for capital projects	281.8	281.7	0.1	0.0%	261.7	20.0	7.6%
Unrestricted net position	<u>147.6</u>	<u>141.7</u>	5.9	4.2%	<u>121.6</u>	20.1	16.5%
Total net position *	<u>\$2,218.5</u>	<u>\$2,197.5</u>	\$ 21.0	1.0%	<u>\$2,170.3</u>	\$ 27.2	1.3%

\* as restated, see Note I

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2.22 million at the close of the current year.

### 2012 to 2013

As shown in table 1, the District's total assets decreased \$70,200 from \$3,334,700 to \$3,264,500. Current assets decreased \$5,100 remaining similar to the prior year. Capital assets decreased \$73,900 as depreciation expense outpaced new capital additions. The District had very little capital additions during the current year.

The District's total liabilities decreased \$91,200. Current liabilities remained similar to the prior year decreasing \$6,500. Current accounts payable were lower at the current year end as the District had occurred higher repair cost at year end of the prior year. Noncurrent liabilities decreased \$84,700 as the District made debt service payments as scheduled.

The District's total net position increased \$21,000, due to the net effect of the decrease in total assets and decrease in total liabilities referred to above.

2011 to 2012

As shown in table 1, the District's total assets, after restatement, decreased \$48,400 from \$3,383,100 to \$3,334,700. Current assets increased \$40,800. The current assets increase primarily results from a increase of \$33,700 in unrestricted cash. Unrestricted cash increased mirroring total increase in cash as seen on the District's statement of cash flows. Capital assets decreased \$79,900 as depreciation expense outpaced new capital additions. The District had very little capital additions during the current year.

The District's total liabilities decreased \$75,600. Current liabilities remained similar to the prior year increasing \$8,800. Current accounts payable were higher at the current year end as the District had occurred higher repair cost at year end. Noncurrent liabilities decreased \$84,400 as the District made debt service payments as scheduled.

The District's total net position, after restatement, increased \$27,200, due to the net effect of the decrease in total assets and decrease in total liabilities referred to above.

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

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

	<u>2013</u>	<u>2012</u>	<u>dollar change</u>	<u>percent change</u>	<u>2011</u>	<u>dollar change</u>	<u>percent change</u>
Operating revenues	\$ 710.6	\$ 760.8	(\$ 50.2)	( 6.6%)	\$ 743.8	\$ 17.0	2.3%
Nonoperating revenues	<u>0.0</u>	<u>2.5</u>	( 2.5)	(100.0%)	<u>0.0</u>	2.5	100.0%
Total revenues	<u>710.6</u>	<u>763.3</u>	( 52.7)	( 6.9%)	<u>743.8</u>	19.5	2.6%
Operating expenses	657.6	682.8	( 25.2)	( 3.7%)	615.8	67.0	10.9%
Nonoperating expenses	<u>37.0</u>	<u>38.4</u>	( 1.4)	( 3.6%)	<u>42.3</u>	( 3.9)	( 9.2%)
Total expenses	<u>694.6</u>	<u>721.2</u>	( 26.6)	( 3.7%)	<u>658.1</u>	63.1	9.6%
Income before capital contributions	16.0	42.1	( 26.1)	( 62.0%)	85.7	( 43.6)	( 50.8%)
Capital contributions	<u>5.0</u>	<u>5.6</u>	( 0.6)	( 10.7%)	<u>7.3</u>	( 1.7)	( 23.3%)
Changes in net position	21.0	47.7	( 26.7)	( 56.0%)	93.0	( 45.3)	( 48.7%)
Beginning net position*	<u>2,197.5</u>	<u>2,149.8</u>	47.7	2.2%	<u>2,077.3</u>	72.5	3.5%
Ending net position	<u>\$2,218.5</u>	<u>\$2,197.5</u>	\$ 21.0	1.0%	<u>\$2,170.3</u>	\$ 27.2	1.3%

\* as restated, see Note I

## 2012 to 2013

The District's total revenues decreased \$52,700. Of that decrease, \$50,200 or 6.6% was in operating revenues. Total gallons of water sold during the current year was a 6.8% decrease from the prior year. The District's gross profit percentage of 57.5% remains similar in the current year compared to 57.2% in the prior year. Nonoperating revenues decreased \$2,500 remaining similar to the prior year.

The District's total expenses decreased \$26,600. Operating expenses decreased \$25,200 as the District's expenditures for materials and supplies decreased \$28,200 as the District incurred less repair and maintenance cost during the current year. Purchased water decreased \$25,000 which is related to the decrease in water sales mentioned above. Salaries and wages increased \$10,400 as the District had an additional employee in the earlier portion of the year. The District's employee benefits increased \$4,600 as the District incurred the first full year of providing health insurance for employees. Nonoperating expenses remained similar to the prior year.

Capital contributions decreased \$600 as the District's tap fees were at a similar level as the prior year.

Change in net position, which increased \$21,000, resulted from the above decreases.

## 2011 to 2012

The District's total revenues increased \$19,500. Of that increase, \$17,000 or 2.3% was in operating revenues. Nonoperating revenues increased \$2,500 remaining similar to the prior year.

The District's total expenses, after restatement, increased \$63,100. Operating expenses increased \$67,000 as the District's expenditures for materials and supplies reverted back to levels found prior to 2011. Materials and supplies expense increased \$38,000. Purchased water increased \$21,000 which is higher than the increase in operating revenues indicating the District's continuing struggle with water leaks. Salaries and wages increased \$8,600 as the District added an additional employee in the last quarter of the year. The District incurred employee benefits for the first time during the current year as health insurance was provided. Nonoperating expenses remained similar to the prior year.

Capital contributions decreased \$1,700 as the District's tap fees were at a similar level as the prior year.

Change in net position, which after restatement increased \$45,300, resulted from the above increases.

## Capital Assets and Debt Administration

### Capital Assets

At December 31, 2013 the District had \$2,728,220 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, and office furniture and equipment. This amount represents a net decrease (additions, retirements, depreciation) of \$73,889 from the prior year. The decrease is due to depreciation expense of \$95,263 outpacing capital asset additions in 2013.

Significant additions during the year included \$8,602 in meters and taps and \$8,400 in line additions.

At December 31, 2012 the District had \$2,802,109 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, and office furniture and equipment. This amount represents a net decrease (additions, retirements, depreciation) of \$79,870 from the prior year. The decrease is due to depreciation expense of \$94,989 outpacing capital asset additions in 2012.

Significant additions during the year included \$11,235 in meters and taps.

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

#### Long-Term Debt

At December 31, 2013, the District had \$1,008,156 in revenue bonds and revenue refunding bonds outstanding, which was a decrease of \$84,463 from the prior year balance of \$1,092,619. The District's bond issue was paid as scheduled and there were no new borrowings.

At December 31, 2012, the District had \$1,092,619 in revenue bonds and revenue refunding bonds outstanding, which was a decrease of \$84,520 from the prior year balance of \$1,177,139. The District's two bond issues were paid as scheduled and there were no new borrowings. Final payment was made on the District's Series 2001 bond issue.

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

#### Currently Known Facts, Decisions, or Conditions

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

#### Requests For Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the North Hopkins Water District, 2915 Anton Road, Madisonville, Kentucky 42431.

North Hopkins Water District  
Statement of Net Position  
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 77,628	\$ 78,567
Accounts receivable	57,891	63,503
Other receivables	1,950	0
Material and parts inventory	26,867	27,475
Prepaid expenses	<u>6,028</u>	<u>5,968</u>
Total current assets	<u>170,364</u>	<u>175,513</u>
Noncurrent assets		
Restricted cash and cash equivalents	365,861	356,982
Capital assets:		
Nondepreciable	14,237	14,237
Depreciable, net of accumulated depreciation	2,713,983	2,787,872
Refundable deposit	<u>100</u>	<u>100</u>
Total noncurrent assets	<u>3,094,181</u>	<u>3,159,191</u>
Total assets	<u>3,264,545</u>	<u>3,334,704</u>
<u>Liabilities</u>		
Current liabilities payable from current assets		
Accounts payable	19,104	23,720
Accrued taxes and other payables	<u>2,756</u>	<u>3,514</u>
	<u>21,860</u>	<u>27,234</u>
Current liabilities payable from restricted assets		
Customer meter deposits	3,150	3,950
Accrued interest-meter deposits	22	21
Bonds payable	84,631	84,464
Accrued interest-bonds	<u>12,818</u>	<u>13,343</u>
	<u>100,621</u>	<u>101,778</u>
Total current liabilities	<u>122,481</u>	<u>129,012</u>
Long-term liabilities		
Bonds payable	<u>923,525</u>	<u>1,092,619</u>
Total long-term liabilities	<u>923,525</u>	<u>1,092,619</u>
Total liabilities	<u>1,046,006</u>	<u>1,137,167</u>
<u>Net position</u>		
Invested in capital assets, net of related debt	1,720,064	1,709,490
Restricted for:		
Debt service	68,965	64,582
Capital projects	281,763	281,735
Unrestricted	<u>147,747</u>	<u>141,730</u>
Total net position	<u>\$2,218,539</u>	<u>\$2,197,537</u>

The accompanying notes are an integral part of these statements.

North Hopkins Water District  
Statement of Revenues, Expenses and Changes in Net Position  
Years Ended December 31, 2013 and 2012

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	<u>2013</u>	<u>2012</u>
Operating revenues		
Water sales	\$ 706,307	\$ 757,058
Other operating revenues	<u>4,324</u>	<u>3,787</u>
Total operating revenues	<u>710,631</u>	<u>760,845</u>
Operating expenses		
Purchased water	300,158	324,767
Salaries-employees	105,692	95,308
Salaries-officers	10,800	10,800
Employee benefits	7,477	2,855
Depreciation	95,263	94,989
Transportation	10,987	11,097
Contract services	19,696	18,208
Taxes	9,349	8,245
Purchased power	13,166	10,020
Materials and supplies	59,285	87,494
Insurance	9,567	8,443
Miscellaneous	1,500	1,601
Regulatory commission expense	1,358	1,305
Rent	5,741	4,500
Advertising	4,654	1,551
Uncollectible accounts	<u>2,945</u>	<u>1,596</u>
Total operating expenses	<u>657,638</u>	<u>682,779</u>
Operating income (loss)	52,993	78,066
Non-operating revenues (expenses)		
Interest income	46	2,441
Interest expense	( 37,037)	( 38,426)
Total non-operating revenues (expenses)	( 36,991)	( 35,985)
Income (loss) before contributions	16,002	42,081
Capital contributions-tap fees	<u>5,000</u>	<u>5,600</u>
Change in net position	21,002	47,681
Net position at beginning of year, as restated (see note I)	<u>2,197,537</u>	<u>2,149,856</u>
Net position at end of year	<u>\$2,218,539</u>	<u>\$2,197,537</u>

The accompanying notes are an integral part of these statements.

North Hopkins Water District  
Statement of Cash Flows  
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>Cash flows from operating activities</u>		
Cash received from customers	\$ 708,974	\$ 750,444
Cash payments to suppliers for goods and services	( 449,714)	( 475,464)
Cash payments to employees for services	( 116,492)	( 106,108)
Other operating revenues	<u>4,324</u>	<u>3,787</u>
Net cash provided (used) by operating activities	147,092	172,659
<u>Cash flows from capital and related financing activities</u>		
Acquisition and construction of capital assets	( 21,372)	( 15,119)
Principal paid on revenue bonds	( 90,000)	( 90,167)
Interest paid on revenue bonds	( 32,023)	( 33,103)
Interest paid on customer deposits	( 3)	( 5)
Capital contributions received from customers/developers	5,000	5,600
Customer deposits collected	3,550	3,600
Customer deposits repaid	<u>( 4,350)</u>	<u>( 1,050)</u>
Net cash provided (used) by capital and related financing activities	( 139,198)	( 130,244)
<u>Cash flows from investing activities</u>		
Interest earned on bank deposits	<u>46</u>	<u>2,441</u>
Net cash provided (used) by investing activities	46	2,441
Net increase (decrease) in cash and cash equivalents	7,940	44,856
Cash and cash equivalents at beginning of year	<u>435,549</u>	<u>390,693</u>
Cash and cash equivalents at end of year	<u>\$ 443,489</u>	<u>\$ 435,549</u>
	=====	=====
<u>Reconciliation of operating income to net cash provided (used) by operating activities</u>		
Operating income	\$ 52,993	\$ 78,066
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	95,263	94,989
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	5,612	( 5,018)
(Increase) decrease in other receivables	( 1,950)	0
(Increase) decrease in inventory	608	( 2,009)
(Increase) decrease in prepaid expenses	( 60)	( 115)
Increase (decrease) in accounts payable	( 4,616)	5,988
Increase (decrease) in accrued taxes and other payables	<u>( 758)</u>	<u>758</u>
Total adjustments	<u>94,099</u>	<u>94,593</u>
Net cash provided (used) by operating activities	<u>\$ 147,092</u>	<u>\$ 172,659</u>
	=====	=====

The accompanying notes are an integral part of these statements.

## NOTE A - SUMMARY OF ACCOUNTING POLICIES

The accounting policies of the North Hopkins Water District conform to Generally Accepted Accounting Principles (GAAP) as applicable to governments. The following is a summary of the more significant policies:

### 1. The Financial Reporting Entity

North Hopkins Water District (the "District") was created on June 3, 1965, under the provisions of chapter 74 of the Kentucky Revised Statutes of the Commonwealth of Kentucky. The principal office of the District is located at 4771 Anton Road, Madisonville, Kentucky. The District is composed of three commissioners who are appointed by the Hopkins County Judge Executive and provides water to its customers in and around northern Hopkins County, Kentucky.

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

### 2. Basis of Presentation, Measurement Focus, and Basis of Accounting

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

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

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

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

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

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

3. Cash and Cash Equivalents

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

4. Inventory

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

5. Capital Assets

Capital assets, which include property, plant, and equipment, are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during the years ended December 31, 2013 and 2012.

North Hopkins Water District  
Notes to Financial Statements  
December 31, 2013 and 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

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

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

6. Restricted Net Position

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

7. Long-Term Liabilities

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

8. Uncollectible Accounts

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

9. Use of Estimates

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

NOTE B - DEPOSITS

The District maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (1) in writing, (2) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (3) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law.

North Hopkins Water District  
Notes to Financial Statements  
December 31, 2013 and 2012

NOTE B - DEPOSITS continued

Deposits are categorized to give an indication of risk assumed by the District at the end of the year. Category 1 includes deposits that are insured, Category 2 includes collateralized deposits held by the pledging institution's trust department or agent in the District's name, and Category 3 includes uncollateralized and uninsured deposits.

On December 31, 2013, the reconciled balance of the District's deposits totaled \$443,259 and the bank balances were \$452,109. Of the bank balances \$306,564 was covered by federal depository insurance (category 1). Also of the bank balances, \$133,145 was collateralized by additional securities held by the pledging depository institution's trust department or agent in the District's name (category 2).

On December 31, 2012, the reconciled balance of the District's deposits totaled \$445,549 and the bank balances were \$445,198. Of the bank balances \$314,583 was covered by federal depository insurance (category 1). Also of the bank balances, \$130,616 was collateralized by additional securities held by the pledging depository institution's trust department or agent in the District's name (category 2).

NOTE C - PREPAID EXPENSES

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

At December 31, 2013, the District's prepaid expenses consisted of \$6,028 of insurance. At December 31, 2012, the District's prepaid expenses consisted of \$5,968 of insurance.

NOTE D - RESTRICTED CASH AND CASH EQUIVALENTS

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

Restricted balances as of December 31 are as follows:

	<u>2013</u>	<u>2012</u>
Bond and interest redemption fund	\$ 68,965	\$ 64,582
Bond depreciation fund	281,763	281,735
Meter deposit fund	<u>15,133</u>	<u>10,665</u>
Totals	<u>\$ 365,861</u>	<u>\$ 356,982</u>

North Hopkins Water District  
Notes to Financial Statements  
December 31, 2013 and 2012

NOTE E - CAPITAL ASSETS

Capital asset activities for the years ended December 31, 2012 and 2011, were as follows:

	<u>Balances</u> <u>12/31/11</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Retirements</u>	<u>Balances</u> <u>12/31/12</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Retirements</u>	<u>Balances</u> <u>12/31/13</u>
<b>Business-type activities:</b>							
<b>Capital assets not being depreciated</b>							
Land & land rights	\$ 14,237	\$ 0	\$ 0	\$ 14,237	\$ 0	\$ 0	\$ 14,237
Construction in progress	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>14,237</u>	<u>0</u>	<u>0</u>	<u>14,237</u>	<u>0</u>	<u>0</u>	<u>14,237</u>
<b>Capital assets being depreciated</b>							
Structures, improvements, & water system	4,674,224	13,135	0	4,687,359	20,375	0	4,707,734
Office furniture & equipment	<u>121,106</u>	<u>1,984</u>	<u>0</u>	<u>123,090</u>	<u>999</u>	<u>0</u>	<u>124,089</u>
Total	<u>4,795,330</u>	<u>15,119</u>	<u>0</u>	<u>4,810,449</u>	<u>21,374</u>	<u>0</u>	<u>4,831,823</u>
Total capital assets	<u>4,809,567</u>	<u>15,119</u>	<u>0</u>	<u>4,824,686</u>	<u>21,374</u>	<u>0</u>	<u>4,846,060</u>
<b>Less accumulated depreciation for:</b>							
Structures, improvements, & water system	1,896,573	86,001	0	1,982,574	86,167	0	2,068,741
Office furniture & equipment	<u>31,015</u>	<u>8,988</u>	<u>0</u>	<u>40,003</u>	<u>9,096</u>	<u>0</u>	<u>49,099</u>
Total accumulated depreciation	<u>1,927,588</u>	<u>94,989</u>	<u>0</u>	<u>2,022,577</u>	<u>95,263</u>	<u>0</u>	<u>2,117,840</u>
Total business-type activities capital assets, net	<u>\$2,881,979</u>	<u>(\$ 79,870)</u>	<u>\$ 0</u>	<u>\$2,802,109</u>	<u>(\$ 73,889)</u>	<u>\$ 0</u>	<u>\$2,728,220</u>

North Hopkins Water District  
Notes to Financial Statements  
December 31, 2013 and 2012

NOTE F - LONG-TERM LIABILITIES

Long-term liability activity

Long-term liability activity for the years ended December 31, 2013 and 2012, were as follows:

	Balances			Balances			Balances	Amounts
	<u>12/31/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/13</u>	<u>Due Within</u>
								<u>One Year</u>
Revenue Bonds:								
Series 2001	\$ 167	\$ 0	\$ 167	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Series 2010	<u>1,230,000</u>	<u>0</u>	<u>90,000</u>	<u>1,140,000</u>	<u>0</u>	<u>90,000</u>	<u>1,050,000</u>	<u>90,000</u>
Total	1,230,167	0	90,167	1,140,000	0	90,167	1,050,000	90,000
Less/Add Deferred Amounts:								
Issuance Discount	( 14,741)	0	( 2,217)	( 12,524)	0	( 2,051)	( 10,473)	( 1,883)
On Refunding	( 38,343)	0	( 3,486)	( 34,857)	0	( 3,486)	( 31,371)	( 3,486)
Issuance Premium	<u>56</u>	<u>0</u>	<u>56</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Bonds and Business-Type Activities Long- Term Liabilities	<u>\$1,177,139</u>	<u>\$ 0</u>	<u>\$ 84,520</u>	<u>\$1,092,619</u>	<u>\$ 0</u>	<u>\$ 84,463</u>	<u>\$1,008,156</u>	<u>\$ 84,631</u>

Description of debt

Waterworks Revenue Bonds, Series 2001

In November 2001, the District entered into an assistance agreement with Kentucky Rural Water Finance Corporation authorizing issuance of \$183,000 of revenue bonds as part of the Kentucky Rural Water Finance Corporation Multimodal Public Projects Revenue Bonds (Flexible Term Program), Series 2001. The 2001 bonds were sold at a 1.64% premium of \$3,003 which provided total proceeds of \$186,003. The premium on bonds will be amortized as a reduction of interest expense using the bonds outstanding/straight line method over the term of the bonds.

The 2001 bonds matured in annual installments through the year 2012. Interest and principal is payable monthly by the District to the bond trustee. The interest rate varies over the term of maturity from 4.15% to 5.15%. \$8,207 of proceeds from the issue was capitalized as bond issue cost and were being amortized using the straight line method over the term of the bonds.

The 2001 bonds are presented on the financial statements to include unamortized premium on bonds which was \$0 and \$0 as of December 31, 2013 and 2012, respectively. In 2013, premium on bonds of \$0 was amortized as a reduction to interest expense. In 2012, premium on bonds of \$563 was amortized as a reduction to interest expense.

North Hopkins Water District  
Notes to Financial Statements  
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NOTE F - LONG-TERM LIABILITIES continued

Waterworks Refunding Revenue Bonds, Series 2010

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

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

The 2010 bonds are presented on the financial statements net of unamortized deferred amount of refunding which was \$31,371 as of December 31, 2013 and \$34,857 as of December 31, 2012 and net of unamortized discount on bonds which was \$10,473 as of December 31, 2013 and \$12,524 as of December 31, 2012. In 2013, deferred amount of refunding of \$3,486 and discount on bonds of \$2,051 were amortized as interest expense. In 2012, deferred amount of refunding of \$3,486 and discount on bonds of \$2,217 were amortized as interest expense.

Debt Maturity

Annual debt service requirements at December 31, 2013 are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 90,000	\$ 30,763
2015	95,000	29,143
2016	95,000	27,053
2017	95,000	24,725
2018	105,000	21,970
2019-2023	<u>570,000</u>	<u>53,985</u>
Totals	<u>\$1,050,000</u>	<u>\$ 187,639</u>

North Hopkins Water District  
Notes to Financial Statements  
December 31, 2013 and 2012

NOTE G - RISK MANAGEMENT

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

NOTE H - RELATED PARTY TRANSACTIONS

For a portion of the prior year, the District rented office space from Betsy Sellers, the former billing clerk for the District. Rent for 2012 totaled \$1,350. Upon the retirement of Betsy Sellers, the District began renting office space from Tamara Hunter, the new billing clerk for the District. Rent for 2013 and 2012 totaled \$2,275 and \$3,150, respectively. As of December 31, 2013, the District no longer rents office space from Tamara Hunter.

Prior to his appointment as commissioner in January 2007, James D. Ashby performed mowing services for the District. Mr. Ashby continues to perform mowing services for the District. Mowing services for 2013 totaled \$2,000 and mowing services for 2012 totaled \$2,500.

North Hopkins Water District  
Notes to Financial Statements  
December 31, 2013 and 2012

NOTE I – ACCOUNTING CHANGES

In 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement 65 “Items Previously Reported as Assets and Liabilities”. The objective of Statement 65 is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources or inflows of resources.

The implementation of Statement 65 resulted in the reclassification of the beginning net position at December 31, 2011, the earliest period presented. The deferred bond issue costs, which were being amortized over the life of the bonds, were reclassified as expense of prior periods and resulted in the adjustment below:

Net position at December 31, 2011	\$ 2,170,293
Change in reporting of deferred bond issue costs	<u>( 20,437)</u>
Net position at December 31, 2011, restated	<u>2,149,856</u> =====

The implementation of GASB Statement 65 also resulted in reclassification of certain items presented on the December 31, 2012 Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position for the year ended December 31, 2012 which are presented for comparison purposes.

Bond issue costs, net of accumulated amortization at December 31, 2012	\$ 18,610
Change in reporting of deferred bond issue costs	<u>( 18,610)</u>
Bond issue costs, net of accumulated amortization at December 31, 2012, restated	<u>\$ 0</u> =====
Amortization of bond issue costs for the year ended December 31, 2012	\$ 1,827
Change in reporting of deferred bond issue costs	<u>( 1,827)</u>
Amortization of bond issue costs for the year ended December 31, 2012, restated	<u>\$ 0</u> =====

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## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To The Commissioners  
North Hopkins Water District  
Madisonville, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Hopkins Water District as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, and have issued our report thereon dated March 17, 2014.

### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, as discussed below, that we consider to be significant deficiencies.

## 2013-1 Segregation of Duties

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

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

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

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

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

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

## 2013-2 Lack of Controls over Preparation of Financial Statements

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

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

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

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

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

*Response:* We concur and will explore our options.

## Compliance and Other Matters

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

## North Hopkins Water District's Response to Findings

North Hopkins Water District's response to the findings identified in our audit is described above. North Hopkins Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

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

Alexander, Toney & Knight PLLC

Madisonville, Kentucky

March 17, 2014