

REPORT OF

**NORTH HOPKINS WATER DISTRICT
MADISONVILLE, KENTUCKY**

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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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, 2021 and 2020, 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, 2021 and 2020, and the changes in financial position and cash flows thereof for the years then ended in accordance 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 14, 2022, 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 North Hopkins 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 North Hopkins Water District's internal control over financial reporting and compliance.

Knight Wagner, P.C.

Madisonville, Kentucky
March 14, 2022

NORTH HOPKINS WATER DISTRICT
Management's Discussion and Analysis
December 31, 2021 and 2020

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, 2021 and 2020. It should be read in conjunction with the accompanying basic financial statements.

Financial Highlights for the Year 2021

- * The District's net position increased \$295.4 thousand from \$2.500 million to \$2.795 million.
- * The District's new Water System Improvements Project is essentially completed.

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 Fund Position include the District's revenues and expenses for the years ended December 31, 2021 and 2020. 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>2021</u>	<u>2020</u>	<u>dollar</u> <u>change</u>	<u>percent</u> <u>change</u>	<u>2019</u>	<u>dollar</u> <u>change</u>	<u>percent</u> <u>change</u>
Current assets	\$ 284.5	\$ 231.8	\$ 52.7	22.7%	\$ 181.0	\$ 50.8	28.1%
Capital assets	3,424.9	3,490.0	(65.1)	(1.9%)	2,483.7	1,006.3	40.5%
Other noncurrent assets	<u>197.4</u>	<u>123.1</u>	74.3	60.4%	<u>62.9</u>	60.2	95.7%
Total assets	<u>3,906.8</u>	<u>3,844.9</u>	61.9	1.6%	<u>2,727.6</u>	1,117.3	41.0%
Deferred outflows of resources	<u>3.5</u>	<u>7.0</u>	(3.5)	(50.0%)	<u>10.5</u>	(3.5)	(33.3%)
Current liabilities	172.1	273.5	(101.4)	(37.1%)	153.9	119.6	77.7%
Long-term liabilities	<u>943.1</u>	<u>1,078.7</u>	(135.6)	(12.6%)	<u>353.9</u>	724.8	204.8%
Total liabilities	<u>1,115.2</u>	<u>1,352.2</u>	(237.0)	(17.5%)	<u>507.8</u>	844.4	166.3%
Net position invested in capital assets, net of related debt	2,351.1	2,281.1	70.0	3.1%	2,031.0	250.1	12.3%
Net position restricted for capital projects	99.8	0.0	99.8	0.0%	0.0	0.0	0.0%
for debt service	87.3	61.7	25.6	41.5%	60.6	1.1	1.8%
Unrestricted net position	<u>256.9</u>	<u>156.9</u>	100.0	63.7%	<u>138.7</u>	18.2	13.1%
Total net position	<u>\$2,795.1</u>	<u>\$2,499.7</u>	\$ 295.4	11.8%	<u>\$2,230.3</u>	\$ 269.4	12.1%

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 \$2.8 million at the close of the current year.

2020 to 2021

As shown in table 1, the District's total assets increased \$61,900 from \$3,844,900 to \$3,906,800. Current assets increased \$52,700. Cash increased \$20,590 from the prior year end balance. The District continues to have positive cash flows in the current year. Supplies inventory increased \$28,600 as on hand amounts increased as well as increasing costs in supplies. Capital assets decreased \$65,100 as depreciation expense outpaced new additions. Other noncurrent assets increased \$74,300 as restricted cash balances increased in the current year.

The District's total liabilities decreased \$237,000. Current liabilities decreased \$101,400 as the District had lower construction project payable balances at year end. Noncurrent liabilities decreased \$135,600 as the District made scheduled bond payments.

The District's total net position increased \$295,400 due to the net effect of the changes in total assets and total liabilities referred to above.

2019 to 2020

As shown in table 1, the District's total assets increased \$1,117,300 from \$2,727,600 to \$3,844,900. Current assets increased \$50,800. Cash increased \$42,700 from the prior year end balance. The District had higher cash inflows from operating activities than the prior year. Capital assets increased \$1,006,300 as new additions outpaced depreciation expense. The District had increased expenditures for their Waterworks System Improvement Project. The majority of the expenditures remain in construction in progress at year end. Other noncurrent assets increased \$60,200 as restricted cash balances increased in the current year.

The District's total liabilities increased \$844,400. Current liabilities increased \$119,600 as the District had a construction project payable balance of \$95,000 at year end. Noncurrent liabilities increased \$724,800 as the District had a new bond issue in the amount of \$855,000 while making scheduled payments on the prior bond issue.

The District's total net position increased \$269,400 due to the net effect of the changes in total assets and 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>2021</u>	<u>2020</u>	<u>dollar change</u>	<u>percent change</u>	<u>2019</u>	<u>dollar change</u>	<u>percent change</u>
Operating revenues	\$1,099.9	\$1,022.9	\$ 77.0	7.5%	\$1,008.6	\$ 14.3	1.4%
Nonoperating revenues	<u>0.1</u>	<u>0.3</u>	(0.2)	(66.7%)	<u>1.4</u>	(1.1)	(78.6%)
Total revenues	<u>1,100.0</u>	<u>1,023.2</u>	76.8	7.5%	<u>1,010.0</u>	13.2	1.3%
Operating expenses	880.3	870.2	10.1	1.2%	841.9	28.3	3.4%
Nonoperating expenses	<u>26.9</u>	<u>40.2</u>	(13.3)	(33.1%)	<u>21.8</u>	18.4	84.4%
Total expenses	<u>907.2</u>	<u>910.4</u>	(3.2)	(0.4%)	<u>863.7</u>	46.7	5.4%
Income before capital contributions	192.8	112.8	80.0	70.9%	146.3	(33.5)	(22.9%)
Capital contributions	<u>102.6</u>	<u>156.5</u>	(53.9)	(34.4%)	<u>6.3</u>	150.2	2384.1%
Changes in net position	295.4	269.3	26.1	9.7%	152.6	116.7	76.5%
Beginning net position	<u>2,499.6</u>	<u>2,230.3</u>	269.3	12.1%	<u>2,077.7</u>	152.6	7.3%
Ending net position	<u>\$2,795.0</u>	<u>\$2,499.6</u>	\$ 295.4	11.8%	<u>\$2,230.3</u>	\$ 269.3	12.1%

2020 to 2021

The District's total revenues increased 77,000. The District sold more water in the current year.

The District's total expenses decreased \$3,200. Operating expenses increased \$10,100. Purchased water decreased \$48,600 as the District incurred savings on water purchase cost by buying approximately 51% of water resold from a new supplier. Depreciation expense increased \$21,300 as system improvements were capitalized and came online. Nonoperating expenses decreased \$13,300 as no bond issue costs were occurred in the current year.

Capital contributions decreased \$53,900 as the District received less in the current year of Rural Development grant monies in connection with the Waterworks System Improvements Project.

Change in net position, which increased \$295,400, resulted from the above increases and decreases.

2019 to 2020

The District's total revenues increased 13,200. The District's revenues remained similar to the prior year.

The District's total expenses increased \$46,700. Operating expenses increased \$28,000. Purchased water increased \$32,000, transportation expense decreased \$7,500, and contract services increased \$6,800. Nonoperating expenses increased \$18,400 partially due to bond issue costs.

Capital contributions increased \$150,200 as the District received \$153,000 of a Rural Development grant in connection with the Waterworks System Improvements Project.

Change in net position, which increased \$269,300, resulted from the above increases and decreases.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2021 the District had \$3,424,908 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 \$65,132 from the prior year. The decrease is due to depreciation expense of \$128,447 outpacing capital asset additions in 2021.

Significant additions during the year included \$1,046,689 expenditures for the Waterworks System Improvement Project being capitalized in the current year from prior year construction in progress.

At December 31, 2020 the District had \$3,490,040 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 increase (additions, retirements, depreciation) of \$1,006,303 from the prior year. The increase is due to capital asset additions outpacing depreciation expense of \$107,131 in 2020.

Significant additions during the year included \$1,066,301 expenditures for the Waterworks System Improvement Project. \$919,453 remains in construction in progress at year end. The District also purchased two trucks during the year for a total cost of \$52,615.

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, 2021, the District had \$1,062,717 in revenue bonds and revenue refunding bonds outstanding, which was an increase of \$146,229 from the prior year balance of \$1,208,946. The District's bond issues were paid as scheduled and there were no new borrowings.

At December 31, 2020, the District had \$1,208,946 in revenue bonds and revenue refunding bonds outstanding, which was an increase of \$745,779 from the prior year balance of \$463,167. The District's 2010 bond issue was paid as scheduled. New borrowings include the District's Series 2020 bond issue which was in the amount of \$855,000.

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, 316 Liberty Church Loop, Madisonville, Kentucky 42431.

North Hopkins Water District
Statement of Net Position
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 124,051	\$ 103,461
Accounts receivable	88,377	85,141
Material and parts inventory	61,311	32,713
Prepaid expenses	10,728	10,465
Total current assets	<u>284,467</u>	<u>231,780</u>
Noncurrent assets		
Restricted cash and cash equivalents	197,338	123,032
Capital assets:		
Nondepreciable	33,143	933,689
Depreciable, net of accumulated depreciation	3,391,756	2,556,342
Refundable deposit	100	100
Total noncurrent assets	<u>3,622,337</u>	<u>3,613,163</u>
Total assets	<u>3,906,804</u>	<u>3,844,943</u>
<u>Deferred outflows of resources</u>		
Deferred amount on refunding	3,486	6,971
Total deferred outflows of resources	<u>3,486</u>	<u>6,971</u>
<u>Liabilities</u>		
Current liabilities payable from current assets		
Accounts payable	33,158	31,672
Accrued taxes and other payables	3,291	3,516
	<u>36,449</u>	<u>35,188</u>
Current liabilities payable from restricted assets		
Construction project payable	7,539	95,452
Customer meter deposits	5,050	4,150
Bonds payable	119,647	130,229
Accrued interest-bonds	3,479	8,504
	<u>135,715</u>	<u>238,335</u>
Total current liabilities	<u>172,164</u>	<u>273,523</u>
Long-term liabilities		
Bonds payable	943,070	1,078,717
Total long-term liabilities	<u>943,070</u>	<u>1,078,717</u>
Total liabilities	<u>1,115,234</u>	<u>1,352,240</u>
<u>Net position</u>		
Net invested in capital assets	2,351,164	2,281,085
Restricted for:		
Capital projects	99,776	0
Debt service	87,266	61,656
Unrestricted	256,850	156,933
Total net position	<u>\$2,795,056</u>	<u>\$2,499,674</u>

The accompanying notes are an integral part of these statements.

North Hopkins Water District
Statement of Revenues, Expenses and Changes in Fund Net Position
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues		
Water sales	\$1,069,589	\$ 977,806
Other operating revenues	<u>30,295</u>	<u>45,081</u>
Total operating revenues	<u>1,099,884</u>	<u>1,022,887</u>
Operating expenses		
Purchased water	352,664	401,322
Salaries-employees	181,623	171,864
Salaries-officers	10,800	10,800
Employee benefits	19,964	18,693
Depreciation	128,447	107,131
Transportation	14,069	8,798
Contract services	38,659	33,723
Taxes	14,091	12,686
Purchased power	14,537	19,999
Materials and supplies	76,388	63,235
Insurance	22,330	18,511
Miscellaneous	3,037	1,192
Regulatory commission expense	2,046	2,017
Uncollectible accounts	<u>1,599</u>	<u>183</u>
Total operating expenses	<u>880,254</u>	<u>870,154</u>
Operating income (loss)	219,630	152,733
Non-operating revenues (expenses)		
Loss on disposition of assets	0	(928)
Bond issue costs	0	(9,749)
Interest income	75	338
Interest expense	(26,921)	(29,570)
Total non-operating revenues (expenses)	(26,846)	(39,909)
Income (loss) before contributions	192,784	112,824
Capital contributions-Federal grant	94,448	153,335
Capital contributions-tap fees	<u>8,150</u>	<u>3,200</u>
Change in net position	295,382	269,359
Net position at beginning of year	<u>2,499,674</u>	<u>2,230,315</u>
Net position at end of year	<u><u>\$2,795,056</u></u>	<u><u>\$2,499,674</u></u>

The accompanying notes are an integral part of these statements.

North Hopkins Water District
Statement of Cash Flows
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>Cash flows from operating activities</u>		
Cash received from customers	\$1,064,754	\$ 972,905
Cash payments to suppliers for goods and services	(584,485)	(582,280)
Cash payments to employees for services	(192,423)	(182,664)
Other operating revenues	<u>30,295</u>	<u>45,081</u>
Net cash provided (used) by operating activities	318,141	253,042
 <u>Cash flows from capital and related financing activities</u>		
Acquisition and construction of capital assets	(151,229)	(1,019,108)
Principal paid on revenue bonds	(146,800)	(110,000)
Interest paid on revenue bonds/loans	(27,866)	(23,305)
Proceeds from revenue bonds/loans	0	855,000
Proceeds received from loans	0	522,675
Principal paid on loans	0	(522,675)
Proceeds from grants	94,448	153,335
Interest paid on customer deposits	(23)	(29)
Proceeds from dispositions of assets	0	200
Bond issue costs paid	0	(9,749)
Capital contributions received from customers	<u>8,150</u>	<u>3,200</u>
Net cash provided (used) by capital and related financing activities	(223,320)	(150,456)
 <u>Cash flows from investing activities</u>		
Interest earned on bank deposits	<u>75</u>	<u>388</u>
Net cash provided (used) by investing activities	75	388
 Net increase (decrease) in cash and cash equivalents	94,896	102,924
Cash and cash equivalents at beginning of year	<u>226,493</u>	<u>123,569</u>
Cash and cash equivalents at end of year	<u>\$ 321,389</u>	<u>\$ 226,493</u>
 <u>Reconciliation of operating income to net cash provided (used) by operating activities</u>		
Operating income (loss)	\$ 219,630	\$ 152,733
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	128,447	107,130
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(3,236)	(4,718)
(Increase) decrease in inventory	(28,598)	(2,622)
(Increase) decrease in prepaid expenses	(263)	(696)
Increase (decrease) in accounts payable	1,486	(192)
Increase (decrease) in accrued taxes and other payables	(225)	2,357
Increase (decrease) in customer deposits	<u>900</u>	<u>(950)</u>
Total adjustments	<u>98,511</u>	<u>100,309</u>
Net cash provided (used) by operating activities	<u>\$ 318,141</u>	<u>\$ 253,042</u>

The accompanying notes are an integral part of these statements.

North Hopkins Water District
Notes to Financial Statements
December 31, 2021 and 2020

NOTE A - SUMMARY OF ACCOUNTING POLICIES

The accounting policies of the North Hopkins Water District (the "District") conform to Generally Accepted Accounting Principles (GAAP) as applicable to governments. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The following is a summary of the more significant policies:

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 316 Liberty Church Drive, 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 Statements No. 14 and 61. The District has no component units.

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) net investment in capital assets, 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.

North Hopkins Water District
Notes to Financial Statements
December 31, 2021 and 2020

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.

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.

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.

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.

North Hopkins Water District
Notes to Financial Statements
December 31, 2021 and 2020

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

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.

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. Deferred amounts on refunding is reported separately as deferred outflows of resources. 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for the deferred outflow of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The District currently has one item which qualifies for reporting in this category. It is the deferred amount of refunding with the District's bond issue. A deferred amount of refunding results from the difference in the carrying value of refunded debt and its reacquisition price.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represent an acquisition of net position that applies to a future period(s) and so will not be recognized as a inflow of resources (revenue) until that time.

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.

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.

North Hopkins Water District
Notes to Financial Statements
December 31, 2021 and 2020

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. 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.

Also by Kentucky law, the District is allowed to invest as specified in KRS 66.480 which includes U.S. Treasury and its Obligation, certain federal investments, repurchase agreements, commercial banks' certificates of deposits, and savings and loan deposits.

On December 31, 2021, the reconciled balance of the District's deposits totaled \$321,389 and the bank balances were \$327,937. Of the bank balances \$312,276 was covered by federal depository insurance (category 1). Also of the bank balances, \$15,661 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, 2020, the reconciled balance of the District's deposits totaled \$226,263 and the bank balances were \$233,396. Of the bank balances \$233,396 was covered by federal depository insurance (category 1).

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, 2021, the District's prepaid expenses consisted of \$10,728 of insurance. At December 31, 2020, the District's prepaid expenses consisted of \$10,465 of insurance.

North Hopkins Water District
Notes to Financial Statements
December 31, 2021 and 2020

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>2021</u>	<u>2020</u>
Bond and interest redemption fund	\$ 87,266	\$ 61,656
Bond depreciation fund	54,990	0
Construction account	44,786	55,286
Meter deposit fund	<u>10,295</u>	<u>6,091</u>
Totals	<u>\$ 197,337</u>	<u>\$ 123,033</u>

NOTE E - CAPITAL ASSETS

Capital asset activities for the years ended December 31, 2021 and 2020, were as follows:

	<u>Balances</u> <u>12/31/19</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Retirements</u>	<u>Balances</u> <u>12/31/20</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Retirements</u>	<u>Balances</u> <u>12/31/21</u>
Business-type activities:							
Capital assets not being depreciated							
Land & land rights	\$ 16,237	\$ 0	\$ 2,000	\$ 14,237	\$ 3,386	\$ 0	\$ 17,623
Construction in progress	<u>22,739</u>	<u>1,066,301</u>	<u>169,587</u>	<u>919,453</u>	<u>142,757</u>	<u>1,046,689</u>	<u>15,521</u>
Total	<u>38,976</u>	<u>1,066,301</u>	<u>171,587</u>	<u>933,690</u>	<u>146,143</u>	<u>1,046,689</u>	<u>33,144</u>
Capital assets being depreciated							
Structures, improvements, & water system	4,963,859	161,857	0	5,125,716	938,553	0	6,064,269
Office furniture & equipment	<u>158,355</u>	<u>57,991</u>	<u>3,200</u>	<u>213,146</u>	<u>25,308</u>	<u>0</u>	<u>238,454</u>
Total	<u>5,122,214</u>	<u>219,848</u>	<u>3,200</u>	<u>5,338,862</u>	<u>963,861</u>	<u>0</u>	<u>6,302,723</u>
Total capital assets	<u>5,161,190</u>	<u>1,286,149</u>	<u>174,787</u>	<u>6,272,552</u>	<u>1,110,004</u>	<u>1,046,689</u>	<u>6,335,867</u>
Less accumulated depreciation for:							
Structures, improvements, & water system	2,601,255	92,461	0	2,693,716	108,231	0	2,801,947
Office furniture & equipment	<u>76,198</u>	<u>14,670</u>	<u>2,072</u>	<u>88,796</u>	<u>20,216</u>	<u>0</u>	<u>109,012</u>
Total accumulated depreciation	<u>2,677,453</u>	<u>107,131</u>	<u>2,072</u>	<u>2,782,512</u>	<u>128,447</u>	<u>0</u>	<u>2,910,959</u>
Total business-type activities capital assets, net	<u>\$2,483,737</u>	<u>\$1,179,018</u>	<u>\$ 172,715</u>	<u>\$3,490,040</u>	<u>\$ 981,557</u>	<u>\$1,046,689</u>	<u>\$3,424,908</u>

North Hopkins Water District
Notes to Financial Statements
December 31, 2021 and 2020

NOTE F - LONG-TERM LIABILITIES

Long-term liability activity

Long-term liability activity for the years ended December 31, 2021 and 2020, were as follows:

	Balances <u>12/31/19</u>	<u>Additions</u>	<u>Reductions</u>	Balances <u>12/31/20</u>	<u>Additions</u>	<u>Reductions</u>	Balances <u>12/31/21</u>	Amounts Due Within <u>One Year</u>
Revenue Bonds:								
Series 2010	465,000	0	110,000	355,000	0	115,000	240,000	120,000
Series 2020	<u>0</u>	<u>855,000</u>	<u>0</u>	<u>855,000</u>	<u>0</u>	<u>31,800</u>	<u>823,200</u>	<u>0</u>
Total	465,000	855,000	110,000	1,210,000	0	146,800	1,063,200	120,000
Less/Add Amounts:								
Issuance Discount	<u>(1,833)</u>	<u>0</u>	<u>(779)</u>	<u>(1,054)</u>	<u>0</u>	<u>(571)</u>	<u>(483)</u>	<u>(353)</u>
Sub total	463,167	855,000	109,221	1,208,946	0	146,229	1,062,717	119,647
KRWFC loan	0	502,675	502,675	0	0	0	0	0
Independence Bank loan	0	20,000	20,000	0	0	0	0	0
Unamortized deferred amount on refunding	<u>(10,457)</u>	<u>0</u>	<u>(3,486)</u>	<u>(6,971)</u>	<u>0</u>	<u>(3,485)</u>	<u>(3,485)</u>	<u>(3,485)</u>
Total Bonds and Business-Type Activities Long- Term Liabilities	<u>\$ 452,710</u>	<u>\$ 1,377,675</u>	<u>\$ 628,410</u>	<u>\$ 1,201,975</u>	<u>\$ 0</u>	<u>\$ 142,743</u>	<u>\$ 1,059,232</u>	<u>\$ 116,162</u>

Description of debt

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 were expense as bond issue cost.

North Hopkins Water District
Notes to Financial Statements
December 31, 2021 and 2020

NOTE F - LONG-TERM LIABILITIES continued

The 2010 bonds are presented on the financial statements net of unamortized discount on bonds which was \$483 as of December 31, 2021 and \$1,054 as of December 31, 2020. In 2021, deferred amount of refunding of \$3,486 and discount on bonds of \$571 were amortized as interest expense. In 2020, deferred amount of refunding of \$3,486 and discount on bonds of \$779 were amortized as interest expense.

Waterworks Refunding Revenue Bonds, Series 2020

A bond resolution dated May 19, 2020 authorized issuance of \$855,000 of waterworks revenue bonds maturing in annual installments through year 2060. Interest is payable semi-annually on January 1 and July 1 at 1.5% per annum and principal is payable annually on January 1.

The 2020 Series Bonds were issued and sold to the United States Department of Agriculture/Rural Development. The bond resolution provide for all revenue receipts to be deposited into a Water Revenue Fund with transfers to the following funds:

- a) Waterworks Bond and Interest Sinking Fund – Prorata monthly transfers of an amount equal to the next principal and /or interest payments.
- b) Depreciation Reserve Fund – Monthly transfers of \$300 until the fund equals at least \$36,000.
- c) After meeting all the requirements of a) through c) above, the balance remaining in the Revenue Fund is to be transferred to the Depreciation Fund.

Kentucky Rural Water Finance Corporation loan

On June 3, 2020, the District entered into a loan agreement with Kentucky Rural Water Finance Corporation for interim financing in relation to the District's current water extension project. The District had obtained commitment for Permanent Financing from the United States Department of Agriculture/Rural Development. The District received draws from the \$855,000 interim loan in the amount of \$502,675. This amount was paid off upon closing of the District's Waterworks Revenue Bonds Series 2020 on September 25, 2020. The annualized effective cost of funds was 2.95% or \$7,435.

Independence Bank loan

On January 29, 2020, the District entered into a two year \$20,000 loan agreement with Independence Bank. The loan was entered into to provide funding for the purchase of a truck. The terms of the note included 4.95% interest, 23 regular payments of \$376.98 each and one irregular last payment of \$12,965.67. The loan was secured by the vehicle. The District accelerated principal payments and paid the loan off early. Final payment was made October 9, 2020. Interest in the amount of \$515 was incurred.

North Hopkins Water District
Notes to Financial Statements
December 31, 2021 and 2020

NOTE F - LONG-TERM LIABILITIES continued

Debt Maturity

Annual debt service requirements at December 31, 2021 are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2022	120,000	10,134
2023	136,200	16,307
2024	16,500	11,981
2025	16,700	11,732
2026	17,000	11,480
2027-2031	88,800	53,471
2032-2036	95,600	46,557
2037-2041	103,000	39,113
2042-2046	111,000	31,094
2047-2051	119,600	22,448
2052-2056	128,800	13,136
2057-2060	<u>110,000</u>	<u>3,330</u>
Totals	<u>\$1,063,200</u>	<u>\$ 270,783</u>

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 – MAJOR SUPPLIER

During 2020, the District purchased 100% of water resold from the City of Madisonville, Kentucky. On March 8, 2018, the District entered into an agreement with Webster County Water District (WCWD) to purchase water from WCWD upon completion of the District's water system improvements project. The project has been completed in 2021. Beginning in March 2021 and through December 2021, the District purchased approximately 51% of water resold from WCWD. During the same time period, 49% of water resold was purchased from the City of Madisonville, Kentucky.

NOTE I – WATER SYSTEM IMPROVEMENT PROJECT

The water system improvement project is a project to connect and purchase water from an additional source, upgrade a booster pump station, and to install approximately 1,300 radio read meters.

The project is being financed by the Waterworks Revenue Bonds, Series 2020 which were issued and sold to the United States Department of Agriculture/Rural Development in the amount of \$855,000. The project is also being financed by a grant agreement with the United States Department of Agriculture/Rural Development in the amount of \$285,000. Interim financing for the project was provided by a loan from Kentucky Rural Water Finance Corporation. Of the \$285,000 grant amounts, \$247,783 had been received and expended during 2021 and 2020. Also, \$9,749 of bond issue costs were expensed during 2020.

As of the December 31, 2021 balance sheet date, the Project has been completed except for a few remaining meter installations. \$1,090,269 of the meters/meter software and meter installation cost, engineering costs, line construction cost, pump station upgrade costs, and other costs have been capitalized as of the December 31, 2021 balance sheet date. Also, construction projects payable in the amount of \$7,539 are shown on the December 31, 2021 balance sheet.

As of the December 31, 2020 balance sheet date, the District has expended \$162,563 in engineering expenses, \$296,840 in meters, meter software, and meter installation, \$605,155 in line construction/pump station upgrade, and \$4,550 in other expenses. The project expenditures are shown as construction in progress on the District's balance sheet and will be capitalized upon completion. \$150,379 of the meters/meter software and meter installation cost have been capitalized as of the December 31, 2020 balance sheet date as the meters are already online and in service. Also, construction projects payable in the amount of \$95,452 are shown on the December 31, 2020 balance sheet.

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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, 2021 and 2020, and the related notes to the financial statements, and have issued our report thereon dated March 14, 2022.

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. We did identify certain deficiencies in internal control, as discussed below, that we consider to be significant deficiencies.

2021-1 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.

2021-2 Lack of Financial Reporting Expertise

Condition: The District lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures. Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

Criteria: The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

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

Cause: There is a lack of personnel who possess the required knowledge.

Recommendation: We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

Response: Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.

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.

Knight Wagner, P.C.

Madisonville, Kentucky
March 14, 2022