

REPORT OF

NORTH HOPKINS WATER DISTRICT
MADISONVILLE, KENTUCKY

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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INDEPENDENT AUDITORS' REPORT

To the Commissioners
North Hopkins Water District
Madisonville, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of North Hopkins Water District as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Hopkins Water District as of December 31, 2023 and 2022, 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.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the North Hopkins Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Hopkins Water District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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 is the responsibility of management and, 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 February 13, 2024, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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, PLLC

Madisonville, Kentucky
February 13, 2024

NORTH HOPKINS WATER DISTRICT
Management's Discussion and Analysis
December 31, 2023 and 2022

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, 2023 and 2022. It should be read in conjunction with the accompanying basic financial statements.

Financial Highlights for the Year 2023

- The District's net position increased \$211 thousand from \$3.003 million to \$3.214 million.
- The District made final payment during 2023 on the Waterworks Refunding Revenue Bonds, Series 2010 issue.

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, 2023 and 2022. 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>2023</u>	<u>2022</u>	<u>dollar</u> <u>change</u>	<u>percent</u> <u>change</u>	<u>2021</u>	<u>dollar</u> <u>change</u>	<u>percent</u> <u>change</u>
Current assets	\$ 350.8	\$ 347.5	\$ 3.3	0.9%	\$ 284.5	\$ 63.0	22.1%
Capital assets	3,263.2	3,320.9	(57.7)	(1.7%)	3,424.9	(104.0)	(3.0%)
Other noncurrent assets	<u>515.0</u>	<u>318.6</u>	196.4	61.6%	<u>197.4</u>	121.2	61.4%
Total assets	<u>4,129.0</u>	<u>3,987.0</u>	142.0	3.6%	<u>3,906.8</u>	80.2	2.1%
Deferred outflows of resources	<u>0.0</u>	<u>0.0</u>	0.0	0.0%	<u>3.5</u>	(3.5)	(100.0%)
Current liabilities	123.7	176.6	(52.9)	(30.0%)	172.1	4.5	2.6%
Long-term liabilities	<u>790.5</u>	<u>807.0</u>	(16.5)	(2.0%)	<u>943.1</u>	(136.1)	(14.4%)
Total liabilities	<u>914.2</u>	<u>983.6</u>	(69.4)	(7.1%)	<u>1,115.2</u>	(131.6)	(11.8%)
Net position invested in capital assets, net of related debt	2,384.8	2,369.8	15.0	0.6%	2,351.1	18.7	0.8%
Net position restricted for capital projects	299.8	169.8	130.0	76.6%	99.8	70.0	70.1%
for debt service	200.0	135.9	64.1	47.2%	87.3	48.6	55.7%
Unrestricted net position	<u>330.2</u>	<u>327.9</u>	2.3	0.7%	<u>256.9</u>	71.0	27.6%
Total net position	<u>\$3,214.8</u>	<u>\$3,003.4</u>	\$ 211.4	7.0%	<u>\$2,795.1</u>	\$ 208.3	7.5%

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 \$3.2 million at the close of the current year.

2022 to 2023

As shown in table 1, the District's total assets increased \$142,000 from \$3,987,000 to \$4,129,000. Capital assets decreased \$57,700 as depreciation expense outpaced new additions. Other noncurrent assets increased \$196,400 as restricted cash balances increased in the current year due to positive cash flows.

The District's total liabilities decreased \$69,400. Noncurrent liabilities decreased \$52,900. Current bonds payable decreased \$119,570 yet construction project payable increased \$65,321.

The District's total net position increased \$211,400 due to the net effect of the changes in total assets and total liabilities referred to above.

2021 to 2022

As shown in table 1, the District's total assets increased \$80,200 from \$3,906,800 to \$3,987,000. Current assets increased \$63,000. Cash increased \$46,705 from the prior year end balance. The District continues to have positive cash flows in the current year. Accounts receivable increased \$15,000 as monthly water sales were higher than the prior year end. Capital assets decreased \$104,000 as depreciation expense outpaced new additions. Other noncurrent assets increased \$121,200 as restricted cash balances increased in the current year.

The District's total liabilities decreased \$131,600. Noncurrent liabilities decreased \$136,100 as the District made scheduled bond payments.

The District's total net position increased \$208,300 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>2023</u>	<u>2022</u>	<u>dollar change</u>	<u>percent change</u>	<u>2021</u>	<u>dollar change</u>	<u>percent change</u>
Operating revenues	\$1,091.3	\$1,107.0	(\$ 15.7)	(1.4%)	\$1,099.9	\$ 7.1	0.7%
Nonoperating revenues	<u>1.7</u>	<u>2.9</u>	(1.2)	(41.4%)	<u>0.1</u>	2.8	2800.0%
Total revenues	<u>1,093.0</u>	<u>1,109.9</u>	(16.9)	(1.5%)	<u>1,100.0</u>	9.9	0.9%
Operating expenses	913.4	880.5	32.9	3.7%	880.3	0.2	0.0%
Nonoperating expenses	<u>13.9</u>	<u>22.6</u>	(8.7)	(38.5%)	<u>26.9</u>	(4.3)	(16.0%)
Total expenses	<u>927.3</u>	<u>903.1</u>	24.2	2.7%	<u>907.2</u>	(4.1)	(0.5%)
Income before capital contributions	165.7	206.8	(41.1)	(19.9%)	192.8	14.0	7.3%
Capital contributions	<u>45.7</u>	<u>1.6</u>	44.1	2756.3%	<u>102.6</u>	(101.0)	(98.4%)
Changes in net position	211.4	208.4	3.0	1.4%	295.4	(87.0)	(29.5%)
Beginning net position	<u>3,003.4</u>	<u>2,795.0</u>	208.4	7.5%	<u>2,499.6</u>	295.4	11.8%
Ending net position	<u>\$3,214.8</u>	<u>\$3,003.4</u>	\$ 211.4	7.0%	<u>\$2,795.0</u>	\$ 208.4	7.5%

2022 to 2023

The District's total revenues increased 16,900 remaining similar to the prior year.

The District's total expenses increased \$24,200. Operating expenses increased \$32,900 remaining similar to the prior year. Purchased water increased \$14,000 as the District continues to incur savings on water purchase cost by buying approximately 69% of water resold from a new supplier. Employee salaries and wages increased \$7,400 from the prior year. Nonoperating expenses decreased \$8,700 as interest expense decreased due to payoff of the 2010 bond issue.

Capital contributions increased \$41,100 as the District received remaining grant monies in the current year.

Change in net position, which increased \$211,400, resulted from the above increases and decreases.

2021 to 2022

The District's total revenues increased 7,100 remaining similar to the prior year.

The District's total expenses decreased \$4,100. Operating expenses increased \$200 remaining similar to the prior year. Purchased water decreased \$8,200 as the District continues to incur savings on water purchase cost by buying approximately 68% of water resold from a new supplier. Depreciation expense increased \$8,000 as phases of the new water project came online for a full year. Nonoperating expenses decreased \$4,300 remaining similar to the prior year.

Capital contributions decreased \$101,000 as the District received no grant monies in the current year.

Change in net position, which increased \$208,400, resulted from the above increases and decreases.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2023 the District had \$3,263,190 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 \$57,771 from the prior year. The decrease is due to depreciation expense of \$135,676 outpacing capital asset additions in 2023.

Significant additions during the year included \$5,564 for pump renovations and \$6,023 for meters and installation.

At December 31, 2022 the District had \$3,320,961 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 \$103,947 from the prior year. The decrease is due to depreciation expense of \$136,476 outpacing capital asset additions in 2022.

Significant additions during the year included \$15,211 for pump and pump house renovations and \$5,899 for a new trailer.

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, 2023, the District had \$807,000 in revenue bonds and revenue refunding bonds outstanding, which was a decrease of \$136,070 from the prior year balance of \$943,070. The District's bond issues were paid as scheduled and there were no new borrowings.

At December 31, 2022, the District had \$943,070 in revenue bonds and revenue refunding bonds outstanding, which was a decrease of \$119,647 from the prior year balance of \$1,062,717. The District's bond issues were paid as scheduled and there were no new borrowings.

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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 158,065	\$ 170,756
Accounts receivable	94,254	103,602
Other receivable	26,066	0
Material and parts inventory	63,847	61,760
Prepaid expenses	<u>8,541</u>	<u>11,396</u>
Total current assets	<u>350,773</u>	<u>347,514</u>
Noncurrent assets		
Restricted cash and cash equivalents	515,019	318,453
Capital assets:		
Nondepreciable	92,051	27,859
Depreciable, net of accumulated depreciation	3,171,138	3,293,101
Refundable deposit	<u>100</u>	<u>100</u>
Total noncurrent assets	<u>3,778,308</u>	<u>3,639,513</u>
Total assets	<u>4,129,081</u>	<u>3,987,027</u>
<u>Liabilities</u>		
Current liabilities payable from current assets		
Accounts payable	29,581	24,961
Accrued taxes and other payables	<u>2,441</u>	<u>4,022</u>
	<u>32,022</u>	<u>28,983</u>
Current liabilities payable from restricted assets		
Construction project payable	65,321	0
Customer meter deposits	3,850	3,500
Bonds payable	16,500	136,070
Accrued interest-bonds	<u>6,052</u>	<u>8,003</u>
	<u>91,723</u>	<u>147,573</u>
Total current liabilities	<u>123,745</u>	<u>176,556</u>
Long-term liabilities		
Bonds payable	<u>790,500</u>	<u>807,000</u>
Total long-term liabilities	<u>790,500</u>	<u>807,000</u>
Total liabilities	<u>914,245</u>	<u>983,556</u>
<u>Net position</u>		
Net invested in capital assets	2,384,816	2,369,887
Restricted for:		
Capital projects	299,786	169,786
Debt service	200,000	135,876
Unrestricted	<u>330,234</u>	<u>327,922</u>
Total net position	<u>\$3,214,836</u>	<u>\$3,003,471</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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating revenues		
Water sales	\$1,070,615	\$1,084,179
Other operating revenues	<u>20,732</u>	<u>22,840</u>
Total operating revenues	<u>1,091,347</u>	<u>1,107,019</u>
Operating expenses		
Purchased water	358,542	344,485
Salaries-employees	197,233	189,854
Salaries-officers	10,800	10,800
Employee benefits	22,164	21,309
Depreciation	135,675	136,476
Transportation	11,721	15,964
Contract services	26,181	17,965
Taxes	18,273	14,827
Purchased power	17,044	17,729
Materials and supplies	81,363	78,047
Insurance	15,419	21,347
Miscellaneous	14,187	7,960
Regulatory commission expense	1,441	1,642
Uncollectible accounts	<u>3,378</u>	<u>2,074</u>
Total operating expenses	<u>913,421</u>	<u>880,479</u>
Operating income (loss)	177,926	226,540
Non-operating revenues (expenses)		
Gain on disposition of assets	0	2,200
Interest income	1,677	666
Interest expense	(13,880)	(22,591)
Total non-operating revenues (expenses)	(12,203)	(19,725)
Income (loss) before contributions	165,723	206,815
Capital contributions-Federal grant	37,217	0
Capital contributions-tap fees	<u>8,425</u>	<u>1,600</u>
Change in net position	211,365	208,415
Net position at beginning of year	<u>3,003,471</u>	<u>2,795,056</u>
Net position at end of year	<u><u>\$3,214,836</u></u>	<u><u>\$3,003,471</u></u>

The accompanying notes are an integral part of these statements.

North Hopkins Water District
Statement of Cash Flows
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<u>Cash flows from operating activities</u>		
Cash received from customers	\$1,076,585	\$1,066,880
Cash payments to suppliers for goods and services	(588,244)	(551,408)
Cash payments to employees for services	(208,033)	(200,654)
Other operating revenues	<u>20,732</u>	<u>22,840</u>
Net cash provided (used) by operating activities	301,040	337,658
<u>Cash flows from capital and related financing activities</u>		
Acquisition and construction of capital assets	(12,583)	(40,077)
Principal paid on revenue bonds	(136,070)	(120,000)
Interest paid on revenue bonds/loans	(15,722)	(14,214)
Proceeds from grants	37,217	0
Interest paid on customer deposits	(109)	(13)
Proceeds from dispositions of assets	0	2,200
Capital contributions received from customers	<u>8,425</u>	<u>1,600</u>
Net cash provided (used) by capital and related financing activities	(118,842)	(170,504)
<u>Cash flows from investing activities</u>		
Interest earned on bank deposits	<u>1,677</u>	<u>666</u>
Net cash provided (used) by investing activities	1,677	666
Net increase (decrease) in cash and cash equivalents	183,875	167,820
Cash and cash equivalents at beginning of year	<u>489,209</u>	<u>321,389</u>
Cash and cash equivalents at end of year	<u>\$ 673,084</u>	<u>\$ 489,209</u>

<u>Reconciliation of operating income to net cash provided (used) by operating activities</u>		
Operating income (loss)	\$ 177,926	\$ 226,540
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	135,675	136,476
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	9,348	(15,225)
(Increase) decrease in inventory	(2,087)	(449)
(Increase) decrease in prepaid expenses	2,855	(668)
(Increase) decrease in other receivables	(26,066)	0
Increase (decrease) in accounts payable	4,620	(8,197)
Increase (decrease) in accrued taxes and other payables	(1,581)	731
Increase (decrease) in customer deposits	<u>350</u>	<u>(1,550)</u>
Total adjustments	<u>123,114</u>	<u>111,118</u>
Net cash provided (used) by operating activities	<u>\$ 301,040</u>	<u>\$ 337,658</u>

The accompanying notes are an integral part of these statements.

North Hopkins Water District
Notes to Financial Statements
December 31, 2023 and 2022

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. Net investment in capital assets 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, 2023 and 2022

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, 2023 and 2022

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, 2023 and 2022

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, 2023, the reconciled balance of the District's deposits totaled \$673,084 and the bank balances were \$686,898. Of the bank balances \$250,000 was covered by federal depository insurance (category 1). Also of the bank balances, \$436,898 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, 2022, the reconciled balance of the District's deposits totaled \$489,209 and the bank balances were \$497,637. Of the bank balances \$310,876 was covered by federal depository insurance (category 1). Also of the bank balances, \$186,761 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, 2023, the District's prepaid expenses consisted of \$8,541 of insurance. At December 31, 2022, the District's prepaid expenses consisted of \$11,396 of insurance.

North Hopkins Water District
Notes to Financial Statements
December 31, 2023 and 2022

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>2023</u>	<u>2022</u>
Bond and interest redemption fund	\$ 200,000	\$ 135,876
Bond depreciation fund	255,000	125,000
Construction account	44,786	44,786
Meter deposit fund	<u>15,233</u>	<u>12,791</u>
Totals	<u>\$ 515,019</u>	<u>\$ 318,453</u>

NOTE E - CAPITAL ASSETS

Capital asset activities for the years ended December 31, 2023 and 2022, were as follows:

	<u>Balances</u> <u>12/31/21</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Retirements</u>	<u>Balances</u> <u>12/31/22</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Retirements</u>	<u>Balances</u> <u>12/31/23</u>
Business-type activities:							
Capital assets not being depreciated							
Land & land rights	\$ 17,623	\$ 0	\$ 0	\$ 17,623	\$ 0	\$ 0	\$ 17,623
Construction in progress	<u>15,521</u>	<u>2,335</u>	<u>7,619</u>	<u>10,237</u>	<u>65,321</u>	<u>1,129</u>	<u>74,429</u>
Total	<u>33,144</u>	<u>2,335</u>	<u>7,619</u>	<u>27,860</u>	<u>65,321</u>	<u>1,129</u>	<u>92,052</u>
Capital assets being depreciated							
Structures, improvements, & water system	6,064,269	26,844	61,034	6,030,079	11,587	0	6,041,666
Office furniture & equipment	<u>238,454</u>	<u>10,969</u>	<u>0</u>	<u>249,423</u>	<u>2,126</u>	<u>0</u>	<u>251,549</u>
Total	<u>6,302,723</u>	<u>37,813</u>	<u>61,034</u>	<u>6,279,502</u>	<u>13,713</u>	<u>0</u>	<u>6,293,215</u>
Total capital assets	<u>6,335,867</u>	<u>40,148</u>	<u>68,653</u>	<u>6,307,362</u>	<u>79,034</u>	<u>1,129</u>	<u>6,385,267</u>
Less accumulated depreciation for:							
Structures, improvements, & water system	2,801,947	114,772	61,034	2,855,685	115,343	0	2,971,028
Office furniture & equipment	<u>109,012</u>	<u>21,704</u>	<u>0</u>	<u>130,716</u>	<u>20,333</u>	<u>0</u>	<u>151,049</u>
Total accumulated depreciation	<u>2,910,959</u>	<u>136,476</u>	<u>61,034</u>	<u>2,986,401</u>	<u>135,676</u>	<u>0</u>	<u>3,122,077</u>
Total business-type activities capital assets, net	<u>\$3,424,908</u>	<u>(\$ 96,328)</u>	<u>\$ 7,619</u>	<u>\$3,320,961</u>	<u>(\$ 56,642)</u>	<u>\$ 1,129</u>	<u>\$3,263,190</u>

North Hopkins Water District
Notes to Financial Statements
December 31, 2023 and 2022

NOTE F - LONG-TERM LIABILITIES

Long-term liability activity

Long-term liability activity for the years ended December 31, 2023 and 2022, were as follows:

	Balances 12/31/21	Additions	Reductions	Balances 12/31/22	Additions	Reductions	Balances 12/31/23	Amounts Due Within One Year
Revenue Bonds:								
Series 2010	240,000	0	120,000	120,000	0	120,000	0	0
Series 2020	<u>823,200</u>	<u>0</u>	<u>0</u>	<u>823,200</u>	<u>0</u>	<u>16,200</u>	<u>807,000</u>	<u>16,500</u>
Total	1,063,200	0	120,000	943,200	0	136,200	807,000	16,500
Less/Add Amounts:								
Issuance Discount	<u>(483)</u>	<u>0</u>	<u>(353)</u>	<u>(130)</u>	<u>0</u>	<u>(130)</u>	<u>0</u>	<u>0</u>
Sub total	1,062,717	0	119,647	943,070	0	136,070	807,000	16,500
Unamortized deferred amount on refunding	<u>(3,486)</u>	<u>0</u>	<u>(3,486)</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>\$1,059,231</u>	<u>\$ 0</u>	<u>\$ 116,161</u>	<u>\$ 943,070</u>	<u>\$ 0</u>	<u>\$ 136,070</u>	<u>\$ 807,000</u>	<u>\$ 16,500</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, 2023 and 2022

NOTE F - LONG-TERM LIABILITIES continued

The 2010 bonds are presented on the financial statements net of unamortized discount on bonds which was \$0 as of December 31, 2023 and \$130 as of December 31, 2022. In 2023, deferred amount of refunding of \$0 and discount on bonds of \$130 were amortized as interest expense. In 2022, deferred amount of refunding of \$3,486 and discount on bonds of \$353 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.

Debt Maturity

Annual debt service requirements at December 31, 2023 are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2024	16,500	11,981
2025	16,700	11,732
2026	17,000	11,480
2027	17,200	11,223
2028	17,500	10,963
2029-2033	91,500	50,765
2034-2038	98,500	43,646
2039-2043	106,100	35,977
2044-2048	114,400	27,713
2049-2053	123,200	18,806
2054-2058	132,600	9,215
2059-2060	55,800	840
Totals	<u>\$ 807,000</u>	<u>\$ 244,341</u>

North Hopkins Water District
Notes to Financial Statements
December 31, 2023 and 2022

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

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 was completed in 2021. In 2023, the District purchased approximately 69% of water resold from WCWD. Also in 2023, 31% of water resold was purchased from the City of Madisonville, Kentucky. In 2022, the District purchased approximately 68% of water resold from WCWD. Also in 2022, 32% of water resold was purchased from the City of Madisonville, Kentucky.

NOTE I – WATER SYSTEM IMPROVEMENT PROJECT

The water system improvement project was 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 was 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 was 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. During 2023, the remaining \$37,217 grant amount was received and expended. Also, \$9,749 of bond issue costs were expensed during 2020.

As of the December 31, 2022 balance sheet date, the Project has been completed. Any excess remaining grant funds not received yet may be spent per an approved contingency plan.

NOTE J – OTHER RECEIVABLES

During 2023, the District overpaid state sales tax by \$31,554. The District also incurred late filing penalties and interest for state sales tax and employee withholding filings. Receivable due from the state less penalties and interest was \$26,066.

North Hopkins Water District
Notes to Financial Statements
December 31, 2023 and 2022

NOTE K – CONSTRUCTION PROJECT PAYABLE

During 2023, the District incurred tank painting and cleaning expenditures of \$65,321 as part of the Painting and Repairs Water Storage Tank Project. The District has been awarded grant funds from the Kentucky Cleaner Water Program approved by the Kentucky Infrastructure Authority. These funds were provided by the federal American Rescue Plan Act of 2021, Coronavirus State Fiscal Recovery Program. Subsequent to the December 31, 2023 year end, the District applied and received \$65,321 of these grant funds. The total award amount is to be \$150,000.

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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, 2023 and 2022, and the related notes to the financial statements, and have issued our report thereon dated February 13, 2024.

Report on 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 identified certain deficiencies in internal control, as discussed below, that we consider to be significant deficiencies.

2023-1 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.

2023-2 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.

Report on 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 statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

North Hopkins Water District's Response to Findings

Governmental Auditing Standards requires the auditors to perform limited procedures on the North Hopkins Water District's response to the findings identified in our audit and described above. North Hopkins Water District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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, PLLC

Madisonville, Kentucky
February 13, 2024