

NORTH LOGAN WATER DISTRICT NO. 1

**COMPONENT UNIT OF
LOGAN COUNTY, KENTUCKY**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

NORTH LOGAN WATER DISTRICT NO. 1

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DECEMBER 31, 2019

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
North Logan Water District No. 1
Russellville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the North Logan Water District No.1 (the "District"), a component unit of Logan County, Kentucky, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion 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 auditors' 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 District'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 District'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Logan Water District No.1 as of December 31, 2019, and the changes in its financial position and its cash flows for the year 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 through 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison schedule and schedule of general and administrative expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedule and schedule of general and administrative expenses are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule and schedule of general and administrative expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2020, on our consideration of the 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 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 the District's internal control over financial reporting and compliance.

Kirby & Moore, LLP
Bowling Green, Kentucky
June 15, 2020

**NORTH LOGAN WATER DISTRICT NO. 1
RUSSELLVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2019**

As management of the North Logan Water District No. 1 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2019. Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the District's basic financial statements. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

The information in this MD&A is presented under the following headings:

- Organization and Business
- Financial Highlights
- Overview of the Financial Statements
- Financial Analysis of the District
- Capital Assets and Debt Administration
- Budget Analysis
- Factors Impacting Future Periods
- Request for information

ORGANIZATION AND BUSINESS

North Logan Water District No. 1 is a component unit of county government of Logan County, Kentucky. The District currently maintains approximately 26 miles of distribution lines and provides water distribution services for approximately 562 users in northern Logan County, Kentucky. The water district purchases 100% of its water from the Logan Todd Regional Water Commission, a state of the art regional provider of high-quality water. The District in turn distributes and re-sales the water to industrial, commercial and residential users.

FINANCIAL HIGHLIGHTS

- The total assets of the District exceeded the total liabilities by \$1,649,718.
- Based on the GASB 34 model of measuring net position, the total net position of the District decreased \$98,758 or 5.65% of net position.

FINANCIAL HIGHLIGHTS (Continued)

- Water sales decreased and operating expenses increased in the current year, resulting in a decrease in operating income compared to prior year.
- Water revenues decreased from \$441,006 in 2018 to \$430,017 in 2019.
- The District purchases all water from the Logan Todd Regional Water Commission. The District's cost of water percentage relative to water sales was 51.73% for 2019.
- The District used available cash and cash equivalents financial resources in the current year for debt service.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the North Logan Water District's basic financial statements. The District's basic financial statements are comprised of two components: (1) Basic Financial Statements, (2) Notes to Basic Financial Statements. The report also contains other required supplementary information in addition to the basic financial statements.

The Financial Statements of the District report information utilizing the full accrual basis of accounting. This method of accounting recognizes revenues when earned instead of when paid. The Financial Statements conform to accounting principles, which are generally accepted in the United States of America.

The Statement of Net Position includes information on the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

While the Statement of Net Position provides information about the nature and amount of resources and obligations at year-end, the Statement of Revenues, Expenses, and Changes in Net Position presents the results of the District's operations over the course of the operating cycle. This statement can be used to determine whether the District has successfully recovered all of its actual cost including depreciation through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal period, such as delayed collection of operating revenues and delayed payment of current year expenses.

The third financial statement is the Statement of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statement of Cash Flows, the reader can obtain information on the source and use of cash and the change in the cash balance for the operating cycle.

FINANCIAL ANALYSIS OF THE DISTRICT

Condensed Statements of Net Position and Revenues, Expenses and Changes in Net Position as of December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Current and non-current assets | \$ 887,289 | \$ 897,113 |
| Capital assets | <u>924,862</u> | <u>1,037,240</u> |
| Total assets | <u>\$ 1,812,151</u> | <u>\$ 1,934,353</u> |
| Long-term obligations | \$ 60,971 | \$ 84,798 |
| Other liabilities | <u>101,562</u> | <u>101,079</u> |
| Total liabilities | <u>\$ 162,533</u> | <u>\$ 185,877</u> |
| Net Position | | |
| Net investment in capital assets | \$ 839,993 | \$ 928,643 |
| Restricted | 111,998 | 11,326 |
| Unrestricted | <u>699,727</u> | <u>808,507</u> |
| Total net position | <u>\$ 1,649,718</u> | <u>\$ 1,748,476</u> |
| Revenues | | |
| Water service revenue | \$ 411,748 | \$ 425,082 |
| Other revenue | <u>18,269</u> | <u>15,924</u> |
| Total operating revenues | 430,017 | 441,006 |
| Expenses | | |
| Water operations | <u>549,457</u> | <u>478,682</u> |
| Net operating income (loss) | (119,440) | (37,676) |
| Non-operating income (expense) net | <u>20,682</u> | <u>1,131</u> |
| Income (loss) before capital contributions | (98,758) | (36,545) |
| Capital contributions | <u>—</u> | <u>—</u> |
| Change in net position | (\$ 98,758) | (\$ 36,545) |

CAPITAL ASSETS AND DEBT ADMINISTRATION

The District had \$924,862 (net of accumulated depreciation) invested in a variety of utility capital assets as of December 31, 2019. The investment in capital assets includes land, building, distribution reservoirs, distribution mains, meters and equipment.

| | <u>2018</u> | <u>Additions</u> | <u>Disposals</u> | <u>2019</u> |
|-------------------------------|---------------------|--------------------|--------------------|-------------------|
| Land and land improvements | \$ 18,704 | \$ — | \$ — | \$ 18,704 |
| Building | 24,672 | — | — | 24,672 |
| Distribution | | | | |
| Reservoirs | 565,727 | — | — | 565,727 |
| Distribution | | | | |
| Mains | 1,294,567 | — | (28,250) | 1,266,317 |
| Hydrants | 2,523 | — | — | 2,523 |
| Meters and services | 146,376 | — | — | 146,376 |
| Equipment | 28,889 | — | (27,568) | 1,321 |
| Capitalized interest | 3,804 | — | — | 3,804 |
| | <u>2,085,262</u> | <u>—</u> | <u>(55,818)</u> | <u>2,029,444</u> |
| Less accumulated depreciation | (1,048,022) | (79,960) | 23,400 | (1,104,582) |
| Net capital assets | <u>\$ 1,037,240</u> | <u>(\$ 79,960)</u> | <u>(\$ 32,418)</u> | <u>\$ 924,862</u> |

LONG-TERM DEBT

At year-end, the District had \$84,798 in notes payable outstanding. The long-term debt decreased \$23,689 from last year.

| <u>Type</u> | <u>Maturity</u> | <u>2019</u> | <u>2018</u> | <u>Decrease</u> |
|---------------------|-----------------|------------------|------------------|------------------|
| Note payable KIA | June 2023 | <u>\$ 84,798</u> | <u>\$108,487</u> | <u>\$ 23,689</u> |

BUDGET ANALYSIS

- There was no change from the original budget to the final budget.
- The District's O&M budget was increased by approximately 2 percent over the prior year. Decreased water usage caused a variance between the revenues that were budgeted and the actual water revenues of approximately \$43,000 and the largest variances between the expenses budgeted and actual was the increase of approximately \$64,400 in general and administrative expense amounts and increased purchased water expense of approximately \$7,100.
- Actual change of net position was approximately \$124,000 less than budgeted amounts due primarily to the decrease in operating revenues and increase in operating expenses as detailed above.

FACTORS IMPACTING FUTURE PERIODS

In order to increase return on accumulated cash, the District is now investing in securities instead of certificates of deposit. The investment activities include the use of an investment advisor and a governing investment policy to assure that all investments are low risk and are allowable under applicable state statutes.

REQUEST FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and demonstrate the District's accountability for the monies it receives. If you have any questions about his report or need additional information, please contact Stewart C. Smotherman, Chairman of the Board, 3118 Lewisburg Road, Russellville, KY 42276.

FINANCIAL STATEMENTS

NORTH LOGAN WATER DISTRICT NO. 1

**STATEMENT OF NET POSITION
December 31, 2019**

ASSETS

Current assets

| | |
|---------------------------|----------------|
| Cash and cash equivalents | \$ 301,007 |
| Investments | 345,831 |
| Accounts receivable | 11,155 |
| Unbilled revenues | 56,313 |
| Prepaid expenses | <u>4,530</u> |
| Total current assets | <u>718,836</u> |

Non-current assets

| | |
|--------------------------------------|---------------------|
| Restricted cash and cash equivalents | <u>68,453</u> |
| Restricted investments | <u>100,000</u> |
| Capital assets | |
| Utility plant in service | 2,029,444 |
| Less: accumulated depreciation | <u>(1,104,582)</u> |
| Net capital assets | <u>924,862</u> |

Total non-current assets 1,093,315

Total assets \$ 1,812,151

LIABILITIES AND NET POSITION

Current liabilities

| | |
|--------------------------------------|--------------|
| Current maturities of long-term debt | \$ 23,927 |
| Accounts payable | 20,439 |
| Accrued interest | 71 |
| Customer deposits | 54,470 |
| Other accrued liabilities | <u>2,655</u> |

Total current liabilities 101,562

Long-term debt, less current maturities 60,871

Net Position

| | |
|----------------------------------|----------------|
| Net investment in capital assets | 839,993 |
| Restricted for: | |
| Debt service | 100,000 |
| Capital projects | 11,998 |
| Unrestricted | <u>697,727</u> |

Total net position 1,649,718

Total liabilities and net position \$ 1,812,151

See Notes to Financial Statements

NORTH LOGAN WATER DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended December 31, 2019

| | |
|--|---------------------|
| Operating revenues | |
| Water revenues | \$ 411,748 |
| Late charges | 9,035 |
| Other revenues | <u>9,234</u> |
| Total operating revenues | <u>430,017</u> |
| Operating expenses | |
| Purchased water | 213,012 |
| Depreciation expense | 79,960 |
| General and administrative expenses | <u>256,485</u> |
| Total operating expenses | <u>549,457</u> |
| Operating loss | (119,440) |
| Non-operating revenues (expenses) | |
| Investment income | 25,837 |
| Interest expense | (986) |
| Loss on equipment disposal | <u>(4,169)</u> |
| Total non-operating revenues (expenses) | <u>20,682</u> |
| Loss before capital contributions | (98,758) |
| Capital contributions | <u>—</u> |
| Change in net position | (98,758) |
| Net position, beginning of year | <u>1,748,476</u> |
| Net position, end of year | <u>\$ 1,649,718</u> |

See Notes to Financial Statements

NORTH LOGAN WATER DISTRICT NO. 1

STATEMENT OF CASH FLOWS
Year Ended December 31, 2019

| | |
|---|------------------|
| Cash flows from operating activities | |
| Receipts from customers | \$ 424,200 |
| Payments to suppliers and employees | (469,180) |
| Net cash used in operating activities | <u>(44,980)</u> |

| | |
|---|------------------|
| Cash flows from capital and related financing activities | |
| Principal paid on long-term debt | (23,689) |
| Interest paid | (1,026) |
| Net capital used in capital and related financing activities | <u>(24,715)</u> |

| | |
|--|----------------|
| Cash flows used in investing activities | |
| Purchase of investments | (325,285) |
| Investment income | 23,132 |
| Proceeds from sale of investments | <u>330,490</u> |
| Net cash provided by investing activities | <u>28,337</u> |

Net decrease in cash (41,358)

Cash and cash equivalents, beginning of year 410,818

Cash and cash equivalents, end of year \$ 369,460

Reconciliation of Operating Loss to Net Cash Used in Operating Activities

| | |
|--|--------------------|
| Operating loss | (\$ 119,440) |
| Adjustment to reconcile net operating loss to net cash used in operating activities: | |
| Depreciation | 79,960 |
| Changes in operating assets and liabilities: | |
| Accounts receivable, net | (4,714) |
| Unbilled revenues | (1,103) |
| Prepaid expenses | 33 |
| Accounts payable | (2,215) |
| Accrued liabilities | (841) |
| Customer deposits | <u>3,340</u> |
| Net cash used in operating activities | <u>(\$ 44,980)</u> |

Reflected in the Statement of Net Position as:

| | |
|--------------------------------------|-------------------|
| Cash and cash equivalents | \$ 301,007 |
| Restricted cash and cash equivalents | <u>68,453</u> |
| | <u>\$ 369,460</u> |

See Notes to Financial Statements

NORTH LOGAN WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 1. NATURE OF ORGANIZATION

The North Logan Water District No. I (the “District”) was chartered in 1968 to distribute water to customers in Logan County, Kentucky. It is a distribution of water under the authority of the Public Service Commission of Kentucky. The District acquires all of its water for distribution from Logan/Todd Regional Water Commission.

The District is governed by a three member board (the “Board”) that has the power and authority to acquire, construct, maintain and operate the waterworks system. The District is a component unit of Logan County, Kentucky. The criteria for determining the District to be a component unit of Logan County, Kentucky, the primary government, as set forth in GASB No. 14, *The Financial Reporting Entity*, is financial accountability. The majority of the commissioners of the Board are appointed by the Logan County Fiscal Court. The District can provide a financial benefit to or impose a financial burden on the primary government.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation, Measurement Focus and Basis of Accounting

The District has adopted the provisions of Statement No. 34 (“Statement 34”) of the Governmental Accounting Standards Board *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Statement 34 established standards for external financial reporting for all state and local governmental entities includes a managements’ discussion and analysis section, a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows. It requires the District to classify its net position into three components — net investment in capital assets, restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets — consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted — consists of net position with constraints placed on their use by bond resolutions and debt agreements less related liabilities.
- Unrestricted net position - all other net position is reported in this category.

NORTH LOGAN WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Measurement focus is a term used to describe “which” transactions are recorded in the financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. The accompanying financial statements of the District are reported using the “economic resources measurement focus” and the “accrual basis of accounting.” Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Cash and Cash Equivalents

The District has defined cash and cash equivalents to include all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments in the statement of net position consist of investments in publicly traded mutual funds. Balances are stated at fair market value.

Accounts Receivable

The District’s receivables consist of billed charges to customers and unbilled charges. Unbilled revenues represent the estimated receivable amount for services that have not been billed to customers at the statement of net position date. The amounts are a result of a timing difference between the end of the financial statements cycle (month end) and the billing cycle (the date within the month for each billing period).

Concentration of Credit Risk

The District extends credit to all citizens who live within the geographic location of the District and who utilize the utility system. Credit losses may be minimal and are generally within management’s expectations.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NORTH LOGAN WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Utility Plant and Depreciation

Utility plant constructed or acquired is stated at cost and any utility plant contributed is stated at estimated fair value on the date received. Utility plant assets are defined by the District as a unit of property with an individual cost equal or greater than \$500 and an estimated useful life of one year or more. The costs of normal repairs of property and the replacement and renewal of items considered less than units of property are charged to maintenance expense.

Interest is capitalized, net of interest earned on interest-bearing investments acquired with the proceeds of tax-exempt borrowings, in connection with the construction of significant utility plant. The construction period interest is recorded as part of the cost of the asset to which it relates and is amortized over the asset's estimated useful life. The District did not capitalize any interest in 2019.

Depreciation of utility plant is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable utility plant assets are as follows:

| | Depreciable Life (Years) |
|-------------|-----------------------------|
| Building | 20-40 years |
| Water Plant | 5-50 years |

Revenues and expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for water services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the District's policy to apply those expenses to restricted net position to the extent they are available and then to unrestricted net position.

Subsequent Events

The District has evaluated events occurring between the end of its most recent fiscal year and June 15, 2020, the date the accompanying financial statements were available to be issued.

NORTH LOGAN WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 3. CASH DEPOSITS AND INVESTMENTS

Cash Deposits:

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it.

At December 31, 2019, the carrying amount of the District's cash deposits totaled \$369,460 and the bank balances were \$370,066. Of the bank balances, \$250,000 was insured by the Federal Depository Insurance Corporation (FDIC) with the balance to be collateralized by securities held by the District's safekeeping agent in the District's name. At December 31, 2019, no deposits were uninsured and uncollateralized, and all were held in non-interest bearing accounts.

Investments:

The District has formally adopted the provisions of Kentucky Revised Statutes 66.480 as its governing investment policy. Its investment advisors verify that all investments held by the District adhere and comply with the investment policy.

At December 31, 2019, the District held the following publicly traded mutual funds:

| | <u>Cost</u> | <u>Fair Value</u> | <u>Unrealized (Depreciation)</u> |
|---|-------------------|-------------------|--------------------------------------|
| Fidelity Government Money Market Fund | \$ 8,985 | \$ 8,985 | \$ — |
| Franklin Floating Daily Fund | 7,507 | 6,976 | (531) |
| JP Morgan Income Fund | 136,798 | 136,941 | 143 |
| Franklin U.S. Government Fund | 65,533 | 64,077 | (1,456) |
| Pimco Institutional Fund Principal High Yield | 17,364 | 17,291 | (73) |
| Templeton Global Total Return | 24,107 | 24,182 | 75 |
| Lord Abbott Short Duration Fund | 101,950 | 101,363 | (587) |
| | <u>86,123</u> | <u>86,016</u> | <u>(107)</u> |
| | <u>\$ 448,367</u> | <u>\$ 445,831</u> | <u>(\$ 2,536)</u> |

The District, under the direction and advice of its investment manager, invests in these mutual funds that hold government securities in order to manage its credit risk, custodial credit risk and concentration of credit risk.

NORTH LOGAN WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 4. WATER SALES AGREEMENT AND CONCENTRATION

Logan/Todd Regional Water Commission was the sole provider of water to the District during 2019. The District has a water purchase contract with Logan/Todd Regional Water Commission that stipulates the requirements of the Commission to provide water to the District and the rates the District will be charged for the expected water usage. The contract extends for a term of 50 years. The agreement may be renewed or extended for such term or terms as may be agreed by the Commission and the District.

Under the terms of the agreement, the District may not produce or resell water to any other water system or water seller, nor may the District all any customer it system that would increase average daily water demand or peak water demand within the District by over 25% without prior written approval from the Commission. The agreement was originally signed to begin from the earlier date of initial availability of water for delivery by the Commission or January 1, 2003. The District began purchasing water from the Commission in April 2003. The agreement requires the District to purchase minimum levels of water from the Commission. If minimum purchase levels are not met, the Commission may charge the District for any shortages.

NOTE 5. UTILITY PLANT

Utility plant at December 31, 2019 and changes during 2019 consist of the following:

| | <u>Balance Beginning of Year</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance End of Year</u> |
|--|--|--------------------|--------------------|------------------------------------|
| Utility plant not being depreciated: | | | | |
| Land and land rights | \$ 18,704 | \$ — | \$ — | \$ 18,704 |
| Other utility plant being depreciated: | | | | |
| Building | 24,672 | — | — | 24,672 |
| Water plant | <u>2,041,886</u> | <u>—</u> | <u>(55,818)</u> | <u>1,986,068</u> |
| | <u>2,066,558</u> | <u>—</u> | <u>(55,818)</u> | <u>2,010,741</u> |
| Less: accumulated depreciation: | | | | |
| Building | (11,670) | (653) | — | (12,323) |
| Water plant | <u>(1,036,352)</u> | <u>(79,307)</u> | <u>23,400</u> | <u>(1,092,259)</u> |
| | <u>(1,048,022)</u> | <u>(79,960)</u> | <u>23,400</u> | <u>(1,104,582)</u> |
| | <u>\$ 1,037,240</u> | <u>(\$ 79,960)</u> | <u>(\$ 32,418)</u> | <u>\$ 924,862</u> |

For the year ended December 31, 2019, depreciation expense totaled \$79,960.

NORTH LOGAN WATER DISTRICT NO. 1

**NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

NOTE 6. LONG-TERM DEBT

Long-term debt at December 31, 2019 consists of the following:

| | |
|---|-------------------|
| Note payable to Kentucky Infrastructure Authority, due in semi-annual installments, including interest at 1.0%, through June, 2023. | \$ 84,798 |
| Less: current maturities | (<u>23,927</u>) |
| Long-term debt | \$ <u>60,871</u> |

Debt service requirements on long-term debt at December 31, 2019, for each of the next five years and five year increments thereafter are as follows:

| <u>Year Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------------|------------------|-----------------|------------------|
| 2020 | 23,927 | 788 | 24,715 |
| 2021 | 24,167 | 548 | 24,715 |
| 2022 | 24,409 | 306 | 24,715 |
| 2023 | <u>12,295</u> | <u>61</u> | <u>12,356</u> |
| | <u>\$ 84,798</u> | <u>\$ 1,703</u> | <u>\$ 86,501</u> |

The note is collateralized by water system revenues and includes a requirement to fund a replacement and maintenance reserve, held by the District, according to an amortization schedule.

NORTH LOGAN WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 7. CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended December 31, 2019 are as follows:

| | |
|---|------------------|
| Balance, December 31, 2018 | \$ 108,487 |
| Additions | — |
| Reductions | (23,689) |
| Balance, December 31, 2019 | <u>\$ 84,798</u> |
| Amounts due within one year at December 31, 2019 | <u>\$ 23,927</u> |

NOTE 8. RESTRICTED CASH

Restricted cash and investments at December 31, 2019 are available for the following purposes:

| | |
|-------------------|-------------------|
| Debt service | \$ 100,000 |
| Capital projects | 11,998 |
| Customer deposits | <u>56,455</u> |
| | <u>\$ 168,453</u> |

NOTE 9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; employee dishonesty; injuries to employees; and natural disasters. The District obtains commercial insurance to cover general liability claims, employee dishonest, worker's compensation claims, and property damage. The District's worker's compensation coverage is retrospectively rated, whereby premiums are accrued based on the ultimate cost of the experience of the District. Claims arising are paid by the insurer. There have been no significant reductions in insurance coverage in 2019 from the coverage in 2016, and settled claims have not exceeded insurance coverage in any of the past three fiscal years.

NORTH LOGAN WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 10. SUBSEQUENT EVENTS

The COVID-19 outbreak in Kentucky has resulted in mandated and voluntary closings of retail, commercial, and industrial customers within our service area. As directed by the Kentucky Public Service Commission, the Water District has suspended disconnections for non-payment, late charges will be waived, and payment arrangements are being made to assist customers during the outbreak. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. The extent of the impact of COVID-19 on our operations and financial performance will depend on certain developments, including the duration, the impact on our customers, employees, and daily operations. At this point, the extent to which COVID-19 may impact our financial condition and operations is uncertain.

SUPPLEMENTARY INFORMATION

NORTH LOGAN WATER DISTRICT NO. 1

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2019

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--------------------------------------|--------------------------------------|--------------------|---------------------|
| Operating revenues | | | |
| Operating revenues | \$ 473,022 | \$ 430,017 | (\$ 43,005) |
| Operating expenses | | | |
| Operation and maintenance | 368,190 | 464,454 | (96,264) |
| Depreciation expense | 79,559 | 79,960 | (401) |
| Taxes other than income | 4,438 | 5,043 | (605) |
| Total operating expenses | <u>452,187</u> | <u>549,457</u> | <u>(97,270)</u> |
| Operating income (loss) | <u>20,835</u> | <u>(119,440)</u> | <u>(140,275)</u> |
| Nonoperating revenues (expenses) | | | |
| Investment income | 4,762 | 25,837 | 21,075 |
| Interest expense | — | (986) | (986) |
| Loss on equipment disposal | — | (4,169) | (4,169) |
| | <u>4,762</u> | <u>20,682</u> | <u>15,920</u> |
| Income (loss) before contributions | 25,597 | (98,758) | (124,355) |
| Contributions in aid of construction | <u>—</u> | <u>—</u> | <u>—</u> |
| Change in net position | <u>\$ 25,597</u> | <u>(\$ 98,758)</u> | <u>(\$ 124,355)</u> |

NORTH LOGAN WATER DISTRICT NO. 1

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
Year Ended December 31, 2019

| | |
|------------------------------|-------------------|
| Payroll expense | \$ 45,559 |
| Professional fees | 18,447 |
| Commissioners' fee | 18,000 |
| Plant materials and supplies | 98,720 |
| Contract services | 9,000 |
| Water testing | 2,731 |
| Insurance | 7,507 |
| Travel | 13,909 |
| Office supplies and expense | 15,358 |
| Employee benefits | 16,674 |
| Utilities | 5,537 |
| Payroll taxes | <u>5,043</u> |
| | <u>\$ 256,485</u> |



**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***

Board of Commissioners
North Logan Water District No. 1
Russellville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Logan Water District No. 1 (the District) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 15, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

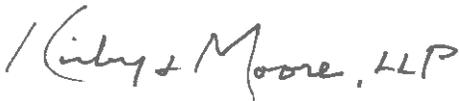
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Kirby & Moore, LLP". The signature is written in a cursive, flowing style.

Bowling Green, Kentucky
June 15, 2020