

NORTH LOGAN WATER DISTRICT NO. 1
COMPONENT UNIT OF
LOGAN COUNTY, KENTUCKY
FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NORTH LOGAN WATER DISTRICT NO. 1

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INDEPENDENT AUDITORS' REPORT

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

Opinion

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 years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic 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 the North Logan Water District No. 1 as of December 31, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, 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 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' Responsibility 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 auditors' report that includes our opinion. 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 judgment 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 judgment 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 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 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 4 through 8 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.

Supplementary Information

Our audits were conducted for the purpose of forming opinions 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. Such information is the responsibility of management and was derived from and relate directly

to the underlying accounting and other records used to prepare the basic financial statements. The 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 May 6, 2022, 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 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 the 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 the District's internal control over financial reporting and compliance.



Bowling Green, Kentucky
May 6, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

**NORTH LOGAN WATER DISTRICT NO. 1
RUSSELLVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2021 AND 2020**

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, 2021. 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 28 miles of distribution lines and provides water distribution services for approximately 580 users in northern Logan County, Kentucky. The water district purchases 100% of its water from the Logan Todd Regional Water District, 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 \$1,560,624.
- Based on the GASB 34 model of measuring net position, the total net position of the District decreased \$53,773 or 3.33% of net position.

FINANCIAL HIGHLIGHTS (Continued)

- Water sales decreased and operating expenses increased in the current year, resulting in a decrease in operating income of \$23,037, compared to the prior year.
- Water revenues decreased from \$413,072 in 2020 to \$412,324 in 2021.
- The District purchases all water from the Logan Todd Regional Water District. The District's cost of water percentage relative to water sales was 41.27% for 2021.
- 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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Current and non-current assets	\$ 747,325	\$ 907,712
Capital assets	<u>933,866</u>	<u>845,595</u>
Total assets	<u>\$ 1,681,191</u>	<u>\$ 1,753,307</u>
Long-term obligations	\$ 12,295	\$ 36,704
Other liabilities	<u>108,272</u>	<u>102,206</u>
Total liabilities	<u>\$ 120,567</u>	<u>\$ 138,910</u>
Net Position		
Net investment in capital assets	\$ 897,131	\$ 784,673
Restricted	113,342	112,670
Unrestricted	<u>550,151</u>	<u>717,054</u>
Total net position	<u>\$ 1,560,624</u>	<u>\$ 1,614,397</u>
Revenues		
Water service revenue	\$ 401,775	\$ 394,205
Other revenue	<u>10,549</u>	<u>18,867</u>
Total operating revenues	412,324	413,072
Expenses		
Water operations	<u>476,159</u>	<u>453,870</u>
Net operating income (loss)	(63,835)	(40,798)
Non-operating income (expense) net	<u>1,302</u>	<u>5,476</u>
Income (loss) before capital contributions	(62,533)	(35,322)
Capital contributions	<u>8,760</u>	<u>—</u>
Change in net position	<u>(\$ 53,773)</u>	<u>(\$ 35,322)</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

The District had \$933,866 (net of accumulated depreciation) invested in a variety of utility capital assets as of December 31, 2021. The investment in capital assets includes land, building, distribution reservoirs, distribution mains, meters and equipment.

	<u>2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>2021</u>
Land and land improvements	\$ 18,704	\$ —	\$ —	\$ 18,704
Building	24,672	—	—	24,672
Distribution				
Reservoirs	565,727	167,311	—	733,038
Distribution				
Mains	1,266,317	—	—	1,266,317
Hydrants	2,523	—	—	2,523
Meters and services	146,376	—	—	146,376
Equipment	1,321	—	—	1,321
Capitalized interest	3,804	—	—	3,804
	<u>2,029,444</u>	<u>167,311</u>	<u>—</u>	<u>2,196,755</u>
Less accumulated depreciation	(1,183,849)	(79,040)	—	(1,262,889)
Net capital assets	<u>\$ 845,595</u>	<u>\$ 88,271</u>	<u>\$ —</u>	<u>\$ 933,866</u>

LONG-TERM DEBT

At year-end, the District had \$36,704 in loans payable outstanding. The long-term debt decreased \$24,167 from last year.

<u>Type</u>	<u>Maturity</u>	<u>2021</u>	<u>2020</u>	<u>Decrease</u>
Loan payable KIA	June 2023	<u>\$ 36,704</u>	<u>\$ 60,871</u>	<u>\$ 24,167</u>

BUDGET ANALYSIS

- There was no change from the original budget to the final budget.
- The District's O&M budget was decreased by approximately 2.7% percent over the prior year. Decreased water usage caused a variance between the revenues that were budgeted and the actual water revenues of approximately \$79,800 and the largest variances between the expenses budgeted and actual was the increase of approximately \$6,900 in operation and maintenance expense amounts and \$18,100 in depreciation expense.
- Actual change of net position was approximately \$103,400 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

**STATEMENTS OF NET POSITION
December 31, 2021 and 2020**

ASSETS	2021	2020
Current assets		
Cash and cash equivalents	\$ 128,206	\$ 305,661
Investments	357,531	353,433
Accounts receivable	16,409	16,275
Unbilled revenues	61,868	53,709
Prepaid expenses	<u>3,663</u>	<u>4,418</u>
Total current assets	<u>567,677</u>	<u>733,496</u>
Non-current assets		
Restricted cash and cash equivalents	<u>79,648</u>	<u>74,216</u>
Restricted investments	<u>100,000</u>	<u>100,000</u>
Capital assets		
Utility plant in service	2,196,755	2,029,444
Less: accumulated depreciation	(1,262,889)	(1,183,849)
Net capital assets	<u>933,866</u>	<u>845,595</u>
Total non-current assets	<u>1,113,514</u>	<u>1,019,811</u>
Total assets	<u>\$ 1,681,191</u>	<u>\$ 1,753,307</u>
LIABILITIES AND NET POSITION		
Current liabilities		
Current maturities of long-term debt	\$ 24,409	\$ 24,167
Accounts payable	17,694	14,750
Accrued interest	31	50
Customer deposits	63,967	59,561
Other accrued liabilities	<u>2,171</u>	<u>3,678</u>
Total current liabilities	<u>108,272</u>	<u>102,206</u>
Long-term debt, less current maturities	<u>12,295</u>	<u>36,704</u>
Net Position		
Net investment in capital assets	897,131	784,673
Restricted for:		
Debt service	100,000	100,000
Capital projects	13,342	12,670
Unrestricted	<u>550,151</u>	<u>717,054</u>
Total net position	<u>1,560,624</u>	<u>1,614,397</u>
Total liabilities and net position	<u>\$ 1,681,191</u>	<u>\$ 1,753,307</u>

See Notes to Financial Statements

NORTH LOGAN WATER DISTRICT NO. 1

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2021 and 2020

	2021	2020
Operating revenues		
Water revenues	\$ 401,775	\$ 394,205
Late charges	6,754	1,181
Other revenues	<u>3,795</u>	<u>18,686</u>
Total operating revenues	<u>412,324</u>	<u>413,072</u>
Operating expenses		
Purchased water	165,830	184,533
Depreciation expense	79,040	79,267
General and administrative expenses	<u>231,289</u>	<u>190,070</u>
Total operating expenses	<u>476,159</u>	<u>453,870</u>
Operating loss	(63,835)	(40,798)
Non-operating revenues (expenses)		
Investment income	1,834	6,244
Interest expense	(532)	(768)
Total non-operating revenues (expenses)	<u>1,302</u>	<u>5,476</u>
Loss before capital contributions	(62,533)	(35,322)
Capital contributions	<u>8,760</u>	<u>—</u>
Change in net position	(53,773)	(35,322)
Net position, beginning of year	<u>1,614,396</u>	<u>1,649,718</u>
Net position, end of year	<u>\$ 1,560,623</u>	<u>\$ 1,614,396</u>

See Notes to Financial Statements

NORTH LOGAN WATER DISTRICT NO. 1

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Receipts from customers	\$ 404,031	\$ 410,556
Payments to suppliers and employees	(390,521)	(374,066)
Net cash provided by operating activities	<u>13,510</u>	<u>36,490</u>
Cash flows from capital and related financing activities		
Principal paid on long-term debt	(24,167)	(23,927)
Interest paid	(551)	(788)
Purchase of capital assets	(167,311)	—
Capital contributions	8,760	—
Net capital used in capital and related financing activities	<u>(183,269)</u>	<u>(24,715)</u>
Cash flows used in investing activities		
Purchase of investments	(76,784)	(35,328)
Investment income	19,037	18,416
Proceeds from sale of investments	55,483	15,554
Net cash used in investing activities	<u>(2,264)</u>	<u>(1,358)</u>
Net increase (decrease) in cash	(172,023)	10,417
Cash and cash equivalents, beginning of year	<u>379,877</u>	<u>369,460</u>
Cash and cash equivalents, end of year	<u>\$ 207,854</u>	<u>\$ 379,877</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	(\$ 63,835)	(\$ 40,798)
Adjustment to reconcile operating loss to net cash provided by operating activities:		
Depreciation	79,040	79,267
Changes in operating assets and liabilities:		
Accounts receivable, net	(134)	(5,120)
Unbilled revenues	(8,159)	2,604
Prepaid expenses	755	112
Accounts payable	2,944	(5,689)
Accrued liabilities	(1,507)	1,023
Customer deposits	4,406	5,091
Net cash provided by operating activities	<u>\$ 13,510</u>	<u>\$ 36,490</u>
Reflected in the Statement of Net Position as:		
Cash and cash equivalents	\$ 128,206	\$ 305,661
Restricted cash and cash equivalents	<u>79,648</u>	<u>74,216</u>
	<u>\$ 207,854</u>	<u>\$ 379,877</u>

See Notes to Financial Statements

NORTH LOGAN WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS December 31, 2021 and 2020

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 District of Kentucky. The District acquires all of its water for distribution from Logan/Todd Regional Water District.

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 and includes a management’s 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.

The District’s basic financial statements include only proprietary fund financial statements because the District engages only in a single business-type activity. The generally accepted accounting principles applicable are similar to those businesses in the private sector.

Statement 34 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.

NORTH LOGAN WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

- Unrestricted net position - all other net position is reported in this category.

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, 2021 and 2020**

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.

For years prior to 2021, 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. Effective January 1, 2021, the District implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. GASB Statement 89 requires interest incurred prior to and during a construction period to be expensed and not capitalized as a component of capital assets. The District did not capitalize any interest in 2021 and 2020.

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 <u>(Years)</u>
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 May 6, 2022, the date the accompanying financial statements were available to be issued.

NORTH LOGAN WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS December 31, 2021 and 2020

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, 2021 and 2020, the carrying amount of the District's cash deposits totaled \$207,854 and \$379,877, respectively, and the bank balances were \$209,750 and \$381,890, respectively. 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, 2021 and 2020, 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 (KRS) 66.480 as its governing investment policy. Under KRS Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and securities in mutual funds shall be eligible investments pursuant to this section. The District's investment advisors verify that all investments held by the District adhere and comply with the investment policy.

At December 31, 2021, 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	\$ 4,796	\$ 4,796	\$ —
American U.S. Govt. Securities Fund	8,526	8,634	(108)
JP Morgan Income Fund	146,273	149,441	(3,168)
Franklin U.S. Government Fund	59,387	62,843	(3,456)
JP Morgan Core Plus Bond Fund	20,822	21,412	(590)
Principal High Yield	22,211	21,708	503
Templeton Global Total Return	81,759	97,495	(15,736)
Lord Abbott Short Duration Fund	93,107	94,517	(1,410)
PGIM Global Total Return	9,176	9,868	(692)
Navigator Tactical Fixed Income Fund	<u>11,474</u>	<u>11,757</u>	<u>(283)</u>
	<u>\$ 457,531</u>	<u>\$ 482,471</u>	<u>(\$ 24,940)</u>

NORTH LOGAN WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS December 31, 2021 and 2020

NOTE 3. CASH DEPOSITS AND INVESTMENTS (Continued)

At December 31, 2020, the District held the following publicly traded mutual funds:

	Cost	Fair Value	Unrealized (Depreciation)
Fidelity Government Money Market Fund	\$ 6,989	\$ 6,989	\$ —
Franklin Floating Daily Fund	7,825	6,699	(1,126)
JP Morgan Income Fund	143,647	141,144	(2,503)
Franklin U.S. Government Fund	67,326	66,391	(935)
Pimco Institutional Fund	18,252	18,317	65
Principal High Yield	25,437	25,786	349
Templeton Global Total Return	95,002	86,188	(8,814)
Lord Abbott Short Duration Fund	92,240	92,169	(71)
PGIM Global Total Return	9,552	9,751	199
	<u>\$ 466,270</u>	<u>\$ 453,434</u>	<u>(\$ 12,836)</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. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of net position.

Recurring Fair Value Measurement – the District categorizes its fair value measurements within the fair value hierarchy established by the generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District’s investments in publicly traded mutual funds as of December 31, 2021 and 2020 are categorized using quoted prices for similar assets in active markets (Level 2 inputs).

NOTE 4. WATER SALES AGREEMENT AND CONCENTRATION

Logan/Todd Regional Water District was the sole provider of water to the District during 2021 and 2020. The District has a water purchase contract with Logan/Todd Regional Water District that stipulates the requirements of the District 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 District and the District.

NORTH LOGAN WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS December 31, 2021 and 2020

NOTE 4. WATER SALES AGREEMENT AND CONCENTRATION (Continued)

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 add any customer to its system that would increase average daily water demand or peak water demand within the District by over 25% without prior written approval from the District. The agreement was originally signed to begin from the earlier date of initial availability of water for delivery by the District or January 1, 2003. The District began purchasing water from the District in April 2003. The agreement requires the District to purchase minimum levels of water from the District. If minimum purchase levels are not met, the District may charge the District for any shortages.

NOTE 5. UTILITY PLANT

Utility plant at December 31, 2021 and changes during 2021 consist of the following:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
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>1,986,068</u>	<u>167,311</u>	<u>—</u>	<u>2,153,379</u>
	<u>2,010,740</u>	<u>167,311</u>	<u>—</u>	<u>2,178,051</u>
Less: accumulated depreciation:				
Building	(12,975)	(652)	—	(13,627)
Water plant	<u>(1,170,874)</u>	<u>(78,388)</u>	<u>—</u>	<u>(1,249,262)</u>
	<u>(1,183,849)</u>	<u>(79,040)</u>	<u>—</u>	<u>(1,262,889)</u>
	<u>\$ 845,595</u>	<u>\$ 88,271</u>	<u>\$ —</u>	<u>\$ 933,866</u>

Utility plant at December 31, 2020 and changes during 2020 consist of the following:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
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>1,986,068</u>	<u>—</u>	<u>—</u>	<u>1,986,068</u>
	<u>2,010,740</u>	<u>—</u>	<u>—</u>	<u>2,010,740</u>
Less: accumulated depreciation:				
Building	(12,323)	(652)	—	(12,975)
Water plant	<u>(1,092,259)</u>	<u>(78,615)</u>	<u>—</u>	<u>(1,170,874)</u>
	<u>(1,104,582)</u>	<u>(79,267)</u>	<u>—</u>	<u>(1,183,849)</u>
	<u>\$ 924,862</u>	<u>(\$ 79,267)</u>	<u>\$ —</u>	<u>\$ 845,595</u>

For the years ended December 31, 2021 and 2020, depreciation expense totaled \$79,040 and \$79,267, respectively.

NORTH LOGAN WATER DISTRICT NO. 1

**NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020**

NOTE 6. LONG-TERM DEBT

Long-term debt at December 31, 2021 and 2020 consists of the following:

	2021	2020
Loan payable to Kentucky Infrastructure Authority, due in semi-annual installments, including interest at 1.0%, through June, 2023.	\$ 36,704	\$ 60,871
Less: current maturities	(24,409)	(24,167)
Long-term debt	<u>\$ 12,295</u>	<u>\$ 36,704</u>

Debt service requirements on long-term debt at December 31, 2021, 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>
2022	\$ 24,409	\$ 306	\$ 24,715
2023	<u>12,295</u>	<u>61</u>	<u>12,356</u>
	<u>\$ 36,704</u>	<u>\$ 367</u>	<u>\$ 37,071</u>

The loan is collateralized by water system revenues and includes a requirement to fund a maintenance and replacement reserve fund for extraordinary maintenance expenses or unbudgeted costs.

NORTH LOGAN WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS December 31, 2021 and 2020

NOTE 7. CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Balance, beginning of year	\$ 60,871	\$ 84,798
Additions	—	—
Reductions	(24,167)	(23,927)
Balance, end of year	<u>\$ 36,704</u>	<u>\$ 60,871</u>
Amounts due within one year at December 31	<u>\$ 24,409</u>	<u>\$ 24,167</u>

NOTE 8. RESTRICTED CASH

Restricted cash and investments at December 31, 2021 and 2020 are available for the following purposes:

	2021	2020
Debt service	\$ 100,000	\$ 100,000
Capital projects	13,342	12,670
Customer deposits	<u>66,306</u>	<u>61,546</u>
	<u>\$ 179,648</u>	<u>\$ 174,216</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 2020 from the coverage in 2017, 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, 2021 and 2020

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, in 2020, the District suspended disconnections for non-payment, waived late charges, and made payment arrangements 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, 2021**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues			
Operating revenues	\$ <u>492,132</u>	\$ <u>412,324</u>	(<u>79,808</u>)
Operating expenses			
Operation and maintenance	383,065	389,970	(6,905)
Depreciation expense	60,914	79,040	(18,126)
Taxes other than income	<u>4,618</u>	<u>7,149</u>	(<u>2,531</u>)
Total operating expenses	<u>448,597</u>	<u>476,159</u>	(<u>27,562</u>)
Operating income (loss)	<u>43,535</u>	(<u>63,835</u>)	(<u>107,370</u>)
Nonoperating revenues (expenses)			
Investment income	4,954	1,834	(3,120)
Interest expense	<u>—</u>	(<u>532</u>)	(<u>532</u>)
	<u>4,954</u>	<u>1,302</u>	(<u>3,652</u>)
Income (loss) before contributions	48,489	(62,533)	(111,022)
Contributions in aid of construction	<u>1,182</u>	<u>8,760</u>	<u>7,578</u>
Change in net position	<u>\$ 49,671</u>	(<u>\$ 53,773</u>)	(<u>\$ 103,444</u>)

NORTH LOGAN WATER DISTRICT NO. 1

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
Years Ended December 31, 2021 and 2020

	2021	2020
Payroll expense	\$ 75,155	\$ 46,762
Professional fees	21,514	19,992
Commissioners' fee	18,000	18,000
Plant materials and supplies	43,778	41,701
Contract services	9,000	10,200
Water testing	4,670	3,014
Insurance	7,343	6,288
Travel	10,370	12,897
Office supplies and expense	15,434	14,838
Employee benefits	12,631	3,914
Utilities	6,245	7,332
Payroll taxes	<u>7,149</u>	<u>5,132</u>
	<u>\$ 231,289</u>	<u>\$ 190,070</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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 6, 2022.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

Report on 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 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*.

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 purpose.

(Kirby & Moore, LLP)

Bowling Green, Kentucky
May 6, 2022