

REID VILLAGE WATER DISTRICT
Reid Village, Kentucky

**REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**
for the year ended December 31, 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Reid Village Water District
Reid Village, Kentucky

We have audited the accompanying financial statements of the business-type activities of the Reid Village Water District as of and for the year ended December 31, 2020, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Reid Village Water District's management. Our responsibility is to an express opinion on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Reid Village Water District, as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 and historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Reid Village Water District's basic financial statements. The comparative statement of revenues and expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The comparative statement of revenues and expenses 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. 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 comparative statement of revenues and expenses and the schedule of expenditures of federal awards 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 22, 2021, on our consideration of the Reid Village Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Reid Village Water District's internal control over financial reporting and compliance.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

June 22, 2021

This report contains 13 pages.

Reid Village Water District
Statement of Net Position
Proprietary Fund
December 31, 2020

ASSETS

Current Assets	
Cash and cash equivalents - unrestricted	\$ 253,331
Cash and cash equivalents - restricted	172,042
Accounts receivable - net of allowance for doubtful accounts	60,545
Prepaid expenses	<u>7,367</u>
Total Current Assets	<u>493,285</u>
Noncurrent Assets	
Capital assets: (note 1)	
Land	107,000
Plant, equipment and lines	2,112,838
Less accumulated depreciation	<u>(923,304)</u>
Total Noncurrent Assets	<u>1,296,534</u>
Total Assets	<u>\$ 1,789,819</u>

LIABILITIES

Current Liabilities	
Accrued expenses	\$ 32,074
Accrued interest	13,907
Deposits payable	21,640
Bonds/notes payable	<u>27,591</u>
Total Current Liabilities	<u>95,212</u>
Noncurrent Liabilities	
Bonds/notes payable	<u>885,032</u>
Total Noncurrent Liabilities	<u>885,032</u>
Total Liabilities	<u>980,244</u>

NET POSITION

Net investment in capital assets	383,911
Restricted	150,402
Unrestricted	<u>275,262</u>
Total Net Position	<u>\$ 809,575</u>

The accompanying notes to the basic financial statements are an integral part of these statements.

Reid Village Water District
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the year ended December 31, 2020

Operating Revenues	
User fees	\$ 605,173
Penalties & charges	<u>10,229</u>
Total Operating Revenues	<u>615,402</u>
Operating Expenses	
Water purchased	206,333
Vehicle expense	4,056
Postage	4,307
Professional fees	4,500
Salaries	158,608
Insurance	13,027
Utilities & telephone	16,187
Water samples	3,652
Taxes	13,511
Repairs & maintenance	23,446
Miscellaneous expenses	5,939
Office supplies	4,600
Employee benefits	51,284
Depreciation	<u>46,040</u>
Total Operating Expenses	<u>555,490</u>
Operating Income (Loss)	<u>59,912</u>
Nonoperating Revenues (Expenses)	
Tap fees	1,450
Interest income	708
Interest expense	<u>(33,342)</u>
Net Nonoperating Revenues (Expenses)	<u>(31,184)</u>
Change in Net Position	28,728
Total Net Position - beginning	<u>780,847</u>
Total Net Position - ending	<u>\$ 809,575</u>

The accompanying notes to the basic financial statements are an integral part of these statements.

Reid Village Water District
Statement of Cash Flows
Proprietary Fund
December 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	\$ 601,733
Cash paid to employees	(158,608)
Cash paid for general and administrative expenses	<u>(356,040)</u>
Net Cash provided / (used) by operating activities	<u>87,085</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	708
Customer deposits	<u>(13,438)</u>
Net Cash provided / (used) by investing activities	<u>(12,730)</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Tap fees	1,450
Bond/note payments - principal	(26,623)
Bond/note payments - interest	<u>(19,435)</u>
Net Cash provided / (used) in capital and financing activities	<u>(44,608)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	29,747
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>395,626</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u>\$ 425,373</u>
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Operating Income	\$ 59,912
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
(increase) / decrease in prepaid expenses	(1,317)
(increase) / decrease in accounts receivable	(13,669)
depreciation	46,040
increase / (decrease) in accounts payable	<u>(3,881)</u>
Net cash provided / (used) by operating activities	<u>\$ 87,085</u>

The accompanying notes to the basic financial statements are an integral part of these statements.

REID VILLAGE WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

The Reid Village Water District is a water utility which services areas of Montgomery County including Reid Village. Its sales are primarily to residential customers. The District is a corporate body set forth in Kentucky Revised Statutes (KRS) 74.070 which was created November 1961. The District began operations in 1964. The District is subject to the regulatory District of the Kentucky Public Service Commission pursuant to KRS 278. 040.

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Reid Village Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing District, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria there are no other organizations included in these financial statements.

Depreciation Reserve Fund – The bond ordinances with USDA require monthly transfers to be made into this fund in the amount of \$395. Only expenditures for capital improvements or extraordinary expenses are permitted to be paid from this fund. The District had set aside \$91,521 into this fund at December 31, 2020. The required balance is \$47,400.

Bond and Interest Sinking Fund - The bond ordinances with USDA require monthly transfers to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. The required balance of the fund at December 31, 2020 was \$31,406. The District had set aside \$47,041.

Maintenance and Replacement Reserve-The Assistance Agreement with Kentucky Infrastructure Authority requires the District to deposit \$900/year into a maintenance and replacement reserve account until the amount in the account is equal to \$9,000. The District had set aside \$10,681.

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. 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 associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) are segmented into net investment in capital assets, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

An enterprise fund distinguishes 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 the District's principal ongoing operations. The principal operating revenues of the District are operating grants and tenant rental revenue. Operating expenses of the District include the cost of producing the revenue 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.

Basis of Accounting

The records of the District are maintained and the budgetary process is based on the cash basis method of accounting. Adjustments have been made to properly reflect the account balances.

Cash

At December 31, 2020, the carrying amount of the District's deposits was \$425,373 and the bank balance was \$427,288. Of the bank balance \$250,000 was covered by federal deposit insurance and \$150,341 was collateralized with securities held by the pledging financial institution's trust department. The District considers all investments with a maturity date of three months or less from date of purchase to be cash equivalents. Certificates of deposit that are redeemable immediately with little or no penalty are considered cash equivalents

Capital assets

Capital assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Donated assets are recorded at fair market value at the date of donation. Depreciation of property and equipment is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

<u>Class</u>	<u>Life</u>
Water lines, tanks	50 years
Vehicle/equipment	5 years

The District's capitalization policy is as follows: expenditures costing more than \$1,000 with an estimated useful life greater than one year are capitalized: all others are expensed.

Budgets and Budgetary Accounting

The district follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Formal budgetary integration is employed as a management control device during the year for the enterprise funds. These budgets are prepared on the cash basis of accounting.
- b. Unused appropriations for all of the above annually budgeted funds lapse at the end of year.

For the year ending December 31, 2020 the above budgetary procedures were not followed.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position is recorded as restricted when there are limitations imposed on their use by external restrictions.

Accounts Receivable

The receivable reflected in the statements in the amount of \$60,545 is net of allowance for uncollectibles in the amount of \$2,246.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 – Notes/Bonds Payable

The amount shown in the accompanying financial statements as long-term debt represents the District's future obligation to make loan payments from future revenues. At December 31, 2020, three separate loans had outstanding balances. Details of each of these issues are summarized as follows:

Note A

Lender – Rural Development

Balance of loan - \$276,000

Rate – 4.875%

Principal due January 1

Interest due January 1 and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note B

Lender – Rural Development

Balance of loan - \$328,200

Rate – 4.375%

Principal due January 1

Interest due January 1 and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note C

Lender – Kentucky Infrastructure Authority (KIA)

Balance of loan - \$308,423

Rate – 1.75%

Principal & Interest due June 1 and December 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon five (5) days notice.

Maturities			
	Principal	Interest	Total Payment
2021	\$ 27,591	\$ 32,751	\$ 60,342
2022	28,561	31,726	60,287
2023	30,134	30,647	60,781
2024	30,611	29,525	60,136
2025	32,135	31,000	63,135
2026-2030	175,000	127,000	302,000
2031-2035	210,000	91,000	301,000
2036-2040	200,000	47,000	247,000
2041-2045	160,000	18,000	178,000
2046-2049	18,591	500	19,091
Total	\$ 912,623	\$ 439,149	\$ 1,351,772

Note 3 - Pension Plan

The District's employees are not covered by any retirement plan.

Note 4 - Leave Policies

The District's employees with one year receive two weeks of vacation, employees with two-five years receive three weeks of vacation, employees with six to ten years receive four weeks of vacation, employees with over ten years received five weeks of vacation. Employees are not permitted to carryover vacation leave from one year to another. Sick leave is on an individual basis and decided by the commissioners. Employees with one year or less receive one-half personal day per month, while employees with over one year receive one personal day per month. Personal days are not carried over.

Note 5 - Changes in Capital Assets

The following is a summary of changes in the capital assets for the year:

	Balance 1/1/2020	Transfers/ Additions	Deletions	Balance 12/31/2020
Land	\$ 107,000	\$ -	\$ -	\$ 107,000
Property, plant & equipment	2,112,838	-	-	2,112,838
Capital assets, gross	\$ 2,219,838	\$ -	\$ -	\$ 2,219,838
Accumulated depreciation	\$ 877,264	\$ 46,040	\$ -	\$ 923,304
Capital assets, net	\$ 1,342,574			\$ 1,296,534

Note 6 - Revenue Bonds

Water and Revenue Bonds constitute special obligations of the District solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions, which require the District to maintain pledged revenues. The District must transfer monthly 1/6 of the next succeeding interest payment and 1/12 of the next succeeding principal payment from the operations and maintenance account into the bond and interest sinking account. The District also must transfer \$395 per month into a depreciation fund.

Note 7 - Restricted Cash

Restricted cash is composed of the following:

Account Description	Amount
Deposit Account	\$ 22,799
Depreciation Reserve Fund	91,521
Maintenance & Repair Reserve	10,681
Debt Reserve Fund	47,041
Total Restricted Cash	\$ 172,042

Note 8 – Contingencies

The District is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the District in the current and prior years. There were no examinations for the year ended December 31, 2020. Areas of noncompliance, if any, as a result of examinations would be included as a part of the “Findings and Questioned Costs” section of this report.

Note 9 – 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; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District management.

Note 10 – Subsequent Events

The District has evaluated subsequent events through June 22, 2021 the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITOR'S 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
Reid Village Water District
Reid Village, 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 business-type activities of the Reid Village Water District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Reid Village Water District's basic financial statements, and have issued our report thereon dated June 22, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Reid Village 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 the Reid Village Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Reid Village 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 have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Reid Village Water 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*.

Reid Village Water District's Response to Findings

Reid Village Water District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Reid Village Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

June 22, 2021

Reid Village Water District
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the years ended December 31, 2019 and December 31, 2020

	<u>2019</u>	<u>2020</u>
Operating Revenues		
Water sales	\$ 597,911	\$ 605,173
Penalties & charges	<u>14,828</u>	<u>10,229</u>
 Total Operating Revenues	 <u>612,739</u>	 <u>615,402</u>
Operating Expenses		
Water purchased	211,796	206,333
Vehicle expense	6,501	4,056
Postage	4,631	4,307
Professional fees	4,075	4,500
Salaries	139,989	158,608
Insurance	13,514	13,027
Utilities & telephone	16,976	16,187
Water samples	3,389	3,652
Taxes	12,069	13,511
Repairs & maintenance	19,910	23,446
Miscellaneous expenses	13,370	5,939
Office supplies	3,657	4,600
Employee benefits	50,160	51,284
Depreciation	<u>45,618</u>	<u>46,040</u>
 Total Operating Expenses	 <u>545,655</u>	 <u>#N/A</u>
 Operating Income (Loss)	 <u>67,084</u>	 <u>#N/A</u>
Nonoperating Revenues (Expenses)		
Tap fees	3,900	1,450
Interest income	859	708
Interest expense	<u>(34,301)</u>	<u>(33,342)</u>
 Net Nonoperating Revenues (Expenses)	 <u>(29,542)</u>	 <u>(31,184)</u>
 Change in Net Position	 <u>\$ 37,542</u>	 <u>#N/A</u>

The accompanying notes to the basic financial statements are an integral part of these statements.

REID VILLAGE WATER DISTRICT
Mount Sterling, Kentucky
Schedule of Findings and Responses
December 31, 2020

PRIOR YEAR FINDINGS

2019-001: Lack of Segregation of Duties – repeated as 2020-001
2019-002: Lack of Understanding of GAAP – cleared
2019-003: Budget Process Ineffective – cleared

CURRENT YEAR FINDINGS

2020-001 Lack of Segregation of Duties

Condition: The District has an inadequate segregation of duties within its internal control process. The District's manager generally signs most checks not payable to her. She also collects revenues, opens the mail, reconciles the bank statement, and prepares the accounting records.

Criteria: All governmental entities should design their internal control to provide an adequate segregation of duties.

Cause: The District does not have sufficient employees to adequately design its internal control.

Effect or Potential Effect: Inadequate segregation of duties provides the opportunity for collusion, abuse and fraud that can be pervasive to the financial statements.

Recommendation: The District should continue to design and implement its internal control policies to provide the maximum segregation of duties possible.

Response: The District has determined that it is not economically feasible to implement controls to eliminate this finding.