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## INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
South 641 Water District  
207 Main Street  
P.O. Box 126  
Hazel, KY 42049

We have audited the accompanying financial statements of South 641 Water 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 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 the financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of South 641 Water District, as of December 31, 2019, 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 State 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 information on pages 3-5 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2021, on our consideration of the South 641 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 the 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 South 641 Water District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "David M. Anderson". The signature is written in a cursive, flowing style.

David M. Anderson, CPA  
Ledbetter, Kentucky  
March 5, 2021

**SOUTH 641 WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2019**

The South 641 Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2019. To fully understand the entire scope of the District's financial activities, this information should be read in conjunction with the financial statements provided in this document.

**FINANCIAL HIGHLIGHTS**

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the District's financial statements. The District is authorized under Kentucky Revised Statutes (KRS) and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District's financial report includes only the activities of the South 641 Water District. The South 641 Water District's financial statements are provided for the Water, Sewer, and the combined review of the entire District.

*The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).*

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The District's basic financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, a statement of cash flows and notes to the financial statements.

**Statement of Net Position** – The statement of net position presents the financial position of the District. It represents information on the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of net position can be found on page 6 of this report.

**Statement of Revenues, Expenses and Changes in Net Position** – The statement of revenues, expenses and changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. The statement of revenues, expenses and changes in net position is on page 7 of this report.

**Statement of Cash Flows** – The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, financing, and investing activities. This statement presents cash receipt and cash disbursement information without consideration for when revenues were earned or when the obligation (expense) occurred. The statement of cash flows is found on page 8 of this report.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 9-13 of this report.

## OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

As noted earlier, net position may serve overtime as a useful indicator of the District's financial position. The District's assets exceeded liabilities for Water by \$632,509.40, Sewer by \$786,810.95, with a combined District's assets exceeding liabilities by \$1,419,320.35.

During 2019, the District's net capital assets increased in water by \$380,444.04, and decreased in sewer by \$25,184.81, and combined District total increase in net capital assets by \$355,259.23. These changes were accompanied by increase in unrestricted net position of \$12,212.10. The District's overall financial position and results of operations for the past two years are summarized as follows, based on the information included in the financial statements.

	<u>Business-Type Activities</u>					
	<u>2018</u>				<u>2019</u>	
	<u>Water</u>	<u>Sewer</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>	<u>Combined</u>
<b>Assets:</b>						
Current Assets	\$61,513.83	\$50,087.12	\$ 111,600.95	\$ 408,762.10	\$ 53,414.91	\$ 462,177.01
Capital Assets	159,646.27	784,282.14	943,928.41	540,090.31	759,097.33	1,299,187.64
Restricted Assets	<u>54,981.39</u>	<u>23,543.64</u>	<u>78,525.03</u>	<u>57,513.50</u>	<u>25,097.12</u>	<u>82,610.62</u>
<b>Total Assets</b>	<b><u>276,141.49</u></b>	<b><u>857,912.90</u></b>	<b><u>1,134,054.39</u></b>	<b><u>1,006,365.91</u></b>	<b><u>837,609.36</u></b>	<b><u>1,843,975.27</u></b>
<b>Liabilities:</b>						
Long-term Liabilities	28,600.00	23,400.00	52,000.00	14,850.00	12,150.00	27,000.00
Other Liabilities	<u>40,143.19</u>	<u>16,487.85</u>	<u>56,631.04</u>	<u>359,006.52</u>	<u>38,648.41</u>	<u>397,654.93</u>
<b>Total Liabilities</b>	<b><u>68,743.19</u></b>	<b><u>39,887.85</u></b>	<b><u>108,631.04</u></b>	<b><u>373,856.52</u></b>	<b><u>50,798.41</u></b>	<b><u>424,654.93</u></b>
<b>Net Position:</b>						
Net Inv in Cap Assets	117,846.27	750,082.14	867,928.41	511,490.31	735,697.33	1,247,187.64
Restricted	35,246.64	21,202.02	56,448.66	36,730.74	22,143.59	58,874.33
Unrestricted	<u>54,305.34</u>	<u>46,740.94</u>	<u>101,046.28</u>	<u>84,288.35</u>	<u>28,970.03</u>	<u>113,258.38</u>
<b>Total Net Position</b>	<b><u>\$207,398.25</u></b>	<b><u>\$818,025.10</u></b>	<b><u>\$1,025,423.35</u></b>	<b><u>\$ 632,509.40</u></b>	<b><u>\$786,810.95</u></b>	<b><u>\$1,419,320.35</u></b>
Operating Income	\$161,922.59	\$112,502.58	\$274,425.17	\$165,655.89	\$105,932.47	\$271,588.36
Operating Expenses	<u>159,020.26</u>	<u>125,743.02</u>	<u>284,763.28</u>	<u>146,211.61</u>	<u>125,137.65</u>	<u>271,349.26</u>
<b>Operating Income (Loss)</b>	<b><u>2,902.33</u></b>	<b><u>(13,240.44)</u></b>	<b><u>(10,338.11)</u></b>	<b><u>19,444.28</u></b>	<b><u>(19,205.18)</u></b>	<b><u>239.10</u></b>
Comm of KY 641 Relocate	0.00	0.00	0.00	395,209.44	0.00	395,209.44
Interest Revenue	331.89	139.86	471.75	824.34	417.30	1,241.64
Interest Expense	(2,090.00)	(1,710.00)	(3,800.00)	(1,958.58)	(834.60)	(2,793.18)
Non-Operating Income	<u>0.00</u>	<u>(205.12)</u>	<u>(205.12)</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
<b>Non-Op Rev (Exp)</b>	<b><u>(1,758.11)</u></b>	<b><u>(1,775.26)</u></b>	<b><u>(3,533.37)</u></b>	<b><u>394,075.20</u></b>	<b><u>(417.30)</u></b>	<b><u>393,657.90</u></b>
<b>Income (Loss) before Transfers</b>	<b>1,144.22</b>	<b>(15,015.70)</b>	<b>(13,871.48)</b>	<b>413,519.48</b>	<b>(19,622.48)</b>	<b>393,897.00</b>
<b>Transfers In (Out)</b>	<b>(2,217.38)</b>	<b>2,217.38</b>	<b>0.00</b>	<b>11,591.67</b>	<b>(11,591.67)</b>	<b>0.00</b>
<b>Net Position – Jan 1</b>	<b><u>208,471.41</u></b>	<b><u>830,823.42</u></b>	<b><u>1,039,294.83</u></b>	<b><u>207,398.25</u></b>	<b><u>818,025.10</u></b>	<b><u>1,025,423.35</u></b>
<b>Net Position – Dec 31</b>	<b><u>\$207,398.25</u></b>	<b><u>\$818,025.10</u></b>	<b><u>\$1,025,423.35</u></b>	<b><u>\$632,509.40</u></b>	<b><u>\$786,810.95</u></b>	<b><u>\$1,419,320.35</u></b>

A portion of the District's net position \$1,247,187.64, reflects its investment in net plant, such as water tanks, buildings, equipment, and distribution systems, oxidation lagoons, less any related outstanding debt used to acquire those assets. The District uses these assets to provide services to its customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the statement of net position must come from other sources such as operations, since the assets themselves cannot be used to liquidate these long-term liabilities.

#### **CAPITAL ASSETS**

The District's investment in capital assets as of December 31, 2019 was \$540,090.31 for water, \$759,097.33 for sewer, for a combined total of \$1,299,187.64 in capital assets. During the year ended December 31, 2019, the District capitalized 30 new water meters, six (6) water tap-ons, with additional charges for new office computer, a safe for the office, chainsaw, new sewer access at EW Miller St., added a flowmeter, as well as beginning the Hwy 641 Relocation Project with the Commonwealth of KY DOT in which the water main connection with the City of Murray (water provider) has been moved and replaced.

#### **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the South 641 Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Amy Fadden, Administrator, South 641 Water District, P.O. Box 126, Hazel, KY 42049.

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**SOUTH 641 WATER DISTRICT  
STATEMENT OF NET POSITION - PROPRIETARY FUNDS  
DECEMBER 31, 2019**

**ASSETS**

	<u>WATER</u>	<u>SEWER</u>	<u>COMBINED</u>
<b>Current Assets</b>			
<b>Unrestricted</b>			
Cash in Bank (Rev. and O&M)	\$ 52,451.67	\$ 42,914.99	\$ 95,366.66
Petty Cash	<u>197.17</u>	<u>0.00</u>	<u>197.17</u>
<b>Total Unrestricted Cash</b>	<b><u>52,648.84</u></b>	<b><u>42,914.99</u></b>	<b><u>95,563.83</u></b>
<b>Restricted</b>			
Cash for Debt Service	18,093.99	10,996.02	29,090.01
USDA Reserve Depreciation Account-CD	19,294.95	11,725.87	31,020.83
Cash in Customer Deposit Account	<u>20,124.56</u>	<u>2,375.23</u>	<u>22,499.79</u>
<b>Total Restricted Cash</b>	<b><u>57,513.50</u></b>	<b><u>25,097.12</u></b>	<b><u>82,610.63</u></b>
<b>Receivables</b>			
Comm of KY Hwy 641 Relocation	342,200.46	0.00	342,200.46
Accounts Receivables (net allow for uncollect.)	1,425.54	1,482.76	2,908.30
Unbilled Receivables (net allow. For uncollect.)	<u>12,487.26</u>	<u>9,017.16</u>	<u>21,504.42</u>
<b>Total Receivables</b>	<b><u>356,113.26</u></b>	<b><u>10,499.92</u></b>	<b><u>366,613.18</u></b>
<b>Total Current Assets</b>	<b><u>466,275.60</u></b>	<b><u>78,512.03</u></b>	<b><u>544,787.64</u></b>
<b>Noncurrent/Capital Assets</b>			
Work In Progress – Hwy 641 Relocation	395,209.44	0.00	395,209.44
Land (Non-depreciable)	20,000.00	0.00	20,000.00
Assets in Service	1,429,684.00	1,393,578.72	2,823,262.72
Accumulated Depreciation	<u>(1,304,803.13)</u>	<u>(634,481.35)</u>	<u>(1,939,284.48)</u>
<b>Total Noncurrent/Capital Assets</b>	<b><u>540,090.31</u></b>	<b><u>759,097.33</u></b>	<b><u>1,299,187.64</u></b>
<b>TOTAL ASSETS</b>	<b><u>1,006,365.91</u></b>	<b><u>837,609.36</u></b>	<b><u>1,843,975.27</u></b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable – Hwy 641 Relocation	315,414.58	0.00	315,414.58
Accounts Payable	7,040.46	23,217.09	30,257.55
Taxes Withheld & Accrued	739.39	450.31	1,189.70
State Taxes (S&U and School)	291.08	176.90	467.98
Accrued Health Insurance Premiums	63.41	38.54	101.95
Customer Advanced Payments	924.84	562.04	1,486.88
Customer Deposits	20,067.76	2,368.53	22,436.29
Accrued Interest	715.00	585.00	1,300.00
Current Portion of Long-Term Debt - Bonds Payable	<u>13,750.00</u>	<u>11,250.00</u>	<u>25,000.00</u>
<b>Total Current Liabilities</b>	<b><u>359,006.52</u></b>	<b><u>38,648.41</u></b>	<b><u>397,654.93</u></b>
<b>Noncurrent Liabilities</b>			
Bonds Payable (net of current portion)	<u>14,850.00</u>	<u>12,150.00</u>	<u>27,000.00</u>
<b>Total Noncurrent Liabilities</b>	<b><u>14,850.00</u></b>	<b><u>12,150.00</u></b>	<b><u>27,000.00</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>373,856.52</u></b>	<b><u>50,798.41</u></b>	<b><u>424,654.93</u></b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	511,490.31	735,697.33	1,247,187.64
Restricted	36,730.74	22,143.59	58,874.33
Unrestricted	<u>84,288.35</u>	<u>28,970.03</u>	<u>113,258.38</u>
<b>TOTAL NET POSITION</b>	<b><u>\$ 632,509.40</u></b>	<b><u>\$ 786,810.95</u></b>	<b><u>\$1,419,320.35</u></b>

*The accompanying notes are an integral part of the financial statements.*

**SOUTH 641 WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019**

<b>OPERATING REVENUES</b>	<b><u>WATER</u></b>	<b><u>SEWER</u></b>	<b><u>COMBINED</u></b>
Charges for Service			
Residential	\$ 122,293.31	\$ 87,009.45	\$209,302.76
Commercial	29,064.62	11,260.04	40,324.66
Non-Profit	3,205.09	4,094.57	7,299.66
Tap-On Fees	<u>6,500.00</u>	<u>0.00</u>	<u>6,500.00</u>
Total Service Revenue	<u>161,063.02</u>	<u>102,364.06</u>	<u>263,427.08</u>
Other Income			
Returned Check Fee	108.85	66.15	175.00
Service	870.80	529.20	1,400.00
Penalties	<u>3,613.22</u>	<u>2,973.06</u>	<u>6,586.28</u>
Total Other Income	<u>4,592.87</u>	<u>3,568.41</u>	<u>8,161.28</u>
<b>TOTAL OPERATING REVENUE</b>	<b><u>165,655.89</u></b>	<b><u>105,932.47</u></b>	<b><u>271,588.36</u></b>
 <b>OPERATING EXPENSES</b>			
Salaries	31,996.25	21,791.78	53,788.03
Transportation	4,367.28	2,652.72	7,020.00
Purchased Water	58,636.02	0.00	58,636.02
Testing & Chemicals	1,239.35	24,687.79	25,927.14
Fuel & Power	1,450.89	4,628.70	6,079.59
Taxes & License Other	2,813.20	582.97	3,396.17
Maintenance/Repair & Materials	9,690.86	3,906.00	13,596.86
Insurances	7,877.60	3,899.19	11,776.79
General/Misc. Operating	<u>2,873.85</u>	<u>16,786.75</u>	<u>19,660.60</u>
Expenses before Depreciation	<b>120,945.30</b>	<b>78,935.90</b>	<b>199,881.20</b>
Depreciation	<u>25,266.31</u>	<u>46,201.75</u>	<u>71,468.06</u>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>146,211.61</u></b>	<b><u>125,137.65</u></b>	<b><u>271,349.26</u></b>
 <b>OPERATING INCOME (LOSS)</b>	<b><u>19,444.28</u></b>	<b><u>(19,205.18)</u></b>	<b><u>239.10</u></b>
 <b>NON-OPERATING REVENUE (EXPENSES)</b>			
Comm of KY 641 Relocation	395,209.44	0.00	395,209.44
Interest Revenue	824.34	417.30	1,241.64
Interest Expense	<u>(1,958.58)</u>	<u>(834.60)</u>	<u>(2,793.18)</u>
<b>TOTAL NON-OP REVENUE (EXPENSES)</b>	<b><u>394,075.20</u></b>	<b><u>(417.30)</u></b>	<b><u>393,657.90</u></b>
 <b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>413,519.48</b>	<b>(19,622.48)</b>	<b>393,897.00</b>
<b>TRANSFERS IN (OUT)</b>	<b><u>11,591.67</u></b>	<b><u>(11,591.67)</u></b>	<b><u>0.00</u></b>
<b>CHANGE IN NET POSITION</b>	<b><u>425,111.15</u></b>	<b><u>(31,217.15)</u></b>	<b><u>393,897.00</u></b>
<b>NET POSITION BEGINNING OF YEAR</b>	<b><u>207,398.25</u></b>	<b><u>818,025.10</u></b>	<b><u>1,025,423.35</u></b>
<b>NET POSITION END OF THE YEAR</b>	<b><u>\$ 632,509.40</u></b>	<b><u>\$ 786,810.95</u></b>	<b><u>\$1,419,320.35</u></b>

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



**SOUTH 641 WATER DISTRICT**  
**PROPRIETARY FUND STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2019**

	<u>WATER</u>	<u>SEWER</u>	<u>COMBINED</u>
<b>Cash Flows from operating activities:</b>			
Cash received from customers	\$164,060.82	\$105,299.53	\$269,360.35
Cash payments to suppliers for goods and services	(112,748.18)	(35,234.92)	(147,983.10)
Cash payments to employees for services	<u>(32,083.45)</u>	<u>(21,990.42)</u>	<u>(54,073.87)</u>
<b>Net cash provided (used) by operating activities</b>	<b><u>19,229.19</u></b>	<b><u>48,074.19</u></b>	<b><u>67,303.38</u></b>
<b>Cash Flows from non-capital financing activities:</b>			
Transfer from (to) other funds	<u>11,591.67</u>	<u>(11,591.67)</u>	<u>0.00</u>
<b>Net cash provided (used) by non-capital financing activities</b>	<b><u>11,591.67</u></b>	<b><u>(11,591.67)</u></b>	<b><u>0.00</u></b>
<b>Cash Flows from capital and related financing activities:</b>			
Commonwealth of KY DOT – Hwy 641 Relocation	395,209.44	0.00	395,209.44
Acquisition and construction of property, plant & equipment	(405,711.21)	(21,016.88)	(426,728.09)
Principal payments on long-term debt	(13,200.00)	(10,800.00)	(24,000.00)
Interest Paid on Long-Term Debt	<u>(1,958.58)</u>	<u>(834.60)</u>	<u>(2,793.18)</u>
<b>Net cash provided (used) by capital and related financing activities</b>	<b><u>(25,660.35)</u></b>	<b><u>(32,651.48)</u></b>	<b><u>(58,311.83)</u></b>
<b>Cash flows from investing activities:</b>			
Interest income:	<u>824.34</u>	<u>417.30</u>	<u>1,241.64</u>
<b>Net cash provided (used) by investing activities</b>	<b><u>824.34</u></b>	<b><u>417.30</u></b>	<b><u>1,241.64</u></b>
<b>Net increase (decrease) in cash</b>	<b>5,984.85</b>	<b>4,248.34</b>	<b>10,233.19</b>
<b>Cash and cash equivalents, beginning of year</b>	<b><u>104,177.50</u></b>	<b><u>63,763.77</u></b>	<b><u>167,941.27</u></b>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$110,162.35</u></b>	<b><u>\$68,012.11</u></b>	<b><u>\$178,174.46</u></b>
<b>Reconciliation of operating income (loss) to</b>			
Net cash provided (used) by operating activities:			
Operating (loss) income	\$ 19,444.28	\$(19,205.18)	\$ 239.10
Adjustments - Operating Activities:			
Depreciation	25,266.31	46,201.75	71,468.06
(Increase) Decrease in:			
Receivable Comm of KY Hwy 641	(342,200.46)	0.00	(342,200.46)
Accounts Receivable	(710.30)	(197.63)	(907.93)
Unbilled Receivables	(884.77)	(435.31)	(1,320.08)
Increase (Decrease) in:			
Accounts Payable 641 Relocation	315,414.58	0.00	315,414.58
Accounts Payable	2,131.99	21,389.53	23,521.52
Taxes Withheld	(120.15)	(252.94)	(373.09)
State Taxes	(58.81)	(9.93)	(68.74)
Accrued Payroll Taxes	54.30	32.95	87.25
Customer Advanced Payments	(155.79)	(60.96)	(216.75)
Customer's Deposits	1,694.26	1,140.66	2,834.92
Accrued Interest	<u>(646.25)</u>	<u>(528.75)</u>	<u>(1,175.00)</u>
<b>Net cash provided (used) by operating activities</b>	<b><u>\$ 19,229.19</u></b>	<b><u>\$ 48,074.19</u></b>	<b><u>\$ 67,303.38</u></b>

*The accompanying notes are an integral part of the financial statements.*

# **SOUTH 641 WATER DISTRICT**

## **Notes to the Financial Statements**

### **1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Activities** – The South 641 Water District is a county water district supported by funds derived from the sale of water and sewer distribution and is operated by a District Board. The District is authorized under Kentucky Revised Statutes (KRS) and constitutes a Special Purpose Government Entity (SPGE), subdivision of the Department of Local Government (DLG), of the Commonwealth of Kentucky. The District is in Hazel, KY and serves the city of Hazel and the southern portion of Calloway County area.

**Principles determining scope of reporting entity** – The District’s financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental “reporting entity” as defined by the Governmental Accounting Standards Board (GASB) pronouncement. The District’s Board members are appointed equally by the County Judge Executive of Calloway County, and they have decision making authority, the authority to set rules, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

**Basis of accounting** - The District is presented as a proprietary enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability incurred, or economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

The District follows all pronouncements of the GASB. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund’s principal ongoing operations. The principal operating revenues of the District are charges to customers for water distribution and waste-water treatment. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

As dictated by the Kentucky Public Service Commission (PSC) Case No 2015-00278 any undetermined revenues and expenses for water and sewer are to be allocated as follows:

62.2% to Water & 37.8% to Sewer for:

- Employee Wages
- Dental Insurance
- Telephone
- Office Supplies
- Postage
- Mileage Reimbursement
- Workers Comp Insurance
- Payroll Taxes
- PSC Fees
- Interest Revenue
- Fees Revenue (Turn-On & Returned Check)

75.33% to Water & 24.67% to Sewer for:

- Uncollectible Accounts
- General Liability Insurance
- Long-Term Debt
- Interest Expense

**Budget** – Business-type activities use budgets for internal planning and control, but the budgets generally do not have the legal status or political nature of governmental activity budgets. For instance, usually they are not subject to public comment and are not formally adopted by the governing body. South 641 Water District has no legally adopted budget although a budget is used as a guide and is presented to the Board of Commissioners for approval prior to the beginning of the fiscal year and each quarterly meeting to gauge the financial activity of income and expenses.

**Accounts Receivable** – Receivables result from unpaid billings for water service to customers and from unpaid billings related to work performed for or materials sold to certain entities. All receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible customer accounts recorded by the District is based on history of uncollectible accounts and management’s analysis of current accounts.

**Unbilled Receivables** – The District bills one month in arrears of usages; therefore, January 2020 billing is actually for December 2019 usage. Unbilled receivables are for usage that has occurred that the District still needs to prepare billing for and send to customers.

**Utility Plant** – The utility plant is carried cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs charged to income as incurred; significant betterments are capitalized. Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as contributions when they are received. Depreciation on contributed asset is recorded as an expense in the statement of revenues and expenses. Capital assets are depreciated over the following estimated useful lives:

Organization Costs, Collection Sewers, Transmission & Distribution Lines & Water Tanks:	40 years
Engineering Costs, Receiving Wells & Pump Pits:	35 years
Hydrants, Fittings & Valves:	30 years
Oxidation Lagoons:	25 years
Regional Plans, Structures & Improvements, Hoists, Some Office Equipment & Water Pumps:	20 years
Meters and Tap-Ons, Air Conditioners/Heaters, and Meter Testers:	15 years
Sewer Pumps:	7 years
Some Office Equipment & Automatic Samplers:	5 years

## **Expenses –**

**Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Use of Restricted/Unrestricted Net Position** – When an expense is incurred for purposes for which both restricted and unrestricted assets are available, the District's policy is to consider restricted net position to have been depleted before unrestricted net position is applied.

**Cash and Cash Equivalents** – For purposes of the statement of cash flows, the District considers investments to be cash equivalents since all accounts are either deposit accounts or certificate of deposits.

## **2 – RESTRICTED CASH AND INVESTMENTS**

**Depreciation Reserve** – The bond ordinances with the U.S. Department of Agriculture (USDA/FHA – formerly Rural Development - RD) require South 641 Water District to maintain an account in the amount of \$28,000. A Certificate of Deposit (CD) was opened on 10/29/2013 for a term of 60 months, to mature on the date of 10/28/2018. A subsequent CD was established on 10/29/2018 for a term of 24 months, to mature on the date of 8/30/202a0. On December 31, 2019, the balance of the CD held at The Murray Bank was \$31,020.83. The interest for this account is 1.5400% with an annual percentage yield of 1.55%. Interest is compounded semi-annually. This account is deemed restricted to ensure compliance with the U.S. Department of Agriculture bond ordinances.

**Customer Deposits** – South 641 Water District sets aside, in an independent checking account held at The Murray Bank, all customers' deposits. This is a non-interest-bearing account. The balance of this account on December 31, 2019 was \$22,499.79.

**Cash for Long-Term Debt** – The District holds an account with The Murray Bank in which the District transfers monies monthly to accumulate cash for semi-annual withdrawals for principal and interest on the District's Bond Payable to the USDA/FHA. This account is interest bearing at 0.05% and on December 31, 2019 held a balance of \$29,090.01. Although this account is accessible to the District management, it selects to deem this account as restricted to ensure funds availability for semi-annual payments of interest and annual payment of principal.

## **3 - DEPOSITS**

The District's cash in bank demand deposits on December 31, 2019 does not exceed the FDIC insured amount. If the District exceeds FDIC insurance amounts this excess would represent a potential loss in the event the financial institution failed to perform on its obligations.

#### 4 – CAPITAL ASSETS

##### Capital Assets Note Illustration

#### CAPITAL ASSETS

##### Business-Type Activities

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b><u>WATER FUND</u></b>				
Land & Land Rights	\$ 20,000.00	\$ 0.00	\$ 0.00	\$ 20,000.00
Organization Costs	184,000.00	0.00	0.00	184,000.00
Structures & Improvements	252,509.30	0.00	0.00	252,509.30
Blocking, Fittings & Valves	36,400.00	0.00	0.00	36,400.00
Pumping Equipment	39,672.00	0.00	0.00	39,672.00
Water Towers	302,000.00	0.00	0.00	302,000.00
Transmission & Distribution	390,450.00	0.00	0.00	390,450.00
Meters & Tap-Ons	164,592.36	8,243.30	0.00	172,835.66
Hydrants	27,750.00	0.00	0.00	27,750.00
Regional Plan	9,900.00	0.00	0.00	9,900.00
Office & Equipment	10,821.00	2,080.93	0.00	12,901.93
Operational Equipment	<u>388.43</u>	<u>176.68</u>	<u>0.00</u>	<u>565.11</u>
<b><u>Water Capital Assets</u></b>	<b><u>\$ 1,439,183.09</u></b>	<b><u>\$ 10,500.91</u></b>	<b><u>\$ 0.00</u></b>	<b><u>\$ 1,449,684.00</u></b>
	<u>Beginning</u>			
<b><u>SEWER FUND</u></b>	<b><u>Balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending Balance</u></b>
Organization Costs	\$ 46,500.00	\$ 0.00	\$ 0.00	46,500.00
Misc. Intangible	176,598.00	0.00	0.00	176,598.00
Structures & Improvements	46,830.70	0.00	0.00	46,830.70
Collection Sewers & Lines	280,196.28	17,105.00	0.00	297,301.28
Other Collection Plant	36,900.00	0.00	0.00	36,900.00
Services/Tap-Ons	15,865.00	0.00	0.00	15,865.00
Automatic Samplers	7,911.69	2,540.00	0.00	10,451.69
Rec Wells & Pump Pits	170,638.32	0.00	0.00	170,638.32
Pumping Equipment	28,390.07	0.00	0.00	28,390.07
Oxidation Lagoon	521,163.06	0.00	0.00	521,163.06
Office & Equipment	7,199.03	1,264.61	0.00	8,463.64
Operational Equipment	<u>34,369.59</u>	<u>107.37</u>	<u>0.00</u>	<u>34,476.96</u>
<b><u>Sewer Capital Assets</u></b>	<b><u>\$ 1,355,663.46</u></b>	<b><u>\$ 21,016.98</u></b>	<b><u>\$ 0.00</u></b>	<b><u>\$ 1,393,578.72</u></b>

Depreciation expense was charged to functions as follows:

Water: \$25,266.31

Sewer: \$46,201.75

Total Business-Type Activities Depreciation Expense: \$ 71,468.06

## 5 – LONG-TERM DEBT

The District's revenue bonds were issued in 1981 in the original amount of \$472,000.00 payable to the U.S. Department of Agriculture at 5.00% per annum. Interest is payable semi-annually on January 1 and July 1 of each year, beginning in 1984, and ending with a final payment on January 1, 2021. Principal payments are made on January 1 each year, beginning in 1984 and with a final payment on January 1, 2021. Bond Payment schedule is as follows, with Accounts Receivable being \$:

### USDA/FHA – RURAL DEVELOPMENT BOND PAYMENT SCHEDULE

<u>DATE</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>TOTAL PAYMENT</u>	<u>BALANCE</u>	<u>INTERST PAID</u>	<u>ACCUM INT PD</u>
1/1/2020	1,300.00	25,000.00	26,300.00	27,000.00	1,300.00	578,300.00
7/1/2020	675.00		675.00		675.00	578,975.00
1/1/2021	675.00	27,000.00	27,675.00	000.00	675.00	579,650.00

## 6 – COMMERCIAL INSURANCE

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability and fidelity bond coverage. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

## 7 – INTEREST EXPENSE

The District actually paid interest amounting to \$3,200.00 in 2019.

## 8 – U.S. HIGHWAY 641 RELOCATION PROJECT BY KY TRANSPORTATION CABINET – DEPARTMENT OF HIGHWAYS

This project with South 641 Water District and the Kentucky Transportation Cabinet will be done in two phases. Phase I, total project estimate: \$440,458.25 and Phase II, total project estimated at \$441,998.75. This is a Utility Relocation Keep Cost Agreement pursuant to KRS 177.035 with the costs being covered by the Kentucky Transportation Cabinet and South 641 will be utilized as a pass through. At year-end 2019, Capital Assets were \$395,209.44, Accounts Receivable being \$342,200.46 and Accounts Payable being \$315,414.58.

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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*

To the Board of Commissioners  
South 641 Water District  
207 Main Street  
P.O. Box 126  
Hazel, Kentucky 42049

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 South 641 Water District, Hazel, Kentucky, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the South 641 Water District's basic financial statements and have issued our report thereon dated March 5, 2021.

*Internal Control over Financial Reporting*

In planning and performing our audit of the financial statements, we considered South 641 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 South 641 Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of South 641 Water District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did identify deficiencies in internal control that we consider to be material weaknesses, described in the accompanying Schedule of Findings and Questioned Costs as conditions 1,2, and 3. Other material weaknesses may exist that have not been identified.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether South 641 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs (pages 16-17) as Condition 1.

*South 641 Water District's Response to Findings*

South 641 Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. South 641 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.



David M. Anderson, CPA  
Ledbetter, Kentucky  
March 5, 2021



**SOUTH 641 WATER DISTRICT  
HAZEL, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2019**

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	<u> X </u> yes	<u> </u> no

**FINANCIAL STATEMENT FINDINGS**

**INTERNAL CONTROL MATERIAL WEAKNESSES**

**Condition 1:** There is an absence of appropriate segregation of duties consistent with appropriate control objectives.

**Effect:** Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded and errors and irregularities may go undetected.

**Cause:** Lack of personnel.

**Recommendation:** We recommend that management review its financial operation for opportunities to separate incompatible functions. Where segregation of duties cannot be achieved due to the size of the staff, management should maintain its awareness of the weakness and compensate with other controls.

**Management's Response:**

We agree with the finding and have put in place certain compensating controls to help alleviate exposure. Where possible, commissioners will be more involved to help alleviate the lack of segregation.

**Condition 2:** The general ledger is not being kept in balance and the balance sheet accounts are not being adjusted to current balances.

**Effect:** The general ledger is the main accounting tool for accurate financial information. Material misstatements are much more likely with an inaccurate general ledger.

**Recommendation:** The District should bring its general ledger back to accurate balances and maintain their accuracy.

**Management's Response:** The District intends to get the general ledger adjusted to accurate balances and maintain its accuracy.

**Condition 3:** The District purports to require two signatures on all checks, but the District is not abiding by their policy.

**Effect:** The District's control policies are designed to protect its assets from misappropriation. Without controls, assets are not properly safeguarded and errors and irregularities may go undetected.

**Cause:** Management override of its internal control system.

**Recommendations:** Prior to this audit, the District adopted new internal control policies reassuring two signatures on all checks. The District has since continued to abide by these new policies.

**Management's Response:** The District will review its internal control policies and abide by those policies.

### **NONCOMPLIANCE FINDINGS**

**Condition 1:** South 641 Water District's Water and Sewer Revenue Bond Resolution of 1981 states that an annual audit shall be made by a Certified Public Accountant licensed in Kentucky. The District has been having an audit only every fourth year, as required by KRS 65A.030 for special purpose government entities.

**Effect:** Annual audits would help the district maintain their compliance responsibilities, internal controls and accurate financial statements making material misstatements less likely.

**Recommendation:** The District should have annual audits in accordance with the bond resolution.

**Management's Response:** South 641 Water District has a letter from the United States Department of Agriculture which states the criteria they should follow to determine which type of annual financial statement they are required to submit. One of the criteria states that if they have an outstanding Rural Utilities Service loan balance of less than \$1,00,0000 they may, with Rural Development's approval, submit a management report in lieu of an audit report.

### **PRIOR YEAR AUDIT FINDINGS**

No audit in previous year.