

DORSEY, GRAY, NORMENT & HOPGOOD

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June 5, 2017

**RECEIVED**

JUN 6 2017

PUBLIC SERVICE  
COMMISSION

VIA FEDEX

Dr. Talina R. Mathews  
Executive Director  
Public Service Commission of Kentucky  
211 Sower Boulevard  
Frankfort, Kentucky 40601

Re: South Hopkins Water District

Dear Dr. Mathews:

Enclosed for filing please the original and 10 copies of the Application for Approval of Financing and for a Certificate of Public Convenience and Necessity.

Your assistance in this matter is appreciated.

Very truly yours,

DORSEY, GRAY, NORMENT & HOPGOOD

By



J. Christopher Hopgood

JCH/cds  
Encls.



COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

**RECEIVED**

JUN 6 2017

PUBLIC SERVICE  
COMMISSION

IN THE MATTER OF:

THE APPLICATION OF SOUTH HOPKINS )  
WATER DISTRICT TO INCUR )  
INDEBTEDNESS OF \$765,000.00 FOR THE )  
REHABILITATION OF TWO (2) WATER )  
TANKS AND FOR A CERTIFICATE OF )  
CONVENIENCE AND PUBLIC )  
NECESSITY )

CASE NO. 2017- 00237

APPLICATION

The applicant, **SOUTH HOPKINS WATER DISTRICT** (the "District"), files this Amended Application pursuant to KRS 278.300, 278.020, 807 KAR 5:001, and all other applicable laws and regulations, and requests that the Kentucky Public Service Commission (the "Commission") enter an order authorizing the District to incur indebtedness in the approximate principal amount of \$765,000.00 for the purpose of rehabilitating two (2) water tanks. In support of this application and in compliance with the rules and regulations of the Commission, the District states as follows:

1. The District was established as a water district by action of the Hopkins Fiscal Court on May 6, 1965, and by the Caldwell Fiscal Court on November 13, 1965. The applicant attests that it is in good standing. The District is now, and has been since its inception, regulated by the Commission, and all records and proceeds of the Commission with reference to the District are incorporated in this application by reference.



2. The governing body of the District is its Board of Directors with power to make contracts in furtherance of its lawful and proper purpose as provided for in KRS 74, et seq. and all applicable laws and regulations.

3. The mailing address of the District is as follows:

South Hopkins Water District  
129 South Main Street  
Dawson Springs, KY 42408  
Telephone: (270) 797-5760  
Telefax: (270) 797-3800  
Email: [southhopkinswate@bellsouth.net](mailto:southhopkinswate@bellsouth.net)

4. A general description of the District's water system property, together with a statement of the original cost, is contained in the District's Annual Report for 2015 which is on file with the Commission. The Annual Report is incorporated herein by reference.

5. The District proposes to borrow funds from Kentucky Infrastructure Authority ("KIA") pursuant to a note or financing agreement (the "KIA Loan"), in the estimated principal amount of \$765,000.00 for the purpose of rehabilitating the two (2) water tanks.

6. The estimated debt service for the KIA Loan is shown in "Exhibit A," which is attached hereto and incorporated herein by reference. The debt service schedule and estimated interest rates are fixed. Applicant is electing the 20 year term with annual payments of \$47,029.00, an interest rate of 1.75% fixed with the first payment beginning six (6) months after the first draw on the note.



7. The KIA Loan will provide the District with the funds necessary to rehabilitate the two (2) water tanks.

8. The Uses of Funds to be obtained from the issuance of the KIA Loan are the rehabilitation of an elevated tank including replacing an existing riser, raising the fill pipe, repairing sheet metal, cleaning and painting. The other tank is a ground tank which requires installation of a mixing system to reduce disinfection by products, sandblasting, cleaning and painting of the tank.

9. The Debt Service Schedule of the Loan for the rehabilitating of two (2) water tanks is set forth in "Exhibit A."

10. The District represents that the KIA Loan is in the public interest and is intended to accomplish the purpose of maintaining the structural integrity of the tanks of the District. This is a lawful object within the corporate purposes of the District's utility operations. The KIA Loan is necessary, appropriate for, and consistent with the proper performance by the District of its service to the public and will not impair its ability to perform that service. After the tanks' rehabilitation, the estimated cost of operation will be no higher than the average system costs presently incurred. The loan will not result in a rate increase. 807 KAR 5:001 Section 9(2)(t)

11. The District represents that it will, as soon as reasonable possible after the closing of the KIA Loan, file with the Commission a statement setting forth the date of execution of the KIA Loan, the price paid, and the fees and expenses incurred in the execution of the KIA Loan.



12. The detailed Statement of Revenues, Expenses and Changes in Net Position, Statement of Net Position and Statement of Cash Flows for the 12 month period ending on December 31, 2015, are contained in the annual report on file and incorporated herein by reference.

13. Pursuant to 807 KAR 5:001, Section 12 – Financial Exhibit, the District hereby responds as follows:

- (i) Section 12(1)(b): The District states that it had less than \$5,000,000.00 in gross annual revenue in the immediate past calendar year and that no material changes to the District's financial condition have occurred since the end of the 12 month period contained in the District's most recent annual report on file with the Commission.
- (ii) Section 12(2)(a), (b) and (c) Stock: The District states that it has no issued and outstanding stock.
- (iii) Section 12(2)(d) Mortgages: The District does not have any outstanding mortgages as of the date hereof.
- (iv) Section 12(2)(e), (f) and (g) Indebtedness: The information concerning the outstanding indebtedness of the District is contained in the 2015 Annual Report on file with this Commission. The District currently has two (2) Rural Development bonds maturing in 2035, one with \$479,000.00 outstanding and one with \$70,000.00 outstanding.
- (v) Section 12(2)(h) Dividends: The District pays no dividends.
- (vi) Section 12(2)(i) Financial Statements: See paragraph No. 12 above.



14. Pursuant to 807 KAR 5:001, Section 18, the District hereby states as follows:

- (i) Section 18(1)(a): The District has complied with the requirements of 807 KAR 5:001, Section 14.
- (ii) Section 18(1)(b): A general description of the District's property, its field of operation and a statement of original cost of said property and the cost to the District is contained in the District's 2015 Annual Report on file with this Commission. Copies of the deeds to land owned by the Applicant are attached hereto as collective "Exhibit B."
- (iii) Section 18(1)(c): The District is not issuing any stock as part of this financing. The information concerning the proposed KIA Loan is contained in this Application. The KIA Loan will be secured by and payable from the gross revenues of the District's water system.
- (iv) Section 18(1)(d): The proceeds of the KIA Loan are being used to rehabilitate the two (2) water tanks discussed above.
- (v) Section 18(1)(e): The property that is being rehabilitated with the proceeds of the KIA Loan are an elevated water tank and a ground level tank.
- (vi) Section 18(1)(f): The loan is not being used to re-amortize existing debt.
- (vii) Section 18(1)(g): Written notification of the proposed issuance of the KIA Loan is being provided to the State Local Debt Officer.
- (viii) Section 18(2)(a): See paragraph No. 13 above.



(ix) Section 18(2)(b): The District does not have any outstanding trust deeds or mortgages.

(x) Section 18(2)(c): The property being acquired with the proceeds of the KIA Loan is discussed above.

15. No rate adjustment will be necessary.

16. The tank rehabilitation project is required by the public convenience and necessity in order to ensure that the two (2) water tanks at issue remain in good repair and working order for the safe delivery of drinking water to the customer of the District.

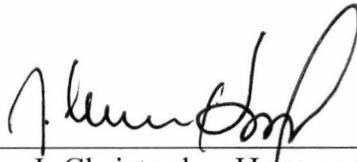
17. Details of the project description and need for the project along with a map of the tank locations are shown in "Exhibit C."

**WHEREFORE,** the District respectfully requests that the Commission take the following actions:

1. Authorize the execution of the loan documents.
2. Process this Application without a formal hearing in order to save time and expense. The District will promptly respond to any information requests by the Commission's staff.
3. Approve the tank rehabilitation project set forth above.



**DORSEY, GRAY, NORMENT & HOPGOOD**

By   
J. Christopher Hopgood  
318 Second Street  
Henderson, KY 42420  
Telephone: (270) 826-3965  
Telefax: (270) 826-6672  
Counsel for South Hopkins Water District  
[chopgood@dkgnlaw.com](mailto:chopgood@dkgnlaw.com)

STATE OF KENTUCKY

COUNTY OF HOPKINS

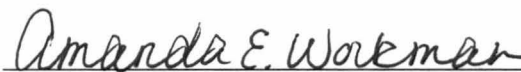
The affiant, **JON BLALOCK**, being first duly sworn, states that: He is the Superintendent of **SOUTH HOPKINS WATER DISTRICT**, the Applicant in this case; he has read the foregoing Amended Application and has noted the contents thereof; the same are true of his own knowledge and belief, except as to matters which are herein stated to be based on information or belief, and that these matters, he believes to be true and correct.

**IN TESTIMONY WHEREOF**, witness the signature of the undersigned on this the 31 day of May, 2017.

  
JON BLALOCK

**SUBSCRIBED, SWORN TO AND ACKNOWLEDGED** before me by **JON BLALOCK**, Superintendent of **SOUTH HOPKINS WATER DISTRICT**, on this the 31 day off May, 2017.

My commission expires April 8, 2020

  
Notary Public, State of Kentucky at Large  
ID 554663

(seal)



# **EXHIBIT A**

## **EXECUTIVE SUMMARY**

## **LOAN APPROVAL**

## **LOAN APPLICATION**



**LOAN & PROJECT EXECUTIVE  
SUMMARY**



<b>EXECUTIVE SUMMARY</b> <b>KENTUCKY INFRASTRUCTURE AUTHORITY</b> <b>FUND B, INFRASTRUCTURE</b> <b>REVOLVING LOAN FUND</b>		Reviewer Date KIA Loan Number WRIS Number	Ashley Adams March 2, 2017 B17-011 WX21107052	
BORROWER		SOUTH HOPKINS WATER DISTRICT HOPKINS COUNTY		
BRIEF DESCRIPTION				
This project will rehabilitate two existing water tanks. The first is an elevated water tank and is in need of immediate attention. Work to this tank will include replacing the existing riser, raising the fill pipe, and repairing sheet metal in addition to being cleaned and painted. The second tank is a ground tank rehabilitation which will include the installation of a mixing system in order to reduce disinfection byproducts, sand blasting, cleaning, and painting of the tank.				
PROJECT FINANCING		PROJECT BUDGET		
Fund B Loan	\$765,000	Administrative Expenses		\$27,500
		Legal Expenses		10,000
		Planning		10,000
		Eng - Design / Const	9.6%	6.3%
		Eng - Insp	6.6%	6.3%
		Construction		610,000
		Contingency		27,500
TOTAL	\$765,000	TOTAL		\$765,000
REPAYMENT	Rate	1.75%	Est. Annual Payment	\$47,029
	Term	20 Years	1st Payment	6 Mo. after first draw
PROFESSIONAL SERVICES	Engineer	Ronald Johnson & Associates		
	Bond Counsel	Dinsmore & Shohl, LLP		
PROJECT SCHEDULE	Bid Opening	May-17		
	Construction Start	Jun-17		
	Construction Stop	Nov-17		
DEBT PER CUSTOMER	Existing	\$186		
	Proposed	\$186		
OTHER DEBT	See Attached			
OTHER STATE-FUNDED PROJECTS LAST 5 YRS	See Attached			
RESIDENTIAL RATES		Users	Avg. Bill	
	Current	2,947	\$27.40 (for 4,000 gallons)	
	Additional	0	\$27.40 (for 4,000 gallons)	
REGIONAL COORDINATION This project is consistent with regional planning recommendations.				
CASHFLOW	Cash Flow Before Debt Service	Debt Service	Cash Flow After Debt Service	Coverage Ratio
Audited 2013	33,887	77,244	(43,357)	0.4
Audited 2014	6,124	42,413	(36,289)	0.1
Audited 2015	215,391	42,784	172,607	5.0
Projected 2016	158,353	43,000	115,353	3.7
Projected 2017	145,147	43,105	102,042	3.4
Projected 2018	129,777	89,406	40,371	1.5
Projected 2019	116,037	90,674	25,363	1.3
Projected 2020	102,022	89,847	12,175	1.1



Reviewer: Ashley Adams  
Date: March 2, 2017  
Loan Number: B17-011

**KENTUCKY INFRASTRUCTURE AUTHORITY  
INFRASTRUCTURE REVOLVING LOAN FUND (FUND "B")  
SOUTH HOPKINS WATER DISTRICT, HOPKINS COUNTY  
PROJECT REVIEW  
WX21107052**

**I. PROJECT DESCRIPTION**

The South Hopkins Water District is requesting a Fund B loan in the amount of \$765,000 for the Water Tank Rehabilitation and Improvement project. This project will rehabilitate two existing water tanks. The first is an elevated water tank and is in need of immediate attention. Work to this tank will include replacing the existing riser, raising the fill pipe, and repairing sheet metal in addition to being cleaned and painted. The second tank is a ground tank rehabilitation which will include the installation of a mixing system in order to reduce disinfection byproducts, sand blasting, cleaning, and painting of the tank.

South Hopkins Water District is PSC regulated and sells water to the Earlington Water & Sewer Department, Mortons Gap Water Department, and the Caldwell County Water District. All of the District's water is purchased from the City of Dawson Springs.

**II. PROJECT BUDGET**

	Total
Administrative Expenses	\$ 27,500
Legal Expenses	10,000
Planning	10,000
Engineering Fees - Design / Const	40,000
Engineering Fees - Inspection	40,000
Construction	610,000
Contingency	27,500
<b>Total</b>	<b>\$ 765,000</b>

**III. PROJECT FUNDING**

	Amount	%
KIA Fund B	\$ 765,000	100%
<b>Total</b>	<b>\$ 765,000</b>	<b>100%</b>



#### IV. KIA DEBT SERVICE

Construction Loan	\$ 765,000
Interest Rate	1.75%
Loan Term (years)	20
Estimated Annual Debt Service	\$ 45,499
Administrative Fee (0.20%)	1,530
<b>Annual Debt Service</b>	<b>\$ 47,029</b>

#### V. PROJECT SCHEDULE

Bid Opening	May 2017
Construction Start	June 2017
Construction Stop	November 2017

#### VI. RATE STRUCTURE

##### A. Customers

Customers	Current
Residential	2,830
Commercial	114
Industrial	3
Total	2,947

##### B. Rates

	Current	Prior
Date of Last Rate Increase	09/11/15	09/15/14
Minimum (1,000 gallons)	\$10.54	\$10.18
Next 9,000 Gallons (per 1,000)	5.62	5.43
Over 10,000 Gallons (per 1,000)	5.23	5.05
Cost for 4,000 gallons	\$27.40	\$26.47
Increase %	3.5%	
Affordability Index (Rate/MHI)	0.8%	



## **VII. DEMOGRAPHICS**

Based on current Census data from the American Community Survey 5-Year Estimate 2010-2014, the Utility's service area population was 6,947 with a Median Household Income (MHI) of \$41,430. The median household income for the Commonwealth is \$43,342. The project will qualify for a 1.75% interest rate.

Year	Population		Unemployment	
	County	% Change	Date	Rate
1980	46,174		June 2005	6.0%
1990	46,126	-0.1%	June 2010	9.7%
2000	46,519	0.9%	June 2015	6.1%
2010	46,920	0.9%	June 2016	6.2%
Current	46,684	-0.5%		
Cumulative %		1.1%		

## **VIII. FINANCIAL ANALYSIS**

Financial information was obtained from the South Hopkins Water District's audited financial statements for the years ended December 31, 2013 through December 31, 2015. Percentage references in the History section below are based on whole dollar amounts and not the rounded amounts presented.

### **HISTORY**

Revenues increased 14% from \$1.3 million in 2013 to \$1.4 million in 2015 due to previously approved rate increases and increased sales volume. Operating expenses increased 6% from \$1.2 million in 2013 to \$1.3 million for the same time period. The debt coverage ratio was 0.4, 0.1, and 5.0 from 2013 to 2015, respectively.

The balance sheet reflects a current ratio of 5.7, a debt to equity ratio of 0.7, 40.2 days sales in accounts receivable, and 1.4 months operating expenses in unrestricted cash.

### **PROJECTIONS**

Projections are based on the following assumptions:

- 1) Revenues will increase approximately 2.5% in FY 2016 due to a previously approved rate increase.
- 2) Expenses will increase 2% for inflation.
- 3) Debt service coverage is 1.5 in 2018 when full principal and interest repayments begin.



Based on the proforma assumptions, the utility shows adequate cash flow to repay the KIA Fund B loan.

#### REPLACEMENT RESERVE

The annual replacement cost is \$1,900. This amount should be added to the replacement account each December 1 until the balance reaches \$38,000 and maintained for the life of the loan.

#### IX. DEBT OBLIGATIONS

	Outstanding	Maturity
RD Bond Series A	\$ 479,000	2035
RD Bond Series B	70,000	2035
<b>Total</b>	<b>\$ 549,000</b>	

#### X. OTHER STATE OR FEDERAL FUNDING IN PAST FIVE YEARS

None.

#### XI. CONTACTS

##### **Legal Applicant**

Name	South Hopkins Water District
Address	PO Box 487 Dawson Springs, KY 42408
County	Hopkins
Authorized Official	Bob Tucker (Chairman)
Phone	270-797-5760
Email	southhopkinswate@bellsouth.net

##### **Project Contact - Applicant**

Name	Jon Blalock (Superintendent)
Representing	South Hopkins Water District
Address	PO Box 487 Dawson Springs, KY 42408
Phone	270-797-5760
Email	southhopkinswate@bellsouth.net



**Project Administrator**

Name	Pennyrile ADD
Address	300 Hammond Drive Hopkinsville, KY 42240
Contact	Jamie Lawrence
Phone	270-886-9484
Email	Jamie.lawrence@ky.gov

**Consulting Engineer**

Name	Frank Williams
Firm	Ronald Johnson & Associates
Address	24 W Center St Madisonville, KY 42431
Phone	270-821-6392
Email	fwilliams@rjengineering.com

**XII. RECOMMENDATIONS**

KIA staff recommends approval of the loan with the standard conditions.



SOUTH HOPKINS WATER DISTRICT  
FINANCIAL SUMMARY (DECEMBER YEAR END)

	Audited 2013	Audited 2014	Audited 2015	Projected 2016	Projected 2017	Projected 2018	Projected 2019	Projected 2020
<b>Balance Sheet</b>								
<b>Assets</b>								
Current Assets	445,121	335,683	447,264	468,326	483,632	489,688	493,492	495,319
Other Assets	2,372,289	2,534,442	2,592,388	2,561,479	2,570,206	3,279,287	3,203,712	3,116,926
Total	2,817,410	2,870,125	3,039,652	3,029,805	3,053,838	3,768,975	3,697,204	3,612,245
<b>Liabilities &amp; Equity</b>								
Current Liabilities	72,563	78,651	78,685	79,817	81,017	82,217	83,417	84,617
Long Term Liabilities	703,376	675,714	1,147,972	1,084,772	1,072,522	1,830,272	1,818,022	1,818,022
Total Liabilities	775,939	754,365	1,226,657	1,164,589	1,153,539	1,912,489	1,901,439	1,902,639
Net Assets	2,041,471	2,115,760	1,812,995	1,865,216	1,900,299	1,856,486	1,795,765	1,709,606
<b>Cash Flow</b>								
Revenues	1,258,332	1,372,496	1,433,370	1,467,828	1,467,828	1,467,828	1,467,828	1,467,828
Operating Expenses	1,228,049	1,369,690	1,299,602	1,312,549	1,325,755	1,341,125	1,354,865	1,368,880
Other Income	3,604	3,318	81,623	3,074	3,074	3,074	3,074	3,074
Cash Flow Before Debt Service	33,887	6,124	215,391	158,353	145,147	129,777	116,037	102,022
<b>Debt Service</b>								
Existing Debt Service	77,244	42,413	42,784	43,000	43,105	42,377	43,645	42,818
Proposed KIA Loan	0	0	0	0	0	47,029	47,029	47,029
Total Debt Service	77,244	42,413	42,784	43,000	43,105	89,406	90,674	89,847
Cash Flow After Debt Service	(43,357)	(36,289)	172,607	115,353	102,042	40,371	25,363	12,175
<b>Ratios</b>								
Current Ratio	6.1	4.3	5.7	5.9	6.0	6.0	5.9	5.9
Debt to Equity	0.4	0.4	0.7	0.6	0.6	1.0	1.1	1.1
Days Sales in Accounts Receivable	40.2	39.4	40.2	40.2	40.2	40.2	40.2	40.2
Months Operating Expenses in Unrestricted Cash	1.9	0.7	1.4	1.6	1.7	1.7	1.8	1.8
Debt Coverage Ratio	0.4	0.1	5.0	3.7	3.4	1.5	1.3	1.1

1.14



# **LOAN APPROVAL**





## KENTUCKY INFRASTRUCTURE AUTHORITY

**Matthew G. Bevin**  
Governor

Capital Center Complex  
1024 Capital Center Drive, Suite 340  
Frankfort, Kentucky 40601  
(502) 573-0260  
(502) 573-0157 (fax)  
kia.ky.gov

**Donna McNeil**  
Executive Director

March 7, 2017

Bob Tucker, Chairman  
South Hopkins Water District  
P.O. Box 487  
Dawson Springs, KY 42408

### KENTUCKY INFRASTRUCTURE AUTHORITY INFRASTRUCTURE REVOLVING LOAN FUND CONDITIONAL COMMITMENT LETTER (B17-011)

Dear Chairman Tucker:

The Kentucky Infrastructure Authority ("the Authority") commends your efforts to improve public service facilities in your community. On March 2, 2017, the Authority approved your loan for the Water Tank Rehabilitation and Improvement Project project subject to the conditions stated below. The total cost of the project shall not exceed \$765,000 of which the Authority loan is the sole source of the funding. The final loan amount will be equal to the Authority's portion of estimated project cost applied to the actual project cost. Attachment A incorporated herein by reference fully describes the project.

An Assistance Agreement will be executed between the Authority and the South Hopkins Water District upon satisfactory performance of the conditions set forth in this letter. You must meet the conditions set forth in this letter and enter into an Assistance Agreement by March 7, 2018 (twelve months from the date of this letter). A one-time extension of up to six months may be granted for applicants that experience extenuating circumstances. Funds will be available for disbursement only after execution of the Assistance Agreement.

The Assistance Agreement and this commitment shall be subject, but not limited to, the following



terms:

1. The Authority project loan shall not exceed \$765,000.
2. The loan shall bear interest at the rate of 1.75 per annum commencing with the first draw of funds.
3. The loan shall be repaid over a period not to exceed 20 years from the date of the last draw of funds.
4. Interest shall be payable on the amount of actual funds received. The first payment shall be due on June 1, or December 1, immediately succeeding the date of the initial draw of funds, provided that if such June 1, or December 1, shall be less than three months since the date of the initial draw of funds, then the first interest payment date shall be the June 1, or December 1, which is at least six months from the date of the initial draw of funds. Interest payments will be due each six months thereafter until the loan is repaid.
5. Full principal payments will commence on June 1, or December 1, immediately succeeding the date of the last draw of funds, provided that if such June 1, or December 1, shall be less than three months since the date of the last draw of funds, then the first principal payment date shall be the June 1, or December 1, which is at least six months from the date of the last draw of funds. Full payments will be due each six months thereafter until the loan is repaid.
6. A loan servicing fee of 0.20% of the outstanding loan balance shall be payable to the Authority as a part of each interest payment.
7. Loan funds will only be disbursed after execution of the Assistance Agreement as project costs are incurred.
8. The Authority requires that an annual financial audit be provided for the life of the loan.
9. The final Assistance Agreement must be approved by ordinance or resolution, as applicable, of the city council or appropriate governing board.

The following is a list of the standard conditions to be satisfied prior to execution of the Assistance Agreement or incorporated in the Assistance Agreement. Any required documentation must be submitted to the party designated.

1. Upon completion of final design of the facilities in the attached project description, favorable approval shall be obtained of such design by all appropriate parties as required by Kentucky statute or administrative regulation.
2. Applicant must provide certification from their legal counsel stating that they have



Chairman Tucker

March 7, 2017

Page 3

prepared construction specifications in accordance with all applicable state wage rate laws, and that the procurement procedures, including those for construction, land, equipment and professional services that are a part of the project, are in compliance with applicable state and local procurement laws.

3. Documentation of final funding commitments from all parties other than the Authority as reflected in the Attachment A description shall be provided prior to preparation of the Assistance Agreement and disbursement of the loan monies. Rejections of any anticipated project funding, or any new funding sources not reflected in Attachment A shall be immediately reported and may cause this loan to be subject to further consideration.
4. Upon receipt of construction bids a tabulation of such bids and engineer's recommendations on compliance with bid specifications and recommendation for award, shall be forwarded to the Authority for final approval and sizing of this loan and the project.
5. The loan must undergo review by the Capital Projects and Bond Oversight Committee of the Kentucky Legislature prior to the state's execution of the Assistance Agreement. The Committee meets monthly on the third Tuesday. Any special conditions listed in Attachment A must be satisfied before the project is presented before the Committee.
6. Any required adjustment in utility service rates shall be adopted by ordinance, municipal order or resolution by the appropriate governing body of the Borrower. Public hearings as required by law shall be held prior to the adoption of the service rate ordinance, order, or resolution. Any required approvals by the Kentucky Public Service Commission shall be obtained.
7. Based on the final "as bid" project budget, the borrower must provide satisfactory proof, based on then existing conditions, that the revenue projections in the attached descriptions are still obtainable and that the projections of operating expenses have not materially changed. The "as bid" project budget shall be reviewed and approved by your consultant engineer.
8. All easements or purchases of land shall be completed prior to commencement of construction. Certification of all land or easement acquisitions shall be provided to the Authority.
9. Documentation of Clearinghouse Endorsement and Clearinghouse Comments.
10. The Borrower must complete and return the attached "Authorization for Electronic Deposit of Vendor Payment" form to the Authority.
11. Implement the Kentucky Uniform System of Accounting (KUSoA), or an alternative



Chairman Tucker  
March 7, 2017  
Page 4

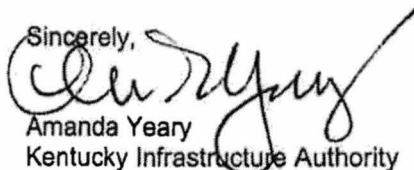
approved by the Authority and assure that rates and charges for services are based upon the cost of providing such service.

12. Final Design Plans in an AutoCAD Drawing File Format (DWG), referenced to the appropriate (North, South or Single) Kentucky State Plane Coordinate System (NAD83-Survey Feet) on a Compact Disc (CD). The recipient shall provide the Authority a digital copy (pdf) of the record drawings from the project within three months of construction completion.

Any special conditions listed below and/or stated in Attachment A must be resolved.

Please inform the Authority of any changes in your financing plan as soon as possible. We wish you every success for this project which will benefit both your community and the Commonwealth as a whole.

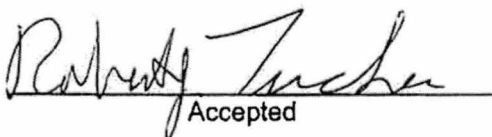
Sincerely,

  
Amanda Yeary  
Kentucky Infrastructure Authority

Attachments

cc: Jamie Lawrence, Pennyrite ADD  
Jay Hoffman, Wet or Dry Tank Insp. & Consult.  
State and Local Debt Office, DLG

Please sign and return a copy of this letter indicating your acceptance of this commitment and its terms. Also attach the completed "Authorization for Electronic Deposit of Vendor Payment" Form.

  
Accepted

  
Date



**AUTHORIZATION FOR ELECTRONIC DEPOSIT  
OF BORROWER PAYMENT  
KENTUCKY INFRASTRUCTURE AUTHORITY  
(FUND B17-011)**

**Borrower Information:**

**Name:** South Hopkins Water District

**Address:** PO Box 487 129 South Main Street

**City:** Dawson Springs **State:** KY **Zip:** 42408

**Federal I.D. #** 61-0701197

**Contact Name:** Amanda Workman **Telephone:** 270-797-5760

**Email:** southhopkinswate@bellsouth.net

**Financial Institution Information:**

**Bank Name:** Planters Bank

**Branch:** Dawson Springs **Phone No:** 270-797-5260

**City:** Dawson Springs **State:** KY **Zip:** 42408

**Transit / ABA No.:** 083902633

**Account Name:** General Fund

**Account Number:** [REDACTED]

I, the undersigned, authorize payments directly to the account indicated above and to correct any errors which may occur from the transactions. I also authorize the Financial Institution to post these transactions to that account.

**Signature:** Robert J. Tucker **Date:** March 8, 2017

**Name Printed:** Robert Tucker **Job Title:** Chairman

**Please return completed form to:**

**Kentucky Infrastructure Authority  
1024 Capital Center Drive, Suite 340  
Frankfort, KY 40601  
phone: 502-573-0260  
fax: 502-573-0157**



**ATTACHMENT A**

**South Hopkins Water District  
B17-011**



EXECUTIVE SUMMARY KENTUCKY INFRASTRUCTURE AUTHORITY FUND B, INFRASTRUCTURE REVOLVING LOAN FUND		Reviewer Date KIA Loan Number WRIS Number		Ashley Adams March 2, 2017 B17-011 WX21107052	
BORROWER		SOUTH HOPKINS WATER DISTRICT HOPKINS COUNTY			
BRIEF DESCRIPTION					
This project will rehabilitate two existing water tanks. The first is an elevated water tank and is in need of immediate attention. Work to this tank will include replacing the existing riser, raising the fill pipe, and repairing sheet metal in addition to being cleaned and painted. The second tank is a ground tank rehabilitation which will include the installation of a mixing system in order to reduce disinfection byproducts, sand blasting, cleaning, and painting of the tank.					
PROJECT FINANCING		PROJECT BUDGET		RD Fee %	Actual %
Fund B Loan	\$765,000	Administrative Expenses			\$27,500
		Legal Expenses			10,000
		Planning			10,000
		Eng - Design / Const	9.6%	6.3%	40,000
		Eng - Insp	6.6%	6.3%	40,000
		Construction			610,000
		Contingency			27,500
TOTAL	\$765,000	TOTAL			\$765,000
REPAYMENT	Rate	1.75%	Est. Annual Payment		\$47,029
	Term	20 Years	1st Payment	6 Mo. after first draw	
PROFESSIONAL SERVICES	Engineer	Ronald Johnson & Associates			
	Bond Counsel	Dinsmore & Shohl, LLP			
PROJECT SCHEDULE	Bid Opening	May-17			
	Construction Start	Jun-17			
	Construction Stop	Nov-17			
DEBT PER CUSTOMER	Existing	\$186			
	Proposed	\$186			
OTHER DEBT	See Attached				
OTHER STATE-FUNDED PROJECTS LAST 5 YRS	See Attached				
RESIDENTIAL RATES		Users	Avg. Bill		
	Current	2,947	\$27.40	(for 4,000 gallons)	
	Additional	0	\$27.40	(for 4,000 gallons)	
REGIONAL COORDINATION    This project is consistent with regional planning recommendations.					
CASHFLOW	Cash Flow Before Debt Service	Debt Service	Cash Flow After Debt Service	Coverage Ratio	
Audited 2013	33,887	77,244	(43,357)	0.4	
Audited 2014	6,124	42,413	(36,289)	0.1	
Audited 2015	215,391	42,784	172,607	5.0	
Projected 2016	158,353	43,000	115,353	3.7	
Projected 2017	145,147	43,105	102,042	3.4	
Projected 2018	129,777	89,406	40,371	1.5	
Projected 2019	116,037	90,674	25,363	1.3	
Projected 2020	102,022	89,847	12,175	1.1	



Reviewer: Ashley Adams  
Date: March 2, 2017  
Loan Number: B17-011

**KENTUCKY INFRASTRUCTURE AUTHORITY  
INFRASTRUCTURE REVOLVING LOAN FUND (FUND "B")  
SOUTH HOPKINS WATER DISTRICT, HOPKINS COUNTY  
PROJECT REVIEW  
WX21107052**

**I. PROJECT DESCRIPTION**

The South Hopkins Water District is requesting a Fund B loan in the amount of \$765,000 for the Water Tank Rehabilitation and Improvement project. This project will rehabilitate two existing water tanks. The first is an elevated water tank and is in need of immediate attention. Work to this tank will include replacing the existing riser, raising the fill pipe, and repairing sheet metal in addition to being cleaned and painted. The second tank is a ground tank rehabilitation which will include the installation of a mixing system in order to reduce disinfection byproducts, sand blasting, cleaning, and painting of the tank.

South Hopkins Water District is PSC regulated and sells water to the Earlington Water & Sewer Department, Mortons Gap Water Department, and the Caldwell County Water District. Most of the District's water is purchased from the City of Dawson Springs with a small amount purchased from the City of Madisonville.

**II. PROJECT BUDGET**

	Total
Administrative Expenses	\$ 27,500
Legal Expenses	10,000
Planning	10,000
Engineering Fees - Design / Const	40,000
Engineering Fees - Inspection	40,000
Construction	610,000
Contingency	27,500
<b>Total</b>	<b>\$ 765,000</b>

**III. PROJECT FUNDING**

	Amount	%
KIA Fund B	\$ 765,000	100%
<b>Total</b>	<b>\$ 765,000</b>	<b>100%</b>



#### **IV. KIA DEBT SERVICE**

Construction Loan	\$ 765,000
Interest Rate	1.75%
Loan Term (years)	20
Estimated Annual Debt Service	\$ 45,499
Administrative Fee (0.20%)	1,530
<b>Annual Debt Service</b>	<b>\$ 47,029</b>

#### **V. PROJECT SCHEDULE**

Bid Opening	May 2017
Construction Start	June 2017
Construction Stop	November 2017

#### **VI. RATE STRUCTURE**

##### **A. Customers**

Customers	Current
Residential	2,830
Commercial	114
Industrial	3
Total	2,947

##### **B. Rates**

	Current	Prior
Date of Last Rate Increase	09/11/15	09/15/14
Minimum (1,000 gallons)	\$10.54	\$10.18
Next 9,000 Gallons (per 1,000)	5.62	5.43
Over 10,000 Gallons (per 1,000)	5.23	5.05
Cost for 4,000 gallons	\$27.40	\$26.47
Increase %	3.5%	
Affordability Index (Rate/MHI)	0.8%	



## **VII. DEMOGRAPHICS**

Based on current Census data from the American Community Survey 5-Year Estimate 2010-2014, the Utility's service area population was 6,947 with a Median Household Income (MHI) of \$41,430. The median household income for the Commonwealth is \$43,342. The project will qualify for a 1.75% interest rate.

Year	Population		Unemployment	
	County	% Change	Date	Rate
1980	46,174		June 2005	6.0%
1990	46,126	-0.1%	June 2010	9.7%
2000	46,519	0.9%	June 2015	6.1%
2010	46,920	0.9%	June 2016	6.2%
Current	46,684	-0.5%		
Cumulative %		1.1%		

## **VIII. FINANCIAL ANALYSIS**

Financial information was obtained from the South Hopkins Water District's audited financial statements for the years ended December 31, 2013 through December 31, 2015. Percentage references in the History section below are based on whole dollar amounts and not the rounded amounts presented.

### **HISTORY**

Revenues increased 14% from \$1.3 million in 2013 to \$1.4 million in 2015 due to previously approved rate increases and increased sales volume. Operating expenses increased 6% from \$1.2 million in 2013 to \$1.3 million for the same time period. The debt coverage ratio was 0.4, 0.1, and 5.0 from 2013 to 2015, respectively.

The balance sheet reflects a current ratio of 5.7, a debt to equity ratio of 0.7, 40.2 days sales in accounts receivable, and 1.4 months operating expenses in unrestricted cash.

### **PROJECTIONS**

Projections are based on the following assumptions:

- 1) Revenues will increase approximately 2.5% in FY 2016 due to a previously approved rate increase.
- 2) Expenses will increase 2% for inflation.
- 3) Debt service coverage is 1.5 in 2018 when full principal and interest repayments begin.



Based on the proforma assumptions, the utility shows adequate cash flow to repay the KIA Fund B loan.

#### REPLACEMENT RESERVE

The annual replacement cost is \$1,900. This amount should be added to the replacement account each December 1 until the balance reaches \$38,000 and maintained for the life of the loan.

#### IX. DEBT OBLIGATIONS

	Outstanding	Maturity
RD Bond Series A	\$ 479,000	2035
RD Bond Series B	70,000	2035
<b>Total</b>	<b>\$ 549,000</b>	

#### X. OTHER STATE OR FEDERAL FUNDING IN PAST FIVE YEARS

None.

#### XI. CONTACTS

<b>Legal Applicant</b>	
Name	South Hopkins Water District
Address	PO Box 487 Dawson Springs, KY 42408
County	Hopkins
Authorized Official	Bob Tucker (Chairman)
Phone	270-797-5760
Email	southhopkinswate@bellsouth.net

<b>Project Contact - Applicant</b>	
Name	Jon Blalock (Superintendent)
Representing	South Hopkins Water District
Address	PO Box 487 Dawson Springs, KY 42408
Phone	270-797-5760
Email	southhopkinswate@bellsouth.net



**Project Administrator**

Name	Pennyrile ADD
Address	300 Hammond Drive Hopkinsville, KY 42240
Contact	Jamie Lawrence
Phone	270-886-9484
Email	Jamie.lawrence@ky.gov

**Consulting Engineer**

Name	Frank Williams
Firm	Ronald Johnson & Associates
Address	24 W Center St Madisonville, KY 42431
Phone	270-821-6392
Email	fwilliams@rjengineering.com

**XII. RECOMMENDATIONS**

KIA staff recommends approval of the loan with the standard conditions.



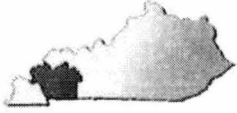
**SOUTH HOPKINS WATER DISTRICT**  
**FINANCIAL SUMMARY (DECEMBER YEAR END)**

	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>
<b>Balance Sheet</b>								
<b>Assets</b>								
Current Assets	445,121	335,683	447,264	468,326	483,632	489,688	493,492	495,319
Other Assets	2,372,289	2,534,442	2,592,388	2,561,479	2,570,206	3,279,287	3,203,712	3,116,926
Total	<u>2,817,410</u>	<u>2,870,125</u>	<u>3,039,652</u>	<u>3,029,805</u>	<u>3,053,838</u>	<u>3,768,975</u>	<u>3,697,204</u>	<u>3,612,245</u>
<b>Liabilities &amp; Equity</b>								
Current Liabilities	72,563	78,651	78,685	79,817	81,017	82,217	83,417	84,617
Long Term Liabilities	703,376	675,714	1,147,972	1,084,772	1,072,522	1,830,272	1,818,022	1,818,022
Total Liabilities	<u>775,939</u>	<u>754,365</u>	<u>1,226,657</u>	<u>1,164,589</u>	<u>1,153,539</u>	<u>1,912,489</u>	<u>1,901,439</u>	<u>1,902,639</u>
Net Assets	<u>2,041,471</u>	<u>2,115,760</u>	<u>1,812,995</u>	<u>1,865,216</u>	<u>1,900,299</u>	<u>1,856,486</u>	<u>1,795,765</u>	<u>1,709,606</u>
<b>Cash Flow</b>								
Revenues	1,258,332	1,372,496	1,433,370	1,467,828	1,467,828	1,467,828	1,467,828	1,467,828
Operating Expenses	1,228,049	1,369,690	1,299,602	1,312,549	1,325,755	1,341,125	1,354,865	1,368,880
Other Income	3,604	3,318	81,623	3,074	3,074	3,074	3,074	3,074
Cash Flow Before Debt Service	<u>33,887</u>	<u>6,124</u>	<u>215,391</u>	<u>158,353</u>	<u>145,147</u>	<u>129,777</u>	<u>116,037</u>	<u>102,022</u>
<b>Debt Service</b>								
Existing Debt Service	77,244	42,413	42,784	43,000	43,105	42,377	43,645	42,818
Proposed KIA Loan	0	0	0	0	0	47,029	47,029	47,029
Total Debt Service	<u>77,244</u>	<u>42,413</u>	<u>42,784</u>	<u>43,000</u>	<u>43,105</u>	<u>89,406</u>	<u>90,674</u>	<u>89,847</u>
Cash Flow After Debt Service	<u>(43,357)</u>	<u>(36,289)</u>	<u>172,607</u>	<u>115,353</u>	<u>102,042</u>	<u>40,371</u>	<u>25,363</u>	<u>12,175</u>
<b>Ratios</b>								
Current Ratio	6.1	4.3	5.7	5.9	6.0	6.0	5.9	5.9
Debt to Equity	0.4	0.4	0.7	0.6	0.6	1.0	1.1	1.1
Days Sales in Accounts Receivable	40.2	39.4	40.2	40.2	40.2	40.2	40.2	40.2
Months Operating Expenses in Unrestricted Cash	1.9	0.7	1.4	1.6	1.7	1.7	1.8	1.8
Debt Coverage Ratio	0.4	0.1	5.0	3.7	3.4	1.5	1.3	1.1



# **LOAN APPLICATION**





# Pennyriple Area Development District

a regional planning and development agency

300 Hammond Drive, Hopkinsville, KY 42240

voice (270) 886-9484 fax (270) 886-3211

www.peadd.org

email peadd@peadd.org

January 9<sup>th</sup>, 2017

Kentucky Infrastructure Authority  
c/o Brandi Norton  
1024 Capital Center Drive, Suite 340  
Frankfort, KY 40601

Dear Ms. Norton

Enclosed in this letter is a Fund B application and all pertinent information that was requested as part of the application for the South Hopkins Water District. More specifically, the following enclosures will be found:

- Full Application
- Current Rate Sheet
- PSC Document approving current rates for SHWD
- Current year to date unaudited financial statements for 2016
- Water Purchase Agreement with Madisonville
- Water Purchase Agreement with Dawson Springs
- Water Purchase Agreement with Caldwell County WD
- Water Purchase Agreement with Earlington WD
- Water Purchase Agreement with Mortons Gap WD
- 2013 Audit
- 2014 Audit
- 2015 Audit

Should you have any questions please feel free to contact me at [Jamie.lawrence@ky.gov](mailto:Jamie.lawrence@ky.gov) or at the PADD Office at 270-886-9484.

Sincerely,



Jamie Lawrence

Water Management Coordinator



## INFRASTRUCTURE REVOLVING LOAN FUND (Fund B) LOAN APPLICATION

### I. GENERAL PROJECT SUMMARY

1. **PROJECT TITLE** Water Tank Rehabilitation and Improvement Project  
  
**PROJECT NUMBER** WX21107052 \_\_\_\_\_  
(WX or SX #)
2. **LEGAL APPLICANT**  
  
Applicant Name: South Hopkins Water District \_\_\_\_\_  
Street/P.O. Box: P.O. Box 487 \_\_\_\_\_  
City, State & Zip Code: Dawson Springs, KY 42408 \_\_\_\_\_  
Telephone: 270-797-5760 \_\_\_\_\_  
County: Hopkins \_\_\_\_\_  
Contact Person: Bob Tucker \_\_\_\_\_
3. **APPLICATION CONTACT PERSON**  
(Consultant, Area Development District, etc.)  
  
Name: Jamie Lawrence \_\_\_\_\_  
Title: Water Management Coordinator \_\_\_\_\_  
Firm: Pennyrile ADD \_\_\_\_\_  
Street/P.O. Box: 300 Hammond Drive \_\_\_\_\_  
City, State & Zip Code: Hopkinsville, KY 42240 \_\_\_\_\_  
Telephone: 270-886-9484 \_\_\_\_\_



4. **ENGINEERING FIRM**

Name: Ronald Johnson & Associates

Street/P.O. Box: 24 W Center Street

City, State, Zip Code: Madisonville, KY 42431

Telephone: 270-821-6392

Contact Person: Frank Williams

5. **BRIEF DESCRIPTION OF PROJECT (Attach project maps)**

This project is seeking funds to rehabilitate two existing water tanks. The first tank is an elevated water tank and is located in the City of Saint Charles. This tank needs immediate attention is in immediate danger of leaking. Specifically, this project will replace the existing riser with a new riser, raise the fill pipe, and repair the sheet metal. Additionally, this tank will be cleaned and painted.

The second water tanking is a ground tank located in eastern Caldwell county and owned and operated by the South Hopkins Water District. The district is seeking funds on this tank to install a mixing system that will reduce disinfection byproducts. Additionally, the district intends to sand blast and clean the tank and also paint the inside and outside of the water tank.

6. **FINANCING PACKAGE PROPOSED**

Source	Amount	Type Loan/Grant	Rate%	Term	Status
Fund B	\$770,000	Loan		20	Application
<b>TOTAL</b>	<b>\$770,000</b>				

Attach evidence of commitment from other funds.

7. **CERTIFICATION**

To the best of my knowledge and belief, the information contained in this application is true and correct.

Robert J Tucker, Chairman  
\_\_\_\_\_  
Typed Name and Title  
Chief Executive Officer

Robert J. Tucker  
Signature  
12-19-16



Date



**KENTUCKY INFRASTRUCTURE AUTHORITY  
PROJECT BUDGET  
PROJECT #**

Cost Classification		Infrastructure Revolving Loan (Fund B)	Other Funding Source A	Other Funding Source B	Other Funding Source C	Local Funds	Total Project Cost
1	Administrative Expenses (Including Interim Financing)	\$27,500					
2	Legal Expenses	\$10,000					
3	Land, Appraisals, Easements, Right-of-Way						
4	Relocation Expense & Payments						
5	Planning	\$10,000					
6	Engineering Fees - Design	\$35,000					
7	Engineering Fees - Construction	\$5,000					
8	Engineering Fees - Inspection	\$5,000					
9	Construction	\$650,000					
10	Equipment						
11	Contingency	\$27,500					
12	Other						
	Total	\$770,000					

Funding Sources		Amount	Date Committed
A	KIA Fund B	\$770,000N	
B			
C			

Please identify all sources and amounts of Local Funding		Amount
1	n/a	
2		
3		

Signature \_\_\_\_\_

Title \_\_\_\_\_

Date \_\_\_\_\_



## II. GENERAL PROJECT INFORMATION

1. Have business closings or disruptions occurred due to infrastructure inadequacy or failure?

\_\_\_\_\_ Yes      X   No

If yes, describe.

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2. Is the applicable infrastructure system under sanction from any enforcement agency?

\_\_\_\_\_ Yes      X   No    \_\_\_\_\_ N/A

If yes, describe (include deadlines, fines imposed and whether the project will satisfy sanction order.)

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3. Are easements or land acquisition needed for the project?

\_\_\_\_\_ Yes      X   No    Number of Parcels \_\_\_\_\_

Explain status of each parcel.

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4. If applicant has obtained the necessary land, indicate if by:

\_\_\_\_\_ Leasehold interest    \_\_\_\_\_ Fee simple title    \_\_\_\_\_ Other (Specify)

\_\_\_\_\_ N/A \_\_\_\_\_



5. Have plans and specifications been reviewed and approved by the Division of Water?

\_\_\_\_\_ Yes      X   No

If no, explain status.

   This project is a Rehabilitation that will not require a submission to DOW

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

6. Does the Public Service Commission have jurisdiction over this project?

  X   Yes    \_\_\_\_\_ No

If yes, describe their role and estimated schedule of review.

   Will approve loan and any potential rate increase. Estimate Review Schedule commence immediately after KIA approval of this loan application

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

### III. CURRENT INFRASTRUCTURE SYSTEM ANALYSIS

Answer each question as it relates to the system affected by the proposed infrastructure development.

1. Number of existing customers, if any:

Residential              2,830  

Business               114  

Industrial              3  

Total                   2,947  

2. System capacity:

Type of system         Water Distribution  

Design                  N/A  

Current                  N/A



Peak N/A

Proposed N/A

3. Method of treatment employed. If a new method is proposed, describe.

N/A

4. Operator Certification:

Number of certified operators required for system 3

Level of certification required Class 2

Number of operators employed by system 3

Are all operators properly certified X Yes        No

#### IV. FINANCIAL ANALYSIS

1. Are revenues and expenses for this system accounted for separately from other utility services?

X Yes        No

If no, explain.

2. Identify all revenues, other than service fees, which are dedicated to the system.

A. Other Revenues \$ 55,049

B. Other Income \$ 78,549

C. Interest Income \$ 3,074

3. Is there outstanding debt on the system? X Yes        No

A. Source Revenue Bonds

B. Principal outstanding \$549,000



C. Annual debt requirement     \$42,395  
D. Date of final payment     January, 2035

Attach a copy of debt service schedule(s).

4. Has a rate study been prepared in anticipation of a rate increase?

Yes   X   No

If yes, attach a copy.

5. Are water or sewer services provided by other communities or districts to this system?

X   Yes   No

Attach copy of service agreements and briefly describe terms.

Dawson Springs

6. Does this system provide services to other communities or districts?

X   Yes   No

Community/District	# of Customers	Amount of Revenue Derived
Earlington	548	\$ 158,551
Mortons Gap	460	\$ 152,628
Caldwell Co WD	5117	\$ 2,166

Attach copy of service agreement(s) and briefly describe terms.

See attached

7. Rate structure (attach copy of current rate ordinance).

A. Current     \$ 10.54/thousand gal

B. Proposed     \$ 10.54/thousand gal



C. Average usage/bill \$ 3,000 gal/\$31.62 \_\_\_\_\_

D. Date last rate increase/amount of change 9/11/2015 \_\_\_\_\_

E. Method of collection of service fees Billing \_\_\_\_\_

F. Percentage rate of collection 98% \_\_\_\_\_

G. Do any users provide more than 5% of the service revenue for the system?

☒ Yes ☐ No

If yes, list.

Company	% Service Revenue
Earlington	
Mortons Gap	

8. Compare rates with other providers in your area.

Rates are comparable or slightly lower than surrounding communities/districts

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

9. Operation and Maintenance.

	Year	Cost
A. Annual operation and maintenance costs for last 3 years.	2014	\$ 1,377,611
B. Estimated total cost after project completion.	Annual exp	\$ 10,000
C. Current annual funding requirements for depreciation, and operation and maintenance reserves.		

Currently, all depreciation funds are up to date and do not require monthly or annual contributions

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



D. Are operation and maintenance payments required by prior bond or ordinance?

☒ Yes ☐ No

If yes, are you in compliance? ☒ Yes ☐ No

If no, explain.

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E. Are operation and maintenance functions assigned to another party?

☐ Yes ☒ No

If yes, provide details of the agreement.

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F. Provide a copy of the current operating budget of the system affected by this proposed funding.

10. Tap fee amounts.

A. Residential \$ 800

B. Commercial \$ 800

C. Other \$ N/A

D. How collected \$ Prior to Tap

11. Outline the applicant's plan for producing revenues sufficient to cover debt service and operations.

The system has recently raised water rates (9/2015) and expects to generate an additional \$38,002 annually.

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12. List any security available to support the proposed debt, if applicable. This may include liens on mortgages or projected revenues.



System is willing to utilize their rate structure to cover any outstanding debts.

## V. IMPLEMENTATION SCHEDULE

1. Anticipated engineering design time required (including plan review).

It can take up to 3 months to deliver plans/specs if required by DOW

2. Anticipated number of contracts. Please list contracts below:

<u>Contract #/Name/Description</u>	<u>Estimated Amount</u>
Engineer	\$ 55,000
Contractor (Tank Rehab)	\$ 677,000
PADD	\$ 27,500

3. Anticipated bid advertising date(s). 4/1/2017

4. Anticipated bid opening date(s). 5/1/2017

5. Anticipated construction start date(s). 6/1/2017

6. Anticipated construction completion date(s). 11/1/2017

7. Will force account labor be used?

Yes X No

If yes, list activities.

N/A

8. List any construction or bid requirements related to other funding sources, which could affect timely implementation.

N/A



## VI. MANAGEMENT CAPACITY

These questions relate to compliance with statutory mandates placed on each type of applicant. Answer each question as appropriate.

### 1. Audit Requirement.

- A. Is applicant required to have annual audit performed?

☒ Yes    ☐ No  
If no, explain.

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- B. Date of last audit completed: 2015

- C. Attach four (4) of the most recent financial statements, current year-to-date unaudited financials and current budget.

### 2. All Other Applicants

- A. Explain designation of responsibility for financial accountability and personnel administration.

The System Manager answers to the Board of Directors

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- B. Have any public meetings been held on the proposed project or service fee increases in the last six months?

☐ Yes    ☒ No  
If yes, provide minutes.

## VII. CAPITAL INVESTMENT

Federal/State Funding History.

List all federal and state funding (grant and loan) awarded to the jurisdiction during the last five (5) years for infrastructure or economic development projects.



<b>YEAR</b>	<b>PROJECT</b>	<b>SOURCE</b>	<b>AMOUNT</b>
none			



FOR Dawson Springs, Kentucky  
Community, Town or City

P.S.C. KY. NO. 2014-00369

9th Revised SHEET NO. 3

South Hopkins Water District  
(Name of Utility)

CANCELLING P.S.C. KY. NO. \_\_\_\_\_

8th Revised SHEET NO. 3

### RATES AND CHARGES

A. MONTHLY RATES:

5/8-Inch x 3/4-Inch Meter:

First	1,000 gallons	\$ 10.54 (Minimum Bill)
Next	9,000 gallons	5.62 per 1000 gallons
Next	10,000 gallons	5.23 per 1000 gallons
Next	30,000 gallons	4.83 per 1000 gallons
All Over	50,000 gallons	4.09 per 1000 gallons

1-Inch Meter:

First	10,000 gallons	\$ 61.12 (Minimum Bill)
Next	10,000 gallons	5.23 per 1000 gallons
Next	30,000 gallons	4.83 per 1000 gallons
All Over	50,000 gallons	4.09 per 1000 gallons

2-Inch Meter:

First	20,000 gallons	\$113.42 (Minimum Bill)
Next	30,000 gallons	4.83 per 1000 gallons
All Over	50,000 gallons	4.09 per 1000 gallons

3-Inch Meter:

First	50,000 gallons	\$258.32 (Minimum Bill)
All Over	50,000 gallons	4.09 per 1000 gallons

DATE OF ISSUE September 14, 2015  
Month / Date / Year

DATE EFFECTIVE September 11, 2015  
Month / Date / Year

ISSUED BY /s/Robert J. Tucker  
(Signature of Officer)

TITLE Chairman

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2015-00154 DATE September 11, 2015

**KENTUCKY**  
**PUBLIC SERVICE COMMISSION**

**JEFF R. DEROUEN**  
EXECUTIVE DIRECTOR

TARIFF BRANCH

*Brent Kirtley*

EFFECTIVE

**9/11/2015**

PURSUANT TO 607 KAR 5:011 SECTION 9 (1)



COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATE RATE ADJUSTMENT FILING OF ) CASE NO.  
SOUTH HOPKINS WATER DISTRICT ) 2015-00154

ORDER

On May 15, 2015, South Hopkins Water District ("South Hopkins") tendered its application pursuant to 807 KAR 5:076 requesting to adjust its retail water rates. By this Order, the Commission approves an increase in retail water rates that will generate \$38,002 in additional annual revenues, a 3.489 percent increase to pro forma present rate revenues of \$1,089,046.<sup>1</sup> Our action will increase the monthly bill of a retail water customer purchasing 5,000 gallons of water through a 5/8-inch x 3/4-inch meter from \$31.90 to \$33.01 per month, an increase of \$1.11, or 3.489 percent.<sup>2</sup>

South Hopkins did not request to increase its wholesale rates, which are adjusted annually pursuant to a formula that is included in the wholesale contract agreements. South Hopkins relies on the mechanism located in the water-purchase contract to determine the wholesale rate annually. Any increase or decrease in its wholesale water rate should be determined by the formula located in the contracts.

Commission Staff applied methods and practices that are generally accepted by the Commission to review the reasonableness of South Hopkins's pro forma financial statements, revenue requirement calculation, and requested retail water rates. On

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<sup>1</sup> Staff Report at 4.

<sup>2</sup> *Id.*



August 12, 2015, Commission Staff issued a report finding that South Hopkins's adjusted test-year operations support a \$47,233<sup>3</sup> increase in annual revenues from water sales and allocated \$38,002 of this increase to the rates charged to the retail customers.<sup>4</sup> On August 24, 2015, South Hopkins filed a written response that stated agreement with Staff's findings concerning the annual increase in revenues, and which also did not request a hearing. Accordingly, the Commission finds that good cause exists for the case to be submitted on the record.

Having considered the evidence and being otherwise sufficiently advised, the Commission finds that:

1. South Hopkins is a water district organized pursuant to KRS Chapter 74, and owns and operates facilities that distribute water to approximately 2,974 customers that reside in the Kentucky counties of Caldwell and Hopkins. It also provides contracted wholesale water service to Caldwell County Water District ("Caldwell County") and to the cities of Mortons Gap and Earlington.<sup>5</sup>

2. The calendar year ended December 31, 2014 should be used as the test period to determine the reasonableness of South Hopkins's existing and proposed wastewater rates.

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<sup>3</sup> *Id.* at 17.

<sup>4</sup> *Id.* at 4.

<sup>5</sup> *Annual Report of South Hopkins Water District to the Public Service Commission for the Calendar Year Ended December 31, 2014* ("2014 Annual Report") at 12 and 55.



3. Based upon pro forma test-year operations, after adjusting for known and measurable changes, South Hopkins's pro forma present rate revenues and total operating expenses are \$1,409,949<sup>6</sup> and \$1,409,646,<sup>7</sup> respectively.

4. South Hopkins has two outstanding bond issuances that are payable to the United States Department of Agriculture Rural Development ("RD") and which, as of December 31, 2014, had reported outstanding balances of \$566,300.<sup>8</sup>

5. The three-year average principal and interest payments for the years 2015 through 2017 on the two RD bond issuances are \$42,342.<sup>9</sup>

6. The Commission has historically used a Debt Service Coverage ("DSC") method to calculate the revenue requirement for water districts or associations with outstanding long-term debt.

7. Application of the Commission's DSC method to South Hopkins's pro forma operations results in a total revenue requirement from all sources of \$1,460,500.<sup>10</sup> Revenue of \$1,401,114 from water service rates is necessary to generate the overall revenue requirement.<sup>11</sup>

8. The rates set forth in the Appendix to this Order will produce the required revenue requirement from retail water sales of \$1,127,048,<sup>12</sup> are fair, just, and

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<sup>6</sup> Staff Report at 5. \$1,353,881 (Revenue from Water Sales) + \$24,020 (Forfeited Discounts) + \$31,144 (Miscellaneous Service Revenues) + \$904 (Other Water Revenues) = \$1,409,949.

<sup>7</sup> *Id.*

<sup>8</sup> Annual Report at 22.

<sup>9</sup> Staff Report at 17.

<sup>10</sup> *Id.* at 17.

<sup>11</sup> *Id.*

<sup>12</sup> *Id.* at 4.



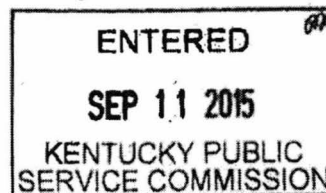
reasonable, and should be approved for service rendered on and after the date of this Order.<sup>13</sup>

9. The retail water rates requested by South Hopkins will produce \$1,149,194 in annual water sales revenues and should be denied.

IT IS THEREFORE ORDERED that:

1. The retail water rates requested by South Hopkins are denied.
2. The rates as set forth in the Appendix to this Order are approved for retail water service rendered by South Hopkins on and after the date of this Order.
3. Within 20 days of the date of this Order, South Hopkins shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, setting forth the rates approved herein.
4. The Executive Director is delegated authority to grant reasonable extensions of time for the filing of any documents required by this Order upon South Hopkins's showing of good cause for such extension.

By the Commission



ATTEST:

Executive Director

<sup>13</sup> Commission Staff found that South Hopkins could justify an increase in annual revenues of \$47,241; however, recognizing that South Hopkins's wholesale rates are adjusted annually pursuant to a formula that is included in the wholesale contract agreements, Commission Staff recommended that only retail rates be adjusted in this proceeding.



## APPENDIX

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2015-00154 DATED **SEP 11 2015**

The following rates and charges are prescribed for the customers in the area served by South Hopkins Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

#### Monthly Rates

##### 5/8- X 3/4-Inch Meter

First	1,000	gallons	\$ 10.54 Minimum bill
Next	9,000	gallons	5.62 per 1,000 gallons
Next	10,000	gallons	5.23 per 1,000 gallons
Next	30,000	gallons	4.83 per 1,000 gallons
All Over	50,000	gallons	4.09 per 1,000 gallons

##### 1-Inch Meter

First	10,000	gallons	\$ 61.12 Minimum bill
Next	10,000	gallons	5.23 per 1,000 gallons
Next	30,000	gallons	4.83 per 1,000 gallons
All Over	50,000	gallons	4.09 per 1,000 gallons

##### 2-Inch Meter

First	20,000	gallons	\$ 113.42 Minimum bill
Next	30,000	gallons	4.83 per 1,000 gallons
All Over	50,000	gallons	4.09 per 1,000 gallons

##### 3-Inch Meter

First	50,000	gallons	\$ 258.32 Minimum bill
All Over	50,000	gallons	4.09 per 1,000 gallons



\*South Hopkins Water District  
129 South Main Street  
P. O. Box 487  
Dawson Springs, KY 42408

\*Robert J Tucker  
Chairman  
South Hopkins Water District  
129 South Main Street  
P. O. Box 487  
Dawson Springs, KY 42408



**INTERLOCAL COOPERATION WATER  
PURCHASE AGREEMENT  
(KRS 65.210 - 65.300)**

THIS INTERLOCAL COOPERATION WATER PURCHASE AGREEMENT for the sale and purchase of water is entered into as of the \_\_\_\_ day of \_\_\_\_\_, 2004, between **SOUTH HOPKINS WATER DISTRICT**, P. O. Box 487, Dawson Springs, Kentucky 42408, a Water District created under Kentucky Revised Statutes, situated in Hopkins County, Kentucky, hereinafter referred to as "Seller" and the **CALDWELL COUNTY WATER DISTRICT**, 118 West Market Street, Princeton, Kentucky 42445, a Water District created under Kentucky Revised Statutes situated in Caldwell County, Kentucky, hereinafter referred to as "Purchaser."

**WITNESSETH**

WHEREAS, the Purchaser is established and organized for the purpose of constructing and operating a water supply distribution system, serving users within the area described in plans now on file in the office of the Purchaser and to accomplish this purpose, the Purchaser will require a supply of treated water, and

WHEREAS, The Seller owns and operates a water supply distribution system with a capacity currently capable of serving the present customers of the Seller's system and the estimated number of water users to be served by the said Purchaser as shown in the plans of the system now on file in the Office of the Purchaser, and

WHEREAS, by Resolution enacted on the 14<sup>th</sup> day of May, 2002, by the Seller, the sale of water to the purchaser in accordance with the provisions of said Resolution was approved, and the execution of this contract carrying out the said Resolution by Board Chairman, Edwin Martin, of the South Hopkins Water District, and

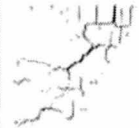
WHEREAS, by Resolution of Caldwell County Water District enacted on the 12<sup>th</sup> day of FEBRUARY 2004, the purchase of water from the Seller in accordance with the terms set forth in the said Resolution was approved, and the execution of this Contract by Gary Fuller, Chairman of Caldwell County Water District;

WHEREAS, pursuant to KRS 65.260(2), this agreement, prior to and as a condition precedent to its entry into force, shall be submitted to the Attorney General who shall determine whether the agreement is in proper form and compatible with the laws of this state.

NOW THEREFORE, in consideration of the foregoing and the mutual agreements hereinafter set forth, and subject to the approval of the Kentucky Attorney General,

A. The Seller Agrees:





1. (Quality and Quantity) To furnish the Purchaser at the point of delivery hereinafter specified during the term of this Contract or any renewal of or extension thereof potable treated water meeting applicable purity standards of the Commonwealth of Kentucky, in such quantity as may be required by the Purchaser, not exceeding 250,000 (two hundred fifty thousand) gallons per month and not to exceed 15,000 (fifteen thousand) gallons in any 24-hour period unless an emergency exists. In case of an emergency that required the Purchaser to exceed the daily limit the Purchaser would immediately notify the Seller the emergency did exist.

2. (Point of Delivery and Pressure) The point of delivery shall be a Master Meter on Board Road in Caldwell County, Kentucky, at or near the West Kentucky Parkway.

3. (Billing Procedures) To furnish the Purchaser at the above address not later than the 10<sup>th</sup> day of each month with an itemized statement of the amount of water furnished the Purchaser during the preceding month.

B. The Purchaser agrees:

1. (Rates and Payment Date) To pay the Seller, not later than the 20<sup>th</sup> day of each month, for water delivered in accordance with the following schedule of rates:


Cost of water from Dawson Springs, plus amortization of supply facilities (.12/m), plus additional pumping costs, plus 25%.

2. (Metering Equipment) To supply, install and operate, at point of delivery, the necessary metering equipment, including a meter house or pit, and required devices of standard type for properly measuring the quantity of water delivered to the Purchaser and to test and calibrate the metering equipment in compliance with 807 KAR 5:066, amendments thereto or successive issues thereof.

C. It is further mutually agreed between the Seller and the Purchaser as follow:

1. (Term of Contract) That this Contract shall extend for a term of 40 years from the date of the initial delivery of any water as shown by the first bill submitted by the Seller to the Purchaser and, thereafter may be renewed or extended for such term, or terms, as may be agreed upon by the Seller and Purchaser.





2. (Delivery of Water) That 30 days prior to the estimated date of completion of construction of the Purchaser's water distribution system, the Purchaser will notify the Seller in writing the date for initial delivery of water.

3. (Water for Testing) When requested by Purchaser the Seller will make available to the contractor at the point of delivery water sufficient for testing, flushing, and trench filing the system of the Purchaser during construction, irrespective of whether the metering equipment has been installed at the time at a flat charge of \$1.67 per 1,000 gallons which will be paid by the contractor or on his failure to pay, by the Purchaser.

4. (Failure to Deliver) That the Seller will, at all times, operate and maintain its system in an efficient manner and will take such action as may be necessary to furnish the Purchaser with quantities of water required by the Purchaser. Temporary or partial failures to deliver water shall be remedied with all possible dispatch. In the event of an extended shortage of water, or the supply of water available to the Seller is otherwise diminished over an extended period of time, the supply of water to Purchaser's customers shall be reduced or diminished in the same ratio or proportion as the supply to Seller's customers is reduced or diminished.

5. (Modification of Contract) That the provisions of this Contract pertaining to the schedule of rates to be paid by the Purchaser for water delivered are subject to modification at the end of July each year. Other provisions of this contract may be modified or altered by mutual agreement.

6. (Regulatory Agencies) That this Contract is subject to such rules, regulations, or laws as may be applicable to similar agreements in this State and the Seller and Purchaser will collaborate in obtaining such permits, certificates, or the like, as may be required to comply therewith.

7. (Successor to the Purchaser) That in the event of any occurrence rendering the Purchaser incapable of performing under this Contract, any successor of the Purchaser, whether the result of legal process, assignment, or otherwise, shall succeed to the rights of the Purchaser hereunder.

IN WITNESS WHEREOF, the parties hereto, acting under authority of their governing bodies, have caused this Contract to be duly executed in two counterparts, each of which shall constitute an Original.



SOUTH HOPKINS WATER DISTRICT

By \_\_\_\_\_  
Edwin Martin, Chairman

CALDWELL COUNTY WATER DISTRICT

By \_\_\_\_\_  
Gary Fuller, Chairman

APPROVED:

KENTUCKY ATTORNEY GENERAL

By Raymond M. Halloran  
Assistant Attorney General



SOUTH HOPKINS WATER DISTRICT

By   
Edwin Martin, Chairman

CALDWELL COUNTY WATER DISTRICT

By   
Gary Fuller, Chairman

APPROVED:

KENTUCKY ATTORNEY GENERAL

By .....



## WATER PURCHASE CONTRACT

This contract for the sale and purchase of water entered into on the 13 day of May, 2008, between South Hopkins Water District, 129 South Main Street, Dawson Springs, Kentucky 42408, a Water District created under Kentucky Revised Statutes, situated in Hopkins County, Kentucky hereinafter referred as "Seller" and the City of Earlington, 103 West Main Street, Earlington, Kentucky 42410, hereinafter referred to as "Purchaser".

### WITNESSETH

WHEREAS, the purchaser is established as a fourth class city and organized for operating a water supply distribution system, serving users within the area described in plans now on file in the office of the purchaser and to accomplish this purpose, the Purchaser will require a supply of treated water, and

WHEREAS, the Seller owns and operates a water supply distribution system with a capacity currently capable of serving the present customers of the Sellers system and the estimated number of water users to be served by the Purchaser on file in the office of the purchaser, and

WHEREAS, by Resolution enacted on the 15th day of April, 2008, by the Seller, the sale of water to the Purchaser in accordance with the provisions of said Resolution was approved, and execution of this Contract carrying out the said Resolution by Board Chairman, Robert J. Tucker, of the South Hopkins Water District, and

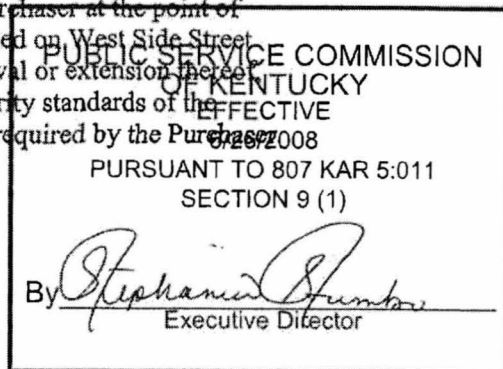
WHEREAS, by Resolution of the City of Earlington enacted on the 17 day of May, 2008, the purchase of water from the Seller in accordance with the terms set forth in the said Resolution was approved, and the execution of this Contract by Michael W. Seiber, Mayor of the City of Earlington, Kentucky.

WHEREAS, this agreement, prior to and as a condition precedent to its entry into force, shall be submitted to the Kentucky Public Service Commission for approval.

NOW THEREFORE, in consideration of the foregoing and the mutual covenants and agreements hereinafter set forth,

#### A. The Seller Agrees:

1. (Quality and Quantity) To furnish the purchaser at the point of delivery which shall be a master meter located on West Side Street during the term of this contract or any renewal or extension thereof, potable treated water meeting applicable purity standards of the Kentucky Department of Health as may be required by the Purchaser.





2. (Accounting System) To establish an accounting system satisfactory to all parties in calculating the cost per 1,000 gallons of producing and delivering water to the Purchaser.

3. (Metering Equipment) To furnish at the point of delivery the necessary metering equipment for properly measuring the quantity to the Purchaser. Meters shall be checked, calibrated and handled in accordance with KAR 807 5:066, amendments thereto or successive issues thereof. If any meter fails to register for any period, the amount of water furnished during such period shall be deemed to be the amount delivered in the corresponding period immediately prior to the failure. The metering equipment shall be read on or about the 20<sup>th</sup> of each month. An appropriate official of the Purchaser, at all reasonable times, shall have access to the meter for the purpose of verifying its reading.

4. (Billing Procedure) To furnish the Purchaser at the above address not later than the 1<sup>st</sup> day of each month with a statement of the amount of water furnished the Purchaser during the preceding month.

B. The Purchaser agrees:

1. (Rates and Payment Dates) To pay the Seller not later than the 20<sup>th</sup> day of each month for water delivered in accordance with the following schedule of rates:

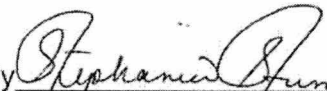
The Seller's cost per 1000 gallons from their supplier, Dawson Springs City Water, as determined by annual audit report of a Certified Public Accountant employed by Dawson Springs City Water to determine the true operation and maintenance cost of water production, plus additional pumping cost, plus amortization of supply system facilities (\$0.12/m), times 1.25.

The audit period will cover a fiscal year (July 1 to June 30). This rate will be billed the following year. Each year-end audit shall determine if the payments for the past year have been overpaid or underpaid. Overpayments shall be refunded or credited to the Purchaser's next monthly billed charges. Underpayments will be billed and collected on the next payment date after the audit. This year-end procedure shall be repeated annually at the end of each operating (fiscal) year.

C. It is further mutually agreed between the Seller and the Purchaser as follows:

1. (Term of Contract) That this contract shall extend for a term of 20 years from the date of this contract and thereafter may be renewed for

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE  
2/28/16  
PURSUANT TO KAR 5:011  
SECTION 9 (1)

By   
Executive Director



extended for such term or terms, as may be agreed upon by the Seller and Purchaser.

2. (Failure to Deliver) That the Seller will, at all times, operate and maintain its system in an efficient manner and will take such action as may be necessary to furnish Purchaser with quantities of water required by Purchaser. Temporary or partial failures to deliver water shall be remedied with all possible dispatch. In the event of an extended shortage of water, or the supply of water available to the Seller is otherwise diminished over an extended period of time, the supply of water to Purchaser's customers shall be reduced or diminished in the same ratio or proportion as the supply of Seller's customers is reduced or diminished.

3. (Modification of Contract) That the provisions of this Contract pertaining to the schedule of rates to be paid by the Purchaser for water delivered are subject to modification at the end of June each year. Other provisions of this Contract may be modified or altered by mutual agreement.

4. (Regulatory Agencies) This Contract is subject to such rules, regulations, or laws as may be applicable to similar agreements in this State and the Seller and Purchaser will collaborate in obtaining such permits, certificates, or the like as may be required to comply therewith.

5. (Successor to the Purchaser) That in the event of any occurrence rendering the Purchaser incapable of performing under this Contract, any successor of the Purchaser, whether the result of legal process, assignment, or otherwise, shall succeed to the Purchaser hereunder.

IN WITNESS WHEREOF, the parties hereto, acting under authority of their governing bodies, have caused this contract to be duly executed in two counterparts, each of which shall constitute an Original.

SOUTH HOPKINS WATER DISTRICT

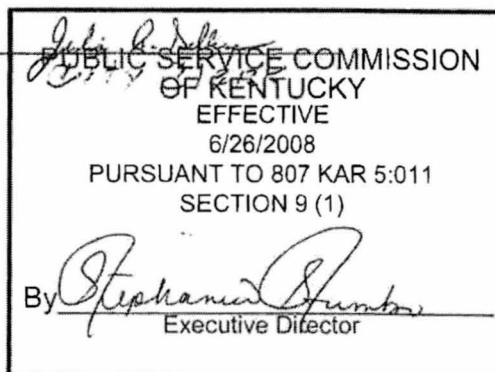
By Robert J. Tucker  
Robert J. Tucker, Chairman

Attest Koy D. McChesney  
SECRETARY

CITY OF EARLINGTON

By Michael W. Seiber  
Michael W. Seiber, Mayor

Attest





10/29/15  
RECEIVED

**FIRST AMENDMENT TO WATER PURCHASE CONTRACT OF MAY 13, 2008**

This First Amendment to Water Purchase Contract of May 13, 2008, made and entered into by and between South Hopkins Water District, referred to therein as Seller, and City of Earlington, referred to therein as Purchaser:

**WHEREAS**, the parties entered into a contract for the sale and purchase of water on May 13, 2008, and,

**WHEREAS**, it is the desire and intention of the parties to continue their present relationship as Seller and Purchaser, requiring the amendment of that contract;

**NOW, THEREFORE**, the parties do hereby, and in consideration of the recitals hereinabove set forth, amend said contract as hereinafter set forth:

**AMENDMENT**

Paragraph (B)(1) of said Contract requires Purchaser to pay the Seller not later than the 20<sup>th</sup> day of each month for water delivered.

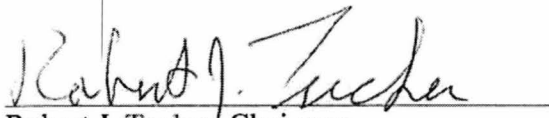
Inasmuch as the Seller and Purchaser wish to change the due date of the bill, Paragraph (B)(1) is hereby amended to change the date of payment to the 30<sup>th</sup> day of each month.

Except as amended hereby, the parties' contract of May 13, 2008 is hereby reaffirmed,

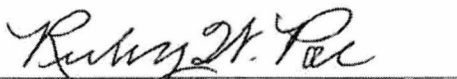
Executed on this 29<sup>th</sup> day of October, 2015.

**SOUTH HOPKINS WATER DISTRICT**

Seller

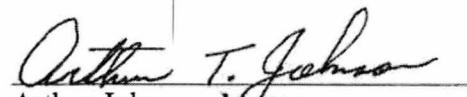
  
Robert J. Tucker, Chairman

Attest:

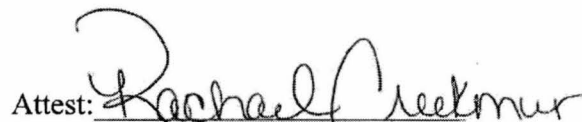
  
Ruby W. Poe, Treasurer

**CITY OF EARLINGTON**

Purchaser

  
Arthur Johnson, Mayor

Attest:

  
Rachel Creekmur, Clerk



## WATER PURCHASE CONTRACT

This contract for the sale and purchase of water is entered into as of the 6th day of February, 1984, between the SOUTH HOPKINS WATER DISTRICT, a Water District created under Kentucky Revised Statutes, situated in Hopkins County, Kentucky, hereinafter referred to as the "Seller" and the City of Mortons Gap, a municipal corporation of the 5th class in Hopkins County, Kentucky, hereinafter referred to as the "Purchaser".

### A. THE SELLER AGREES:

1. (Quality and Quantity) To furnish the purchaser at the point of delivery, which is a master meter located on Morton Street and US Highway 41A, during this contract or any renewal or extension thereof, potable treated water meeting purity standards of the Kentucky Department of Health in the quantity of (FIVE MILLION) 5,000,000 gallons per month and not to exceed (TWO HUNDRED FIFTY) 250,000 gallons in any 24 hour period, unless an emergency exists. In ~~case~~ of an emergency that required the Purchaser to exceed the daily limit the Purchaser would immediately notify the Seller that the emergency did so exist.

2. (Metering equipment) To furnish, install, and operate at the point of delivery, the necessary metering equipment of standard type for properly measuring the quantity to the Purchaser. If any meter fails to register for any period, the amount of water furnished during such period shall be deemed to be the amount delivered in the corresponding period immediately prior to the failure, unless Seller and Purchaser shall agree upon a different amount.



2. (Availability of Water) The Purchaser will be considered the same as any other individual customer of the Seller, when water is available to one customer it will be made available to all customers. The Purchaser and Seller will maintain their respective distribution systems in the best state of repair possible to prevent water loss so as to maintain the availability of water to all customers.

3. (Successor to the Purchaser or Seller) That in the event of any occurrence rendering the Purchaser or Seller incapable of performing under this contract, any successor of Purchaser or Seller, shall succeed to the rights of the Purchaser or Seller hereunder.

4. This contract will be renegotiable when the cities (Mortons Gap) water usage reaches 50,000,000 gallons annually. The city of Mortons Gap will be given a 30 day notice of any rate increases from the district.

In Witness whereof, the parties hereto, acting under authority of their respective governing bodies, have caused this contract to be duly executed.

Seller:

South Hopkins Water District

By Donald P. Allen

ATTEST:

James A. Lewis  
Secretary

Purchaser:

City of Mortons Gap

By Lindell Paul, Mayor

ATTEST:

Jane Harris  
Secretary



**FIRST AMENDMENT TO WATER PURCHASE  
CONTRACT OF FEBRUARY 6, 1984**

This First Amendment to Water Purchase Contract of February 6, 1984, made and entered into by and between South Hopkins Water, referred to therein as "Seller," and City of Mortons Gap, Kentucky therein referred to as the "Purchaser,"

**WHEREAS**, the parties entered into a contract for the sale and purchase of water on February 6, 1984, and;

**WHEREAS**, it is the desire and intention of the parties to continue and extend the term of their present relationship as Seller and Purchaser, requiring the amendment of that contract;

**NOW, THEREFORE**, the parties do hereby, and in consideration of the recitals hereinabove set forth, amend said contract as hereinafter set forth:

AMENDMENT

Paragraph (C) (1) (Term of Contract) of said Contract provides for a contract term of 40 years from the date of the initial delivery of any water as shown by the first bill submitted by the Seller to the Purchaser and thereafter may be renewed or extended for such term or terms as may be agreed upon by Seller and Purchaser.

Inasmuch as the Seller and Purchaser wish to extend the contract term, Paragraph (C) (1) (Term of Contract) is hereby amended to extend the term of the Water Purchase Contract for a period of forty-two (42) years from the date of the execution of this amendment.


Except as amended hereby, the parties contract of February 6, 1984, is hereby reaffirmed,

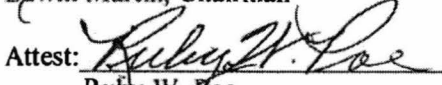
Executed on this 15<sup>th</sup> day of Aug., 2001.

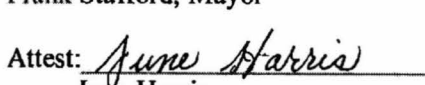
**SOUTH HOPKINS WATER DISTRICT**  
Seller

**CITY OF MORTONS GAP**  
Purchaser

  
Edwin Martin, Chairman

  
Frank Stafford, Mayor

Attest:   
Ruby W. Poe  
Secretary/Treasurer

Attest:   
June Harris  
Clerk

Prepared By:





**SECOND AMENDMENT TO WATER PURCHASE  
CONTRACT OF FEBRUARY 6, 1984**

The Second Amendment to Water Purchase Contract of February 6, 1984, made and entered into by and between South Hopkins Water District, referred to therein as "Seller" and the City of Mortons Gap, Kentucky therein referred to as the "Purchaser".

**WHEREAS**, the parties entered into a contract for the sale and purchase of water on February 6, 1984;

**WHEREAS**, it is the desire and intention of the parties to continue their relationship as Seller and Purchaser;

**NOW THEREFORE**, the parties do hereby, and in consideration of the recitals hereinabove set forth, amend said contract as hereinafter set forth:

**AMENDMENT**

**B. THE PURCHASER AGREES:**

1. (Rates and Payment Date) To pay the Seller, not later than the 20<sup>th</sup> day of each month for water delivered in accordance with a rate schedule determined as follows:

a. The Sellers cost per 1000 gallons from their supplier, Dawson Springs City Water, as determined by annual audit report of a Certified Public Accountant employed by Dawson Springs City Water to determine the true operations and maintenance costs of water production. The audit period will cover a fiscal year (July 1 to June 30), PLUS amortization of supply facilities (\$0.12/m), PLUS additional pumping cost, PLUS 25%.

This rate will be billed the following year. Each year-end audit shall determine if the payments for the past year have been overpaid or underpaid. Overpayments shall be refunded or credited to the Purchasers next monthly billed charges. Underpayments shall be collected on the next payment date after the audit. This year-end procedure shall be repeated annually at the end of each operating (fiscal) year.

Except as amended hereby, the parties' contract of February 6, 1984 and First Amendment dated August 15, 2001 is hereby reaffirmed.

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE  
2/23/2005  
PURSUANT TO 807 KAR 5:011  
SECTION 9 (1)

By   
Executive Director



*Madisonville - Grapevine*

**WATER PURCHASE CONTRACT**

This Contract for the sale and purchase of water is entered into as of the 29th day of March, 1994, between the City of Madisonville, P. O. Box 705, Madisonville, Kentucky 42431, hereinafter referred to as the "Seller" and the South Hopkins Water District, P. O. Box 308, Dawson Springs, Kentucky 42408, hereinafter referred to as the "Purchaser",

**WITNESSETH:**

Whereas, the Purchaser is organized and established under the laws of the Commonwealth of Kentucky, for the purpose of constructing and operating a water supply distribution system serving water users within the area described in plans now on file in the office of the Purchaser and to accomplish this purpose, the Purchaser will require a supply of treated water, and

Whereas, the Seller owns and operates a water supply distribution system with a capacity currently capable of serving the present customers of the Seller's system and the estimated number of water users to be served by the said purchaser as shown in the plans of the system now on file in the office of the Purchaser, and

Whereas, by Resolution enacted on the 21st day of March, 1994, by the Seller, the sale of water to the



Purchaser in accordance with the provisions of the said Resolution was approved, and the execution of this contract carrying out the said Resolution by the Mayor of Madisonville, Kentucky, and attested by the City Clerk was duly authorized and

Whereas, by Resolution of the South Hopkins Water District enacted on the 29th day of March, 1994, the purchase of water from the Seller in accordance with the terms set forth in the said Resolution was approved, and the execution of this Contract by Edwin Martin, Chairman of the South Hopkins Water District;

Now, therefore, in consideration of the foregoing and the mutual agreements hereinafter set forth,

A. The Seller Agrees:

1. (Quality and Quantity) To furnish the Purchaser at the point of delivery hereinafter specified, during the term of this Contract or any renewal or extension thereof, potable treated water meeting applicable purity standards of the Commonwealth of Kentucky in such quantity as may be required by the Purchaser not to exceed 1,800,000 gallons per month. In the event the chlorine levels at the point of delivery are not sufficient to comply with water quality standards, the Purchaser shall install and operate at its own expense a booster chlorinator sufficient to bring the



chlorine levels into compliance.

2. (Point of Delivery and Pressure) The City of Madisonville makes no representation or warranty as to the water pressure of the water delivered pursuant to this Contract. If a greater pressure than that available at the point of delivery is required by the Purchaser, the cost of providing such greater pressure shall be borne by the Purchaser. Emergency failures of pressure or supply due to main supply line breaks, power failure, flood, fire and use of water to fight fire, earthquake or other catastrophe shall excuse the Seller from this provision for such reasonable period of time as may be necessary to restore service.

3. (Billing Procedure) To furnish the Purchaser at the above address not later than the 10th day of each month, with an itemized statement of the amount of water furnished the Purchaser during the preceding month.

**B. The Purchaser Agrees:**

1. (Rates and Payment Date) To pay the Seller, not later than the \_\_\_\_ day of each month, for water delivered in accordance with the following schedule of rates:

a. \$1.67 per 1000 gallons.

2. (Metering Equipment) To install and operate, at point of delivery, the necessary metering equipment, including a meter house or pit, and required devices of




standard type for properly measuring the quantity of water delivered to the Purchaser and to calibrate such metering equipment whenever requested or desirable but not more frequently than once every twelve (12) months. A meter registering not more than two percent (2%) above or below the test result shall be deemed to be accurate. The previous readings of any meter disclosed by test to be inaccurate shall be corrected for the one month previous to such test in accordance with the percentage of inaccuracy found by such tests. If any meter fails to register for any period, the amount of water furnished during such period shall be deemed to be the amount of water delivered in the corresponding period immediately prior to the failure, unless Seller and Purchaser shall agree upon a different amount. The metering equipment shall be read on or before the \_\_\_\_ day of each month. An appropriate official of the Seller at all reasonable times shall have access to the meter for the purpose of verifying its readings.

C. It is further mutually agreed between the Seller and the Purchaser as follows:

1. (Term of Contract) That this Contract shall extend for a term of 40 years from the date of the initial delivery of any water as shown by the first bill submitted by the Seller to the Purchaser and, thereafter may be renewed or





extended for such term, or terms, as may be agreed upon by the Seller and Purchaser.

2. (Delivery of Water) That 30 days prior to the estimated date of completion of construction of the Purchaser's water supply distribution system, the Purchaser will notify the Seller in writing the date for the initial delivery of water.

3. (Water for Testing) When requested by the Purchaser the Seller will make available to the contractor at the point of delivery, to other point reasonably close thereto, water sufficient for testing, flushing, and trench filling the system of the Purchaser during construction, irrespective of whether the metering equipment has been installed at the time, at a flat charge of \$\_\_\_\_\_ which will be paid by the contractor or, on his failure to pay, by the Purchaser.

4. (Failure to Deliver) That the Seller will, at all times, operate and maintain its system in an efficient manner and will take such action as may be necessary to furnish the Purchaser with quantities of water required by the Purchaser. Temporary or partial failures to deliver water shall be remedied with all possible dispatch. In the event of an extended shortage of water, or the supply of water available to the Seller is otherwise diminished over an



extended period of time, the supply of water to Purchaser's consumers shall be reduced or diminished in the same ratio or proportion as the supply to Seller's consumers is reduced or diminished. Purchaser shall only fill its water tank between the hours of midnight and 5:00 a.m. except in an emergency situation.

5. (Modification of Contract) That the provisions of this Contract pertaining to the schedule of rates to be paid by the Purchaser for water delivered are subject to modification at the end of every one year period. Any increase or decrease in rates shall be based on a demonstrable increase or decrease in the costs of performance hereunder, but such costs shall not include increased capitalization of the Seller's system. Other provisions of this Contract may be modified or altered by mutual agreement.

6. (Regulatory Agencies) That this Contract is subject to such rules, regulations, or laws as may be applicable to similar agreements in this State and the Seller and Purchaser will collaborate in obtaining such permits, certificates, or the like, as may be required to comply therewith.

7. (Miscellaneous) That the construction of the water supply distribution system by the Purchaser is being financed by a loan made or insured by, and/or a grant from,



the United States of America, acting through the Farmers Home Administration of the United States Department of Agriculture, and the provisions hereof pertaining to the undertakings of the Purchaser are conditioned upon the approval, in writing, of the State Director of the Farmers Home Administration.

8. (Successor to the Purchaser) That in the event of any occurrence rendering the Purchaser incapable of performing under this Contract, any successor of the Purchaser, whether the result of legal process, assignment, or otherwise, shall succeed to the rights of the Purchaser hereunder.

In witness whereof, the parties hereto, acting under authority of their respective governing bodies, have caused this Contract to be duly executed in two counterparts, each of which shall constitute an original.

CITY OF MADISONVILLE

By: Philip H. Terry  
Philip H. Terry, Mayor

SOUTH HOPKINS WATER DISTRICT

By: Edwin Martin  
Edwin Martin, Chairman

JAE/mea/0317Water



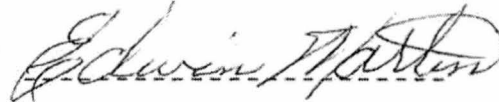
PLEDGE OF WATER PURCHASE CONTRACT

This Water Purchase Contract, dated March 29, 1994, between the City of Madisonville and the South Hopkins Water District, and any Amendments hereto, are hereby pledged to the United States of America, acting through the Farmers Home Administration/Rural Development Administration, as a part of the security for a loan or loans by the United States of America. This pledge shall continue in effect so long as the South Hopkins Water District is indebted to the Farmers Home Administration/Rural Development Administration.

In Testimony whereof, witness the duly authorized signature of the Chairman of the South Hopkins Water District this 29th. day of March, 1994.

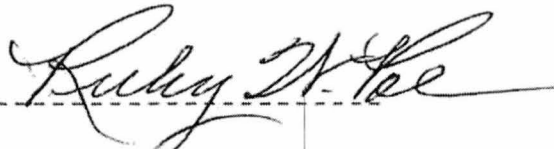
SOUTH HOPKINS WATER DISTRICT

By :



Title : Chairman

Attest:



Secretary



# **AGREEMENT**

THIS AGREEMENT is made and entered into by and between the City of Madisonville, P. O. Box 705, Madisonville, Kentucky 42431, and the South Hopkins Water District, P. O. Box 308, Dawson Springs, Kentucky 42408, on this 29th day of March, 1994;

WITNESSETH: That the South Hopkins Water District proposes to extend its existing water lines in order to serve certain water customers in the Grapevine area northeast of Earlington, Kentucky, some of which are currently being served by the City of Madisonville; and

WHEREAS, both the City of Madisonville and the South Hopkins Water District believe that water service and water pressure for said customers will be improved by the extension of the water lines as proposed herein;

NOW THEREFORE, for and in consideration of the mutual benefits and promises herein stated, the parties do hereby agree as follows:

1. The South Hopkins Water District will furnish, and the City of Madisonville will install, own and maintain approximately 1854 feet of new Class 52 ductile iron 6 inch water line from the end of the existing 6 inch line at the curve on Crowley Road to tie into the other 6 inch water line on Crowley Road at a point located approximately 400 feet



west of Lanham Road. The South Hopkins Water District will furnish and the City of Madisonville will own, install and maintain the following related items: 4-6 inch gate valves; 4 valve boxes; 2-6 inch anchor tees; 1-6 inch anchor tee; 1-6 inch fire hydrant.

2. The South Hopkins Water District shall furnish, install at its own expense, own and maintain a Rockwell Turbine Mastermeter and pump station to be located and tied into the Madisonville Water main as extended pursuant to paragraph 1 hereof. The meter will be located at the intersection of Lanham Road and Crowley Road.

3. All water customers that face both sides of Crowley Road and the property located at the southeast corner of Crowley Road shall continue to be serviced by the City of Madisonville. The undeveloped Todd property facing Crowley Road that may be subdivided in the future will be served by the City of Madisonville to a depth of 150 feet. The area to be serviced by the South Hopkins Water District shall be as follows:

- A. Sandcut Road from the end of the City line at Crowley Road to the West Kentucky Road.
- B. Lanham Road from the meter to Sandcut Road except that portion of the undeveloped Todd property located at the southeast corner of Lanham Road and Crowley Road to a depth of 150 feet.
- C. John Hall Road.
- D. Clare Lane.



E. West Kentucky Road from Sandcut Road to a point 100 feet East of John Hall Road.

4. The City of Madisonville currently provides water service to the customers listed on Exhibit A. Once the lines have been extended as herein provided and are in operation, the customers listed on Exhibit A shall be transferred from the City of Madisonville to the South Hopkins Water District and the South Hopkins Water District shall thereafter provide water service to said customers. At such time, the City of Madisonville will convey unto the South Hopkins Water District by contract all of its right, title and interest in and to all water line easements, lines, meters and meter boxes servicing said customers.

5. All line extensions and related equipment provided for herein shall be installed and operated in compliance with all applicable state and federal laws and regulations and shall meet the specifications of the City of Madisonville for lines owned and maintained by the City and shall meet the specifications of the district for lines owned and maintained by the District.

6. The City of Madisonville shall furnish water to the South Hopkins Water District upon the terms and conditions set forth in the Wholesale Water Purchase Contract attached hereto which shall be executed by the parties simultaneously with the execution of this Agreement.



IN TESTIMONY WHEREOF, witness the signatures of the duly authorized representatives of each party on the dates set forth above.

CITY OF MADISONVILLE

By: Philip H. Terry  
Philip H. Terry, Mayor

SOUTH HOPKINS WATER DISTRICT

By: Edwin Martin  
Edwin Martin, Chairman

JAE/mea/0317Agreement



# EXHIBIT A

425	Sandcut	Latney Cartwright	4118
485	Sandcut	Lee Littlepage	5777
505	Sandcut	Lee Littlepage	3078
515	Sandcut	Harry Crenshaw	8354
545	Sandcut	Paul Poole	3064
575	Sandcut	Andrea Avery	7178
585	Sandcut	Jeanie Brooks	3626
595	Sandcut	Gilbert Pendley	8421
611	Sandcut	Donald Oliver	2845
625	Sandcut	Bobby Stanley	1033
635	Sandcut	Rickie Miller	1629
665	Sandcut	Alvin Downey	9771
105	John Hall Rd.	Suzanne Smith	107 Feeds 2
186	John Hall Rd.	James M. Foreman	6812
126	John Hall Rd.	Preston Denton	6247 Feeds 2
161	John Hall Rd.	Sarah Penrod	6452 Feeds 2
695	Sandcut	Wanita Terry	2944
650	Sandcut	Elgie Melton	2936
630	Sandcut	Tommy Baldwin	6885
520	West Ky. Rd.	Robert Littlepage	601 Feeds 2
704-A	West Ky. Rd.	Billy Wright	46699238
	Lanham Dr.	Carl Massey	9923 Feeds 2
116	Lanham Dr.	Thomas Eaton	7173
570	Sandcut Rd.	George Durham, Sr.	7343
Apts.	Sandcut Rd.	M. D. Downey	7347 Feeds 2
Apts.	Sandcut Rd.	M. D. Downey	4453 Feeds 5
460	Sandcut Rd.	Charles Dame	5991
440	Sandcut Rd.	Ashley McKnight	1204



**Report**

**of**

**South Hopkins Water District  
Dawson Springs, Kentucky**

**For The Years Ended December 31, 2013 and 2012**



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# Alexander, Toney & Knight PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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Madisonville, Kentucky 42431  
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Larry R. Alexander, CPA  
Harold R. Toney, Jr., CPA  
Anthony Knight, CPA

Members  
American Institute of Certified Public Accountants  
Kentucky Society of Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

To the Commissioners  
South Hopkins Water District  
Dawson Springs, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of South Hopkins Water District as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *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 financial position of South Hopkins Water District as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2014, on our consideration of South Hopkins Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 South Hopkins Water District's internal control over financial reporting and compliance.

*Alexander, Toney & Knight PLLC*

Madisonville, Kentucky  
February 10, 2014



SOUTH HOPKINS WATER DISTRICT  
Management's Discussion and Analysis  
December 31, 2013 and 2012

The discussion and analysis of the South Hopkins Water District's financial performance provides an overview and analysis of the District's financial activities for the years ended December 31, 2013 and 2012. It should be read in conjunction with the accompanying basic financial statements.

Financial Highlights for the Year 2013

- The District's net position increased \$26.8 thousand from \$2.0146 million to \$2.0414 million.

Overview Of The Financial Statements

This report consists of this management's discussion and analysis, basic financial statements, and notes to the financial statements. The basic financial statements are reported using the full accrual basis of accounting.

Basic financial statements:

The Statements of Net Position include information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). In simple terms, this statement presents a snapshot view of the assets the District owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.

The Statements of Revenues, Expenses, and Changes in Net Position include the District's revenues and expenses for the years ended December 31, 2013 and 2012. This statement provides information on the District's operations and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges.

The Statements of Cash Flows include information on the District's cash receipts and payments and the changes in cash balances resulting from operating activities, investing activities, and financing activities.

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the District's financial condition.



## District Financial Analysis

A summary of the District's Statements of Net Position is presented below.

Table 1  
Condensed Statements of Net Position  
(in thousands)

	<u>2013</u>	<u>2012</u>	<u>dollar change</u>	<u>percent change</u>	<u>2011</u>	<u>dollar change</u>	<u>percent change</u>
Current assets	\$ 445.1	\$ 337.9	\$ 107.2	31.7%	\$ 308.3	\$ 29.6	9.6%
Capital assets	2,127.0	2,102.6	24.4	1.2%	2,124.6	( 22.0)	( 1.0%)
Other noncurrent assets	<u>245.3</u>	<u>390.8</u>	( 145.5)	( 37.2%)	<u>380.5</u>	10.3	2.7%
Total assets	<u>2,817.4</u>	<u>2,831.3</u>	( 13.9)	( 0.5%)	<u>2,813.4</u>	17.9	( 0.6%)
Current liabilities	79.7	107.5	( 27.8)	( 25.9%)	134.1	( 26.6)	( 19.8%)
Long-term liabilities	<u>696.3</u>	<u>709.2</u>	( 12.9)	( 1.8%)	<u>746.2</u>	( 37.0)	( 5.0%)
Total liabilities	<u>776.0</u>	<u>816.7</u>	( 40.7)	( 5.0%)	<u>880.3</u>	( 63.6)	( 7.2%)
Net position invested in capital assets, net of related debt	1,544.5	1,471.6	72.9	5.0%	1,433.8	37.8	2.6%
Net position restricted for debt service	10.1	49.1	( 39.0)	( 79.4%)	48.4	0.7	1.4%
Net position restricted for capital projects	116.8	228.1	( 111.3)	( 48.8%)	215.0	13.1	6.1%
Unrestricted net position	<u>370.0</u>	<u>265.8</u>	104.2	39.2%	<u>235.9</u>	29.9	12.7%
Total net position *	<u>\$2,041.4</u>	<u>\$2,014.6</u>	\$ 26.8	1.3%	<u>\$1,933.1</u>	\$ 81.5	4.2%

\* as restated, see Note L

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2.04 million at the close of the current year.

### 2011 to 2012

As shown in table 1, the District's total assets decreased \$13,900 when compared to the prior year. Current assets increased \$107,200 or 31.7% primarily due to a \$80,800 increase in unrestricted cash. Unrestricted cash increased as the District moved a \$123,300 certificate of deposit from a restricted depreciation account to the operations and maintenance account. Capital assets increased \$24,400 as new additions outpaced depreciation expense. Other noncurrent assets decreased \$145,500 primarily due to the District moving the above mentioned certificate of deposit to the current assets.

The District's total liabilities decreased \$40,800. Current liabilities decreased \$27,800 or 25.9% primarily due to the timing of bond payments. All of the District's bonds due in 2014 were paid in December 2013. Also, one the District's bond issues was completely paid off during 2013. The long-term liabilities decrease is a reflection of a \$48,500 reduction in revenue bonds payable as bond payments were made as scheduled.

The District's total net position increased \$26,900, which results from the net effect of the decreases in total assets and decreases in total liabilities referred to above. Net position invested in capital assets, net of related debt, increased \$72,900 as debt on capital assets were paid as scheduled and new capital assets outpaced depreciation expense. Net position restricted for capital projects, a component of total net position, decreased



\$111,300 as depreciation funds were moved to the operating account upon payoff of one of the District's bonds. Net position restricted for debt service decreased \$39,000 as the District reduced transfers to the District's sinking fund. Prior balances in the sinking fund allowed enough cash to make principal and interest payments when due.

#### 2011 to 2012

As shown in table 1, the District's total assets increased \$17,900 when compared to the prior year. Current assets increased \$29,600 or 9.6% primarily due to a \$40,900 increase in unrestricted cash and a \$23,500 decrease in accounts receivable. Unrestricted cash increased as the District's annual water cost adjustment decreased significantly. Accounts receivable decreased as lower water rates over the prior year provided a smaller receivable balance. Capital assets decreased \$22,000 as depreciation expense outpaced new additions. Other noncurrent assets increased \$10,300 due to the District funding restricted cash primarily bond depreciation funds.

The District's total liabilities decreased \$63,600. Current liabilities decreased \$26,600 or 19.8% primarily due to bond payments as scheduled are smaller in the upcoming year than scheduled payments were in the prior year. Current bonds payable are \$12,400 less than the prior year. Accounts payable are also lower at the end of the current year as water cost payable is \$8,000 less due to lower water cost rates. The long-term liabilities decrease is a reflection of a \$47,000 reduction in revenue bonds payable as bond payments were made as scheduled.

The District's total net position increased \$81,500, which results from the net effect of the increases in total assets and decreases in total liabilities referred to above. Net position invested in capital assets, net of related debt, increased \$37,800 as debt on capital assets was paid as scheduled. Net position restricted for capital projects, a component of total net position, increased \$13,100 as depreciation funds were funded as required by bond covenants.

A summary of the District's Statements of Revenues, Expenses and Changes in Net Position is presented below.

Table 2  
Condensed Statements of Revenues, Expenses and Changes in Net Position  
(in thousands)

	<u>2013</u>	<u>2012</u>	<u>dollar change</u>	<u>percent change</u>	<u>2011</u>	<u>dollar change</u>	<u>percent change</u>
Operating revenues	\$1,258.3	\$1,314.0	(\$ 55.7)	( 4.2%)	\$1,332.7	(\$ 18.7)	( 1.4%)
Nonoperating revenues	<u>12.7</u>	<u>4.3</u>	8.4	2.0%	<u>7.4</u>	( 3.1)	( 41.9%)
Total revenues	<u>1,271.0</u>	<u>1,318.3</u>	( 47.3)	( 3.6%)	<u>1,340.1</u>	( 21.8)	( 1.6%)
Operating expenses	1,302.1	1,239.0	63.1	5.1%	1,359.1	( 120.1)	( 8.8%)
Nonoperating expenses	<u>28.6</u>	<u>32.4</u>	( 3.8)	( 11.7%)	<u>36.2</u>	( 3.8)	( 10.5%)
Total expenses	<u>1,330.7</u>	<u>1,271.4</u>	59.3	4.7%	<u>1,395.3</u>	( 123.9)	( 8.9%)
Income before capital contributions	( 59.7)	46.6	106.3	( 228.1%)	( 55.2)	101.8	184.4%
Capital contributions	<u>86.6</u>	<u>42.5</u>	44.1	103.8%	<u>10.6</u>	31.9	300.9%
Changes in net position	26.9	88.3	( 61.4)	( 69.5%)	( 44.6)	132.9	298.0%
Beginning net position *	<u>2,014.5</u>	<u>1,926.2</u>	88.3	4.6%	<u>1,977.7</u>	( 51.5)	( 2.6%)
Ending net position	<u>\$2,041.4</u>	<u>\$2,014.5</u>	\$ 26.9	1.3%	<u>\$1,933.1</u>	\$ 81.4	4.2%

\* as restated, see Note L



## 2012 to 2013

The District's total revenues decreased \$47,300 or 3.6%. Water sales decreased \$55,700 as the District had a purchased water adjustment rate decrease in October 2012. Most of the effect of this rate decrease was felt in the first nine months of 2013. Also in the prior year, the District was recovering a significant water surcharge from customers for approximately nine months. Nonoperating revenues increased \$8,400. Net gains and losses on dispositions of assets were \$9,034, which the District had none in the prior year.

The District's operating expenses increased \$63,100. The District's purchased water cost increased \$9,500 or 1.7%. Salaries and wages increased \$15,600 as employees received raises during the year and an additional employee was added mid-year. Employee benefits cost increased \$5,000 as the District is seeing increasing pension costs due to higher wages and additional employees. Materials and supplies cost increased \$15,500 as higher repair costs were incurred. Contract service cost increased \$6,100 as engineering costs and higher water testing costs were incurred.

Capital contributions increased \$44,100 due to more capital contributions from customers and \$53,909 in grant monies passed down from the Kentucky Transportation Cabinet, Department of Highways and as a pass through from the City of St. Charles.

Changes in net position decreased \$61,400 due to the net effect of the decreased total revenues and increased total expenses mentioned above.

## 2011 to 2012

The District's total revenues decreased \$21,800 or 1.6%. Water sales decreased \$22,000 as the District had a purchased water adjustment rate decrease in 2012. Nonoperating revenues decreased \$3,100. In the prior year, the District received an additional \$3,100 in interest income.

The District's operating expenses decreased \$120,100. The District's purchased water cost decreased \$155,000 due to a significantly higher once a year overpayment paid to the District's water supplier. The District's contract with the City of Dawson Springs, Kentucky (the City) provides for a once a year underpayment or overpayment based on a water cost calculation from the City. The current year overpayment was \$86,705. The District was required to redistribute this overpayment to its customers in two months. The District credited the customers bills for their portion of the overpayment. Salaries and wages increased \$26,600 as employees received raises during the year and commissioners received additional \$8,000 in salaries during the year. Materials and supplies cost increased \$5,000 as more repair costs were incurred. Purchased power also increase \$4,600.

Capital contributions increased \$31,900 due to more capital contributions from customers and \$21,000 in grant monies passed down from the Kentucky Transportation Cabinet, Department of Highways.

Changes in net position increased \$133,700 due to the net effect of the decreased total revenues and decreased total expenses mentioned above.

## Capital Assets and Debt Administration

### Capital Assets

At December 31, 2013 the District had \$2,127,024 invested in capital assets, net of accumulated depreciation,



including land, structures, improvements and water system, office furniture and equipment, vehicles, and machinery and equipment. This amount represents a net increase (additions, retirements, depreciation) of \$24,437 from the prior year. The increase includes additions and dispositions of capital assets less \$74,011 of depreciation expense in 2013.

Significant additions during the year included \$51,432 of line relocation costs, \$13,600 of expenditures in meters, \$16,728 for the purchase of a truck, and \$17,008 of expenditures for septic tanks.

At December 31, 2012 the District had \$2,102,590 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, office furniture and equipment, vehicles, and machinery and equipment. This amount represents a net decrease (additions, retirements, depreciation) of \$22,036 from the prior year. The decrease includes additions of capital assets less \$76,577 of depreciation expense in 2012.

Significant additions during the year included \$13,600 of expenditures in meters.

A comparison of the District's capital assets over the past three years is presented in Note E of the financial statements.

#### Long-Term Debt

At December 31, 2013, the District had \$582,500 in revenue bonds outstanding which was a decrease of \$48,517 from the prior year balance of \$631,017. All three of the District's bond issues were paid as scheduled, including one of which was completely retired during the year. There were no new borrowings.

At December 31, 2012, the District had \$631,017 in revenue bonds and revenue refunding bonds outstanding which was a decrease of \$59,840 from the prior year balance of \$690,857. All three of the District's bond issues were paid as scheduled and there were no new borrowings.

Additional information on the District's long-term debt can be found in Note F of the financial statements.

#### Currently Known Facts, Decisions, or Conditions

There are no currently known facts, decisions, or conditions that District management expects to have a significant effect on financial position or results of operations.

#### Requests For Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the South Hopkins Water District, 129 South Main Street, Dawson Springs, Kentucky 42408.



South Hopkins Water District  
Statement of Net Position  
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 199,456	\$ 118,673
Accounts receivable	138,756	127,342
Other receivables	8,350	481
Material and parts inventory	67,132	61,989
Prepaid expenses	<u>31,427</u>	<u>29,395</u>
Total current assets	<u>445,121</u>	<u>337,880</u>
Noncurrent assets		
Restricted cash and cash equivalents	245,263	390,768
Capital assets:		
Nondepreciable	40,235	53,696
Depreciable, net of accumulated depreciation	<u>2,086,789</u>	<u>2,048,894</u>
Total noncurrent assets	<u>2,372,287</u>	<u>2,493,358</u>
Total assets	<u>2,817,408</u>	<u>2,831,238</u>
<u>Liabilities</u>		
Current liabilities payable from current assets		
Accounts payable	55,800	51,133
Accrued taxes and other payables	7,847	7,302
Accumulated compensated absences	<u>8,916</u>	<u>9,175</u>
	<u>72,563</u>	<u>67,610</u>
Current liabilities payable from restricted assets		
Accrued bond interest payable	0	284
Bonds payable	0	32,417
Customer deposits	<u>7,098</u>	<u>7,209</u>
	<u>7,098</u>	<u>39,910</u>
Total current liabilities	<u>79,661</u>	<u>107,520</u>
Long-term liabilities		
Bonds payable	582,500	598,600
Customer deposits	91,454	87,380
Accumulated compensated absences	<u>22,324</u>	<u>23,201</u>
Total long-term liabilities	<u>696,278</u>	<u>709,181</u>
Total liabilities	<u>775,939</u>	<u>816,701</u>
<u>Net Position</u>		
Invested in capital assets, net of related debt	1,544,524	1,471,573
Restricted for:		
Debt service	10,061	49,074
Capital projects	116,780	228,097
Unrestricted	<u>370,104</u>	<u>265,793</u>
Total net position	<u>\$2,041,469</u>	<u>\$2,014,537</u>

The accompanying notes are an integral part of these statements.



South Hopkins Water District  
Statement of Revenues, Expenses and Changes in Net Position  
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues		
Water sales	\$1,193,281	\$1,253,898
Other operating revenues	<u>65,051</u>	<u>60,088</u>
Total operating revenues	<u>1,258,332</u>	<u>1,313,986</u>
Operating expenses		
Purchased water	558,742	549,238
Salaries and wages	299,802	284,188
Depreciation	74,011	76,577
Employee benefits	113,169	108,173
Transportation	32,829	29,138
Contract services	21,388	15,272
Taxes	25,915	24,153
Purchased power	49,845	45,804
Materials and supplies	85,879	70,383
Insurance	30,952	26,889
Miscellaneous	8,958	8,139
Chemicals	<u>570</u>	<u>1,063</u>
Total operating expenses	<u>1,302,060</u>	<u>1,239,017</u>
Operating income (loss)	( 43,728)	74,969
Nonoperating revenues (expenses)		
Interest income	3,604	4,283
Interest expense	( 28,581)	( 32,449)
Gain (loss) on disposition of capital assets	<u>9,034</u>	<u>0</u>
Total nonoperating revenues (expenses)	( 15,943)	( 28,166)
Income (loss) before contributions and grants	( 59,671)	46,803
Capital contributions-state and local	53,909	21,036
Capital contributions-tap fees	21,610	19,175
Capital contributions-customers	<u>11,084</u>	<u>2,310</u>
Change in net position	26,932	89,324
Total net position - beginning, as restated (see note L)	<u>2,014,537</u>	<u>1,925,213</u>
Total net position - ending	<u>\$2,041,469</u>	<u>\$2,014,537</u>

The accompanying notes are an integral part of these statements.



South Hopkins Water District  
Statement of Cash Flows  
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>Cash flows from operating activities</u>		
Cash received from customers	\$1,181,867	\$1,277,403
Cash payments to suppliers for goods and services	( 932,339)	( 897,955)
Cash payments to employees for services	( 299,802)	( 284,188)
Other operating revenues	<u>65,051</u>	<u>60,088</u>
Net cash provided (used) by operating activities	14,777	155,348
<u>Cash flows from capital and related financing activities</u>		
Acquisition and construction of capital assets	( 98,444)	( 54,540)
Principal paid on bond maturities	( 48,600)	( 60,000)
Interest paid on bonds	( 28,644)	( 31,650)
Interest paid on customer deposits	( 143)	( 744)
Deposits collected from customers	10,395	10,260
Deposits repaid to customers	( 6,431)	( 6,396)
Proceeds from dispositions of assets	9,280	0
Capital contributions received from state and local	46,790	21,036
Capital contributions received from customers	<u>32,694</u>	<u>21,486</u>
Net cash provided (used) for capital and related financing activities	( 83,103)	( 100,548)
<u>Cash flows from investing activities</u>		
Interest earned on bank deposits	<u>3,604</u>	<u>4,283</u>
Net cash provided (used) by investing activities	3,604	4,283
Net increase (decrease) in cash and cash equivalents	( 64,722)	59,083
Cash and cash equivalents at beginning of year	<u>509,441</u>	<u>450,358</u>
Cash and cash equivalents at end of year	<u>\$ 444,719</u>	<u>\$ 509,441</u>

Reconciliation of operating income to net cash provided (used) by operating activities

Operating income (loss)	(\$ 43,728)	\$ 74,969
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	74,011	76,577
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	( 11,414)	23,505
(Increase) decrease in other receivables	( 750)	( 451)
(Increase) decrease in inventory	( 5,143)	( 8,921)
(Increase) decrease in prepaid expenses	( 2,032)	( 2,829)
Increase (decrease) in accounts payable	4,423	( 8,985)
Increase (decrease) in taxes and other payables	545	( 1,667)
Increase (decrease) in compensated absences	<u>( 1,135)</u>	<u>3,150</u>
Total adjustments	<u>58,505</u>	<u>80,379</u>
Net cash provided (used) by operating activities	<u>\$ 14,777</u>	<u>\$ 155,348</u>

The accompanying notes are an integral part of these statements.



South Hopkins Water District  
 Notes to Financial Statements  
December 31, 2013 and 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES

The accounting policies of the South Hopkins Water District conform to Generally Accepted Accounting Principles (GAAP) as applicable to governments. The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The following is a summary of the more significant policies:

1. The Financial Reporting Entity

South Hopkins Water District (the "District") was created on May 6, 1965, under the provisions of chapter 74 of the Kentucky Revised Statutes of the Commonwealth of Kentucky. The principal office of the District is located at 129 South Main Street, Dawson Springs, Kentucky. The District is composed of three commissioners who are appointed by the Hopkins County Judge Executive and provides water to its members in and around southern Hopkins County, Kentucky.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 - *The Financial Reporting Entity*.

2. Basis of Presentation, Measurement Focus, and Basis of Accounting

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues, and expenses. Enterprise Funds account for activities 1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or 2) that are required by laws or regulations that the activities costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or 3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statements of net position. Net position is required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. Net position not otherwise classified as restricted, is shown as unrestricted. The statements of revenue, expenses, and changes in fund net position present increases (revenues) and decreases (expenses) in net position.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2013 and 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accounts of the District are maintained on the accrual basis of accounting. Its revenues are recognized when they are earned, and its expenses are recognized when they are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues and expenses of the District's enterprise fund are charges to customers for sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Unbilled water receivables for utility services provided through December 31 are included in the financial statements.

When both restricted and unrestricted resources are available for use, the District generally first uses restricted resources, then unrestricted resources as they are needed.

3. Cash and Cash Equivalents

All cash except for a small amount kept "on hand" is deposited in financial institutions. Deposits include interest bearing checking accounts and certificates of deposit. Unrestricted cash is available to be expended for normal operating expenses. Restricted cash is limited to payments of bond principal and interest, emergency capital improvements, and other designated purposes. Cash and cash equivalents are defined as being all monies on deposit in banks and investments with a maturity of 90 days or less.

4. Inventory

Inventory consists primarily of replacement parts and supplies. Inventory is stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

5. Capital Assets

Capital assets, which include property, plant, and equipment, are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during the years ended December 31, 2013 and 2012.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2013 and 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES continued

Capital assets of the District are depreciated using a straight-line method over the following estimated useful lives:

Structures, improvements and water system	10 to 65 years
Furniture, machinery and equipment	3 to 20 years
Vehicles	5 years

6. Restricted Net Position

Restricted net position is cash set aside for the repayment of debt in compliance with bond covenants and cash restricted for future operations in compliance with escrow reserve agreements.

7. Long-Term Liabilities

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Long-term debt is reported at face value plus applicable issuance premiums and net of applicable discounts and deferred amounts on refunding. Costs related to issuance of debt are deferred and amortized over the lives of the various debt issues. Discounts on debt issuances and amounts deferred on refunding are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter. Premiums on debt issuances are deferred and amortized as a reduction of interest expense over the life of the bonds.

8. Uncollectible Accounts

Accounts receivable are presented net of noncollectible accounts. The allowance for uncollectible accounts was \$7,303 at December 31, 2013 and \$6,702 at December 31, 2012.

9. Use of Estimates

The preparation of financial statements in accordance with accounting principals generally accepted in the United States requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from those estimates.

NOTE B - DEPOSITS

The District maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (1) in writing, (2) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (3) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2013 and 2012

NOTE B - DEPOSITS continued

Deposits are categorized to give an indication of risk assumed by the District at the end of the year. Category 1 includes deposits that are insured, Category 2 includes collateralized deposits held by the pledging institution's trust department or agent in the District's name, and Category 3 includes uncollateralized and uninsured deposits.

On December 31, 2013 the reconciled balance of the District's deposits totaled \$443,520 and the bank balances were \$478,272. Of the bank balances \$443,607 was covered by federal depository insurance (category 1). Also of the bank balances, \$34,665 was collateralized by additional securities held by the pledging depository institutions' trust department or agent in the District's name (category 2).

On December 31, 2012 the reconciled balance of the District's deposits totaled \$508,242 and the bank balances were \$547,316. Of the bank balances \$547,316 was covered by federal depository insurance (category 1).

NOTE C - PREPAID EXPENSES

Prepaid expenses include prepaid insurance which represents the amount of unexpired insurance which the District had previously paid for at the balance sheet date and prepaid employee benefits which represents the amount of employee health insurance for the one month subsequent to the balance sheet date but paid by the District as of the balance sheet date.

At December 31, 2013, the District's prepaid expenses consisted of \$26,252 of insurance and \$5,175 of employee benefits. At December 31, 2012, the District's prepaid expenses consisted of \$25,143 of insurance and \$4,252 of employee benefits.

NOTE D - RESTRICTED CASH AND CASH EQUIVALENTS

The District has cash set aside for the repayment of debt in compliance with bond covenants, cash restricted for future operations in compliance with escrow reserve agreements, cash set aside for future capital assets, and cash set aside for repayment of customer deposits.

Restricted balances as of December 31 are as follows:

	<u>2013</u>	<u>2012</u>
Bond and interest redemption fund	\$ 10,061	\$ 49,074
Bond depreciation fund	114,056	225,373
Meter deposit fund	118,422	113,597
Construction fund	<u>2,724</u>	<u>2,724</u>
Totals	<u>\$ 245,263</u>	<u>\$ 390,768</u>



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2013 and 2012

NOTE E - CAPITAL ASSETS

Capital asset activities for the years ended December 31, 2013 and 2012, were as follows:

	<u>Balances</u> <u>12/31/11</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Retirements</u>	<u>Balances</u> <u>12/13/12</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Retirements</u>	<u>Balances</u> <u>12/31/13</u>
Business-type activities:							
Capital assets not being depreciated							
Land & land rights	\$ 29,875	\$ 0	\$ 0	\$ 29,875	\$ 2,040	\$ 0	\$ 31,915
Construction in progress	<u>5,458</u>	<u>23,821</u>	<u>5,458</u>	<u>23,821</u>	<u>57,724</u>	<u>73,225</u>	<u>8,320</u>
Total	<u>35,333</u>	<u>23,821</u>	<u>5,458</u>	<u>53,696</u>	<u>59,764</u>	<u>73,225</u>	<u>40,235</u>
Capital assets being depreciated							
Structures, improvements, & water system	4,882,962	32,336	30,208	4,885,090	72,965	17,716	4,940,339
Office furniture & equipment	44,069	2,630	0	46,699	1,566	0	48,265
Vehicles & equipment	123,586	0	0	123,586	16,728	14,731	125,583
Machinery & equipment	110,139	1,212	0	111,351	3,887	6,336	108,902
Other tangible property	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>17,008</u>	<u>0</u>	<u>17,008</u>
Total	<u>5,160,756</u>	<u>36,178</u>	<u>30,208</u>	<u>5,166,726</u>	<u>112,154</u>	<u>38,783</u>	<u>5,240,097</u>
Total capital assets	<u>5,196,089</u>	<u>59,999</u>	<u>35,666</u>	<u>5,220,422</u>	<u>171,918</u>	<u>112,008</u>	<u>5,280,332</u>
Less accumulated depreciation for:							
Structures, improvements, & water system	2,834,466	59,035	30,208	2,863,293	60,466	17,716	2,906,043
Office furniture & equipment	38,676	1,322	0	39,998	1,435	0	41,433
Vehicles & equipment	100,430	10,744	0	111,174	9,568	14,485	106,257
Machinery & equipment	97,891	5,476	0	103,367	2,372	6,336	99,403
Other tangible property	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>170</u>	<u>0</u>	<u>170</u>
Total accumulated depreciation	<u>3,071,463</u>	<u>76,577</u>	<u>30,208</u>	<u>3,117,832</u>	<u>74,011</u>	<u>38,537</u>	<u>3,153,306</u>
Total business-type activities capital assets, net	<u>\$2,124,626</u>	<u>(\$ 16,578)</u>	<u>\$ 5,458</u>	<u>\$2,102,590</u>	<u>\$ 97,907</u>	<u>\$ 73,471</u>	<u>\$2,127,026</u>



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2013 and 2012

NOTE F - LONG-TERM LIABILITIES

Long-term liability activity

Long-term liability activity for the years ended December 31, 2013 and 2012, were as follows:

	Balances			Balances			Balances	Amounts
	12/31/11	Additions	Reductions	12/31/12	Additions	Reductions	12/31/13	Due Within
								One Year
Revenue Bonds:								
Series 1994A	\$ 535,000	\$ 0	\$ 13,000	\$ 522,000	\$ 0	\$ 14,000	\$ 508,000	\$ 0
Series 1994B	78,600	0	2,000	76,600	0	2,100	74,500	0
Series 2004A/B	<u>77,500</u>	<u>0</u>	<u>45,000</u>	<u>32,500</u>	<u>0</u>	<u>32,500</u>	<u>0</u>	<u>0</u>
Total	691,100	0	60,000	631,100	0	48,600	582,500	0
Less/Add Deferred								
Amounts:								
On Refunding	( 890)	0	( 591)	( 299)	0	( 299)	( 0)	0
Issuance Premium	<u>647</u>	<u>0</u>	<u>431</u>	<u>216</u>	<u>0</u>	<u>216</u>	<u>0</u>	<u>0</u>
Total Bonds	690,857	0	59,840	631,017	0	48,517	582,500	0
Customer Deposits	90,723	10,260	6,394	94,589	10,395	6,430	98,554	7,098
Accumulated								
Compensated								
Absences	<u>29,226</u>	<u>11,953</u>	<u>8,803</u>	<u>32,376</u>	<u>8,039</u>	<u>9,175</u>	<u>31,240</u>	<u>8,916</u>
Business-type								
Activities Long-								
Term Liabilities	<u>\$ 810,806</u>	<u>\$ 22,213</u>	<u>\$ 75,037</u>	<u>\$ 757,982</u>	<u>\$ 18,434</u>	<u>\$ 64,122</u>	<u>\$ 712,294</u>	<u>\$ 16,014</u>

Description of debt

Revenue Refunding Bonds, 1993 Series E and 2004 Series A/B

An assistance agreement (Farmers Home Administration Refunding Program) dated June 1, 1988 was entered into between Kentucky Infrastructure Authority and the District authorizing issuance of \$853,052 of refunding bonds. The bonds were to mature in annual installments through the year 2013. Interest was payable semi-annually on January 1 and July 1. The interest rate varied over the term of maturity from 5.25% to 7.85%. \$30,515 of proceeds from the issue was capitalized as bond issue cost and was to be amortized using the straight-line method over the term of the bonds. \$75,836 of proceeds from the issue was deposited in a special fund with the bond trustee to provide the District's portion of a debt service reserve fund required by the indenture. Payments for retirement of the debt were subject to adjustment for the amortization of the reserve fund. Interest earned by the reserve fund was credited to interest income.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2013 and 2012

• NOTE F - LONG-TERM LIABILITIES continued

On April 1, 1993 the Kentucky Infrastructure Authority (KIA) issued Revenue Refunding Bonds, 1993 Series E, dated April 1, 1993 (the "Refunding Bonds") in order to provide funds to advance refund the issue referred to in the previous paragraph. Due to the decline in interest rates KIA determined that by issuing the refunding bonds the District could realize savings in annual debt service payments. The net present value to the District of this savings would be equal to \$42,506. The loss on extinguishment of debt had been accounted for under APB Opinion No. 26 as amended by Statement of Financial Accounting Standards No. 76. The loss had been classified as extraordinary under Statement of Financial Accounting Standards 4 as amended by Statement of Financial Accounting Standards 64. The loss had no material bearing on cash flow for the reporting periods.

The "Refunding Bonds" were to mature in annual installments through the year 2013. Interest was payable semi-annually on January 1 and July 1. The interest rate varied over the term of maturity from 2.50% to 5.75%. \$12,167 of proceeds from the issue was capitalized as bond issue cost and was being amortized using the straight-line method over the term of the bonds. \$67,590 of proceeds from the issue was deposited in a special fund with the bond trustee to provide the District's portion of a debt service reserve fund required by the indenture. Payments for retirement of the debt were subject to adjustment for the amortization of the reserve fund. Interest earned by the fund was credited to interest income.

An assistance agreement dated July 28, 2004 was entered into between KIA and the District authorizing issuance of \$345,000 of refunding bonds (the Revenue Refunding Bonds, Series 2004 A/B) to provide funds to refund the issue referred to in the previous paragraph. Due to the decline in interest rates KIA determined that by issuing the refunding bonds the District could realize savings in annual debt service payments. Total debt service payments would be reduced over the next nine years by \$69,025. The remaining \$53,582 balance in the District's debt service reserve fund referred to in the previous paragraph was used to pay down the principal on the old issue. The 2004 refunding bonds were sold with a premium of \$17,900, which will be amortized as a reduction of interest expense using the bonds outstanding/straight line method over the term of the new bonds. The difference between the reacquisition price and the net carrying amount of the old bonds was \$5,323 (the deferred amount on refunding). The deferred amount on refunding will be amortized as interest expense using the straight-line method over the term of the bonds.

The "Refunding Bonds 2004" matured in monthly installments through the year 2013. Interest and principal is payable monthly by the District. The interest rate varies over the term of maturity from 2.25% to 5.25%.

The "Refunding Bonds 2004" are presented on the financial statements net of unamortized deferred amount of refunding and include unamortized premium on bonds.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2013 and 2012

NOTE F - LONG-TERM LIABILITIES continued

Waterworks Revenue Bonds, 1994 Series A and B

A bond resolution dated November 29, 1994 authorized issuance of \$670,000 (Series A) and \$100,000 (Series B) of waterworks revenue bonds maturing in annual installments through year 2035. Interest is payable semi-annually on January 1 and July 1 at 4.5% per annum and principal is payable annually on January 1.

The 1994 Series Bonds were issued and sold to the United States Department of Agriculture/Rural Development (formerly Rural Economic and Community Development). The bond resolutions provide for all revenue receipts to be deposited into a Water Revenue Fund with transfers to the following funds:

- a) Waterworks Bond and Interest Sinking Fund - Prorata monthly transfers of an amount equal to the next principal and/or interest payments.
- b) Depreciation Fund - Monthly transfers of \$380 until the fund equals at least \$45,600.
- c) Operation and Maintenance Fund - Monthly transfers of an amount equal to the monthly expense disbursement of the District.
- d) After meeting all the requirements of a) through c) above, the balance remaining in the Revenue Fund is to be transferred to the Depreciation Fund.

Withdrawals from the Depreciation Fund can be authorized by the commissioners for the cost of unusual or extraordinary maintenance, repairs, renewals, and replacements, including extensions and additions, not included in the annual budget of current expenses.

Debt Maturity

Annual debt service requirements at December 31, 2012 are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 0	\$ 13,106
2015	16,200	25,848
2016	17,300	25,094
2017	18,400	24,291
2018	18,500	23,461
2019-2023	110,300	103,232
2024-2028	139,900	75,274
2029-2033	178,300	39,634
2034-2035	83,600	3,798
Totals	<u>\$ 582,500</u>	<u>\$ 333,738</u>



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2013 and 2012

NOTE G - ACCUMULATED COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate a limited amount of earned but unused sick leave.

NOTE H - EMPLOYEES' PENSION PLAN

Plan description

The District and covered employees contribute to the County Employers Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of the Kentucky Retirement Systems.

The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under circumstances. Cost-of-living adjustments are provided at the discretion of the State legislature. Kentucky Revised Statute Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of the Kentucky Retirement Systems.

The CERS financial statements and other supplementary information are contained in the publicly available annual financial report of the Kentucky Retirement Systems. Copies of the report are sent to each participating employer as well as distributed to legislative personnel, state libraries and other interested parties. Copies may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-564-4646 or on the internet at [www.kyret.com](http://www.kyret.com).

Funding policy

Per Kentucky Revised Statute 61.565, normal contribution and past service contribution rates shall be determined by the Board of Trustees of the Kentucky Retirement Systems on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

Plan members hired prior to September 1, 2008 are required to contribute 5% of their annual creditable compensation. Plan members hired subsequent to September 1, 2008 are required to contribute 6% of their annual creditable compensation.

The District is required to contribute at an actuarially determined rate. The District was required to contribute 18.89% of each employee's creditable compensation for the last six months of the year ended December 31, 2013. The District was required to contribute 19.55% of each employee's creditable compensation for the first six months of the year ended December 31, 2013 and for the final six months of the year ended December 31, 2012. The District was required to contribute 18.96% of each employee's creditable compensation for the first six months of the year ended December 31, 2012 and for the final six months of the year ended December 31, 2011. The District was required to contribute 16.93% of each employee's creditable compensation for the first six months of the year ended December 31, 2011. The District's contributions to CERS for the years ended December 31, 2013, 2012, and 2011 were \$54,613, \$50,155, and \$44,361, respectively.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2013 and 2012

• NOTE I - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The District purchases commercial insurance for all risks of losses. Settlements resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE J - MAJOR SUPPLIER

The District purchases 98% of water resold from the City of Dawson Springs, Kentucky.

NOTE K - CONSTRUCTION IN PROGRESS

2013

Interstate 69 line relocation project:

The District has incurred \$57,722 in engineering and easement cost associated with two line relocation projects. This cost is being recovered through a utility relocation agreement with the Kentucky Transportation Cabinet, Department of Highways. The Kentucky Transportation Cabinet is refunding the costs to the District through pass through grants received from the Federal Highway Administration Cabinet. Costs of \$53,472 were capitalized in 2013 upon completion of one of the projects. The remaining costs of \$4,250 will be capitalized upon completion of the second project.

St. Charles Sewer Project:

The District is participating in a pilot program involving the placement of septic tanks. The District is receiving funds as a sub-recipient from the City of St. Charles whom has a grant agreement with the Kentucky Infrastructure Authority. The District has incurred costs of \$17,233 of which \$17,008 has been capitalized upon placement into service.

2012

The District has incurred engineering costs of \$21,076 in relation to the Interstate 69 line relocation project. This cost is being recovered through a utility relocation agreement with the Kentucky Transportation Cabinet, Department of Highways. The Kentucky Transportation Cabinet is refunding the costs to the District through pass through grants received from the Federal Highway Administration Cabinet. These costs will be capitalized when the project is completed.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2013 and 2012

NOTE L – ACCOUNTING CHANGES

In 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement 65 “Items Previously Reported as Assets and Liabilities”. The objective of Statement 65 is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources or inflows of resources.

The implementation of Statement 65 resulted in the reclassification of the beginning net position at December 31, 2011, the earliest period presented. The deferred bond issue costs, which were being amortized over the life of the bonds, were reclassified as expense of prior periods and resulted in the adjustment below:

Net position at December 31, 2011	\$ 1,933,150
Change in reporting of deferred bond issue costs	( 7,937)
Net position at December 31, 2011, restated	1,925,213
	=====

The implementation of GASB Statement 65 also resulted in reclassification of certain items presented on the December 31, 2012 Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position for the year ended December 31, 2012 which are presented for comparison purposes.

Bond issue costs, net of accumulated amortization at December 31, 2012	\$ 7,592
Change in reporting of deferred bond issue costs	( 7,592)
Bond issue costs, net of accumulated amortization at December 31, 2012, restated	\$ 0
	=====

Amortization of bond issue costs for the year ended December 31, 2012	\$ 345
Change in reporting of deferred bond issue costs	( 345)
Amortization of bond issue costs for the year ended December 31, 2012, restated	\$ 0
	=====



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## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To The Commissioners  
South Hopkins Water District  
Dawson Springs, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Hopkins Water District as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, and have issued our report thereon dated February 10, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered South Hopkins Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Hopkins Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of South Hopkins Water District's internal control.

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

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



## 2013-1 Segregation of Duties

*Condition:* The internal control relating to receipts and disbursements is inadequate due to a lack of segregation of duties.

*Criteria:* Adequate segregation of duties is essential to an adequate internal control over financial reporting by allocating various duties among employees.

*Effect:* The lack of proper segregation of duties may permit errors or irregularities to go undetected.

*Cause:* There is a small number of accounting personnel. The cost versus benefit relationship prevents the District from hiring enough accounting personnel to properly segregate key accounting functions.

*Recommendation:* While the small number of employees that exist will never provide proper segregation of duties, the District should continually review job responsibilities for better accounting controls.

*Response:* The District concurs with the recommendation and will continually review job responsibilities to improve accounting controls when possible.

### Compliance and Other Matters

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

### South Hopkins Water District's Response to Findings

South Hopkins Water District's response to the findings identified in our audit is described above. South Hopkins 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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

*Alexander Toney : Knight PLLC*

Madisonville, Kentucky  
February 10, 2014



**Report**

**of**

**South Hopkins Water District  
Dawson Springs, Kentucky**

**For The Years Ended December 31, 2014 and 2013**



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## INDEPENDENT AUDITORS' REPORT

To the Commissioners  
South Hopkins Water District  
Dawson Springs, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of South Hopkins Water District as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***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 financial position of South Hopkins Water District as of December 31, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2015, on our consideration of South Hopkins Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 South Hopkins Water District's internal control over financial reporting and compliance.

*Alexander, Toney & Knight PLLC*

Madisonville, Kentucky

February 3, 2015



SOUTH HOPKINS WATER DISTRICT  
Management's Discussion and Analysis  
December 31, 2014 and 2013

The discussion and analysis of the South Hopkins Water District's financial performance provides an overview and analysis of the District's financial activities for the years ended December 31, 2014 and 2013. It should be read in conjunction with the accompanying basic financial statements.

Financial Highlights for the Year 2014

- The District's net position increased \$74.4 thousand from \$2.0414 million to \$2.1158 million.

Overview Of The Financial Statements

This report consists of this management's discussion and analysis, basic financial statements, and notes to the financial statements. The basic financial statements are reported using the full accrual basis of accounting.

Basic financial statements:

The Statements of Net Position include information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). In simple terms, this statement presents a snapshot view of the assets the District owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.

The Statements of Revenues, Expenses, and Changes in Net Position include the District's revenues and expenses for the years ended December 31, 2014 and 2013. This statement provides information on the District's operations and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges.

The Statements of Cash Flows include information on the District's cash receipts and payments and the changes in cash balances resulting from operating activities, investing activities, and financing activities.

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the District's financial condition.



## District Financial Analysis

A summary of the District's Statements of Net Position is presented below.

Table 1  
Condensed Statements of Net Position  
(in thousands)

	<u>2014</u>	<u>2013</u>	<u>dollar change</u>	<u>percent change</u>	<u>2012</u>	<u>dollar change</u>	<u>percent change</u>
Current assets	\$ 335.6	\$ 445.1	(\$ 109.5)	( 24.6%)	\$ 337.9	\$ 107.2	31.7%
Capital assets	2,275.7	2,127.0	148.7	7.0%	2,102.6	24.4	1.2%
Other noncurrent assets	<u>258.8</u>	<u>245.3</u>	13.5	5.5%	<u>390.8</u>	( 145.5)	( 37.2%)
Total assets	<u>2,870.1</u>	<u>2,817.4</u>	52.7	1.9%	<u>2,831.3</u>	( 13.9)	( 0.5%)
Current liabilities	85.4	79.7	5.7	7.2%	107.5	( 27.8)	( 25.9%)
Long-term liabilities	<u>668.9</u>	<u>696.3</u>	( 27.4)	( 3.9%)	<u>709.2</u>	( 12.9)	( 1.8%)
Total liabilities	<u>754.3</u>	<u>776.0</u>	( 21.7)	( 2.8%)	<u>816.7</u>	( 40.7)	( 5.0%)
Net position invested in capital assets, net of related debt	1,709.3	1,544.5	164.8	10.7%	1,471.6	72.9	5.0%
Net position restricted for debt service	11.6	10.1	1.5	14.9%	49.1	( 39.0)	( 79.4%)
Net position restricted for capital projects	124.6	116.8	7.8	6.7%	228.1	( 111.3)	( 48.8%)
Unrestricted net position	<u>270.3</u>	<u>370.0</u>	( 99.7)	( 26.9%)	<u>265.8</u>	104.2	39.2%
Total net position	<u>\$2,115.8</u>	<u>\$2,041.4</u>	\$ 74.4	3.6%	<u>\$2,014.6</u>	\$ 26.8	1.3%

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2.12 million at the close of the current year.

### 2013 to 2014

As shown in table 1, the District's total assets increased \$52,700 when compared to the prior year. Current assets decreased \$109,500 or 24.6% primarily due to a \$123,000 decrease in unrestricted cash. Unrestricted cash decreased as the District's annual water cost adjustment with its water supplier increased significantly during the year with a one time payment of \$49,059. The District is allowed to recoup this adjustment from customers but only over a twelve month period. Capital assets increased \$148,700 as new additions outpaced depreciation expense. Other noncurrent assets increased \$13,500 primarily due to transfers of cash to restricted cash accounts.

The District's total liabilities decreased \$21,700. Current liabilities increased \$5,700 or 7.2% primarily due to the estimation of current accumulated compensated absences increases over prior years. Long-term liabilities decreased \$27,400 as the District's bond payments were made as scheduled.

The District's total net position increased \$74,400, which results from the net effect of the increases in total assets and decreases in total liabilities referred to above. Net position invested in capital assets, net of related debt, increased \$164,800 as debt on capital assets were paid as scheduled and new capital assets outpaced depreciation expense. Net position restricted for capital projects, a component of total net position, increased



\$7,800 as cash was transferred to restricted bond reserve accounts.

2012 to 2013

As shown in table 1, the District's total assets decreased \$13,900 when compared to the prior year. Current assets increased \$107,200 or 31.7% primarily due to a \$80,800 increase in unrestricted cash. Unrestricted cash increased as the District moved a \$123,300 certificate of deposit from a restricted depreciation account to the operations and maintenance account. Capital assets increased \$24,400 as new additions outpaced depreciation expense. Other noncurrent assets increased \$145,500 primarily due to the District moving the above mentioned certificate of deposit to the current assets.

The District's total liabilities decreased \$40,800. Current liabilities decreased \$27,800 or 25.9% primarily due to the timing of bond payments. All of the District's bonds due in 2014 were paid in December 2013. Also, one the District's bond issues was completely paid off during 2013. The long-term liabilities decrease is a reflection of a \$48,500 reduction in revenue bonds payable as bond payments were made as scheduled.

The District's total net position increased \$26,900, which results from the net effect of the decreases in total assets and decreases in total liabilities referred to above. Net position invested in capital assets, net of related debt, increased \$72,900 as debt on capital assets were paid as scheduled and new capital assets outpaced depreciation expense. Net position restricted for capital projects, a component of total net position, decreased \$111,300 as depreciation funds were moved to the operating account upon payoff of one of the District's bonds. Net position restricted for debt service decreased \$39,000 as the District reduced transfers to the District's sinking fund. Prior balances in the sinking fund allowed enough cash to make principal and interest payments when due.

A summary of the District's Statements of Revenues, Expenses and Changes in Net Position is presented below.

Table 2  
Condensed Statements of Revenues, Expenses and Changes in Net Position  
(in thousands)

	<u>2014</u>	<u>2013</u>	<u>dollar change</u>	<u>percent change</u>	<u>2012</u>	<u>dollar change</u>	<u>percent change</u>
Operating revenues	\$1,372.5	\$1,267.2	\$ 102.8	8.2%	\$1,314.0	(\$ 46.8)	( 3.4%)
Nonoperating revenues	<u>111.8</u>	<u>12.7</u>	99.5	783.5%	<u>4.3</u>	8.4	2.0%
Total revenues	<u>1,484.3</u>	<u>1,279.9</u>	202.3	15.9%	<u>1,318.3</u>	( 38.4)	( 2.9%)
Operating expenses	1,439.6	1,311.0	126.0	9.7%	1,239.0	72.0	5.8%
Nonoperating expenses	<u>26.3</u>	<u>28.6</u>	( 1.9)	( 6.6%)	<u>32.4</u>	( 3.8)	( 11.7%)
Total expenses	<u>1,465.9</u>	<u>1,339.6</u>	124.1	9.3%	<u>1,271.4</u>	68.2	5.4%
Income before capital contributions	18.4	( 59.7)	78.1	130.8%	46.6	( 106.3)	( 228.1%)
Capital contributions	<u>55.9</u>	<u>86.6</u>	( 30.8)	( 35.6%)	<u>42.5</u>	44.1	103.8%
Changes in net position	74.3	26.9	47.3	175.8%	88.3	( 61.4)	( 69.5%)
Beginning net position	<u>2,041.5</u>	<u>2,014.5</u>	27.0	1.3%	<u>1,926.2</u>	88.3	4.6%
Ending net position	<u>\$2,115.8</u>	<u>\$2,041.4</u>	\$ 74.3	3.6%	<u>\$2,014.5</u>	\$ 26.9	1.3%



## 2013 to 2014

The District's total revenues increased \$202,300 or 15.9%. Water sales increased \$111,310 as the District had a approved rate increase during the year. Nonoperating revenues increased \$99,500 as the District had a significant gain on disposition of its telemetry system which was struck by lightning. Insurance recoveries were in the amount of \$110,300.

The District's operating expenses increased \$126,000. The District's purchased water cost increased \$110,615. The District's annual purchased water cost adjustment was \$49,059. Salaries and wages increased \$23,000 as employees received raises during the year. Materials and supplies cost decreased \$10,000 as lower repair costs were incurred.

Capital contributions decreased \$30,800 due to less received in grant monies passed down from the Kentucky Transportation Cabinet, Department of Highways and as a pass through from the City of St. Charles.

Changes in net position increased \$47,300 due to the net effect of the increased total revenues and increased total expenses mentioned above.

## 2012 to 2013

The District's total revenues decreased \$46,800 or 3.4%. Water sales decreased \$55,700 as the District had a purchased water adjustment rate decrease in October 2012. Most of the effect of this rate decrease was felt in the first nine months of 2013. Also in the prior year, the District was recovering a significant water surcharge from customers for approximately nine months. Nonoperating revenues increased \$8,400. Net gains and losses on dispositions of assets were \$9,034, which the District had none in the prior year.

The District's operating expenses increased \$68,200. The District's purchased water cost increased \$9,500 or 1.7%. Salaries and wages increased \$15,600 as employees received raises during the year and an additional employee was added mid-year. Employee benefits cost increased \$5,000 as the District is seeing increasing pension costs due to higher wages and additional employees. Materials and supplies cost increased \$15,500 as higher repair costs were incurred. Contract service cost increased \$6,100 as engineering costs and higher water testing costs were incurred.

Capital contributions increased \$44,100 due to more capital contributions from customers and \$53,909 in grant monies passed down from the Kentucky Transportation Cabinet, Department of Highways and as a pass through from the City of St. Charles.

Changes in net position decreased \$61,400 due to the net effect of the decreased total revenues and increased total expenses mentioned above.

## Capital Assets and Debt Administration

### Capital Assets

At December 31, 2014, the District had \$2,125,573 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, office furniture and equipment, vehicles, and machinery and equipment. This amount represents a net increase (additions, retirements, depreciation) of \$148,547 from the prior year. The increase includes additions and dispositions of capital assets less \$69,846 of depreciation expense in 2014.



Significant additions during the year included \$111,310 for a new telemetry system, \$34,126 for the purchase of two trucks, and \$34,729 of expenditures for septic tanks.

At December 31, 2013 the District had \$2,127,024 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, office furniture and equipment, vehicles, and machinery and equipment. This amount represents a net increase (additions, retirements, depreciation) of \$24,437 from the prior year. The increase includes additions and dispositions of capital assets less \$74,011 of depreciation expense in 2013.

Significant additions during the year included \$51,432 of line relocation costs, \$13,600 of expenditures in meters, \$16,728 for the purchase of a truck, and \$17,008 of expenditures for septic tanks.

A comparison of the District's capital assets over the past three years is presented in Note E of the financial statements.

#### Long-Term Debt

At December 31, 2014, the District had \$566,300 in revenue bonds outstanding which was a decrease of \$16,200 from the prior year balance of \$582,500. Both of the District's bond issues were paid as scheduled. There were no new borrowings.

At December 31, 2013, the District had \$582,500 in revenue bonds outstanding which was a decrease of \$48,517 from the prior year balance of \$631,017. All three of the District's bond issues were paid as scheduled, including one of which was completely retired during the year. There were no new borrowings.

Additional information on the District's long-term debt can be found in Note F of the financial statements.

#### Currently Known Facts, Decisions, or Conditions

There are no currently known facts, decisions, or conditions that District management expects to have a significant effect on financial position or results of operations.

#### Requests For Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the South Hopkins Water District, 129 South Main Street, Dawson Springs, Kentucky 42408.



South Hopkins Water District  
Statement of Net Position  
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 76,279	\$ 199,456
Accounts receivable	148,252	138,756
Other receivables	2,012	8,350
Material and parts inventory	71,009	67,132
Prepaid expenses	<u>38,131</u>	<u>31,427</u>
Total current assets	<u>335,683</u>	<u>445,121</u>
Noncurrent assets		
Restricted cash and cash equivalents	258,869	245,263
Capital assets:		
Nondepreciable	42,515	40,235
Depreciable, net of accumulated depreciation	<u>2,233,058</u>	<u>2,086,789</u>
Total noncurrent assets	<u>2,534,442</u>	<u>2,372,287</u>
Total assets	<u>2,870,125</u>	<u>2,817,408</u>
<u>Liabilities</u>		
Current liabilities payable from current assets		
Accounts payable	55,996	55,800
Accrued taxes and other payables	7,836	7,847
Accumulated compensated absences	<u>14,819</u>	<u>8,916</u>
	<u>78,651</u>	<u>72,563</u>
Current liabilities payable from restricted assets		
Customer deposits	<u>6,762</u>	<u>7,098</u>
	<u>6,762</u>	<u>7,098</u>
Total current liabilities	<u>85,413</u>	<u>79,661</u>
Long-term liabilities		
Bonds payable	566,300	582,500
Customer deposits	94,635	91,454
Accumulated compensated absences	<u>8,017</u>	<u>22,324</u>
Total long-term liabilities	<u>668,952</u>	<u>696,278</u>
Total liabilities	<u>754,365</u>	<u>775,939</u>
<u>Net Position</u>		
Invested in capital assets, net of related debt	1,709,273	1,544,524
Restricted for:		
Debt service	11,641	10,061
Capital projects	124,556	116,780
Unrestricted	<u>270,290</u>	<u>370,104</u>
Total net position	<u>\$2,115,760</u>	<u>\$2,041,469</u>

The accompanying notes are an integral part of these statements.



South Hopkins Water District  
Statement of Revenues, Expenses and Changes in Fund Net Position  
Years Ended December 31, 2014 and 2013

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	<u>2014</u>	<u>2013</u>
Operating revenues		
Water sales	\$1,313,498	\$1,202,188
Other operating revenues	<u>58,998</u>	<u>65,051</u>
Total operating revenues	<u>1,372,496</u>	<u>1,267,239</u>
Operating expenses		
Purchased water	669,357	558,742
Salaries and wages	323,318	299,802
Depreciation	69,846	74,011
Employee benefits	115,791	113,169
Transportation	29,460	32,829
Contract services	21,170	21,388
Taxes	29,168	25,915
Purchased power	54,131	49,845
Materials and supplies	75,708	85,879
Insurance	34,169	30,952
Miscellaneous	16,972	17,865
Chemicals	<u>446</u>	<u>570</u>
Total operating expenses	<u>1,439,536</u>	<u>1,310,967</u>
Operating income (loss)	( 67,040)	( 43,728)
Nonoperating revenues (expenses)		
Interest income	3,318	3,604
Interest expense	( 26,301)	( 28,581)
Gain (loss) on disposition of capital assets	<u>108,448</u>	<u>9,034</u>
Total nonoperating revenues (expenses)	85,465	( 15,943)
Income (loss) before contributions and grants	18,425	( 59,671)
Capital contributions-state and local	31,092	53,909
Capital contributions-tap fees	19,784	21,610
Capital contributions-customers	<u>4,990</u>	<u>11,084</u>
Change in net position	74,291	26,932
Total net position - beginning	<u>2,041,469</u>	<u>2,014,537</u>
Total net position - ending	<u>\$2,115,760</u>	<u>\$2,041,469</u>

The accompanying notes are an integral part of these statements.



South Hopkins Water District  
Statement of Cash Flows  
Years Ended December 31, 2014 and 2013

	2014	2013
<u>Cash flows from operating activities</u>		
Cash received from customers	\$1,292,619	\$1,181,867
Cash payments to suppliers for goods and services	(1,051,965)	( 928,375)
Cash payments to employees for services	( 323,318)	( 299,802)
Other operating revenues	<u>58,998</u>	<u>65,051</u>
Net cash provided (used) by operating activities	( 23,666)	18,741
<u>Cash flows from capital and related financing activities</u>		
Acquisition and construction of capital assets	( 220,006)	( 98,444)
Principal paid on bond maturities	( 16,200)	( 48,600)
Interest paid on bonds	( 26,213)	( 28,644)
Interest paid on customer deposits	( 88)	( 143)
Insurance recoveries	110,300	0
Proceeds from dispositions of assets	0	9,280
Capital contributions received from state and local	38,210	46,790
Capital contributions received from customers	<u>24,774</u>	<u>32,694</u>
Net cash provided (used) for capital and related financing activities	( 89,223)	( 87,067)
<u>Cash flows from investing activities</u>		
Interest earned on bank deposits	<u>3,318</u>	<u>3,604</u>
Net cash provided (used) by investing activities	3,318	3,604
Net increase (decrease) in cash and cash equivalents	( 109,571)	( 64,722)
Cash and cash equivalents at beginning of year	<u>444,719</u>	<u>509,441</u>
Cash and cash equivalents at end of year	<u>\$ 335,148</u>	<u>\$ 444,719</u>
	=====	=====
<u>Reconciliation of operating income to net cash provided (used) by operating activities</u>		
Operating income (loss)	(\$ 67,040)	(\$ 43,728)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	69,846	74,011
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	( 9,496)	( 11,414)
(Increase) decrease in other receivables	( 781)	( 750)
(Increase) decrease in inventory	( 3,877)	( 5,143)
(Increase) decrease in prepaid expenses	( 6,704)	( 2,032)
Increase (decrease) in accounts payable	( 43)	4,423
Increase (decrease) in taxes and other payables	( 12)	545
Increase (decrease) in customer deposits	2,845	3,964
Increase (decrease) in accumulated compensated absences	<u>( 8,404)</u>	<u>( 1,135)</u>
Total adjustments	<u>43,374</u>	<u>62,469</u>
Net cash provided (used) by operating activities	<u>(\$ 23,666)</u>	<u>\$ 18,741</u>
	=====	=====

The accompanying notes are an integral part of these statements.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the South Hopkins Water District (the "District") conform to Generally Accepted Accounting Principles (GAAP) as applicable to governments. The District's reporting entity applies all relevant Governmental Accounting Standard Board (GASB) pronouncements. The following is a summary of the more significant policies:

The Financial Reporting Entity

South Hopkins Water District (the "District") was created on May 6, 1965, under the provisions of chapter 74 of the Kentucky Revised Statutes of the Commonwealth of Kentucky. The principal office of the District is located at 129 South Main Street, Dawson Springs, Kentucky. The District is composed of three commissioners who are appointed by the Hopkins County Judge Executive and provides water to its members in and around southern Hopkins County, Kentucky.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 - *The Financial Reporting Entity*.

Basis of Presentation, Measurement Focus, and Basis of Accounting

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. Enterprise Funds account for activities 1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or 2) that are required by laws or regulations that the activities costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or 3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net position. Net position is required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. Net position not otherwise classified as restricted, is shown as unrestricted. The statements of revenue, expenses, and changes in fund net position present increases (revenues) and decreases (expenses) in net position.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accounts of the District are maintained on the accrual basis of accounting. Its revenues are recognized when they are earned, and its expenses are recognized when they are incurred.



South Hopkins Water District  
 Notes to Financial Statements  
December 31, 2014 and 2013

· NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues and expenses of the District's enterprise fund are charges to customers for sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Unbilled water receivables for utility services provided through December 31 are included in the financial statements.

When both restricted and unrestricted resources are available for use, the District generally first uses restricted resources, then unrestricted resources as they are needed.

Cash and Cash Equivalents

All cash except for a small amount kept "on hand" is deposited in financial institutions. Deposits include interest bearing checking accounts and certificates of deposit. Unrestricted cash is available to be expended for normal operating expenses. Restricted cash is limited to payments of bond principal and interest, emergency capital improvements, and other designated purposes. Cash and cash equivalents are defined as being all monies on deposit in banks and investments with a maturity of 90 days or less.

Inventory

Inventory consists primarily of replacement parts and supplies. Inventory is stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

Capital Assets

Capital assets, which include property, plant, and equipment, are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during the years ended December 31, 2014 and 2013.

Capital assets of the District are depreciated using a straight-line method over the following estimated useful lives:

Structures, improvements and water system	10 to 65 years
Furniture, machinery and equipment	3 to 20 years
Vehicles	5 to 7 years



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Restricted Net Position

Restricted net position is cash set aside for the repayment of debt in compliance with bond covenants and cash restricted for future operations in compliance with escrow reserve agreements.

Long-Term Liabilities

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Long-term debt is reported at face value plus applicable issuance premiums and net of applicable discounts and deferred amounts on refunding. Discounts on debt issuances and amounts deferred on refunding are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter. Premiums on debt issuances are deferred and amortized as a reduction of interest expense over the life of the bonds.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for the deferred outflow of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represent an acquisition of net position that applies to a future period(s) and so will not be recognized as a inflow of resources (revenue) until that time.

Uncollectible Accounts

Accounts receivable are presented net of noncollectible accounts. The allowance for uncollectible accounts was \$7,339 at December 31, 2014 and \$7,303 at December 31, 2013.

Use of Estimates

The preparation of financial statements in accordance with accounting principals generally accepted in the United States requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from those estimates.

NOTE B - DEPOSITS

The District maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (1) in writing, (2) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (3) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE B - DEPOSITS continued

Deposits are categorized to give an indication of risk assumed by the District at the end of the year. Category 1 includes deposits that are insured, Category 2 includes collateralized deposits held by the pledging institution's trust department or agent in the District's name, and Category 3 includes uncollateralized and uninsured deposits.

On December 31, 2014 the reconciled balance of the District's deposits totaled \$333,948 and the bank balances were \$339,100. Of the bank balances \$339,100 was covered by federal depository insurance (category 1).

On December 31, 2013 the reconciled balance of the District's deposits totaled \$443,520 and the bank balances were \$478,272. Of the bank balances \$443,607 was covered by federal depository insurance (category 1). Also of the bank balances, \$34,665 was collateralized by additional securities held by the pledging depository institutions' trust department or agent in the District's name (category 2).

NOTE C - PREPAID EXPENSES

Prepaid expenses include prepaid insurance which represents the amount of unexpired insurance which the District had previously paid for at the balance sheet date and prepaid employee benefits which represents the amount of employee health insurance for the one month subsequent to the balance sheet date but paid by the District as of the balance sheet date.

At December 31, 2014, the District's prepaid expenses consisted of \$32,445 of insurance and \$5,686 of employee benefits. At December 31, 2013, the District's prepaid expenses consisted of \$26,252 of insurance and \$5,175 of employee benefits.

NOTE D - RESTRICTED CASH AND CASH EQUIVALENTS

The District has cash set aside for the repayment of debt in compliance with bond covenants, cash restricted for future operations in compliance with escrow reserve agreements, cash set aside for future capital assets, and cash set aside for repayment of customer deposits.

Restricted balances as of December 31 are as follows:

	2014	2013
Bond and interest redemption fund	\$ 11,641	\$ 10,061
Bond depreciation fund	121,832	114,056
Meter deposit fund	122,672	118,422
Construction fund	2,724	2,724
Totals	\$ 258,869	\$ 245,263
	=====	=====



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE E - CAPITAL ASSETS

Capital asset activities for the years ended December 31, 2014 and 2013, were as follows:

	<u>Balances</u> <u>12/31/12</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Retirements</u>	<u>Balances</u> <u>12/13/13</u>	<u>Transfers/</u> <u>Additions</u>	<u>Transfers/</u> <u>Retirements</u>	<u>Balances</u> <u>12/31/14</u>
Business-type activities:							
Capital assets not being depreciated							
Land & land rights	\$ 29,875	\$ 2,040	\$ 0	\$ 31,915	\$ 0	\$ 0	\$ 31,915
Construction in progress	<u>23,821</u>	<u>57,724</u>	<u>73,225</u>	<u>8,320</u>	<u>47,164</u>	<u>44,884</u>	<u>10,600</u>
Total	<u>53,696</u>	<u>59,764</u>	<u>73,225</u>	<u>40,235</u>	<u>47,164</u>	<u>44,884</u>	<u>42,515</u>
Capital assets being depreciated							
Structures, improvements, & water system	4,885,090	72,965	17,716	4,940,339	33,680	70,444	4,903,575
Office furniture & equipment	46,699	1,566	0	48,265	2,728	0	50,993
Vehicles & equipment	123,586	16,728	14,731	125,583	34,375	0	159,958
Machinery & equipment	111,351	3,887	6,336	108,902	112,453	0	221,355
Other tangible property	<u>0</u>	<u>17,008</u>	<u>0</u>	<u>17,008</u>	<u>34,729</u>	<u>0</u>	<u>51,737</u>
Total	<u>5,166,726</u>	<u>112,154</u>	<u>38,783</u>	<u>5,240,097</u>	<u>217,965</u>	<u>70,444</u>	<u>5,387,618</u>
Total capital assets	<u>5,220,422</u>	<u>171,918</u>	<u>112,008</u>	<u>5,280,332</u>	<u>265,129</u>	<u>115,328</u>	<u>5,430,133</u>
Less accumulated depreciation for:							
Structures, improvements, & water system	2,863,293	60,466	17,716	2,906,043	58,871	68,592	2,896,322
Office furniture & equipment	39,998	1,435	0	41,433	1,734	0	43,167
Vehicles & equipment	111,174	9,568	14,485	106,257	5,014	0	111,271
Machinery & equipment	103,367	2,372	6,336	99,403	3,034	0	102,437
Other tangible property	<u>0</u>	<u>170</u>	<u>0</u>	<u>170</u>	<u>1,193</u>	<u>0</u>	<u>1,363</u>
Total accumulated depreciation	<u>3,117,832</u>	<u>74,011</u>	<u>38,537</u>	<u>3,153,306</u>	<u>69,846</u>	<u>68,592</u>	<u>3,154,560</u>
Total business-type activities capital assets, net	<u>\$2,102,590</u>	<u>\$ 97,907</u>	<u>\$ 73,471</u>	<u>\$2,127,026</u>	<u>\$ 195,283</u>	<u>\$ 46,736</u>	<u>\$2,275,573</u>



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE F - LONG-TERM LIABILITIES

Long-term liability activity

Long-term liability activity for the years ended December 31, 2014 and 2013, were as follows:

	Balances 12/31/12	Additions	Reductions	Balances 12/31/13	Additions	Reductions	Balances 12/31/14	Amounts Due Within One Year
Revenue Bonds:								
Series 1994A	\$ 522,000	\$ 0	\$ 14,000	\$ 508,000	\$ 0	\$ 14,000	\$ 494,000	\$ 0
Series 1994B	76,600	0	2,100	74,500	0	2,200	72,300	0
Series 2004A/B	32,500	0	32,500	0	0	0	0	0
Total	631,100	0	48,600	582,500	0	16,200	566,300	0
Less/Add Deferred Amounts:								
On Refunding	( 299)	0	( 299)	( 0)	0	( 0)	( 0)	0
Issuance Premium	216	0	216	0	0	0	0	0
Total Bonds	631,017	0	48,517	582,500	0	16,200	566,300	0
Customer Deposits	94,589	10,395	6,430	98,554	10,305	7,462	101,397	6,762
Accumulated Compensated Absences	32,376	13,009	14,145	31,240	13,105	21,509	22,836	14,819
Business-type Activities Long- Term Liabilities	\$ 757,982	\$ 23,404	\$ 69,092	\$ 712,294	\$ 23,410	\$ 45,171	\$ 690,533	\$ 21,581

Description of debt

Revenue Refunding Bonds, 1993 Series E and 2004 Series A/B

An assistance agreement (Farmers Home Administration Refunding Program) dated June 1, 1988 was entered into between Kentucky Infrastructure Authority and the District authorizing issuance of \$853,052 of refunding bonds. The bonds were to mature in annual installments through the year 2013. Interest was payable semi-annually on January 1 and July 1. The interest rate varied over the term of maturity from 5.25% to 7.85%. \$30,515 of proceeds from the issue was capitalized as bond issue cost and was to be amortized using the straight-line method over the term of the bonds. \$75,836 of proceeds from the issue was deposited in a special fund with the bond trustee to provide the District's portion of a debt service reserve fund required by the indenture. Payments for retirement of the debt were subject to adjustment for the amortization of the reserve fund. Interest earned by the reserve fund was credited to interest income.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE F - LONG-TERM LIABILITIES continued

On April 1, 1993 the Kentucky Infrastructure Authority (KIA) issued Revenue Refunding Bonds, 1993 Series E, dated April 1, 1993 (the "Refunding Bonds") in order to provide funds to advance refund the issue referred to in the previous paragraph. Due to the decline in interest rates KIA determined that by issuing the refunding bonds the District could realize savings in annual debt service payments. The net present value to the District of this savings would be equal to \$42,506. The loss on extinguishment of debt had been accounted for under APB Opinion No. 26 as amended by Statement of Financial Accounting Standards No. 76. The loss had been classified as extraordinary under Statement of Financial Accounting Standards 4 as amended by Statement of Financial Accounting Standards 64. The loss had no material bearing on cash flow for the reporting periods.

The "Refunding Bonds" were to mature in annual installments through the year 2013. Interest was payable semi-annually on January 1 and July 1. The interest rate varied over the term of maturity from 2.50% to 5.75%. \$12,167 of proceeds from the issue was capitalized as bond issue cost and was being amortized using the straight-line method over the term of the bonds. \$67,590 of proceeds from the issue was deposited in a special fund with the bond trustee to provide the District's portion of a debt service reserve fund required by the indenture. Payments for retirement of the debt were subject to adjustment for the amortization of the reserve fund. Interest earned by the fund was credited to interest income.

An assistance agreement dated July 28, 2004 was entered into between KIA and the District authorizing issuance of \$345,000 of refunding bonds (the Revenue Refunding Bonds, Series 2004 A/B) to provide funds to refund the issue referred to in the previous paragraph. Due to the decline in interest rates KIA determined that by issuing the refunding bonds the District could realize savings in annual debt service payments. Total debt service payments would be reduced over the next nine years by \$69,025. The remaining \$53,582 balance in the District's debt service reserve fund referred to in the previous paragraph was used to pay down the principal on the old issue. The 2004 refunding bonds were sold with a premium of \$17,900, which will be amortized as a reduction of interest expense using the bonds outstanding/straight line method over the term of the new bonds. The difference between the reacquisition price and the net carrying amount of the old bonds was \$5,323 (the deferred amount on refunding). The deferred amount on refunding will be amortized as interest expense using the straight-line method over the term of the bonds.

The "Refunding Bonds 2004" matured in monthly installments through the year 2013. Interest and principal is payable monthly by the District. The interest rate varies over the term of maturity from 2.25% to 5.25%.

The "Refunding Bonds 2004" are presented on the financial statements net of unamortized deferred amount of refunding and include unamortized premium on bonds.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE F - LONG-TERM LIABILITIES continued

Waterworks Revenue Bonds, 1994 Series A and B

A bond resolution dated November 29, 1994 authorized issuance of \$670,000 (Series A) and \$100,000 (Series B) of waterworks revenue bonds maturing in annual installments through year 2035. Interest is payable semi-annually on January 1 and July 1 at 4.5% per annum and principal is payable annually on January 1.

The 1994 Series Bonds were issued and sold to the United States Department of Agriculture/Rural Development (formerly Rural Economic and Community Development). The bond resolutions provide for all revenue receipts to be deposited into a Water Revenue Fund with transfers to the following funds:

- a) Waterworks Bond and Interest Sinking Fund - Prorata monthly transfers of an amount equal to the next principal and/or interest payments.
- b) Depreciation Fund - Monthly transfers of \$380 until the fund equals at least \$45,600.
- c) Operation and Maintenance Fund - Monthly transfers of an amount equal to the monthly expense disbursement of the District.
- d) After meeting all the requirements of a) through c) above, the balance remaining in the Revenue Fund is to be transferred to the Depreciation Fund.

Withdrawals from the Depreciation Fund can be authorized by the commissioners for the cost of unusual or extraordinary maintenance, repairs, renewals, and replacements, including extensions and additions, not included in the annual budget of current expenses.

Debt Maturity

Annual debt service requirements at December 31, 2014 are as follows:

<u>Year Ended December 31</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 0	\$ 13,106
2016	17,300	25,484
2017	18,400	24,705
2018	18,500	23,877
2019	20,600	23,045
2020-2024	115,000	100,751
2025-2029	146,700	72,126
2030-2034	187,200	35,592
2035	42,600	1,916
Totals	<u>\$ 566,300</u>	<u>\$ 320,602</u>



#### NOTE G - ACCUMULATED COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate a limited amount of earned but unused sick leave.

#### NOTE H - EMPLOYEES' PENSION PLAN

##### Plan description

The District and covered employees contribute to the County Employers Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of the Kentucky Retirement Systems.

The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under circumstances. Cost-of-living adjustments are provided at the discretion of the State legislature. Kentucky Revised Statute Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of the Kentucky Retirement Systems.

The CERS financial statements and other supplementary information are contained in the publicly available annual financial report of the Kentucky Retirement Systems. Copies of the report are sent to each participating employer as well as distributed to legislative personnel, state libraries and other interested parties. Copies may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-564-4646 or on the internet at [www.kyret.com](http://www.kyret.com).

##### Funding policy

Per Kentucky Revised Statute 61.565, normal contribution and past service contribution rates shall be determined by the Board of Trustees of the Kentucky Retirement Systems on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

Plan members hired prior to September 1, 2008 are required to contribute 5% of their annual creditable compensation. Plan members hired subsequent to September 1, 2008 are required to contribute 6% of their annual creditable compensation.

The District is required to contribute at an actuarially determined rate. The District was required to contribute 17.67% of each employee's creditable compensation for the last six months of the year ended December 31, 2014. The District was required to contribute 18.89% of each employee's creditable compensation for the first six months of the year ended December 31, 2014 and for the final six months of the year ended December 31, 2013. The District was required to contribute 19.55% of each employee's creditable compensation for the first six months of the year ended December 31, 2013 and for the final six months of the year ended December 31, 2012. The District was required to contribute 18.96% of each employee's creditable compensation for the first six months of the year ended December 31, 2012. The District's contributions to CERS for the years ended December 31, 2014, 2013, and 2012 were \$56,737, \$54,613, and \$50,155, respectively.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE I - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The District purchases commercial insurance for all risks of losses. Settlements resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE J - MAJOR SUPPLIER

The District purchases 98% of water resold from the City of Dawson Springs, Kentucky.

NOTE K - CONSTRUCTION IN PROGRESS

2014

Interstate 69 line relocation project:

The District has incurred \$2,060 of engineering cost in the final year of the project. This cost is being recovered through a utility relocation agreement with the Kentucky Transportation Cabinet, Department of Highways. The Kentucky Transportation Cabinet is refunding the costs to the District through pass through grants received from the Federal Highway Administration Cabinet. Costs of \$6,310 was capitalized in 2014 upon completion of the project.

St. Charles Sewer Project:

The District is participating in a pilot program involving the placement of septic tanks. The District is receiving funds as a sub-recipient from the City of St. Charles whom has a grant agreement with the Kentucky Infrastructure Authority. The District has incurred costs of \$34,504 during the year and \$34,729 costs has been capitalized upon placement into service.

2013

Interstate 69 line relocation project:

The District has incurred \$57,722 in engineering and easement cost associated with two line relocation projects. This cost is being recovered through a utility relocation agreement with the Kentucky Transportation Cabinet, Department of Highways. The Kentucky Transportation Cabinet is refunding the costs to the District through pass through grants received from the Federal Highway Administration Cabinet. Costs of \$53,472 were capitalized in 2013 upon completion of one of the projects. The remaining costs of \$4,250 will be capitalized upon completion of the second project.

St. Charles Sewer Project:

The District is participating in a pilot program involving the placement of septic tanks. The District is receiving funds as a sub-recipient from the City of St. Charles whom has a grant agreement with the Kentucky Infrastructure Authority. The District has incurred costs of \$17,233 of which \$17,008 has been capitalized upon placement into service.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE L CHANGE IN ACCOUNTING ESTIMATE

The District revised estimates of the useful lives of certain items in the following asset groups: structures, improvements, and water system; vehicles and equipment; and machinery and equipment. The depreciable lives are now extended to better reflect the estimated periods during which the assets will remain in service. The change had the effect of reducing depreciation expense and increasing net income by \$5,213 in the current year.

NOTE M – CHANGES IN PRESENTATION OF COMPARATIVE STATEMENTS

For the year ended December 31, 2014, the District's Statement of Revenues, Expenses and Changes in Fund Net Position present uncollectible accounts in miscellaneous expenses. For the year ended December 31, 2013, uncollectible accounts were presented net of water sales. For comparative purposes, the 2013 uncollectible accounts are presented to correspond with 2014.

For the year ended December 31, 2014, the District's Statement of Cash Flows present customer deposits collected and refunded as Cash Flow From Operating Activities. For the year ended December 31, 2013, customer deposits collected and refunded were presented as Cash Flows From Capital and Related Financing Activities. For comparative purposes, the 2013 deposit collections and refunds are presented to correspond with 2014.

NOTE N – GAIN ON DISPOSITION OF ASSET

During the current year the District was impacted by a lighting strike and certain capital assets were destroyed. The District suffered the loss of its telemetry system. The District's basis in the telemetry system was \$1,410. The District had purchased commercial insurance to cover its risk of loss and had insurance recoveries in the amount of \$110,300. Accordingly, the District has recorded a net gain on disposition of \$108,890.



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## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To The Commissioners  
South Hopkins Water District  
Dawson Springs, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Hopkins Water District as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, and have issued our report thereon dated February 3, 2015.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered South Hopkins Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Hopkins Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of South Hopkins Water District's internal control.

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

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



## 2014-1 Segregation of Duties

*Condition:* The internal control relating to receipts and disbursements is inadequate due to a lack of segregation of duties.

*Criteria:* Adequate segregation of duties is essential to an adequate internal control over financial reporting by allocating various duties among employees.

*Effect:* The lack of proper segregation of duties may permit errors or irregularities to go undetected.

*Cause:* There is a small number of accounting personnel. The cost versus benefit relationship prevents the District from hiring enough accounting personnel to properly segregate key accounting functions.

*Recommendation:* While the small number of employees that exist will never provide proper segregation of duties, the District should continually review job responsibilities for better accounting controls.

*Response:* The District concurs with the recommendation and will continually review job responsibilities to improve accounting controls when possible.

### **Compliance and Other Matters**

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

### **South Hopkins Water District's Response to Findings**

South Hopkins Water District's response to the findings identified in our audit is described above. South Hopkins 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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

*Alexander, Toney & Knight PLLC*

Madisonville, Kentucky

February 3, 2015



**Report**

**of**

**South Hopkins Water District  
Dawson Springs, Kentucky**

**For The Years Ended December 31, 2015 and 2014**



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## INDEPENDENT AUDITORS' REPORT

To the Commissioners  
South Hopkins Water District  
Dawson Springs, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of South Hopkins Water District as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *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 financial position of South Hopkins Water District as of December 31, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

#### **Change in Accounting Principle**

As discussed in Note O to the financial statements, the City adopted Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27 (GASB 68). The implementation resulted in a restatement of prior year net position. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 and pension schedules on pages 25-26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2016, on our consideration of South Hopkins Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 South Hopkins Water District's internal control over financial reporting and compliance.

*Alexander, Honey & Knight, PLLC*

Madisonville, Kentucky  
February 8, 2016



SOUTH HOPKINS WATER DISTRICT  
Management's Discussion and Analysis  
December 31, 2015 and 2014

The discussion and analysis of the South Hopkins Water District's financial performance provides an overview and analysis of the District's financial activities for the years ended December 31, 2015 and 2014. It should be read in conjunction with the accompanying basic financial statements.

Financial Highlights for the Year 2015

- \* The District's net position decreased \$302.8 thousand from \$2.1158 million to \$1.8130 million.
- \* The District implemented the new requirements of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27. This resulted in the reduction of beginning net position of \$449,001.

Overview Of The Financial Statements

This report consists of this management's discussion and analysis, basic financial statements, and notes to the financial statements. The basic financial statements are reported using the full accrual basis of accounting.

Basic financial statements:

The Statements of Net Position include information on the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). In simple terms, this statement presents a snapshot view of the assets the District owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.

The Statements of Revenues, Expenses, and Changes in Net Position include the District's revenues and expenses for the years ended December 31, 2015 and 2014. This statement provides information on the District's operations and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges.

The Statements of Cash Flows include information on the District's cash receipts and payments and the changes in cash balances resulting from operating activities, investing activities, and financing activities.

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the District's financial condition.



## District Financial Analysis

A summary of the District's Statements of Net Position is presented below.

Table 1  
Condensed Statements of Net Position  
(in thousands)

	<u>2015</u>	<u>2014</u>	<u>dollar change</u>	<u>percent change</u>	<u>2013</u>	<u>dollar change</u>	<u>percent change</u>
Current assets	\$ 447.3	\$ 335.6	\$ 111.7	33.3%	\$ 445.1	(\$ 109.5)	( 24.6%)
Capital assets	2,271.6	2,275.7	( 4.1)	( 0.2%)	2,127.0	148.7	7.0%
Other noncurrent assets	<u>269.8</u>	<u>258.8</u>	11.0	4.3%	<u>245.3</u>	13.5	5.5%
Total assets	<u>2,988.8</u>	<u>2,870.1</u>	118.7	4.1%	<u>2,817.4</u>	52.7	1.9%
Total deferred outflows of resources	<u>51.0</u>	<u>0.0</u>	51.0	100.0%	<u>0.0</u>	0.0	0.0%
Current liabilities	85.7	85.4	0.3	0.4%	79.7	5.7	7.2%
Long-term liabilities	<u>1,091.9</u>	<u>668.9</u>	423.0	63.2%	<u>696.3</u>	( 27.4)	( 3.9%)
Total liabilities	<u>1,177.6</u>	<u>754.3</u>	423.3	56.1%	<u>776.0</u>	( 21.7)	( 2.8%)
Total deferred inflows of resources	<u>49.0</u>	<u>0.0</u>	49.0	100.0%	<u>0.0</u>	0.0	0.0%
Net position invested in capital assets, net of related debt	1,722.6	1,709.3	13.3	0.8%	1,544.5	164.8	10.7%
Net position restricted for debt service	11.7	11.6	0.1	0.9%	10.1	1.5	14.9%
Net position restricted for capital projects	131.7	124.6	7.1	5.7%	116.8	7.8	6.7%
Unrestricted net position	<u>( 53.0)</u>	<u>270.3</u>	( 323.3)	( 119.6%)	<u>370.0</u>	( 99.7)	( 26.9%)
Total net position	<u>\$1,813.0</u>	<u>\$2,115.8</u>	<u>(\$ 302.8)</u>	<u>( 14.3%)</u>	<u>\$2,041.4</u>	<u>\$ 74.4</u>	<u>3.6%</u>

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1.81 million at the close of the current year.

### 2014 to 2015

As shown in table 1, the District's total assets increased \$118,700 when compared to the prior year. Current assets increased \$111,700 or 33.3% primarily due to a \$79,000 increase in unrestricted cash. Unrestricted cash increased as the District received \$78,000 in November 2015 from the District's water supplier as a refund of prior year water cost as specified by contract. Other noncurrent assets increased \$11,000 primarily due to transfers of cash to restricted cash accounts.

The District's total liabilities increased \$423,300. Long-term liabilities increased \$423,000 as the District implemented the new requirements of GASB Statement 68 which increased net pension liability \$435,000.

The District's total net position decreased \$302,800, which results from the net effect of the increases in total assets and total liabilities referred to above.



2013 to 2014

As shown in table 1, the District's total assets increased \$52,700 when compared to the prior year. Current assets decreased \$109,500 or 24.6% primarily due to a \$123,000 decrease in unrestricted cash. Unrestricted cash decreased as the District's annual water cost adjustment with its water supplier increased significantly during the year with a one time payment of \$49,059. The District is allowed to recoup this adjustment from customers but only over a twelve month period. Capital assets increased \$148,700 as new additions outpaced depreciation expense. Other noncurrent assets increased \$13,500 primarily due to transfers of cash to restricted cash accounts.

The District's total liabilities decreased \$21,700. Current liabilities increased \$5,700 or 7.2% primarily due to the estimation of current accumulated compensated absences increases over prior years. Long-term liabilities decreased \$27,400 as the District's bond payments were made as scheduled.

The District's total net position increased \$74,400, which results from the net effect of the increases in total assets and decreases in total liabilities referred to above. Net position invested in capital assets, net of related debt, increased \$164,800 as debt on capital assets were paid as scheduled and new capital assets outpaced depreciation expense. Net position restricted for capital projects, a component of total net position, increased

A summary of the District's Statements of Revenues, Expenses and Changes in Net Position is presented below.

Table 2  
Condensed Statements of Revenues, Expenses and Changes in Net Position  
(in thousands)

	<u>2015</u>	<u>2014</u>	<u>dollar change</u>	<u>percent change</u>	<u>2013</u>	<u>dollar change</u>	<u>percent change</u>
Operating revenues	\$1,433.4	\$1,372.5	\$ 60.9	4.4%	\$1,267.2	\$ 102.8	8.2%
Nonoperating revenues	<u>83.3</u>	<u>111.8</u>	( 28.5)	( 25.5%)	<u>12.7</u>	99.5	783.5%
Total revenues	<u>1,516.7</u>	<u>1,484.3</u>	32.4	2.2%	<u>1,279.9</u>	202.3	15.9%
Operating expenses	1,377.6	1,439.6	( 62.0)	( 4.3%)	1,311.0	126.0	9.7%
Nonoperating expenses	<u>25.6</u>	<u>26.3</u>	( 0.7)	( 2.7%)	<u>28.6</u>	( 1.9)	( 6.6%)
Total expenses	<u>1,403.2</u>	<u>1,465.9</u>	( 62.07)	( 4.3%)	<u>1,339.6</u>	124.1	9.3%
Income before capital contributions	113.5	18.4	95.1	516.8%	( 59.7)	78.1	130.8%
Capital contributions	<u>32.8</u>	<u>55.9</u>	( 23.1)	( 41.3%)	<u>86.6</u>	( 30.8)	( 35.6%)
Changes in net position	146.3	74.3	72.0	96.9%	26.9	47.3	175.8%
Beginning net position *	<u>1,666.8</u>	<u>2,041.5</u>	( 374.7)	( 18.4%)	<u>2,014.5</u>	27.0	1.3%
Ending net position	<u>\$1,813.1</u>	<u>\$2,115.8</u>	(\$ 302.7)	( 14.3%)	<u>\$2,041.4</u>	\$ 74.3	3.6%

\* as restated, see note O.



## 2014 to 2015

The District's total revenues increased \$60,900 or 4.4%. Water sales increased \$64,823 as the District had a approved rate increase during the year. Nonoperating revenues decreased \$28,500 as the District had a significant gain on disposition of its telemetry system in the prior year.

The District's operating expenses decreased \$62,000. The District's purchased water cost decreased \$17,120. Salaries and wages decreased \$10,975 as turnover of employees provided new employees at lower pay rates. Materials and supplies cost decreased \$18,545 as lower repair costs were incurred.

Capital contributions decreased \$25,620 due to less received in grant monies passed down from the Kentucky Transportation Cabinet, Department of Highways and as a pass through from the City of St. Charles.

Changes in net position increased \$72,000 due to the net effect of the increased total revenues and increased total expenses mentioned above.

## 2013 to 2014

The District's total revenues increased \$202,300 or 15.9%. Water sales increased \$111,310 as the District had a approved rate increase during the year. Nonoperating revenues increased \$99,500 as the District had a significant gain on disposition of its telemetry system which was struck by lightning. Insurance recoveries were in the amount of \$110,300.

The District's operating expenses increased \$126,000. The District's purchased water cost increased \$110,615. The District's annual purchased water cost adjustment was \$49,059. Salaries and wages increased \$23,000 as employees received raises during the year. Materials and supplies cost decreased \$10,000 as lower repair costs were incurred.

Capital contributions decreased \$30,800 due to less received in grant monies passed down from the Kentucky Transportation Cabinet, Department of Highways and as a pass through from the City of St. Charles.

Changes in net position increased \$47,300 due to the net effect of the increased total revenues and increased total expenses mentioned above.

## Capital Assets and Debt Administration

### Capital Assets

At December 31, 2015, the District had \$2,271,662 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, office furniture and equipment, vehicles, and machinery and equipment. This amount represents a net decrease (additions, retirements, depreciation) of \$3,911 from the prior year as depreciation expense outpaced new additions.

Significant additions during the year included \$11,928 for a line extension, \$19,323 for the purchase of a truck, \$32,312 in meters and installation, and \$8,886 of expenditures for septic tanks.



At December 31, 2014, the District had \$2,275,573 invested in capital assets, net of accumulated depreciation, including land, structures, improvements and water system, office furniture and equipment, vehicles, and machinery and equipment. This amount represents a net increase (additions, retirements, depreciation) of \$148,547 from the prior year. The increase includes additions and dispositions of capital assets less \$69,846 of depreciation expense in 2014.

Significant additions during the year included \$111,310 for a new telemetry system, \$34,126 for the purchase of two trucks, and \$34,729 of expenditures for septic tanks.

A comparison of the District's capital assets over the past three years is presented in Note E of the financial statements.

#### Long-Term Debt

At December 31, 2015, the District had \$549,000 in revenue bonds outstanding which was a decrease of \$17,300 from the prior year balance of \$566,300. Both of the District's bond issues were paid as scheduled. There were no new borrowings.

At December 31, 2014, the District had \$566,300 in revenue bonds outstanding which was a decrease of \$16,200 from the prior year balance of \$582,500. Both of the District's bond issues were paid as scheduled. There were no new borrowings.

Additional information on the District's long-term debt can be found in Note F of the financial statements.

#### Currently Known Facts, Decisions, or Conditions

There are no currently known facts, decisions, or conditions that District management expects to have a significant effect on financial position or results of operations.

#### Requests For Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the South Hopkins Water District, 129 South Main Street, Dawson Springs, Kentucky 42408.



South Hopkins Water District  
Statement of Net Position  
December 31, 2015 and 2014

	2015	2014
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 155,601	\$ 76,279
Accounts receivable	157,841	148,252
Other receivables	1,536	2,012
Material and parts inventory	87,931	71,009
Prepaid expenses	44,355	38,131
Total current assets	<u>447,264</u>	<u>335,683</u>
Noncurrent assets		
Restricted cash and cash equivalents	269,776	258,869
Capital assets:		
Nondepreciable	37,423	42,515
Depreciable, net of accumulated depreciation	<u>2,234,239</u>	<u>2,233,058</u>
Total noncurrent assets	<u>2,541,438</u>	<u>2,534,442</u>
Total assets	<u>2,988,702</u>	<u>2,870,125</u>
<u>Deferred outflows of resources</u>		
Deferred outflows of resources-pensions	<u>50,950</u>	<u>0</u>
Total deferred outflows of resources	<u>50,950</u>	<u>0</u>
<u>Liabilities</u>		
Current liabilities payable from current assets		
Accounts payable	56,968	55,996
Accrued taxes and other payables	10,747	7,836
Accumulated compensated absences	<u>10,970</u>	<u>14,819</u>
	<u>78,685</u>	<u>78,651</u>
Current liabilities payable from restricted assets		
Customer deposits	<u>7,023</u>	<u>6,762</u>
	<u>7,023</u>	<u>6,762</u>
Total current liabilities	<u>85,708</u>	<u>85,413</u>
Long-term liabilities		
Bonds payable	549,000	566,300
Net pension liability	435,000	0
Customer deposits	96,332	94,635
Accumulated compensated absences	<u>11,617</u>	<u>8,017</u>
Total long-term liabilities	<u>1,091,949</u>	<u>668,952</u>
Total liabilities	<u>1,177,657</u>	<u>754,365</u>
<u>Deferred inflows of resources</u>		
Deferred inflows of resources-pensions	<u>49,000</u>	<u>0</u>
Total deferred inflows of resources	<u>49,000</u>	<u>0</u>
<u>Net Position</u>		
Invested in capital assets, net of related debt	1,722,662	1,709,273
Restricted for:		
Debt service	11,651	11,641
Capital projects	131,724	124,556
Unrestricted	<u>( 53,042)</u>	<u>270,290</u>
Total net position	<u>\$1,812,995</u>	<u>\$2,115,760</u>

The accompanying notes are an integral part of these statements.



South Hopkins Water District  
Statement of Revenues, Expenses and Changes in Fund Net Position  
Years Ended December 31, 2015 and 2014

	2015	2014
Operating revenues		
Water sales	\$1,378,321	\$1,313,498
Other operating revenues	55,049 ✕	58,998
Total operating revenues	<u>1,433,370</u>	<u>1,372,496</u>
Operating expenses		
Purchased water	652,237	669,357
Salaries and wages	312,343	323,318
Depreciation	78,009	69,846
Employee benefits	107,155	115,791
Transportation	19,043	29,460
Contract services	20,230	21,170
Taxes	27,369	29,168
Purchased power	58,035	54,131
Materials and supplies	57,163	75,708
Insurance	38,641	34,169
Miscellaneous	7,316	16,972
Chemicals	70	446
Total operating expenses	<u>1,377,611</u>	<u>1,439,536</u>
Operating income (loss)	55,759	( 67,040)
Nonoperating revenues (expenses)		
Other income	78,549 ✕	0
Interest income	3,074 ✕	3,318
Interest expense	( 25,572)	( 26,301)
Gain (loss) on disposition of capital assets	<u>1,652</u>	<u>108,448</u>
Total nonoperating revenues (expenses)	57,703	85,465
Income (loss) before contributions and grants	113,462	18,425
Capital contributions-state and local	5,472	31,092
Capital contributions-tap fees	15,200	19,784
Capital contributions-customers	<u>12,102</u>	<u>4,990</u>
Change in net position	146,236	74,291
Total net position – beginning, as restated, see note O	<u>1,666,759</u>	<u>2,041,469</u>
Total net position - ending	<u>\$1,812,995</u>	<u>\$2,115,760</u>

The accompanying notes are an integral part of these statements.



South Hopkins Water District  
Statement of Cash Flows  
Years Ended December 31, 2015 and 2014

	2015	2014
<u>Cash flows from operating activities</u>		
Cash received from customers	\$1,368,733	\$1,292,619
Cash payments to suppliers for goods and services	(1,020,290)	(1,051,965)
Cash payments to employees for services	( 312,343)	( 323,318)
Other operating revenues	55,049	58,998
Net cash provided (used) by operating activities	91,149	( 23,666)
<u>Cash flows from capital and related financing activities</u>		
Refund of water cost	78,549	0
Acquisition and construction of capital assets	( 74,097)	( 220,006)
Principal paid on bond maturities	( 17,300)	( 16,200)
Interest paid on bonds	( 25,484)	( 26,213)
Interest paid on customer deposits	( 88)	( 88)
Insurance recoveries	0	110,300
Proceeds from dispositions of assets	1,652	0
Capital contributions received from state and local	5,472	38,210
Capital contributions received from customers	27,302	24,774
Net cash provided (used) for capital and related financing activities	( 3,994)	( 89,223)
<u>Cash flows from investing activities</u>		
Interest earned on bank deposits	3,074	3,318
Net cash provided (used) by investing activities	3,074	3,318
Net increase (decrease) in cash and cash equivalents	90,229	( 109,571)
Cash and cash equivalents at beginning of year	335,148	444,719
Cash and cash equivalents at end of year	\$ 425,377	\$ 335,148

<u>Reconciliation of operating income to net cash provided (used) by operating activities</u>		
Operating income (loss)	\$ 55,759	(\$ 67,040)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	78,009	69,846
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	( 9,589)	( 9,496)
(Increase) decrease in other receivables	476	( 781)
(Increase) decrease in inventory	( 16,922)	( 3,877)
(Increase) decrease in prepaid expenses	( 6,224)	( 6,704)
Increase (decrease) in accounts payable	972	( 43)
Increase (decrease) in taxes and other payables	2,911	( 12)
Increase (decrease) in pension liability	( 15,952)	0
Increase (decrease) in customer deposits	1,958	2,845
Increase (decrease) in accumulated compensated absences	( 249)	( 8,404)
Total adjustments	35,390	43,374
Net cash provided (used) by operating activities	\$ 91,149	(\$ 23,666)

The accompanying notes are an integral part of these statements.



## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the South Hopkins Water District (the "District") conform to Generally Accepted Accounting Principles (GAAP) as applicable to governments. The District's reporting entity applies all relevant Governmental Accounting Standard Board (GASB) pronouncements. The following is a summary of the more significant policies:

### The Financial Reporting Entity

South Hopkins Water District (the "District") was created on May 6, 1965, under the provisions of chapter 74 of the Kentucky Revised Statutes of the Commonwealth of Kentucky. The principal office of the District is located at 129 South Main Street, Dawson Springs, Kentucky. The District is composed of three commissioners who are appointed by the Hopkins County Judge Executive and provides water to its members in and around southern Hopkins County, Kentucky.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 - *The Financial Reporting Entity*.

### Basis of Presentation, Measurement Focus, and Basis of Accounting

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. Enterprise Funds account for activities 1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or 2) that are required by laws or regulations that the activities costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or 3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net position. Net position is required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. Net position not otherwise classified as restricted, is shown as unrestricted. The statements of revenue, expenses, and changes in fund net position present increases (revenues) and decreases (expenses) in net position.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accounts of the District are maintained on the accrual basis of accounting. Its revenues are recognized when they are earned, and its expenses are recognized when they are incurred.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues and expenses of the District's enterprise fund are charges to customers for sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Unbilled water receivables for utility services provided through December 31 are included in the financial statements.

When both restricted and unrestricted resources are available for use, the District generally first uses restricted resources, then unrestricted resources as they are needed.

Cash and Cash Equivalents

All cash except for a small amount kept "on hand" is deposited in financial institutions. Deposits include interest bearing checking accounts and certificates of deposit. Unrestricted cash is available to be expended for normal operating expenses. Restricted cash is limited to payments of bond principal and interest, emergency capital improvements, and other designated purposes. Cash and cash equivalents are defined as being all monies on deposit in banks and investments with a maturity of 90 days or less.

Inventory

Inventory consists primarily of replacement parts and supplies. Inventory is stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

Capital Assets

Capital assets, which include property, plant, and equipment, are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during the years ended December 31, 2015 and 2014.

Capital assets of the District are depreciated using a straight-line method over the following estimated useful lives:

Structures, improvements and water system	10 to 65 years
Furniture, machinery and equipment	3 to 20 years
Vehicles	5 to 7 years



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Restricted Net Position

Restricted net position is cash set aside for the repayment of debt in compliance with bond covenants and cash restricted for future operations in compliance with escrow reserve agreements.

Long-Term Liabilities

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Long-term debt is reported at face value plus applicable issuance premiums and net of applicable discounts and deferred amounts on refunding. Discounts on debt issuances and amounts deferred on refunding are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter. Premiums on debt issuances are deferred and amortized as a reduction of interest expense over the life of the bonds.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for the deferred outflow of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represent an acquisition of net position that applies to a future period(s) and so will not be recognized as a inflow of resources (revenue) until that time.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Uncollectible Accounts

Accounts receivable are presented net of noncollectible accounts. The allowance for uncollectible accounts was \$7,962 at December 31, 2015 and \$7,339 at December 31, 2014.

Use of Estimates

The preparation of financial statements in accordance with accounting principals generally accepted in the United States requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from those estimates.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2015 and 2014

NOTE B - DEPOSITS

The District maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (1) in writing, (2) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (3) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law.

Deposits are categorized to give an indication of risk assumed by the District at the end of the year. Category 1 includes deposits that are insured, Category 2 includes collateralized deposits held by the pledging institution's trust department or agent in the District's name, and Category 3 includes uncollateralized and uninsured deposits.

On December 31, 2015 the reconciled balance of the District's deposits totaled \$424,177 and the bank balances were \$427,643. Of the bank balances \$422,001 was covered by federal depository insurance (category 1). Also of the bank balances, \$5,642 was collateralized by additional securities held by the pledging depository institutions' trust department or agent in the District's name (category 2).

On December 31, 2014 the reconciled balance of the District's deposits totaled \$333,948 and the bank balances were \$339,100. Of the bank balances \$339,100 was covered by federal depository insurance (category 1).

NOTE C - PREPAID EXPENSES

Prepaid expenses include prepaid insurance which represents the amount of unexpired insurance which the District had previously paid for at the balance sheet date and prepaid employee benefits which represents the amount of employee health insurance for the one month subsequent to the balance sheet date but paid by the District as of the balance sheet date.

At December 31, 2015, the District's prepaid expenses consisted of \$37,548 of insurance and \$6,807 of employee benefits. At December 31, 2014, the District's prepaid expenses consisted of \$32,445 of insurance and \$5,686 of employee benefits.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2015 and 2014

NOTE D - RESTRICTED CASH AND CASH EQUIVALENTS

The District has cash set aside for the repayment of debt in compliance with bond covenants, cash restricted for future operations in compliance with escrow reserve agreements, cash set aside for future capital assets, and cash set aside for repayment of customer deposits.

Restricted balances as of December 31 are as follows:

	2015	2014
Bond and interest redemption fund	\$ 11,651	\$ 11,641
Bond depreciation fund	129,000	121,832
Meter deposit fund	126,401	122,672
Construction fund	2,724	2,724
Totals	\$ 269,776	\$ 258,869

NOTE E - CAPITAL ASSETS

Capital asset activities for the years ended December 31, 2015 and 2014, were as follows:

	Balances 12/31/13	Transfers/ Additions	Transfers/ Retirements	Balances 12/13/14	Transfers/ Additions	Transfers/ Retirements	Balances 12/31/15
Business-type activities:							
Capital assets not being depreciated							
Land & land rights	\$ 31,915	\$ 0	\$ 0	\$ 31,915	\$ 0	\$ 0	\$ 31,915
Construction in progress	8,320	47,164	44,884	10,600	24,290	29,382	5,508
Total	40,235	47,164	44,884	42,515	24,290	29,382	37,423
Capital assets being depreciated							
Structures, improvements, & water system	4,940,339	33,680	70,444	4,903,575	44,751	12,599	4,935,727
Office furniture & equipment	48,265	2,728	0	50,993	947	0	51,940
Vehicles & equipment	125,583	34,375	0	159,958	19,323	25,751	153,530
Machinery & equipment	108,902	112,453	0	221,355	5,283	0	226,638
Other tangible property	17,008	34,729	0	51,737	8,886	0	60,623
Total	5,240,097	217,965	70,444	5,387,618	79,190	38,350	5,428,458
Total capital assets	5,280,332	265,129	115,328	5,430,133	103,480	67,732	5,465,881
Less accumulated depreciation for:							
Structures, improvements, & water system	2,906,043	58,871	68,592	2,896,322	59,038	12,599	2,942,761
Office furniture & equipment	41,433	1,734	0	43,167	2,056	0	45,223
Vehicles & equipment	106,257	5,014	0	111,271	9,241	25,751	94,761
Machinery & equipment	99,403	3,034	0	102,437	5,604	0	108,041
Other tangible property	170	1,193	0	1,363	2,070	0	3,433
Total accumulated depreciation	3,153,306	69,846	68,592	3,154,560	78,009	38,350	3,194,219
Total business-type activities capital assets, net	\$2,127,026	\$ 195,283	\$ 46,736	\$2,275,573	\$ 25,471	\$ 29,382	\$2,271,662



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2015 and 2014

NOTE F - LONG-TERM LIABILITIES

Long-term liability activity

Long-term liability activity for the years ended December 31, 2015 and 2014, were as follows:

	Balances 12/31/13	Additions	Reductions	Balances 12/31/14	Additions	Reductions	Balances 12/31/15	Amounts Due Within One Year
Revenue Bonds:								
Series 1994A	\$ 508,000	\$ 0	\$ 14,000	\$ 494,000	\$ 0	\$ 15,000	\$ 479,000	\$ 0
Series 1994B	74,500	0	2,200	72,300	0	2,300	70,000	0
Total Bonds	582,500	0	16,200	566,300	0	17,300	549,000	0
Customer Deposits	98,554	10,305	7,462	101,397	10,350	8,392	103,355	7,023
Accumulated Compensated Absences	31,240	13,105	21,509	22,836	13,278	13,527	22,587	10,970
Business-type Activities Long- Term Liabilities	\$ 712,294	\$ 23,410	\$ 45,171	\$ 690,533	\$ 23,628	\$ 39,219	\$ 674,942	\$ 17,993

Description of debt

Waterworks Revenue Bonds, 1994 Series A and B

A bond resolution dated November 29, 1994 authorized issuance of \$670,000 (Series A) and \$100,000 (Series B) of waterworks revenue bonds maturing in annual installments through year 2035. Interest is payable semi-annually on January 1 and July 1 at 4.5% per annum and principal is payable annually on January 1.

The 1994 Series Bonds were issued and sold to the United States Department of Agriculture/Rural Development (formerly Rural Economic and Community Development). The bond resolutions provide for all revenue receipts to be deposited into a Water Revenue Fund with transfers to the following funds:

- Waterworks Bond and Interest Sinking Fund - Prorata monthly transfers of an amount equal to the next principal and/or interest payments.
- Depreciation Fund - Monthly transfers of \$380 until the fund equals at least \$45,600.
- Operation and Maintenance Fund - Monthly transfers of an amount equal to the monthly expense disbursement of the District.
- After meeting all the requirements of a) through c) above, the balance remaining in the Revenue Fund is to be transferred to the Depreciation Fund.

Withdrawals from the Depreciation Fund can be authorized by the commissioners for the cost of unusual or extraordinary maintenance, repairs, renewals, and replacements, including extensions and additions, not included in the annual budget of current expenses.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2015 and 2014

NOTE F - LONG-TERM LIABILITIES continued

Debt Maturity

Annual debt service requirements at December 31, 2015 are as follows:

<u>Year Ended December 31</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 0	\$ 12,742
2017	18,400	24,705
2018	18,500	23,877
2019	20,600	23,045
2020	20,700	22,118
2021-2025	120,700	95,576
2026-2030	154,500	65,524
2031-2035	<u>195,600</u>	<u>27,198</u>
Totals	<u>\$ 549,000</u>	<u>\$ 294,785</u>

NOTE G - ACCUMULATED COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate a limited amount of earned but unused sick leave.



## NOTE H - EMPLOYEES' PENSION PLAN

### General Information about the Pension Plan

*Plan Description.* The District and covered employees contribute to the County Employers Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). Kentucky Revised Statute Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of the Kentucky Retirement Systems. The CERS financial statements and other supplementary information are contained in the publicly available annual financial report of the Kentucky Retirement Systems. Copies of the report are sent to each participating employer as well as distributed to legislative personnel, state libraries and other interested parties. Copies may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-564-4646.

*Benefits provided.* Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under circumstances. Cost-of-living adjustments are provided at the discretion of the State legislature.

*Contributions.* Per Kentucky Revised Statute 61.565, normal contribution and past service contribution rates shall be determined by the Board of Trustees of the Kentucky Retirement Systems on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended December 31, 2015, plan members were required to contribute 5% of their annual creditable compensation. Plan members hired subsequent to September 1, 2008 were required to contribute 6% of their annual creditable compensation. The District is required to contribute at an actuarially determined rate. The District was required to contribute 17.06% of each employee's creditable compensation for the last six months of the year ended December 31, 2015. The District was required to contribute 17.67% of each employee's creditable compensation for the first six months of the year ended December 31, 2015 and for the final six months of the year ended December 31, 2014. The District was required to contribute 18.89% of each employee's creditable compensation for the first six months of the year ended December 31, 2014 and for the final six months of the year ended December 31, 2013. The District was required to contribute 19.55% of each employee's creditable compensation for the first six months of the year ended December 31, 2013. The District's contributions to CERS for the years ended December 31, 2015, 2014 and 2013 were \$50,952, \$56,737, and \$54,613, respectively.

### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015, the District reported a liability of \$435,000 for its proportionate share of the net pension liability. The District's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of June 30, 2014.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2015 and 2014

NOTE H - EMPLOYEES' PENSION PLAN continued

For the year ended December 31, 2015, the District recognized pension expense of \$35,000. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 49,000
District contributions subsequent to the measurement date	<u>50,950</u>	<u>-</u>
Total	<u>\$ 50,950</u>	<u>\$ 49,000</u>

\$50,950 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

2016	\$ 12,250
2017	12,250
2018	12,250
2019	12,250

*Actuarial assumptions.* The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5%
Salary increases	4.5%, average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward 5 years is used for the period after disability retirement.

The actuarial assumption used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2008.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2015 and 2014

NOTE H - EMPLOYEES' PENSION PLAN continued

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	30%	8.45%
International equity	22	8.85
Emerging market equity	5	10.50
Private equity	7	1.25
Real estate	5	7.00
Core US fixed income	10	5.25
High yield US fixed income	5	7.25
Non-US fixed income	5	5.50
Commodities	5	7.75
TIPS	5	5.00
Cash	1	3.25
Total	100%	

*Discount rate.* For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2015 and 2014

NOTE H - EMPLOYEES' PENSION PLAN continued

*Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate.* The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate.

	1% Decrease <u>(6.75%)</u>	Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
District's proportionate share of the net pension liability	\$ 573,000	\$ 435,000	\$ 314,000

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of CERS.

NOTE I - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The District purchases commercial insurance for all risks of losses. Settlements resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE J - MAJOR SUPPLIER

The District purchases 98% of water resold from the City of Dawson Springs, Kentucky.

NOTE K - CONSTRUCTION IN PROGRESS

2015

Rialto Mine Road Extension:

The District has incurred costs of \$11,928 during the year and \$11,928 costs has been capitalized upon placement into service.

St. Charles Sewer Project:

The District is participating in a pilot program involving the placement of septic tanks. The District is receiving funds as a sub-recipient from the City of St. Charles whom has a grant agreement with the Kentucky Infrastructure Authority. The District has incurred costs of \$8,886 during the year and \$8,886 costs has been capitalized upon placement into service.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2015 and 2014

NOTE K - CONSTRUCTION IN PROGRESS continued

2014

Interstate 69 line relocation project:

The District has incurred \$2,060 of engineering cost in the final year of the project. This cost is being recovered through a utility relocation agreement with the Kentucky Transportation Cabinet, Department of Highways. The Kentucky Transportation Cabinet is refunding the costs to the District through pass through grants received from the Federal Highway Administration Cabinet. Costs of \$6,310 was capitalized in 2014 upon completion of the project.

St. Charles Sewer Project:

The District is participating in a pilot program involving the placement of septic tanks. The District is receiving funds as a sub-recipient from the City of St. Charles whom has a grant agreement with the Kentucky Infrastructure Authority. The District has incurred costs of \$34,504 during the year and \$34,729 costs has been capitalized upon placement into service.

NOTE L - CHANGE IN ACCOUNTING ESTIMATE

2014

The District revised estimates of the useful lives of certain items in the following asset groups: structures, improvements, and water system; vehicles and equipment; and machinery and equipment. The depreciable lives are now extended to better reflect the estimated periods during which the assets will remain in service. The change had the effect of reducing depreciation expense and increasing net income by \$5,213 for the year ended December 31, 2014.

NOTE M - OTHER INCOME

The District's water supplier is the City of Dawson Springs, Kentucky. The District's water purchase contract, amended June 15, 1990, called for funding of a reserve fund for the water supplier. The monthly reserve amount was charged against the District as a component of water cost. At the end of the supplier bond terms, the contract allowed that the remaining reserve balance may be allocated to the supplier and the District in a proportional amount. The District received \$78,549 in November 2015 as the supplier's bond terms have ended.

NOTE N - GAIN ON DISPOSITION OF ASSET

For the year ended December 31, 2014 the District was impacted by a lighting strike and certain capital assets were destroyed. The District suffered the loss of its telemetry system. The District's basis in the telemetry system was \$1,410. The District had purchased commercial insurance to cover its risk of loss and had insurance recoveries in the amount of \$110,300. Accordingly, the District has recorded a net gain on disposition of \$108,890.



South Hopkins Water District  
Notes to Financial Statements  
December 31, 2015 and 2014

NOTE O – ACCOUNTING CHANGES

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement no. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pensions benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

The provisions of GASB 68 are effective for fiscal periods beginning after June 15, 2014. The District adopted GASB 68 for the year ended December 31, 2015. The adoption of the standard did impact the District's financial position and resulted in a restatement to reduce beginning net position in the amount of \$449,001.



## Required Supplementary Information



South Hopkins Water District  
 Schedule of Proportionate Share of the Net Pension Liability  
December 31, 2015 and 2014

	<u>2015</u>
District's proportion of the net pension liability (asset)	0.013415%
District's proportionate share of the net pension liability (asset)	\$ 435,000
District's covered-employer payroll	\$ 293,783
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employer payroll	148.07%
Total Pension Plan's fiduciary net position as a percentage of the total pension liability	66.80%

Note: This schedule is intended to present a 10-year trend per GASB 68. Additional years will be reported as incurred



South Hopkins Water District  
 Schedule of District Contributions  
December 31, 2015 and 2014

	<u>2015</u>
Actuarially determined contribution	\$ 50,984
Contributions in relation to the actuarially determined contribution	<u>50,984</u>
Contribution deficiency (excess)	<u>\$ 0</u>
 District's covered-employee payroll	 \$ 293,783
 Contributions as a percentage of covered-employee payroll	 17.35%

Note: This schedule is intended to present a 10-year trend per GASB 68. Additional years will be reported as incurred



# Alexander, Toney & Knight PLLC

CERTIFIED PUBLIC ACCOUNTANTS

28 Court Street

Madisonville, Kentucky 42431

(270) 821-4824

FAX: (270) 825-4554

Email: atkcpas@yahoo.com

Larry R. Alexander, CPA  
Harold R. Toney, Jr., CPA  
Anthony Knight, CPA

Members  
American Institute of Certified Public Accountants  
Kentucky Society of Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To The Commissioners  
South Hopkins Water District  
Dawson Springs, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Hopkins Water District as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, and have issued our report thereon dated February 8, 2016.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Hopkins Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Hopkins Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of South Hopkins Water District's internal control.

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

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



## 2015-1 Segregation of Duties

*Condition:* The internal control relating to receipts and disbursements is inadequate due to a lack of segregation of duties.

*Criteria:* Adequate segregation of duties is essential to an adequate internal control over financial reporting by allocating various duties among employees.

*Effect:* The lack of proper segregation of duties may permit errors or irregularities to go undetected.

*Cause:* There is a small number of accounting personnel. The cost versus benefit relationship prevents the District from hiring enough accounting personnel to properly segregate key accounting functions.

*Recommendation:* While the small number of employees that exist will never provide proper segregation of duties, the District should continually review job responsibilities for better accounting controls.

*Response:* The District concurs with the recommendation and will continually review job responsibilities to improve accounting controls when possible.

## 2015-2 Lack of Financial Reporting Expertise

*Condition:* The District lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures. Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

*Criteria:* The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

*Effect:* Although no instances were noted, the absence of such controls may allow errors to go undetected.

*Cause:* There is a lack of personnel who possess the required knowledge.

*Recommendation:* We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

*Response:* Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.

## Compliance and Other Matters

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

## South Hopkins Water District's Response to Findings

South Hopkins Water District's response to the findings identified in our audit is described above. South Hopkins 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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

*Alexander, Grey & Knight, PLLC*

Madisonville, Kentucky  
February 8, 2016



# **EXHIBIT B**

## **DEEDS**



6-19-90 Mail South Hopkins Water District

DEED

BOOK 49/PAGE 345

THIS DEED, between Stallard Thomas and Alberta Thomas, his wife,  
parties of the First Part, and South Hopkins Water District,  
Party of the Second Part.

WITNESSETH, that Parties of the First Part, in consideration of the  
sum of \$3,500.00, and other valuable considerations, do hereby sell,  
grant and convey to Party of the Second Part, its successors and assigns,  
in fee simple, the following described property, to wit:

A parcel of land lying and being in Caldwell County, Kentucky, and  
more particularly described as follows:

Beginning at a point in the North right of way line of proposed  
US 62, the Southwest property corner of this parcel, said point being  
approximately 58.00 feet left or North of proposed US 62 centerline  
Station 27+86; thence with the West property line of this parcel  
N 5 degrees 45 minutes 49 seconds W, 40.00 feet to a point, the north-  
west property corner of this parcel; thence with the North property line  
of this parcel N 84 degrees 14 minutes 11 seconds E, 40.00 feet to a point,  
the Northeast property corner of this parcel; thence with the East property  
line of this parcel S 5 degrees 45 minutes 49 seconds E, 40.00 feet to a  
point, the southeast property corner of this parcel, and also being in the  
North right of way line of proposed US 62, said point being approximately  
63.00 feet left or North of US 62 centerline Station 28+25; thence with the  
South property line of this parcel, also being the North right of way line  
of proposed US 62, S 84 degrees 14 minutes 11 seconds W 40.00 feet to the  
point of beginning. (Containing 1600 sq. ft.).

PREPARED BY:

Allen L. Condra

Allen L. Condra

Attorney-at-Law

P.O. Drawer D

Madisonville, Ky. 42443



Page 2

Sheet \_\_\_\_\_ of \_\_\_\_\_

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TO HAVE AND TO HOLD said property unto the party of the second part, its successors and assigns, with all the rights and privileges thereunto belonging with covenants of General Warranty.

IN TESTIMONY WHEREOF the part 1 of the first part executed this deed on this, the 15th day of June, 1990.

WITNESSES:

Stallard Thomas  
Alberta Thomas

**CERTIFICATE OF ACKNOWLEDGMENT**

COMMONWEALTH OF KENTUCKY )

COUNTY OF Caldwell ) ss.

I, the undersigned, certify that the foregoing deed was produced before me in my said County and State and duly acknowledged by Stallard Thomas and Alberta Thomas

part 1 of the first part therein, to be their act and deed.

Witness my hand this, 15th day of June, 1990.

My Notary Commission expires April 26, 1992

Jenny L. Purdy Caldwell  
Notary Public County, Ky.

**CLERK'S RECORDING CERTIFICATE**

COMMONWEALTH OF KENTUCKY )

COUNTY OF Hydria ) ss.

I, the undersigned clerk of the county in and for the County and State aforesaid, certify that the foregoing deed from Stallard Thomas et al to the Commonwealth of Kentucky for the use and benefit of the Transportation Cabinet was lodged for record in my office on the 15 day of June, 1990 and has been duly recorded in Deed Book 491, page 345.

Witness my hand on this the 15 day of June, 1990.

William T. Brooks  
Clerk County  
By [Signature] D.C.

Note: If additional acknowledgements are needed, cross out the above Clerk's Certificate and insert Page 3 of TC 11-37.



10-26-82

Mail

South Hopkins Water District

WARRANTY DEED

BOOK 430 PAGE 279

THIS DEED entered into and between Marion Wayne Lisanby and his wife, Francis E. Lisanby, whose address is Dawson Springs, Kentucky, parties of the first part, hereinafter referred to as the SELLERS; and South Hopkins Water District, whose home address is Dawson Springs, Kentucky, party of the second part, hereinafter referred to as the BUYER;

WITNESSETH:

That for and in consideration of Twenty Six Thousand Five Hundred (\$26,500.00) Dollars, cash in hand paid, the receipt of which is hereby acknowledged, the Sellers do hereby and herein sell, bargain, transfer and convey unto the said Buyer, their heirs and assigns forever, the following described lot or parcel of land with the improvements thereon, situated in Hopkins County, Kentucky, and more particularly described as follows, to-wit:

A certain tract of land situated on the South side of U.S. Highway 62 and located approximately 1 mile East of Dawson Springs, Hopkins County Kentucky and being a portion of the same property conveyed to Marion Wayne Lisanby by Johnney Hamby on January 10, 1980 and on record in deed book 412 page 26 in the Hopkins County Court Clerk's Office; said tract is more particularly described as follows:

Beginning at an iron rod set this survey in the South right-of-way of U.S. Highway No. 62 said rod being S 79° 49' W 775.00 feet from an existing iron pipe the North-East corner of Wayne Lisanbys' original tract; thence with the South right-of-way of said Highway S 79° 23' W 169.00 feet to an iron rod set this survey; thence leaving said highway and with new division lines of Lisanby as follows: S 12° 18' E 212.00 feet to an iron rod; thence N 59° 01' E 188.00 feet to an iron rod; thence N 15° 50' W 147.00 feet to the beginning, containing 0.717 acres.

Being a part of the same property which was conveyed to Marion Wayne Lisanby, et. al., from Johnney Hamby, et. al., by deed dated January 10, 1980, and recorded at Deed Book 412, page 26 in the Hopkins County Court Clerk's Office in Madisonville, Kentucky.

\$26,500

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TO HAVE AND TO HOLD the said lot or parcel of land, together with all of the appurtenances and improvements thereunto belonging, unto the said Buyer, their heirs and assigns forever, with covenant of General Warranty.

WITNESS our hands this the \_\_\_\_ day of \_\_\_\_\_, 1982.

Francis E. Lisanby  
Francis E. Lisanby  
Seller

Marion Wayne Lisanby  
Marion Wayne Lisanby  
Seller

STATE OF KENTUCKY]  
COUNTY OF HOPKINS]

I hereby certify that the foregoing instrument was this day produced to and acknowledged before me by Francis E. Lisanby and Marion Wayne Lisanby.

Witness my hand and seal this 20<sup>th</sup> day of October, 1982.

Diana Lewis  
Notary Public  
State At Large  
My Commission Expires: Nov. 11, 1985

\*\* Description for the property herein conveyed was provided by the Sellers herein and the preparer of this document assumes no responsibility for any inaccuracy or inadequacy arising from said description.

THIS INSTRUMENT PREPARED:

James C. Brantley  
James C. Brantley  
Attorney At Law  
318 South Main Street  
P.O. Box 247  
Dawson Springs, Kentucky 42408

Notary Public  
State At Large  
My Commission Expires: Nov. 11, 1985

This instrument was filed for record on the 25  
day of Oct, 1982 at 12:50 P.M., and is  
duly recorded Book 430 Page 279

William T. Brooks Clerk  
By Donald E. Hodge D.C.



MAILED

OCT 8 2003

SHND

WARRANTY DEED

BOOK 422 PAGE 357

THIS DEED made and entered into by and between GWENDOLYN FOX

MCDONALD, a widow, whose address is 218 West Ramsey Street, Dawson Springs,

Kentucky; 42408, party of the first part, hereinafter termed SELLER, and JAMES

EDWARD DILLINGHAM, and SOUTH HOPKINS WATER DISTRICT OF

DAWSON SPRINGS, <sup>42418</sup> parties of the second part, hereinafter termed BUYERS. <sup>P.O. Box 487</sup>

WITNESSETH:

That for and in consideration of the sum of **TWENTY TWO THOUSAND FIVE HUNDRED (\$22,500.00) DOLLARS**, paid pursuant to contract dated September 24, 1982 and recorded in Book 430 Page 375 in office of Hopkins County Clerk, the first party does hereby and herein grant, bargain, transfer and convey unto the said parties of the second part, as co-tenants, an undivided one-half (1/2) interest in to James Edward Dillingham, and an undivided one-half (1/2) interest to South Hopkins Water of Dawson Springs assigns forever, in fee simple, the following described lot or parcel of land with the improvements thereon, lying in Hopkins County, Kentucky, and more particularly described as follows, to-wit:

RECORDING FEES 12.00  
TRANSFER TAX 22.50

A lot in Dawson Springs, Kentucky, on the north side of Main Street and beginning at the corner of the bank lot, which gives to this conveyance the full length of the bank building, thence with north line of Main Street 57 1/2 feet to J.D. Threldkeld's hotel lot corner; thence with line of said Threldkeld's lot parallel with and 57 1/2 feet from the bank lot line which includes 160 feet to Threldkeld's corner; thence with another of his lines southeastwardly 57 1/2 feet to Ramsey Street; thence with lines of Ramsey Street northeastwardly 10 feet to the corner of Blain's lot; thence with Blain's lot northwestwardly 100 feet to another of his corners; thence with another of his lines northeastwardly and across the back end of his lot 50 feet to another of his corners; thence leaving Blain's lot and running with the back line of this conveyance 38 feet to the corner of the Arcadia Hotel lot thence with line of same southwestwardly 137 feet to the corner of the bank lot; thence with bank lot line southeastwardly and across the back end of said bank lot 23 feet to another of the bank lot corners; thence with the bank lot southwestwardly including 83 feet to the beginning.

Being the same property which was conveyed to John Robert McDonald and his wife Gwendolyn Fox McDonald from W. Robert McDonald et. al., by deed dated the 10<sup>th</sup> day of March, 1954, of record in Deed Book 253, Page 264, in the office of the Hopkins County Court Clerk. John Robert McDonald died testate on the 29<sup>th</sup> day of November 1992, and devised his interest in said property to his wife



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### CONSIDERATION CERTIFICATE

WITNESS our hands this the 30 day of April, 2003.

James Edward Dillingham  
JAMES EDWARD DILLINGHAM - GRANTEE

STATE OF KENTUCKY) ) SCT.  
COUNTY OF HOPKINS)

WITNESS my hand and seal this the 30 day of September 2003.

Melissa A. Goodaker  
NOTARY PUBLIC - STATE AT LARGE  
My commission expires: 3-2-05



STATE OF KENTUCKY)  
 ) SCT.  
COUNTY OF HOPKINS)

359

I hereby certify that the foregoing instrument was this day produced to and  
acknowledged before me by the above party, James Edward Dillingham, Grantee.

WITNESS my hand and seal this the 30 day of Sept, 2003.

Ruby W. Poe  
NOTARY PUBLIC - STATE AT LARGE  
My commission expires: 12/8/05

STATE OF KENTUCKY)  
 ) SCT.  
COUNTY OF HOPKINS)

I hereby certify that the foregoing instrument was this day produced to and  
acknowledged before me by the above party, South Hopkins Water District, Edwin  
Martin, Board Chairman, Grantee.

WITNESS my hand and seal this the 3rd day of October,  
2003.

Jeremy R. Purdy  
NOTARY PUBLIC - STATE AT LARGE  
My commission expires: 4-26-04

Description for the property herein described was provided by the Sellers  
herein, and preparer of this document assumes no responsibility for any inaccuracy or  
inadequacy arising from said description.

THIS INSTRUMENT PREPARED BY:

James C. Brantley  
JAMES C. BRANTLEY  
Attorney at Law  
103 Railroad Avenue  
P. O. Box 250  
Dawson Springs, KY 42408  
(270) 797-8465

STATE OF KENTUCKY  
COUNTY OF HOPKINS > SC  
This instrument was filed for record on the  
6th day of Oct, 2003  
at 8:30 A m, and is duly recorded in  
DEED book 622  
page 377  
DEVRA A. STECHER, CLERK  
B. J. D. White C.C.



5-20-94

BOOK 528 PAGE 53

*Mal*  
*South Hopkins*  
*Water*  
*District*

THIS DEED OF CONVEYANCE made and entered into this \_\_\_\_\_

day of March, 1994, by and between Darrel R. Todd and Linda D. Todd, his wife, 43 NORTH MADISON AVENUE, MADISONVILLE, KENTUCKY, 42431, parties of the first part, hereinafter referred to as "Grantors", and South Hopkins Water District, P.O. Box 308, Dawson Springs, Kentucky 42408, party of the second part, hereinafter referred to as "Grantee";

**WITNESSETH:** That for and in consideration of the sum of ONE THOUSAND FIVE HUNDRED (\$1,500.00) DOLLARS, cash in hand paid, receipt of which is hereby acknowledged by the Grantors, the said Grantors have this day and do by these presents grant, bargain, sell and convey unto the Grantee, South Hopkins Water District, its successors and assigns, the following described real estate located in Hopkins County, Kentucky, to-wit:

Located in Hopkins County, Kentucky, and being more particularly described as follows:

Beginning at an iron pin at the intersection of the east right-of-way line of Lanham Drive and the south right-of-way line of Crowley Lane, and being the most northerly corner of the Todd property; thence S 57° 59' E, 30 feet following the south right-of-way line of Crowley Lane to a stake; thence S 34° 04' W, 30 feet to a stake; thence N 57° 59' W, 30 feet to a stake in the east right-of-way line of Lanham Drive; thence N 34° 04' E, 30 feet following the east right-of-way line of Lanham Drive to the point of beginning and containing 0.02 acres, more or less.

*See collected 10-50*  
*Toy 1-50*

Being a part of the same property conveyed to Darrel R. Todd and Linda D. Todd, his wife, by Deed of Conveyance from Esther Grace Downey, single, and Alvin Downey, Sr. and Opal Downey, his wife, dated September 10, 1987. and recorded in Deed Book 469, Page 99, Hopkins County Clerk's Office.

**TO HAVE AND TO HOLD** the foregoing described real estate, together with the improvements thereon and appurtenances thereunto belonging or in anywise appertaining unto the Grantee, South Hopkins Water District, its successors and assigns, forever, with covenant of General Warranty of Title.

The parties herein certify that the consideration



54  
reflected in this deed is the full consideration paid for the property. The Grantee joins in this deed for the sole purpose of certifying the consideration pursuant to KRS 382.

IN WITNESS WHEREOF, the parties have hereunto set their hands the day and year first above written.

GRANTORS:

Darrel R. Todd  
DARREL R. TODD

Linda D. Todd  
LINDA D. TODD

GRANTEE:

SOUTH HOPKINS WATER DISTRICT

By: Edwin T. Hurd

This description in this deed supplied by the parties. The draftsman assumes no responsibility for the correctness thereof.

This instrument prepared by:

W. C. Baker ATTORNEY  
ELDRED & WELLS  
209 West Main Street  
Princeton, Kentucky 42445

STATE OF KENTUCKY

COUNTY OF HOPKINS

The foregoing instrument was acknowledged and sworn to before me by Darrel R. Todd and Linda D. Todd, his wife, this 28<sup>TH</sup> day of March, 1994.

My Commission Expires: AUGUST 30, 1997

S E A L

William B. Sneed  
Notary Public



STATE OF KENTUCKY

COUNTY OF HOPKINS

55

The foregoing instrument was acknowledged and sworn to  
before me by EDWIN MARTIN, for and on  
behalf of the South Hopkins Water District, Grantee, this 28<sup>TH</sup>  
day of March, 1994.

My Commission Expires: AUGUST 30, 1997

S E A L

Debra B. Lued  
Notary Public

FILED IN  
COUNTY OF

INDEXED

1304

APR 1 1994

94

11:00 A.M.

City, Recorder

Asst.

528

53

By B. Lued

State

D.C.



520-94

Mad

South

Hopkins

Water

528/59

528/59

THIS DEED OF CONVEYANCE made and entered into this 26<sup>th</sup>

day of April, 1994, by and between AMCA Coal Leasing, Inc., P.O. Box 711, Madisonville, Kentucky 42431, party of the first part, hereinafter referred to as "Grantor", and South Hopkins Water District, P.O. Box 308, Dawson Springs, Kentucky 42408, party of the second part, hereinafter referred to as "Grantee";

**WITNESSETH:** That for and in consideration of the public purpose to be achieved by the proposed use of the property conveyed herein and the benefits derived therefrom, the Grantor does hereby grant, donate, transfer, and convey to said Grantee, its successors and assigns, the following described real estate located in Hopkins County, Kentucky, to-wit:

Located in Hopkins County, Kentucky, and being more particularly described as follows:

Beginning at a stake in the east right-of-way of West Kentucky Road, said stake being N 18° 28' 27" E, 190.11 feet from an iron pin in the northeast corner of a parcel along the west right-of-way of Sandcut Road, said iron pin being N 07° 03' E. 680 feet from a second corner of said parcel, said parcel formerly owned by Pleasant and now a part of the larger Andalex properties; said stake also being 201 feet, more or less, in a northerly direction from the intersection of the centerlines of West Kentucky Road and Sandcut Road; thence N 01° 10' 32" E, 25 feet following the east right-of-way line of West Kentucky Road to a stake; thence S 88° 49' 28" E, 100 feet to a stake; thence S 01° 10' 32" W, 100 feet to a stake; thence N 88° 49' 28" W, 100 feet to a stake; in the east right-of-way line of West Kentucky Road; thence N 01° 10' 32" E, 75 feet to the point of beginning and containing 0.23 acres, more or less.

See collected 10-50  
me box

Being a part of the same property conveyed to AMCA Coal Leasing, Inc. by Deed of Conveyance from Island Creek Coal Company, a Delaware corporation, dated September 29, 1992, and recorded in Deed Book 512, Page 198, Hopkins County Clerk's Office.

**TO HAVE AND TO HOLD** the foregoing described real estate, together with the improvements thereon and appurtenances thereunto belonging or in anywise appertaining unto the Grantee, South Hopkins Water District, its successors and assigns, forever, with covenant of Special Warranty of Title.



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The parties herein certify that the property conveyed herein is transferred by gift and without consideration, and that the full estimated fair cash value of same is \$ 250.00. The Grantee joins in this deed for the sole purpose of certifying the consideration pursuant to KRS 382.

IN WITNESS WHEREOF, the parties have hereunto set their hands the day and year first above written.

GRANTOR:

AMCA COAL LEASING, INC.

By: [Signature]

Title: President

ATTEST:

[Signature]  
Title: Notary Public

GRANTEE:

SOUTH HOPKINS WATER DISTRICT

By: [Signature]

This description in this deed supplied by the parties. The draftsman assumes no responsibility for the correctness thereof.

This instrument prepared by:

[Signature] ATTORNEY  
ELDRED & WELLS  
209 West Main Street  
Princeton, Kentucky 42445

STATE OF KENTUCKY

COUNTY OF Hopkins

The foregoing instrument was acknowledged and sworn to before me by Robert Anderson, Jr., for and on behalf of AMCA Coal Leasing, Inc., this 26th day of April, 1994.

My Commission Expires: 5/7/96

SEAL

[Signature]  
Notary Public



STATE OF KENTUCKY

COUNTY OF Hopkins 61

The foregoing instrument was acknowledged and sworn to  
before me by Edwin Martin, for and on  
behalf of the South Hopkins Water District, Grantee, this 4th  
day of May, 1994.

My Commission Expires: April 26, 1996

S E A L

Jerry L. Purdy  
Notary Public State-at-Large

134  
May 94 11:00 AM  
50-52

By B. H. H. H. H.



5-20-94

528/56

Wid. South Hopkins Water District

528/56

THIS DEED OF CONVEYANCE made and entered into this \_\_\_\_ day of March, 1994, by and between Jean Chambers and Thomas E. Chambers, her husband, 850 LUCAS CIR. DAWSON SPRINGS, KY 42408 Dawson Springs, Kentucky 42408, parties of the first part, hereinafter referred to as "Grantors", and South Hopkins Water District, P.O. Box 308, Dawson Springs, Kentucky 42408, party of the second part, hereinafter referred to as "Grantee";

WITNESSETH: That for and in consideration of the sum of ONE THOUSAND TWO HUNDRED (\$1,200.00) DOLLARS, cash in hand paid, receipt of which is hereby acknowledged by the Grantors, the said Grantors have this day and do by these presents grant, bargain, sell and convey unto the Grantee, South Hopkins Water District, its successors and assigns, the following described real estate located in Hopkins County, Kentucky, to-wit:

Located in Hopkins County, Kentucky, and being more particularly described as follows:

Beginning at a stake in the common property corner between JEAN CHAMBERS, SOUTH HOPKINS WATER DISTRICT, and the north right-of-way line of U. S. Highway 62, said stake being S 76° 00' W, 165.7 feet following the north right-of-way line of U. S. Highway 62 from its intersection with the centerline of a county road; thence N 14° 00' W, 30 feet following the South Hopkins Water District-Chambers property line to a stake; thence N 76° 00' E, 20 feet to a stake; thence S 14° 00' E, 30 feet to a stake in the north right-of-way line of U. S. Highway 62; thence S 76° 00' W, 20 feet following said right-of-way line to the point of beginning and containing 0.01 acre, more or less.

Being a part of the same property conveyed to Jean Chambers by Deed of Conveyance from Delmer Sneed and Lena Jane Sneed, his wife, dated July 24, 1987, and recorded in Deed Book 497, page 167, Hopkins County Clerk's Office.

TO HAVE AND TO HOLD the foregoing described real estate, together with the improvements thereon and appurtenances thereunto belonging or in anywise appertaining unto the Grantee, South Hopkins Water District, its successors and assigns, forever, with covenant of General Warranty of Title.

for collected 10.50



57

The parties herein certify that the consideration reflected in this deed is the full consideration paid for the property. The Grantee joins in this deed for the sole purpose of certifying the consideration pursuant to KRS 382.

IN WITNESS WHEREOF, the parties have hereunto set their hands the day and year first above written.

**GRANTORS:**

Jean Chambers  
JEAN CHAMBERS  
Thomas E. Chambers  
THOMAS E. CHAMBERS

**GRANTEE:**

**SOUTH HOPKINS WATER DISTRICT**  
By: Edward J. Martin

This description in this deed supplied by the parties. The draftsman assumes no responsibility for the correctness thereof.

This instrument prepared by:

For C. Baker ATTORNEY  
ELDRED & WELLS  
209 West Main Street  
Princeton, Kentucky 42445

STATE OF KENTUCKY

COUNTY OF HOPKINS

The foregoing instrument was acknowledged and sworn to before me by Jean Chambers and Thomas E. Chambers, her husband, this 22<sup>nd</sup> day of March, 1994.

My Commission Expires: AUGUST 30, 1997

S E A L

William B. Sneed  
Notary Public



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STATE OF KENTUCKY

COUNTY OF HOPKINS

The foregoing instrument was acknowledged and sworn to before me by EDWIN MARTIN, for and on behalf of the South Hopkins Water District, Grantee, this 22<sup>nd</sup> day of March, 1994.

My Commission Expires: AUGUST 30, 1997

Walter B. Smith  
Notary Public

S E A L

STATE OF KENTUCKY  
COUNTY OF HOPKINS

This instrument was recorded on 13<sup>th</sup>

day of May, 1994, at 11 o'clock, A.M., and is  
duly recorded in Book 526, Page 56.

By B. H. Hester, Clerk  
D.C.



DEED

BOOK 471 PAGE 345

THIS DEED, between Stallard Thomas and Alberta Thomas, his wife,  
 parties of the First Part, and South Hopkins Water District,  
 Party of the Second Part.

WITNESSETH, that Parties of the First Part, in consideration of the  
 sum of \$3,500.00, and other valuable considerations, do hereby sell,  
 grant and convey to Party of the Second Part, its successors and assigns,  
 in fee simple, the following described property, to wit:

A parcel of land lying and being in Caldwell County, Kentucky, and  
 more particularly described as follows:

Beginning at a point in the North right of way line of proposed  
 US 62, the Southwest property corner of this parcel, said point being  
 approximately 58.00 feet left or North of proposed US 62 centerline  
 Station 27+86; thence with the West property line of this parcel  
 N 5 degrees 45 minutes 49 seconds W, 40.00 feet to a point, the north-  
 west property corner of this parcel; thence with the North property line  
 of this parcel N 84 degrees 14 minutes 11 seconds E, 40.00 feet to a point,  
 the Northeast property corner of this parcel; thence with the East property  
 line of this parcel S 5 degrees 45 minutes 49 seconds E, 40.00 feet to a  
 point, the southeast property corner of this parcel, and also being in the  
 North right of way line of proposed US 62, said point being approximately  
 63.00 feet left or North of US 62 centerline Station 28+25; thence with the  
 South property line of this parcel, also being the North right of way line  
 of proposed US 62, S 84 degrees 14 minutes 11 seconds W 40.00 feet to the  
 point of beginning. (Containing 1600 sq. ft.).

PREPARED BY:

Allen L. Cordra

Allen L. Cordra

Attorney-at-Law

P.O. Drawer D

Madisonville, Ky. 42431

675



TC 11-37  
Rev. 10-82

674

Sheet \_\_\_\_\_ of \_\_\_\_\_

Page 2

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TO HAVE AND TO HOLD said property unto the party of the second part, its successors and assigns, with all the rights and privileges thereunto belonging with covenants of General Warranty.

IN TESTIMONY WHEREOF the part 1 of the first part executed this deed on this, the 15th day of June, 19 90.

WITNESSES:

Stallard Thomas  
Albarta Thomas

## CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OF KENTUCKY )

COUNTY OF Caldwell ) ss.

I, the undersigned, certify that the foregoing deed was produced before me in my said County and State and duly acknowledged by Stallard Thomas and Albarta Thomas

part 1 of the first part therein, to be their act and deed.

Witness my hand this, 15th day of June, 19 90.

My Notary Commission expires April 26, 1992

Jenny L. Purdy Caldwell  
Notary Public County, Ky.

## CLERK'S RECORDING CERTIFICATE

COMMONWEALTH OF KENTUCKY )

COUNTY OF Caldwell ) ss.

I, the undersigned clerk of the county in and for the County and State aforesaid, certify that the foregoing deed from Stallard Thomas et al to the Commonwealth of Kentucky for the use and benefit of the Transportation Cabinet was lodged for record in my office on the 15 day of June, 19 90 and has been duly recorded in Deed Book 491, page 346.

Witness my hand on this the 15 day of June, 19 90.

William H. Brooke County  
Clerk By John E. Brooke D.C.

Note: If additional acknowledgements are needed, cross out the above Clerk's Certificate and insert Page 3 of TC 11-37.

STATE OF KENTUCKY, COUNTY OF CALDWELL, SCT  
I, Barbara E. Van Housen, Clerk of the County and State aforesaid, do certify that the foregoing instrument of writing was lodged for the record on the 20th day of June, 19 90 at 2:15 M. o'clock, and I have recorded the same together with this and foregoing certificate in my office.  
Given under my hand this, 20th day of June, 19 90.

BARBARA E. VAN HOUSEN  
BY Claudette hsc



319 PAGE 418  
BOOK

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THIS DEED made and entered into this 29<sup>th</sup> day of June, 1968, by and between Stallard Thomas and Alberta Thomas, his wife, parties of the first part, and South Hopkins Water District, party of the second part:

WITNESSETH: That for and in consideration of the sum of \$ 300.00 ———, cash in hand paid, receipt of which cash is hereby acknowledged by first parties, they the said first parties have this day and do by these presents grant, bargain, sell and convey unto the second party, its successors and assigns, a certain tract of land lying and being in Caldwell County, Kentucky, and more particularly bounded and described as follows:

Beginning at a stake in the north right of way line of U.S. Highway 62 and the south property line of Stallard Thomas, said stake being S. 74° 00' E., 686.0 feet following the north right of way line of U.S. Highway 62 from the common corner between Stallard Thomas, R. Bullock and the north right of way of U.S. Highway 62; thence N. 16° 00' E. 30.0 feet to a stake; thence S. 74° 00' E., 30.0 feet to a stake; thence S. 16° 00' W., 30.0 feet to a stake in the north right of way line of U.S. Highway 62; thence N. 74° 00' W. 30.0 feet following the north right of way of U.S. Highway 62, to the point of beginning and containing 0.02 of an acre more or less.

Subject to all oil, gas, coal and mineral reservations.

Being a part of the same property conveyed Stallard Thomas and Alberta Thomas, his wife, by W. L. Morris and wife, by deed dated December 20, 1947, and recorded in Deed Book 80, page 236, Caldwell County Court Clerk's office.

Delivered to Bonnie Capps  
12-4-80  
by N.W.



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TO HAVE AND TO HOLD the foregoing described real estate together with all improvements thereon and appurtenances thereunto belonging unto the second party, South Hopkins Water District, their successors and assigns, with covenant of General Warranty of title.

IN WITNESS WHEREOF the first parties have hereunto set their hands the day and year first above written.

This instrument was prepared by:

Charles L. Caldwell ATTORNEY  
PRINCETON, KENTUCKY

Stallard Thomas

Alberta Thomas

STATE OF KENTUCKY

COUNTY OF Caldwell

I, James A. Lewis, a Notary Public in and for the state and county aforesaid, hereby certify that the foregoing deed from Stallard Thomas and Alberta Thomas, his wife, to South Hopkins Water District, was this day produced before me in my county by Stallard Thomas and Alberta Thomas, his wife, who each signed and acknowledged it to be their act and deed for the uses and purposes therein mentioned.

WITNESS my hand and notarial seal this 29 day of June, 1968. My Commission expires: Feb. 9, 1972.



James A. Lewis - Kentucky - State at Large  
NOTARY PUBLIC, COUNTY OF KY.

STATE OF KENTUCKY, COUNTY OF CALDWELL, SCT. |

I, Barbara E. Van Hooser, Clerk of the County and State aforesaid, do certify that the foregoing instrument of writing was lodged for the record on the 1 day of Dec. 1968 at 2:00 P.M. o'clock, and I have recorded the same together with this and foregoing certificate in my office.

Given under my hand this 1st day of December, 1968

BARBARA E. VAN HOOSER, CLERK

BY Barbara E. Van Hooser

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BOOK 319 PAGE 420

## DEED OF EASEMENT

This Deed made and entered into by and between the Commonwealth of Kentucky by Albert Christen, Commissioner of Finance of the Commonwealth of Kentucky (hereinafter sometimes referred to as "The Commonwealth") and the South Hopkins Water District, a Water District organized and existing under the provisions of Chapter 74, Kentucky Revised Statutes (hereinafter sometimes referred to as the "District"),

WITNESSETH: That Whereas the District is desirous of obtaining an easement for the location of a water reservoir tank and the construction, operation and maintenance of a water pipeline, an access road and for the use of an existing roadway with all rights of ingress, egress and regress on, over, under, across and through certain lands held by the Commonwealth for the use and benefit of the Department of Fish and Wildlife Resources; and whereas the property affected by the said easement and right-of-way is a portion of the Jones-Keeney Wildlife Management Area in Caldwell County, Kentucky, and the Department of Fish and Wildlife Resources has concurred in the grant of an easement for such purposes and has stated that the proposed use of the easements as set forth herein will not impair or interfere with the use of the property as a Wildlife Management Area; and whereas the Commissioner of Finance being so advised has and does by these presents deemed it to be consistent with the public interest to convey such property rights to the District, all in accordance with the provisions of Chapters 45 and 56 of the Kentucky Revised Statutes,

NOW THEREFORE, for and in consideration of the premises and of the benefits to be conferred upon the citizens of Caldwell County and the residents of the South Hopkins Water District, the Commonwealth hereby grants, conveys and sets over unto the District, its successors and assigns, the Easements designated, Easements Numbers 1 and 2 on, over, under, across and through a portion of the Commonwealth's lands lying and being in Caldwell County, Kentucky, known as the Jones-Keeney Wildlife Management Area and being a portion of the property acquired by the Commonwealth from J. W. Ausenbough and Lenney Ausenbough by deed dated June 10, 1931, and recorded in Deed Book 63, page 89 in the Caldwell County

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Delivered to: George Eldred  
12-16-80 BOK



421

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Clerk's Office, and more particularly described as follows:

Easement No. 1

An Easement for the construction, maintenance and operation of a water pipeline and an access road and for the use of an existing roadway across the Commonwealth's lands, with all rights of ingress, egress and regress thereto; said Easement being 20 feet in width, 10 feet on either side of the following described centerline:

Beginning at the centerline of the existing road and the centerline of U. S. Highway 62 as shown on the print attached hereto and made a part hereof, thence extending along the said road to a point designated on the print as S 69° 06' E, thence 61.2 feet to the West boundary of the parcel hereinafter described as Easement No. 2.

Easement No. 2

An Easement for the construction, maintenance and operation of a water reservoir tank upon, over, under, across and through the following described parcel of land:

Beginning at a point 61.2 feet East of a point designated as S 69° 06' E, on the attached print which is made a part hereof, thence S 20° 54' W, 50.0 feet to a stake; thence S 69° 06' E, 100.0 feet to a stake; thence N 20° 54' E, 100.0 feet to a stake; thence N 69° 06' W 100.0 feet to a stake; thence S 20° 54' W, 50.0 feet to the point of beginning and containing 0.23 acres more or less.

TO HAVE AND TO HOLD the property described above unto the District, its successors and assigns subject to the following conditions.

1. The Commonwealth shall not erect any buildings or other structures within the limits of the Easements granted.
2. The District agrees to save and hold harmless the Commonwealth, its agencies, officers, and employees from any and all losses, costs, claims or damages whatsoever resulting from the exercise of the property rights granted by the District.
3. The District shall enter upon the property of the Commonwealth and perform the construction of the water pipeline and the reservoir in an orderly and efficient manner and shall restore the property to the Commonwealth's satisfaction to as near its condition prior to entry after construction has been completed as is reasonable and practicable and will thereafter operate and maintain the said pipeline and reservoir in such manner that they will not interfere with the use of the Commonwealth's land as a Wildlife Management Area.
4. If the use of the Easement for the purposes hereinbefore described shall ever cease then these Easements shall terminate.

PAGE TWO



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IN TESTIMONY witness the signature of the Commissioner of Finance of the  
Commonwealth of Kentucky on this the 23<sup>rd</sup> day of February, 1968.

COMMONWEALTH OF KENTUCKY

By: Albert Christen  
Albert Christen  
Commissioner of Finance

~~THE SUBJECT CONVEYANCE IS APPROVED~~

By: Louie B. Nunn  
Louie B. Nunn  
Governor of Kentucky

Recommended By:

Muir Clark  
Department of Fish and Wildlife Resources

COMMONWEALTH OF KENTUCKY )  
 ) SS  
COUNTY OF FRANKLIN )

I, Anna E. Paver, a Notary Public in and for the  
state and county aforesaid do hereby certify that the foregoing Deed of Easement from the  
Commonwealth of Kentucky to the South Hopkins Water District was produced before me in  
my office and acknowledged by Albert Christen, Commissioner of Finance to be his free and  
voluntary act and deed and the free and voluntary act and deed of the Commonwealth of Kentucky  
by herein acting pursuant to the authority conferred on him as Commissioner of Finance by  
Chapters 45 and 56 of the Kentucky Revised Statutes.

Witness my hand and seal this the 23<sup>rd</sup> day of February, 1968.

Anna E. Paver  
Notary Public

My Commission expires: My Commission Expires May 24, 1969

This instrument prepared by:

Charles D. Whiff  
Attorney, Department of Finance  
Commonwealth of Kentucky

STATE OF KENTUCKY  
COUNTY OF HOPKINS SCT.

This instrument was filed for record on the 1<sup>st</sup>  
day of July, 1968 at 1025A M., and is  
duly recorded in Deed Book 319 Page 420  
Walton Belmont, Clerk  
Belmont, D.C.

STATE OF KENTUCKY, COUNTY OF CALDWELL, SCT.

I, Barbara E. Van Hooser, Clerk of the County and State aforesaid, do certify  
that the foregoing instrument of writing was lodged for the record on the  
8 day of Dec, 1968 at 10:55 A.M. o'clock, and I have recorded  
the same together with this and foregoing certificate in my office.

Given under my hand this 8<sup>th</sup> day of December, 1968

BARBARA E. VAN HOOSER, CLERK

BY Barbara Van Hooser

PAGE THREE

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THIS DEED made and entered into this 29th day of June, 1968, by and between Annie Cunningham and Maxie Cunningham, her husband, and

~~Garrett, posing as her husband~~  
Virginia Mae Cox, single, and Geneva Henry and Chester Henry, her husband, heirs of Tolbert Garrett, parties of the first part, and South Hopkins Water District, party of the second part:

WITNESSETH: That for and in consideration of the sum of

\$450.00 ———, cash in hand paid, receipt of which is hereby acknowledged by first parties, they the said first parties have this day and do by these presents grant, bargain, sell and convey unto the second party, its successors and assigns, a certain tract of land lying and being in Hopkins County, Kentucky, and more particularly bounded and described as follows:

Beginning at a common corner between Rose Lee Mackey, the Garrett Heirs and the east right of way line of a city street in St. Charles; thence S 5° 10' E. 100.0 feet following the east right of way of the city street; thence, N. 88° 30' E. 100.0 feet to a stake; thence N. 5° 10' W. 100.0 feet to a stake; in the property line between the Garrett Heirs and Rose Lee Mackey; thence, S. 88° 30' W. 100.0 feet following the Mackey-Garrett line to the point of beginning and containing 0.23 acres more or less.

Subject to all oil, gas, coal and mineral reservations.

Being a part of the same property conveyed to Tolbert Garrett by Buck Run Coal Co., by deed dated February 14, 1923, and recorded in Deed Book 119, page 57, Hopkins County Court Clerk's office; the first parties inherited said property from said Tolbert Garrett by virtue of the laws of descent and distribution of Kentucky.



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TO HAVE AND TO HOLD the foregoing described real estate together with all improvements thereon and appurtenances thereunto belonging unto the second party, South Hopkins Water District, their successors and assigns, with covenant of General Warranty of title.

IN WITNESS WHEREOF the first parties have hereunto set their hands the day and year first above written.

Witness to Signature by  
Mark: George C. Lebeck  
This instrument was prepared by:  
George C. Lebeck ATTORNEY  
PHILIPSTON, KENTUCKY

Annie Cunningham  
Maxie Cunningham  
Mark  
Virginia Mae Cox  
Geneva Henry  
Chester Henry

July 9, 1968

STATE OF KENTUCKY  
COUNTY OF Hopkins

I, James C. Lebeck, a Notary Public in and for the state and county aforesaid, hereby certify that the foregoing deed from Annie Cunningham and Maxie Cunningham, her husband, and Virginia Mae Cox ~~Successors in title~~ and Geneva Henry and Chester Henry, her husband, heirs of Tolbert Garrett, to South Hopkins Water District, was this day produced before me in my county by Annie Cunningham and Maxie Cunningham, her husband, and ~~Garrett~~ and heirs of Tolbert Garrett, who each signed and acknowledged it to be their act and deed for the uses and purposes therein mentioned.

WITNESS my hand and notarial seal this 27 day of July, 1968. My Commission expires: Feb. 9, 1972.

James C. Lebeck  
NOTARY PUBLIC, COUNTY OF KY.



## EXHIBIT C

### PROJECT DESCRIPTION, NEED & MAP





## Drinking Water Project Profile

---

Legal Applicant:	South Hopkins Water District		
Project Title:	South Hopkins Water Tank Rehabilitation and Improvement Project		
Project Number:	WX21107052	View Map	Submitted By: PEADD
Funding Status:	Fully Funded	Primary County:	Hopkins
Project Status:	Approved	Planning Unit:	Hopkins
Project Schedule:	0-2 Years	Multi-County:	Yes
E-Clearinghouse SAI:	KY201703060417	ECH Status:	Approved
Applicant Entity Type:	Water District (KRS 74)	ADD WMC Contact:	Jamie Lawrence
Date Approved (AWMPC):	12-08-2017		

---

### Project Description:

This project is seeking funds to rehabilitate two existing water tanks. The first tank is an elevated water tank and is located in the City of Saint Charles. This tank needs immediate attention is in immediate danger of leaking. Specifically, this project will replace the existing riser with a new riser, raise the fill pipe, and repair the sheet metal. Additionally, this tank will be cleaned and painted.

The second water tanking is a ground tank located in eastern Caldwell county and owned and operated by the South Hopkins Water District. The district is seeking funds on this tank to install a mixing system that will reduce disinfection byproducts. Additionally, the district intends to sand blast and clean the tank and also paint the inside and outside of the water tank.

### Need for Project:

Briefly describe how this project promotes public health or achieves and/or maintains compliance with the Clean Water Act or Safe Drinking Water Act:

The Saint Charles elevated water tank is in danger of leaking. A major water leak could potentially cause water shortages within the service area of this water tank. The Caldwell County Water Tank will install a mixing system that will reduce TTHM levels and other potential contaminate levels. Specifically, the South Hopkins Water District is trying to ensure compliance with the Clean Water Act by installing these mixers.

### Project Alternatives:

Alternate A:

Do nothing.

Alternate B:

Only complete rehabilitation on the Saint Charles Water Tank.

---

### Legal Applicant:

Entity Type: Water District (KRS 74)

PSC Group ID: 30100

Entity Name: South Hopkins Water District

Web URL:

Office Email: southhopkinswate@bellsouth.net

Office Phone: 270-797-5760

Toll Free:

Fax: 270-797-3800

Mail Address Line 1: PO Box 487

Phys Address Line 1:

Mail Address Line 2:

Phys Address Line 2:

Mail City, State Zip: Dawson Springs, KY 42408

Phys City, State Zip:

Contact: John Blalock

Financial Contact:

Auth Official: Bob Tucker

Contact Title: Superintendent

Financial Contact Title:

Auth Official Title: Chairman

southhopkinswate@bellsouth

Contact Email: h.net

Financial Contact Email:

Auth Official Email:

Contact Phone: 270-797-5760

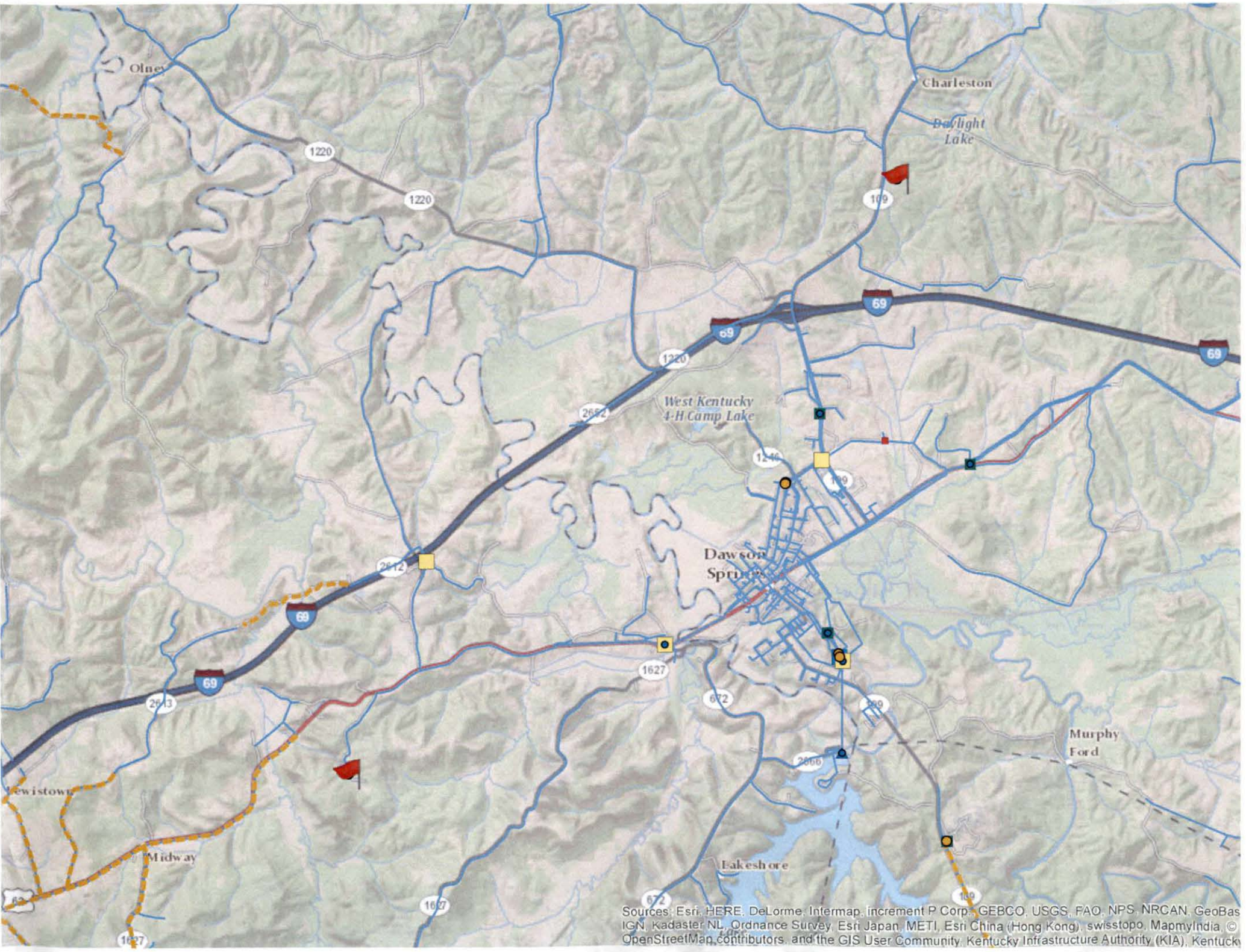
Financial Contact Phone:

Auth Official Phone:

Data Source: Kentucky Infrastructure Authority

Date Last Modified: 08.10.2012





Sources: Esri, HERE, DeLorme, Intermap, increment P Corp., GEBCO, USGS, FAO, NPS, NRCAN, GeoBas, IGN, Kadaster NL, Ordnance Survey, Esri Japan, METI, Esri China (Hong Kong), swisstopo, MapmyIndia, © OpenStreetMap contributors, and the GIS User Community, Kentucky Infrastructure Authority (KIA), Kentucky