

**SANDY HOOK WATER DISTRICT**  
**AUDIT OF FINANCIAL STATEMENTS**  
**For The Year Ended December 31, 2020**

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# *Morgan and Associates, LLC*

*Brenda K. Morgan, CPA*

749 Broadway Street  
P.O. Box 428  
West Liberty, KY 41472

Phone: (606) 743-1884  
Fax: (606) 743-1895  
[www.bkmorgancpa.com](http://www.bkmorgancpa.com)

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Commissioners  
Sandy Hook Water District  
Sandy Hook, Kentucky

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

We have audited the accompanying financial statements of the business-type activities of Sandy Hook Water District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Sandy Hook Water District's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

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

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

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

To the Board of Commissioners  
Sandy Hook Water District  
Sandy Hook, Kentucky

### ***Opinion***

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

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of the District's Pension Contributions, the Schedule of the District's Proportionate Share of the OPEB Liability, and the Schedule of the District's OPEB Contributions listed in the table of contents 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2021, on our consideration of Sandy Hook 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sandy Hook Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sandy Hook Water District's internal control over financial reporting and compliance.

*Morgan and Associates, LLC*

Morgan and Associates, LLC  
West Liberty, Kentucky  
March 22, 2021

**SANDY HOOK WATER DISTRICT**  
**STATEMENT OF NET POSITION**  
**December 31, 2020**

**ASSETS**

**CURRENT ASSETS**

Cash - Unrestricted	\$ 240,287
Cash - Restricted	252,083
Accounts Receivable	75,332
Prepaid Expenses	<u>7,145</u>

Total Current Assets	574,847
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**NONCURRENT ASSETS**

Capital Assets - Net of Accumulated Depreciation

Land	146,998
Construction in Progress	22,498
Land Improvements	3,342
Buildings and Building Improvements	633,318
Wells and Springs	272,675
Electric Pumping Equipment	20,402
Transmission and Distribution	4,925,421
Treatment Plant	19,386
Miscellaneous Equipment	22,750
Transportation Equipment	29,393
Furniture and Fixtures	<u>106</u>

Total Capital Assets - Net of Accumulated Depreciation	6,096,289
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Cash - Restricted	<u>226,921</u>
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Total Noncurrent Assets	<u>6,323,210</u>
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<b>TOTAL ASSETS</b>	<b>6,898,057</b>
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**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows - Pension	134,169
Deferred Outflows - OPEB	103,422

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

**SANDY HOOK WATER DISTRICT**  
**STATEMENT OF NET POSITION**  
**December 31, 2020**

**LIABILITIES AND NET POSITION**

**CURRENT LIABILITIES**

Accrued Interest	27,149
Due to City of Sandy Hook	27,807
Accrued Taxes	4,759
Accrued Salaries	1,611
Unearned Revenues	30,472
Accrued Retirement	4,853
Accrued Health Insurance	3,711
Accounts Payable	8,052
Bonds Payable	50,000
Total Current Liabilities	<u>158,414</u>

**LONG-TERM LIABILITIES**

Bonds Payable	1,182,482
Compensated Absences	11,000
Total Long-Term Liabilities	<u>1,193,482</u>

**OTHER LIABILITIES**

Net Pension Liabilities	654,551
Net OPEB Liabilities	205,998
Customer Deposits	24,570
Total Other Liabilities	<u>885,119</u>

**TOTAL LIABILITIES** 2,237,015

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows - Pension	12,455
Deferred Inflows - OPEB	39,962

**NET POSITION**

Invested in Capital Assets, Net of Related Debt	4,863,807
Restricted for:	
Debt Service	224,276
Depreciation Reserve	197,134
Sewer Collections	27,807
Unrestricted	<u>(466,808)</u>

**TOTAL NET POSITION** 4,846,216

**TOTAL LIABILITIES AND NET POSITION** \$ 7,135,648

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

**SANDY HOOK WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSTION**  
**For The Year Ended December 31, 2020**

OPERATING REVENUES

Water Sales	\$ 708,851
Service Revenues	6,730
Miscellaneous Revenues	<u>20,177</u>
Total Operating Revenues	735,758

OPERATING EXPENSES

Water Expenses	
Advertising	326
Depreciation	211,395
Dues and Subscriptions	4,065
Miscellaneous	12,033
Office Supplies	3,154
Payroll Taxes	17,684
Postage and Freight	5,740
Professional Services	11,788
Insurance	57,676
Workers Comp	5,213
Repairs and Maintenance	37,864
Retirement	124,816
OPEB	31,642
Salaries and Wages	253,469
Supplies and Testing	12,345
Taxes and Licenses	2,279
Telephone and Utilities	67,456
Travel and Automobile	<u>11,862</u>
Total Operating Expenses	<u>870,807</u>

NET OPERATING INCOME (LOSS)	(135,049)
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The accompanying notes are an integral part of the financial statements.

**SANDY HOOK WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**For The Year Ended December 31, 2020**

NON OPERATING REVENUES (EXPENSES)

Grant Proceeds	12,775
Interest Expense	(51,152)
Interest Income	<u>974</u>
Total Non Operating Revenues (Expenses)	<u>(37,403)</u>
Net Change in Net Position	(172,452)
Net Position - Beginning	<u>5,018,668</u>
Total Net Position - Ending	<u><u>\$ 4,846,216</u></u>

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



**SANDY HOOK WATER DISTRICT  
STATEMENT OF CASH FLOWS  
For The Year Ended December 31, 2020**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Payments from Customers	\$ 737,924
Payments for Sewer Collection Fees	8,805
Miscellaneous Revenue	17,307
Payments to Vendors	(225,601)
Payments for Payroll and Related Expenses	<u>(325,680)</u>
Net Cash Provided (Used) by Operating Activities	212,755

**CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES**

Capital Asset Additions	(39,398)
Grant Proceeds	12,775
Interest Paid on Debt	(51,152)
Payments on Capital Debt	<u>(47,500)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	(125,275)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Cash Received from Interest	<u>974</u>
Net Cash Provided (Used) by Investing Activities	<u>974</u>

INCREASE (DECREASE) IN CASH	88,454
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CASH AT BEGINNING OF YEAR	<u>630,837</u>
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CASH AT END OF YEAR	<u><u>\$ 719,291</u></u>
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The accompanying notes are an integral part of the financial statements.

**SANDY HOOK WATER DISTRICT  
STATEMENT OF CASH FLOWS  
For The Year Ended December 31, 2020**

Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:

Net Operating Income (Loss)	\$ (135,049)
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	211,395
Changes in Assets/Liabilities:	
Accounts Receivable	1,332
Accounts Payable	986
Accrued Taxes	815
Accrued Retirement	(1,410)
Accrued Insurance	(207)
Unearned Income	27,639
Due to City of Sandy Hook	(795)
Customer Deposits	100
Net Pension Liability	86,562
OPEB Liability	70,198
Deferred Inflows	(21,230)
Deferred Outflows	(27,581)
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Net Cash Provided (Used) by Operating Activities	<u><u>\$ 212,755</u></u>

Supplementary Information

Interest Expensed	<u><u>\$ 51,152</u></u>
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The accompanying notes are an integral part of the financial statements.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2020**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the Sandy Hook Water District (the District) is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, who are responsible for their integrity and objectivity. These accounting policies, as applied to the aforementioned financial statements, conform to generally accepted accounting principles applicable to governmental units.

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission ("PSC") pursuant to KRS 278.040.

Organization & Activity

The District was created in accordance with Chapter 74 of the Kentucky Revised Statutes in 1957. The purpose of the District is to provide water services to residents in Sandy Hook, Kentucky and the surrounding area.

Financial Reporting Entity

The District complies with GASB Statements No. 14, "The Financial Reporting Entity" and No. 39, "Determining Whether Certain Organizations Are Component Units." These Statements establish standards for defining and reporting on the financial reporting entity. They define component units as legally separate organizations for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District is not considered a component unit of any other governmental unit for financial reporting purposes.

The District considered all potential component units in determining what organizations should be included in its financial statements. Based on an evaluation of the established criteria, management determined that there were no component units to include in the District's financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America.

All activities of the District are accounted for within a single proprietary (enterprise reporting) entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2020**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Position. Net Position is segregated into “invested in capital assets, net of related debt,” “restricted,” and “unrestricted” components.

The District’s various bond resolutions or ordinances require the establishment of certain accounts, which are referred to as “funds”. These required accounts are maintained as part of accounting records of the Water Fund. They include the Sinking Fund (Debt Service), Revenue Fund and Depreciation Reserve Fund (Repairs and Maintenance). These are not “funds” as the term is used in generally accepted accounting principles, but are separate “accounts” used to delineate the accounting and reporting for bond related money and repayment security requirements. The balances and activity that occur in these various accounts represent specific segments of the Water Utility enterprise fund as reported in the District’s financial statements.

The enterprise fund used by the District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the District’s ongoing operations. The principal operating revenues are charges to customers for sales and services that are provided to them. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water system. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Budgeting

In accordance with Kentucky Revised Statute 65.065, the District is required to submit a balanced budget to the Elliott County Fiscal Court prior to December 1. The budget includes proposed expenditures and means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at calendar year end.

Allowance for Doubtful Accounts

No allowance for doubtful accounts has been established. The District considers all receivables to be fully collectible based on their strict cut-off policy. If amounts become uncollectible, the amounts due are offset by any customer deposit held and the balance charged to operations when that determination is made.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2020**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Accounts Receivables

Accounts receivables are stated at face amount and include billed and unbilled receivables due as of December 31, 2020. Unbilled receivables represent income earned during the current year, but not yet billed to the customer. The billing mailed on December 28, 2020 was for customer usage from approximately November 26 through December 25, 2020. The entire amount is considered accounts receivable as of December 31, 2020. The billing mailed on January 27, 2021 was for usage from approximately December 26, 2020 through January 25, 2021. Approximately five days of this billing is considered unbilled receivables at December 31, 2020.

Deposits and Investments

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Property, Plant and Equipment

Capital assets, which include property, plant, equipment, and infrastructure assets, e.g., water distribution systems, and similar items, are reported as a component of noncurrent assets in the basic financial statements. Capital assets are generally defined by the District as being those assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The reported value excludes the costs of normal maintenance and repairs that are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

Depreciation is charged as an expense against operations. Capital assets of the District are depreciated using the straight-line method over their estimated useful lives in years.

The depreciation expense provided on proprietary fund assets during the period ended December 31, 2020 is \$211,395

Capitalized Interest On Indebtedness

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed. There was no capitalized interest in 2020.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2020**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Cash and Cash Equivalents

For the purpose of these financial statements, cash and cash equivalents consist of unrestricted and restricted cash on hand, demand and savings deposits and certificates of deposit.

Inventory and Prepaid Items

The District maintains an inventory of supplies to make minor repairs to the water district systems. It is the policy of the water district to expense the items as they are purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. An example of a prepaid item for the District is property and liability insurance premiums.

Restricted Net Position

Some of the District's assets have certain constraints that have been placed on how they can be used. By definition, restricted assets are cash or other assets, whose use in whole or in part are restricted for specific purposes bound by virtue of contractual agreements, legal requirements or enabling legislation.

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. The "debt service" accounts are used to segregate resources accumulated for debt service payments over the next twelve months. The "depreciation reserve" account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals, replacements and extensions.

The District collects sewer revenues on behalf of the City of Sandy Hook. The amount owed to the City of Sandy Hook as of December 31, 2020 is reported as a component of restricted net position. The amount owed the City of Sandy Hook includes current collections due and unearned sewer revenues.

Federal Income Tax

The District is exempt from federal income tax since it is a governmental entity. Accordingly, the financial statements include no provision for income taxes.

Use of Estimates

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

**SANDY HOOK WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2020**

**NOTE B – RESTRICTIONS ON CASH**

Bond Sinking Fund

Deposits into a Bond Sinking Fund are required to be made monthly in order to accumulate funds for payment of bond principle and interest. At December 31, 2020, \$99,894 was required to be on deposit to meet payments of interest and principal due on bonds at January 1, 2021. The balance in this account at December 31, 2020 was \$224,276.

Depreciation Reserve

The Depreciation Reserve Account is being maintained as required in various bond documents. The District was required to deposit \$210 per month into the account. At December 31, 2020, \$77,950 was the required balance of the Depreciation Reserve account. The District had \$175,543 in this account for the purpose of maintaining the water system.

Restricted Cash Accounts

The District is required to maintain special deposit accounts for customer deposits and long-term debt obligations. The following is a listing of restricted cash accounts of the District:

Customer Deposit Fees Account	\$ 29,787
Short Lived Asset Account	21,591
Sewer Revenue Held for the City of Sandy Hook	27,807
Bond and Interest Sinking Fund	224,276
Depreciation Reserve Fund	<u>175,543</u>
Total Restricted Cash Accounts	<u><u>\$ 479,004</u></u>

**NOTE C – NET POSITION**

Equity is classified as net position and displayed in three components:

- Invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets;
- Restricted net position - resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and
- Unrestricted net position - those assets that do not meet the definition of restricted net position or invested in capital assets.

**NOTE D – FAIR VALUE MEASUREMENT**

GASB Statement No. 72, Fair Value Measurement and Application, became effective in fiscal year 2016 which requires the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques.

The carrying amount of the following financial instruments approximate fair value because of the short maturity of the instruments: cash equivalents and accounts receivable.

**SANDY HOOK WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2020**

**NOTE E – CASH AND INVESTMENTS**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds 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 or provision of collateral should be evidenced by an agreement between the District and the depository institution, signed by both parties, that is (a) in writing, (b) 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 (c) an official record of the depository institution. As of December 31, 2020, these requirements were met.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2020, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**NOTE F – INSURANCE COVERAGE**

The District is exposed to various risks of loss. The District carries commercial insurance for risks of loss. As of December 31, 2020, there were no known losses for which an accrual was considered necessary and no estimated claims that have been incurred, but not reported. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**NOTE G – PROPERTY, PLANT, AND EQUIPMENT**

The District's major classes of utility capital assets and accumulated depreciation are shown below:

	Balance 12/31/2019	Additions	Disposals	Balance 12/31/2020
Land	\$ 146,998	\$	\$	\$ 146,998
Construction in Progress	6,100	16,398		22,498
Land Improvements	16,320			16,320
Building & Building Improvements	916,761			916,761
Wells and Springs	328,896			328,896
Transmission and Distribution	7,945,362			7,945,362
Treatment Plant	420,514			420,514
Electric Pumping Equipment	46,595			46,595
Miscellaneous Equipment	140,627			140,627
Furniture and Fixtures	3,896			3,896
Transportation Equipment	85,326	23,000		108,326
Total	10,057,395	39,398		10,096,793



**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2020**

**NOTE G – PROPERTY, PLANT, AND EQUIPMENT (Continued)**

	Balance 12/31/2019	Additions	Disposals	Balance 12/31/2020
<b>Accumulated Depreciation:</b>				
Land Improvements	12,590	388		12,978
Buildings & Building Improvements	264,576	18,867		283,443
Wells and Springs	54,996	1,227		56,223
Transmission & Distribution	2,863,159	156,782		3,019,941
Treatment Plant	390,099	11,028		401,127
Electric Pumping Equipment	24,073	2,118		26,191
Miscellaneous Equipment	109,910	7,967		117,877
Furniture and Fixtures	3,736	53		3,789
Transportation Equipment	65,971	12,964		78,935
<b>Total</b>	<b>3,789,110</b>	<b>211,394</b>		<b>4,000,504</b>
<b>Fixed Assets Net of A/D</b>	<b>\$ 6,268,285</b>	<b>\$ (171,996)</b>	<b>\$ 0</b>	<b>\$ 6,096,289</b>

**NOTE H – BONDS AND NOTE PAYABLE**

**1. Waterworks Revenue Series 1988**

On May 25, 1988, the District entered into an agreement with Rural Development to issue \$237,000 in Waterworks Revenue Bonds for the purpose of financing the cost of the construction of extensions, additions, and improvements to the existing waterworks system of the District. Semiannual interest payments at a rate of 6.25% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2020, the principal balance outstanding was \$109,000. Debt service requirements for year ending December 31, 2020, and thereafter are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
2021	\$ 11,000	\$ 6,812
2022	11,000	6,126
2023	12,000	5,438
2024	13,000	4,688
2025	14,000	3,876
2026-2029	48,000	6,124
<b>Totals</b>	<b>\$ 109,000</b>	<b>\$ 33,064</b>

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2020**

**NOTE H – BONDS AND NOTE PAYABLE (Continued)**

**2. Waterworks Revenue Bond Series 1991**

On July 24, 1991, the District entered into an agreement with Rural Development to issue \$316,000 in Waterworks Revenue Bonds for the purpose of the construction of extensions, additions, and improvements to the existing waterworks system of the District. Semiannual interest payments at a rate of 5% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2020, the principal balance outstanding was \$143,000. Debt service requirements for year ending December 31, 2020, and thereafter are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
2021	\$ 11,000	\$ 7,150
2022	12,000	6,600
2023	13,000	6,000
2024	13,000	5,350
2025	14,000	4,700
2026-2030	80,000	12,300
Totals	<u>\$ 143,000</u>	<u>\$ 42,100</u>

**3. Waterworks Revenue Bonds Series 1995**

On April 27, 1995, the District entered into an agreement with Rural Development to issue \$259,000 in Waterworks Revenue Bonds for the purpose of the construction of extensions, additions, and improvements to the existing waterworks system of the District. Semiannual interest payments at a rate of 4.5% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2020, the principal balance outstanding was \$150,000. Debt service requirements for year ending December 31, 2020, and thereafter are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
2021	\$ 8,000	\$ 6,750
2022	8,000	6,390
2023	9,000	6,030
2024	9,000	5,626
2025	9,500	5,220
2026-2030	53,000	19,372
2031-2034	53,500	6,166
Totals	<u>\$ 150,000</u>	<u>\$ 55,554</u>

**SANDY HOOK WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2020**

**NOTE H – BONDS AND NOTE PAYABLE (Continued)**

**4. Waterworks Revenue Bonds Series 2001**

On June 20, 2001, the District entered into an agreement with Rural Development to issue \$495,000 Waterworks Revenue Bonds for the purpose of the construction of extensions, additions, and improvements to the existing waterworks system of the District. Semiannual interest payments at a rate of 4.5% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2020, the principal balance outstanding was \$368,000. Debt service requirements for year ending December 31, 2020, and thereafter are as follows:

Year Ended December 31	Scheduled Principal	Scheduled Interest
2021	\$ 11,000	\$ 16,560
2022	11,500	16,066
2023	12,000	15,548
2024	12,500	15,008
2025	13,000	14,446
2026-2030	74,000	62,932
2031-2035	92,500	44,688
2036-2040	115,000	21,938
2041	26,500	1,192
Totals	<u>\$ 368,000</u>	<u>\$ 208,378</u>

**5. Waterworks Revenue Bonds Series 2014**

On July 21, 2014, the District entered into an agreement with Rural Development to issue \$504,000 Waterworks Revenue bonds for the purpose of the construction of extensions, additions and improvements to the existing waterworks system of the District. Semiannual interest payments at a rate of 2.75% are required on January 1 and June 1 with principal amount due each January 1. As of December 31, 2020, the principal balance outstanding was \$462,482. Debt service requirements for year ending December 31, 2020, and thereafter are as follows:

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2020**

**NOTE H – BONDS AND NOTE PAYABLE (CONTINUED)**

**5. Waterworks Revenue Bonds Series 2014 (Continued)**

Year Ended December 31	Scheduled Principal	Scheduled Interest
2021	\$ 9,000	\$ 12,622
2022	9,000	12,375
2023	9,500	12,121
2024	9,500	11,859
2025	10,000	11,591
2026-2030	53,000	53,693
2031-2035	61,000	45,883
2036-2040	69,500	36,927
2041-2045	80,000	26,676
2046-2050	92,500	14,816
2051-2053	59,482	2,496
Totals	<u>\$ 462,482</u>	<u>\$ 241,059</u>

**6. Long Term Debt Maturity in the Aggregate**

Year Ended December 31	Scheduled Principal	Scheduled Interest
2021	\$ 50,000	\$ 49,894
2022	51,500	47,557
2023	55,500	45,137
2024	57,000	42,531
2025	60,500	39,833
2026-2030	308,000	154,421
2031-2035	207,000	96,737
2036-2040	184,500	58,865
2041-2045	106,500	27,868
2046-2050	92,500	14,816
2051-2054	59,482	2,496
Totals	<u>\$ 1,232,482</u>	<u>\$ 580,155</u>

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2020**

**NOTE H – BONDS AND NOTE PAYABLE (CONTINUED)**

**7. Changes in Long-term Liabilities**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-type Activities:</u>					
Revenue Bonds	\$ 1,279,982	\$ 0	\$ 47,500	\$ 1,232,482	\$ 50,000
<u>Business-type Activities</u>					
Long-term Liabilities	<u>\$ 1,279,982</u>	<u>\$ 0</u>	<u>\$ 47,500</u>	<u>\$ 1,232,482</u>	<u>\$ 50,000</u>

The total interest expense incurred by the District during the current fiscal year was \$51,152.

**NOTE I – RETIREMENT**

*General Information about the Retirement Plan*

The District has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement System. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five (5) percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six (6) percent of their salary to be allocated as follows: 5% will go to the member's account and 1% will go to the KRS insurance fund. The District's contribution rate for nonhazardous employees was 24.06 percent for the first six months of 2020 and 24.06 percent for the last six months of 2020.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% (nonhazardous) of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District's contribution for calendar year 2018 was \$43,506, 2019 was \$54,493, and 2020 was \$68,418.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2020**

**NOTE I – RETIREMENT (Continued)**

*General Information about the Pension Plan (Continued)*

Benefits fully vest on reaching five (5) years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months credit.

CERS also provides post-retirement health care coverage as follows:

For member participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>	<u>% Paid by Member through Payroll Deduction</u>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, by telephone at (502) 564-4646 or at [www.kyret.ky.gov](http://www.kyret.ky.gov).

*Pension Liabilities*

At December 31, 2020, the District has a liability of \$654,551 for its proportionate share of the net pension liability for non-hazardous retirement. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 using standard roll-forward techniques. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At December 31, 2020, the District's proportion was .008534%.

**SANDY HOOK WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2020**

**NOTE I – RETIREMENT (Continued)**

*Pension Liabilities (Continued)*

For the year ended December 31, 2020, the District recognized pension expense of \$124,816. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**SCHEDULE OF DEFERRED INFLOWS AND OUTFLOWS**

<b>NON-HAZARDOUS</b>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Liability Experience	\$ 16,322	\$
Assumption Changes	25,559	
Investment Experience	28,373	11,993
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	42,729	462
District Contributions Subsequent to Measurement Date	<u>21,186</u>	
Total	<u>\$ 134,169</u>	<u>\$ 12,455</u>

The collective amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Non-Hazardous</u>
2021	\$ 51,333
2022	\$ 33,336
2023	\$ 9,279
2024	\$ 6,579
2025	\$ 0
Thereafter	\$ 0

Actuarial Methods and Assumptions for Determining the Total Pension Liability and Net Pension Liability

For financial reporting, the actuarial valuation as for June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2020. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

**SANDY HOOK WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2020**

**NOTE I – RETIREMENT (Continued)**

*Pension Liabilities (Continued)*

Actuarial Methods and Assumptions for Determining the Total Pension Liability and Net Pension Liability (Continued)

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the table below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>Growth</b>	<b>62.50%</b>	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
<b>Liquidity</b>	<b>14.50%</b>	
Core Bond	13.50%	1.35%
Cash	1.00%	20.00%
<b>Diversifying Strategies</b>	<b>23.00%</b>	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
<b>Expected Real Return</b>	<b>0%</b>	<b>3.96%</b>
<b>Long Term Inflation Assumption</b>		<b>2.30%</b>
<b>Expected Nominal Return for Portfolio</b>		<b>6.26%</b>



**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2020**

**NOTE I – RETIREMENT (Continued)**

*Pension Liabilities (Continued)*

Discount Rate

The projection of cash flows used to determine the discount rate of 6.25% for the CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 30 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

The following presents the net pension liability of the District, calculated using the discount rate of percent, as well as what the District's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.25 percent) or one-percentage-point higher (7.25 percent) than the current rate for non-hazardous:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
<b>NON-HAZARDOUS</b>			
District's Net Pension Liability	\$ 807,203	\$ 654,551	\$ 528,148

Actuarial Methods and Assumptions Used to Determine the Actuarially Determined Contributions Effective for Fiscal Year Ending June 30, 2020

Valuation Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of the assets is recognized
Amortization Method	Level Percent of Pay
Remaining Amortization Period	25 Years, Closed
Payroll Growth Rate	2.00%
Investment Return	6.25%
Inflation	2.30%
Salary Increases	3.30% to 11.55%, varies by service
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

**NOTE J – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

At December 31, 2020, the net OPEB liability and the related deferred outflows of resources and deferred inflows of resources are as follows:

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2020**

**NOTE J – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

Plan Description

Employees of the District are provided hospital and medical insurance through the Kentucky Retirement System's Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing the Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and the Net OPEB Liability

For financial reporting the actuarial valuation as for June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2018 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2019 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2020, is determined using these updated benefit provisions.

Based on the June 30, 2018 actuarial valuation report, the actuarial methods and assumptions used to calculate employer contributions are:

Valuation Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of the assets is recognized
Amortization Method	Level Percent of Pay
Remaining Amortization Period	25 Years, Closed
Payroll Growth Rate	2.00%
Investment Return	6.25%
Inflation	2.30%
Salary Increases	3.30% to 11.55%, varies by service
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Post – 65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with the HB 362 enacted in 2018

**SANDY HOOK WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2020**

**NOTE J – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

Discount Rate

The projection of cash flows used to determine the discount rate of 5.34% for CERS non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and the municipal bond rate 2.45%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payment associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

Long-Term Expected Rate of Return

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>Growth</b>	<b>62.50%</b>	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
<b>Liquidity</b>	<b>14.50%</b>	
Core Bond	13.50%	1.35%
Cash	1.00%	20.00%
<b>Diversifying Strategies</b>	<b>23.00%</b>	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
<b>Expected Real Return</b>	<b>0%</b>	<b>3.96%</b>
<b>Long Term Inflation Assumption</b>		<b>2.30%</b>
<b>Expected Nominal Return for Portfolio</b>		<b>6.26%</b>

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2020**

**NOTE J – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

Deferred Inflows and Outflows of Resources

The deferred inflows and outflows of resources and OPEB Expense columns included in the Schedule of OPEB Amounts by Employer include only certain categories of deferred inflows of resources and deferred outflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule of OPEB Amounts by Employer does not include deferred inflows/outflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net OPEB liability as of June 30, 2020 is based on the June 30, 2019 actuarial valuation rolled forward. Deferred inflows and outflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period.

Sensitivity of the Net OPEB to Changes in the Discount Rate

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.34%) or one percentage point higher (6.34%) follows:

<b>NON-HAZARDOUS</b>	<u>1 % Decrease (4.34%)</u>	<u>Current Discount Rate (5.34%)</u>	<u>1% Increase (6.34%)</u>
District's OPEB Liability	\$ 264,647	\$ 205,998	\$ 157,827

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current healthcare cost trend rates follows:

<b>NON-HAZARDOUS</b>	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1 % Increase</u>
District's OPEB Liability	\$ 159,494	\$ 205,998	\$ 262,431

OPEB Liabilities, OPEB Expense and Deferred Inflows of Resources Related to OPEB

At December 31, 2020, the District reported a liability of \$205,998 (non-hazardous) for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2020 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year June 30, 2020. This method is to be reflective of the employers' long-term contribution effort. At December 31, 2020, the District's proportion was 0.008531%, non-hazardous.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2020**

**NOTE J – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

OPEB Liabilities, OPEB Expense and Deferred Inflows of Resources Related to OPEB (Continued)

For the year ended December 31, 2020, the District recognized OPEB expense of \$31,642 nonhazardous. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<b>NON-HAZARDOUS</b>	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability Experience	\$ 34,418	\$ 34,445
Changes in assumptions	35,831	218
Investment Experience	11,050	4,203
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	16,981	1,096
District Contributions Subsequent to the Measurement Date	5,142	
Total	<u>\$ 103,422</u>	<u>\$ 39,962</u>

The \$(7,878) (non-hazardous) of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending December 31, 2020. Other amounts reported as deferred outflows or resources and deferred inflows of resources will be recognized in OPEB expense as follows:

	Non-Hazardous
2021	\$ 15,035
2022	\$ 17,061
2023	\$ 13,172
2024	\$ 12,851
2025	\$ 200
Thereafter	\$ 0

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Those changes in net OPEB liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual expense are amortized over the weighted average remaining service life of all participants in the respective qualified OPEB plan and recorded as a component of OPEB expense beginning with the period in which they are incurred.

**NOTE K – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through March 22, 2021, which is the date the financial statements were available to be issued.

**SANDY HOOK WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2020**

**NOTE L – COMPENSATED ABSENCES**

It is the District's policy to permit its employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave because the District does not have a policy to pay any amounts when employees separate from service with the District. The unused vacation or annual leave is considered a vested employee benefit.

In recognition of the resulting obligation, the District has accrued a liability for earned but unused vacation leave, having determined that payment of such compensation is probable and having developed a reasonable estimate based upon current salary costs and annual leave balances as of December 31, 2020. The liability for compensated absences at December 31, 2020 was \$11,000.

**NOTE M – CONSTRUCTION IN PROGRESS**

The District began the construction process, i.e. assessments, land purchase, etc. for a water treatment plant. Construction in progress at December 31, 2020 was \$16,398.

**NOTE N – PUBLIC SERVICE COMMISSION MANDATE**

During the year ended December 31, 2020, the Public Service Commission, the governing agency of water districts, issued a mandate prohibiting late charges and cutoffs due to the COVID 19 pandemic from April through December. This caused a reduction in penalties and disconnection revenue.

**SUPPLEMENTAL INFORMATION**

**SANDY HOOK WATER DISTRICT**  
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE**  
**NET PENSION LIABILITY**  
**December 31, 2020**

	Non-Hazardous						
	2014	2015	2016	2017	2018	2019	2020
<i>(Actuarial Valuation Report Year)</i>							
District's Proportion of the Net Pension Liability (Asset)	0.006757%	0.007350%	0.007220%	0.007193%	0.007120%	0.008640%	0.008534%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 219,000	\$ 316,014	\$ 355,356	\$ 329,031	\$ 433,630	\$ 567,989	\$ 654,551
District's Covered-Employee Payroll	\$ 154,733	\$ 168,911	\$ 169,858	\$ 172,294	\$ 174,062	\$ 200,455	\$ 218,595
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	141.53%	187.09%	209.21%	190.97%	249.12%	283.35%	299.44%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	59.97%	55.50%	53.30%	57.62%	50.45%	47.81%

**Note:**

This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 68.



**SANDY HOOK WATER DISTRICT**  
**SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS**  
**December 31, 2020**

(Actuarial Valuation Report Year)	Non-Hazardous						
	2014	2015	2016	2017	2018	2019	2020
Contractually Required Pension Contribution	\$ 21,298	\$ 21,846	\$ 20,515	\$ 24,431	\$ 25,552	\$ 33,042	\$ 42,189
Pension Contributions in Relation to the Contractually Required Contribution	21,367	21,536	20,515	24,431	25,552	33,042	42,189
Pension Contribution Deficiency (Excess)	\$ (69)	\$ 310	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
District's Covered-Employee Payroll	\$ 154,733	\$ 168,911	\$ 169,858	\$ 172,294	\$ 174,062	\$ 200,455	\$ 218,595
Pension Contributions as a Percentage of Covered-Employee Payroll	13.76%	12.93%	12.08%	14.18%	14.68%	16.48%	19.30%

**Note:**

This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 68.

**SANDY HOOK WATER DISTRICT**  
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE**  
**NET OPEB LIABILITY**  
**December 31, 2020**

	Non-Hazardous			
	2017	2018	2019	2020
<i>(Actuarial Valuation Report Year)</i>				
District's Proportion of the OPEB Liability (Asset)	0.006825%	0.007119%	0.008740%	0.008531%
District's Proportionate Share of the OPEB Liability (Asset)	\$ 137,206	\$ 129,361	\$ 135,801	\$ 205,998
District's Covered-Employee Payroll	\$ 172,294	\$ 174,062	\$ 200,455	\$ 218,595
District's Proportionate Share of the OPEB Liability (Asset) as a Percentage of Its Covered-Employee Payroll	79.63%	74.32%	67.75%	94.24%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	53.30%	57.62%	65.26%	51.67%

**Note:**

This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 75.

**SANDY HOOK WATER DISTRICT**  
**SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS**  
**December 31, 2020**

	<i>(Actuarial Valuation Report Year)</i>	Non-Hazardous			
		2017	2018	2019	2020
Contractually Required OPEB Contribution		\$ 8,720	\$ 10,032	\$ 10,715	\$ 10,405
OPEB Contributions in Relation to the Contractually Required Contribution		8,720	10,032	10,715	10,405
OPEB Contribution Deficiency (Excess)		\$ 0	\$ 0	\$ 0	\$ 0
District's Covered-Employee Payroll		\$ 172,294	\$ 174,062	\$ 200,455	\$ 218,595
OPEB Contributions as a Percentage of Covered-Employee Payroll		5.06%	5.76%	5.35%	4.76%

**Note:**

This schedule will eventually cover the ten (10) most recent fiscal years; however, this is the information available as of the implementation of GASB 75.

**SANDY HOOK WATER DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2020**

**Note 1. Changes in Benefit Terms**

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

**2009:** A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

**2014:** A cash balance plan was introduced for members whose participation date is on or after January 1, 2014

**Note 2. Changes of Assumption**

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

**2015:**

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal, and Disability were updated to more accurately reflect experience.

**A. Method and Assumptions Used in Calculations of Actuarially Determined Contributions**

The actuarially determined contribution rates are determined on an annual basis beginning with the fiscal years ended 2019, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 27-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

**SANDY HOOK WATER DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2020**

**Note 2. Actuarially Determined Pension Contributions (Continued)**

**A. Method and Assumptions Used in Calculations of Actuarially Determined Contributions (Continued)**

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

**B. Actuarial Methods and Assumptions used to determine the Actuarial Determined Contributions for Fiscal Year 2019**

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	27 years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00%
Investment Rate of Return	7.50% for CERS Non-hazardous

# *Morgan and Associates, LLC*

*Brenda K. Morgan, CPA*

749 Broadway Street  
P.O. Box 428  
West Liberty, KY 41472

Phone: (606) 743-1884  
Fax: (606) 743-1895  
www.bkmorgancpa.com

## **Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards***

To the Board of Commissioners  
Sandy Hook Water District  
Sandy Hook, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Sandy Hook Water District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Sandy Hook Water District's basic financial statements, and have issued our report thereon dated March 22, 2021.

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

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

**Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards***

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Sandy Hook Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

*Morgan and Associates, LLC*

Morgan and Associates, LLC  
West Liberty, Kentucky  
March 22, 2021