SOUTH ANDERSON WATER DISTRICT

FINANCIAL STATEMENT REPORT

DECEMBER 31, 2019

CONTENTS

JNM

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
South Anderson Water District
Lawrenceburg, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of South Anderson Water District (the District), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Certified Public Accountants and Advisors
401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589-1680 www.jnmcpa.com

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension and OPEB schedules on pages 23 through 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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.

Adoption of New Accounting Principle

As described in Note 6 to the financial statements, effective January 1, 2018, the District adopted a new accounting principle to record the net OPEB liability, and related deferred outflows and deferred inflows. Accordingly, amounts presented for net OPEB liability, deferred outflows and deferred inflows related to OPEB have been restated in the 2018 financial statements now presented, and a cumulative effect adjustment has been made to net position as of January 1, 2018. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Prior Period Financial Statements

The financial statements of the District, as of and for the year ended December 31, 2018 were audited by other auditors whose report dated May 16, 2019 expressed an unmodified opinion on those statements.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
September 15, 2020

SOUTH ANDERSON WATER DISTRICT

STATEMENTS OF NET POSITION
December 31, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 713,712	$ 734,922
Certificates of deposit	143,000	- -
Receivables	136,145	126,474
Inventory	51,653	49,302
Restricted assets:		
Restricted cash and cash equivalents	886,455	831,597
Total current assets	1,930,965	1,742,295
Noncurrent assets:		
Capital assets	13,720,268	13,505,854
Less accumulated depreciation	(5,167,328)	(4,863,405)
Total noncurrent assets	8,552,940	8,642,449
Other Assets		
Certificates of deposit	303,818	446,818
Total assets	10,787,723	10,831,562
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	127,930	102,038
Deferred outflows related to OPEB	55,429	39,044
Total deferred outflows of resources	183,359	141,082
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 10,971,082	$ 10,972,644

The Notes to the Financial Statements are an integral part of these statements.

SOUTH ANDERSON WATER DISTRICT

STATEMENTS OF NET POSITION (Continued)
December 31, 2019 and 2018

	2019	2018
LIABILITIES		
Current liabilities		
Current portion of long-term debt	$ 126,583	$ 120,083
Accounts payable	78,344	61,515
Other current liabilities	11,505	21,731
Accrued interest payable	25,528	25,884
Customer deposits	159,435	150,665
Total current liabilities	401,395	379,878
Noncurrent liabilities		
Long-term debt, less current portion	2,457,250	2,584,334
Net pension liability	581,000	487,407
Net OPEB liability	138,913	142,092
Total noncurrent liabilities	3,177,163	3,213,833
Total liabilities	3,578,558	3,593,711
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	33,708	67,847
Deferred inflows related to OPEB	49,493	26,961
Total deferred inflows of resources	83,201	94,808
NET POSITION		
Net invested in capital assets	6,095,690	6,058,115
Contribution in-aid	8,557,116	8,520,116
Restricted	886,455	831,597
Unrestricted (deficit)	(8,229,938)	(8,125,703)
Total net position	7,309,323	7,284,125
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 10,971,082	$ 10,972,644

The Notes to the Financial Statements are an integral part of these statements.

SOUTH ANDERSON WATER DISTRICT

STATEMENTS OF REVENUES AND EXPENSES
Years Ended December 31, 2019 and 2018

	2019	2018
REVENUE		
Water sales	$ 1,683,436	$ 1,628,674
Other water revenues	51,251	58,897
	1,734,687	1,687,571
EXPENSES		
Cost of goods sold	622,455	631,412
Salaries and wages	239,168	212,410
Comission fees	18,000	18,000
Payroll taxes and benefits	155,677	136,167
Utilities	43,200	39,188
Depreciation	311,754	303,314
Contractual Services	68,673	64,932
Chemicals and materials	147,228	185,289
Transportation	15,761	14,813
Office supplies	19,051	18,723
Rent	1,100	6,000
Bad Debt	1,864	1,876
Insurance	24,684	25,034
Total expenses	1,668,615	1,657,158
Income from operations	66,072	30,413
OTHER INCOME		
Sewer fee	12,170	11,703
Interest income	11,187	7,662
	23,357	19,365
OTHER EXPENSE		
Interest expense	101,231	108,232
Net loss	$ (11,802)	$ (58,454)

The Notes to Financial Statements are an integral part of these statements.

SOUTH ANDERSON WATER DISTRICT

STATEMENTS OF CHANGES IN NET POSITION
December 31, 2019 and 2018

	Net Position		
	Others	Contribution In-Aid	Total
Net Position - January 1, 2018, as previously reported	$ (1,047,528)	$ 8,485,166	$ 7,437,638
Cumulative effect of adoption of new accounting principle	(130,009)	- -	(130,009)
Net Position - January 1, 2018, as restated	(1,177,537)	8,485,166	7,307,629
Net loss	(58,454)	- -	(58,454)
Contribution in-aid	- -	34,950	34,950
Net Position - December 31, 2018	(1,235,991)	8,520,116	7,284,125
Net loss	(11,802)	- -	(11,802)
Contribution in-aid	- -	37,000	37,000
Net Position - December 31, 2019	$ (1,247,793)	$ 8,557,116	$ 7,309,323

The Notes to the Financial Statements are an integral part of these statements.

SOUTH ANDERSON WATER DISTRICT

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (11,802)	$ (58,454)
Adjustments to reconcile decrease in net loss to net cash provided by operating activities:		
Depreciation	311,754	303,314
Change in assets and liabilities, net of the effect of investing and financing activities:		
Accounts receivable	(9,671)	(3,724)
Inventory	(2,351)	(524)
Accounts payable	16,829	(8,679)
Accrued interest and other current liabilities	(10,582)	(1,345)
Net pension and OPEB liabilities and deferrals	36,530	38,005
Customer deposits	8,770	2,067
Net cash provided by operating activities	339,477	270,660
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, and equipment	(222,245)	(281,254)
Net cash (used in) investing activities	(222,245)	(281,254)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributed capital	37,000	34,950
Payments on long-term debt	(120,584)	(115,000)
Net cash (used in) financing activities	(83,584)	(80,050)
Net increase (decrease) in cash and cash equivalents	33,648	(90,644)
Cash and equivalents, beginning of year	1,566,519	1,657,163
Cash and equivalents, end of year	$ 1,600,167	$ 1,566,519
Reported on Statement of Net Postion as:		
Cash and cash equivalents	$ 713,712	$ 734,922
Restricted cash and cash equivalents	886,455	831,597
	$ 1,600,167	$ 1,566,519
Supplemental cash flows information		
Interest paid on long term debt	$ 101,231	$ 108,232

The Notes to the Financial Statements are an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

Nature of operations

South Anderson Water District (the District) was created pursuant to the provisions of KRS 71.440 to 71.520 for the purpose of furnishing a supply of treated water to rural Anderson County, Kentucky.

The District maintains its records in accordance with policies prescribed or permitted by the Kentucky Public Service Commission and the United States Rural Development Administration. The accompanying financial statements of the District have been prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Principal operating revenues are charges to customers for water services and principal operating expenses are the costs of providing such services, including administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements. Net position is segregated into net investment in capital assets, contribution in-aid, and unrestricted net position.

Cash and cash equivalents and restricted cash

The District considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. The District maintains its cash balances, which may exceed the federally insured limit, with several financial institutions. Management believes that credit risk related to these accounts is minimal. Certain assets of the District are classified as restricted for debt service.

Accounts receivable

Accounts receivable are stated at net realizable value with no allowance for doubtful accounts. An allowance for doubtful accounts is not considered necessary because probable uncollectible accounts are immaterial.

Inventory

Inventory represents expendable supplies which are stated at lower of cost or net realizable value on a first-in, first-out basis. They are recorded as expenditures at the time individual inventory items are used.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Certificates of deposit

Certificates of deposit are carried at cost which approximates fair value, as determined by quoted prices for similar certificates of deposit in active markets.

Property and equipment and depreciation

Utility plant and equipment with useful lives of more than one year are stated at cost, less accumulated depreciation, which is the cost when first dedicated to public service. Such basis includes applicable supervisory and overhead costs.

The cost of maintenance and repairs, including replacements of minor items of property, is charged to operating expenses. The cost of replacements of depreciable property units, as distinguished from minor items, is charged to utility plant. The cost of units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

Use of estimates

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

Revenue and cost of water

The District bills customers on the 10th of each month based on gallons of water used the prior month. The District charges all uncollectible accounts directly against current earnings. The accounts that are estimated to be uncollectible are deemed to be immaterial. The cost of water purchased is recorded during the period in which water is consumed.

Risk management

The District is exposed to various forms of losses of assets associated with, but not limited to, fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, workers compensation, etc. Each of these areas is covered through the purchase of commercial insurance.

Environmental contingency

The District from time to time is required to work with and handle chemicals and other hazardous materials in the normal course of business. As a result, there is the possibility that environmental conditions may arise which would require the District to incur cleanup costs. The likelihood of such an event, or the amount of such costs, if any, cannot be determined at this time. However, management does not believe such costs, if any, would materially affect the District's financial position or its future cash flows.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Deferred outflows/inflows of resources

In addition to assets, the statements of net position 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 future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statements of net position 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 an inflow of resources (revenue) until that time.

Net position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Note 2. Cash, Restricted Cash and Certificates of Deposit

Unrestricted and restricted cash and cash equivalents consist of the following:

	Unrestricted 2019	Unrestricted 2018
Revenue account	$ 616,332	$ 619,905
Operation & maintenance account	96,980	103,394
Local construction	- -	11,223
Petty cash	400	400
	$ 713,712	$ 734,922

	Restricted 2019	Restricted 2018
Construction extension	$ 261,393	$ 249,836
Debt service account	279,951	242,403
Interest & principal account	212,684	212,028
Regions sinking fund	132,427	127,330
	$ 886,455	$ 831,597

Note 2. Cash, Restricted Cash and Certificates of Deposit (Continued)

Custodial credit risk for deposits and investments is the risk that, in the event of failure by a financial institution, the District may not be able to recover the value of its deposits and investments or collateral securities that are in the possession of the financial institution.

At December 31, 2019 and 2018, the book balance of the District's cash and cash equivalents was $1,600,167 and $1,566,519, respectively, and the book balance of certificates of deposit was $446,818. The entire bank balances were covered by federal depository insurance or by collateralized U.S. government agency and local government agency securities held by the District's agent in the District's name.

Accounting principles generally accepted in the United States of America provides a framework for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The methodology for measuring fair value specifies a three-tier hierarchy of valuation techniques based upon whether the inputs to those valuation techniques are based on quoted prices of identical assets or liabilities (Level 1), significant other observable inputs (Level 2), or significant other unobservable inputs that reflect the District's own assumptions of market participant valuation (Level 3).

Financial instruments that are subject to fair value measurements are limited to investments. Fair values of these financial instruments have been valued using a market approach and are measured using Level 2 inputs. The fair value of short-term investments approximates its carrying amount due to the short-term nature of these instruments.

Certificates of deposit as of December 31 at Main Source Bank and Farmers Bank are listed below:

	2019	2018
Customer security deposits	$ 143,000	143,000
Extension accounts	152,500	152,500
Debt service	87,500	87,500
Reserve account	63,818	63,818
	$ 446,818	$ 446,818

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

Capital assets consist of the following:

	Balance January 1, 2019	Increases	Decreases	Balance December 31, 2019
Capital assets not being depreciated:				
Land and land rights	$ 55,798	$ 3,000	$ - -	$ 58,798
Total capital assets not being depreciated	55,798	3,000	- -	58,798
Capital assets being depreciated:				
Structures and improvements	404,760	9,117	- -	413,877
Reservoir and standpipes	359,011	- -	- -	359,011
Distribution mains	11,236,911	72,398	- -	11,309,309
Meter and meter installations	1,138,018	112,727	7,831	1,242,914
Hydrants	1,216	1,020	- -	2,236
Bulk water station	24,900	2,950	- -	27,850
Transportation equipment	175,000	- -	- -	175,000
Work equipment	52,306	1,961	- -	54,267
Office equipment	57,934	19,072	- -	77,006
Total capital assets being depreciated	13,450,056	219,245	7,831	13,661,470
Total capital assets	13,505,854	222,245	7,831	13,720,268
Accumulated depreciation:				
Structures and improvements	32,804	10,347	- -	43,151
Reservoir and standpipes	105,095	7,978	- -	113,073
Distribution mains	4,057,031	251,233	- -	4,308,264
Meter and meter installations	403,741	27,716	7,831	423,626
Hydrants	777	50	- -	827
Bulk water station	10,449	540	- -	10,989
Transportation equipment	159,487	7,500	- -	166,987
Work equipment	36,679	2,428	- -	39,107
Office equipment	57,342	3,962	- -	61,304
Total accumulated depreciation	4,863,405	311,754	7,831	5,167,328
Capital assets, net	$ 8,642,449			$ 8,552,940

Depreciation expense is provided on the straight-line basis over the estimated useful lives of the assets. Depreciation rates range from 5 to 50 years. Depreciation expense for the years ended December 31, 2019 and 2018 was $311,754 and $303,314, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 4. Long-Term Debt

Substantially all assets are pledged as collateral on the long-term debt to the United States Rural Development Administration ("USDA") and Kentucky Rural Water Association ("KRWA") Series 2012B. Long term debt consists of:

	Interest Rate	Balance January 1, 2019	Increases	Decreases	Balance December 31, 2019	Due Within One Year
USDA Rural Development	5.0000%	$ 10,000	$ - -	$ 3,000	$ 7,000	$ 3,500
USDA Rural Development	4.1250%	299,000	- -	6,000	293,000	6,000
USDA Rural Development	4.0000%	977,500	- -	12,000	965,500	12,500
KRWA Series 2012B	4.0000%	1,417,917	- -	99,584	1,318,333	104,583
		$ 2,704,417	$ - -	$ 120,584	$ 2,583,833	$ 126,583

Annual principal payments for the succeeding years ending December 31 are as follows:

	Principal	Interest
2020	$ 126,583	$ 73,196
2021	132,583	69,389
2022	130,500	65,400
2023	135,583	61,466
2024	82,000	57,375
2025-2029	439,666	249,092
2030-2034	447,999	173,424
2035-2039	401,669	108,424
2040-2044	239,750	59,692
2045-2049	212,000	35,802
2050-2054	235,500	14,450
	$ 2,583,833	$ 967,710

Note 5. Contributions In-Aid of Construction

The members of the District and various government agencies have made contributions in aid of construction to facilitate the construction of the District's waterlines. As of December 31, 2019 and 2018, the District received $1,743,031 and $1,706,031, respectively, from members in the form of tap-on-fees, and received grants from federal, state, and local governmental agencies in the amount of $6,814,085. This includes grants from USDA-Rural Development, Community Development Block Grant Program, Kentucky Infrastructure Authority, and the local county government in Anderson County, Kentucky.

Note 6. Retirement Plan

Plan Description: The District elected to participate in the County Employees Retirement System (CERS), pursuant to Kentucky Revised Statute 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). 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. All covered employees of the District are considered nonhazardous duty employees. Benefit contributions and provisions are established by statute. Historical trend information showing 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 Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at 502-696-8800.

Benefits Provided: Benefits fully vest upon reaching five years of service. Aspects of benefits include retirement after 27 years of service or age 65. 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 service credit.

Contributions: Covered employees are required to contribute 5.00% of their salary to the plan. Employees who begin participation on or after September 1, 2008 are required to contribute 6.00% of their salary to the plan. The District's contribution rate was 16.22% for January through June 2019 and 19.30% for July through December 2019, 14.48% for January through June 2018 and 16.22% for July through December 2018, and 13.95% for January through June 2017 and 14.48% for July through December 2017. The District made contributions to the plan in the amount of $40,850, $28,721 and $25,795 for the years ended December 31, 2019, 2018, and 2017, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At December 31, 2019 and 2018, the District reported a liability of $581,000 and $487,407 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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 employers, actuarially determined. At June 30, 2019, the District's proportion was 0.008261% for nonhazardous covered employees.

Pension expense totaled $74,412 and $71,952 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019, the District had deferred outflows and inflows of resources related to its pension plan from the following sources:

Note 6. Retirement Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 58,804	$ - -
Net difference between projected and actual earnings on investments	11,153	20,519
Difference between actual and expected experience	14,835	2,455
Changes in portion and differences between contributions and proportionate share of contributions	19,220	10,734
Contributions subsequent to the measurement date	23,918	- -
	$ 127,930	$ 33,708

The District's deferred outflows of resources totaling $23,918 related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ending December 31, 2020. Other amounts reported as deferred inflows and outflows of resources as of December 31, 2019 will be recognized into pension expense as follows:

Year ending December 31:	
2020	$ 40,170
2021	21,778
2022	7,691
2023	665
Total	$ 70,304

Actuarial assumptions: The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to years included in the measurement:

Inflation:	2.30%
Payroll growth rate:	2.00%
Salary increases:	3.30% to 10.30%, varies by service
Investment rate of return:	6.25%

The total pension liability, net pension liability, and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of June 30, 2018. The total pension liability was rolled forward from the valuation date (June 30, 2018) to the plan's fiscal year ended June 30, 2019, using generally accepted actuarial principles.

Note 6. Retirement Plan (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 for one year for females). For disabled members, the RP-2000 Combined Disable Mortality Table projected with Scale BB to 2013 (set-back four 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 the best estimate ranges of expected future real rates 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 current long-term inflation assumption is 2.30% per annum for both the non-hazardous and hazardous system.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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%
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
	100.00%	

Discount rate: The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Note 6. Retirement 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 6.25%, 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 (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	1% Decrease - 5.25%	Current Discount Rate - 6.25%	1% Increase - 7.25%
Net Pension Liability - Nonhazardous	$ 726,666	$ 581,000	$ 459,588
Total Net Pension Liability	$ 726,666	$ 581,000	$ 459,588

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

Note 7. Other Postemployment Benefits

New Accounting Principle

Effective, January 1, 2018, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement requires the liability of employers, such as the District, to employees for net OPEB liability to be measured as the portion of the present value of projected benefit payments to be provided through the OPEB plan to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. Net position of the District has been restated for the cumulative effect of the adoption of this statement as follows:

Net OPEB liability as of January 1, 2018	$ 142,092
Deferred outflows as of January 1, 2018	(39,044)
Deferred inflows as of January 1, 2018	26,961
Cumulative effect of adoption	$ 130,009

Plan description: County Employees Retirement System consists of two plans, Non-Hazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan administered by the Kentucky Retirement Systems (KRS) under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS. The District participates in the nonhazardous plan.

Note 7. Other Postemployment Benefits (Continued)

Benefits provided: The KRS' Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Portion Paid by Insurance Fund	
Years of Service	Paid by Insurance Fund (%)
20 + Years	100.00%
15 - 19 Years	75.00%
10 - 14 Years	50.00%
4 - 9 Years	25.00%
< 4 Years	0.00%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after July 1, 2003, earn $10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after July 1, 2003 earn $15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives $10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5% based upon Kentucky Revised Statutes. This benefit is not protected under the inviolable contract provisions of KRS 61.692. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

There was no legislation enacted during the 2019 legislative session that had a material change in benefit provisions for either system.

Note 7. Other Postemployment Benefits (Continued)

Contributions: Nonhazardous covered employees are required to contribute 5.00% of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6.00% of their salary to the plan. The District's contribution rate was 5.26% for January through June 2019 and 4.76% for July through December 2019, 4.70% for January through June 2018 and 5.26% for July through December 2018, and 4.73% for January through June 2017 and 4.70% for July through December 2017. The District made contributions to the plan in the amount of $11,390, $10,130 and $9,034 for the years ended December 31, 2019, 2018, and 2017, respectively.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At December 31, 2019 and 2018, the District reported a liability of $138,913 and $142,092, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019 and 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2018, using generally accepted actuarial principles. The District's proportion of the net OPEB liability was based on the District's share of contributions to the OPEB plan relative to the contributions of all participating employers. At June 30, 2019, the District's proportion was 0.008261% for nonhazardous covered employees.

For the year ended December 31, 2019 and 2018, the District recognized OPEB expense of $14,358 and $17,908, respectively. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 41,106	$ 275
Net difference between projected and actual earnings on investments	915	7,085
Difference between actual and expected experience	- -	41,913
Changes in portion and differences between contributions and proportionate share of contributions	7,509	220
Contribution subsequent to the measurement date	5,899	- -
	$ 55,429	$ 49,493

Note 7. Other Postemployment Benefits (Continued)

The District's deferred outflows of resources of $5,899 related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability during the year ending December 31, 2020. Other amounts reported as deferred outflows and inflows of resources as of December 31, 2019 will be recognized into OPEB expense (benefit) as follows:

Year ending December 31:	
2020	$ 504
2021	504
2022	2,466
2023	(1,295)
2024	(1,831)
2025	(311)
Total	$ 37

Actuarial assumptions: The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay
Amortization Period	26 Years, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Payroll Growth Rate	2.00%
Inflation	2.30%
Salary Increase	3.30% of 11.55%, varies by service
Investment Rate of Return	6.25%
Healthcare Cost Trend Rates (Pre-65)	Initial trend starting at 7.25% at 1/1/2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Healthcare Cost Trend Rates (Post-65)	Initial trend starting at 5.10% at 1/1/2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years

The mortality for active members in RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years). 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.

Note 7. Other Postemployment Benefits (Continued)

The long-term expected return on plan assets was determined by using a building-block method in which best-estimate ranges of expected future real 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 rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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%
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
	100.00%	

Discount rate: The discount rate used to measure the total OPEB liability was 5.68% for nonhazardous. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2019. 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 payments 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.

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate: The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 5.68% for nonhazardous, 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 (4.68% for nonhazardous) or 1-percentage-point higher (6.68% for nonhazardous) than the current rate:

Note 7. Other Postemployment Benefits (Continued)

	1% Decrease - 4.68%	Current Discount Rate - 5.68%	1% Increase - 6.68%
Net OPEB Liability - Nonhazardous	$ 186,086	$ 138,913	$ 100,045
Total Net OPEB Liability	$ 186,086	$ 138,913	$ 100,045

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability - Nonhazardous	$ 103,310	$ 138,913	$ 182,085
Total Net OPEB Liability	$ 103,310	$ 138,913	$ 182,085

Changes of assumptions: Subsequent to the actuarial valuation date, but prior to the measurement dates, the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2019. Specifically, total OPEB liability as of June 30, 2019 is determined using a 2.30% price inflation assumption and an assumed rate of return of 6.25%.

Pension plan fiduciary net position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

SOUTH ANDERSON WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF
NET PENSION LIABILITY - CERS

	December 31,					
	2019	2018	2017	2016	2015	2014
NON-HAZARDOUS						
District's proportion of net pension liability	0.008261%	0.008003%	0.007595%	0.009400%	0.009020%	0.009020%
District's proportionate share of the net pension liability	$ 581,000	$ 487,407	$ 444,559	$ 463,064	$ 387,879	$ 291,000
District's covered-employee payroll	198,350	184,910	215,121	211,255	206,008	207,923
District's proportionate share of the net pension liability as a percentage of its employee-covered payroll	292.92%	263.59%	206.66%	219.20%	188.28%	139.96%
Plan Fiduciary net position as a percentage of the total pension liability	50.45%	53.54%	53.30%	55.50%	59.97%	66.80%

* December 31, 2019, 2018, 2017, 2016, 2015 and 2014 reflect dates of the actuarial valuation as of June 30 of the same year

SOUTH ANDERSON WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT'S CONTRIBUTIONS TO PENSION PLAN - CERS

	December 31,					
	2019	2018	2017	2016	2015	2014
NON-HAZARDOUS						
Contractually required contribution	$ 40,850	$ 28,721	$ 25,795	$ 26,718	$ 26,935	$ 28,306
Contributions in relation to the contractually required contribution	(40,850)	(28,721)	(25,795)	(26,718)	(26,935)	(28,306)
Contribution deficiency (excess)	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -
District's covered employee-payroll	$ 228,318	$ 203,414	$ 187,427	$ 202,563	$ 213,940	$ 213,630
Contributions as a percentage of covered-employee payroll	17.89%	14.12%	13.76%	13.19%	12.59%	13.25%

* December 31, 2019, 2018, 2017, 2016, 2015 and 2014 reflect financial reporting dates

SOUTH ANDERSON WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF
NET OPEB LIABILITY - CERS

	December 31,		
	2019	2018	2017
NON-HAZARDOUS			
District's proportion of net OPEB liability	0.008261%	0.008003%	0.007595%
District's proportionate share of the net OPEB liability	$ 138,913	$ 142,092	$ 152,685
District's covered-employee payroll	198,350	184,910	215,121
District's proportionate share of the net OPEB liability as a percentage of its employee-covered payroll	70.03%	76.84%	70.98%
Plan Fiduciary net position as a percentage of the total OPEB liability	60.44%	57.62%	52.39%

* December 31, 2019, 2018 and 2017 reflect dates of the actuarial valuation as of June 30 of the same year

SOUTH ANDERSON WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT'S CONTRIBUTIONS TO OPEB PLAN - CERS

	December 31,		
	2019	2018	2017
NON-HAZARDOUS			
Contractually required contribution	$ 11,390	$ 10,130	$ 9,034
Contributions in relation to the contractually required contribution	(11,390)	(10,130)	(9,034)
Contribution deficiency (excess)	$ - -	$ - -	$ - -
District's covered employee-payroll	$ 228,318	$ 203,414	$ 187,427
Contributions as a percentage of covered-employee payroll	4.99%	4.98%	4.82%

* December 31, 2019, 2018 and 2017 reflect financial reporting dates

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

To the Board of Commissioners
South Anderson Water District
Lawrenceburg, 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 Anderson Water District, as of and for the year ended December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated September 15, 2020.

Internal Control Over Financial Reporting

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

Certified Public Accountants and Advisors
401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589-1680 www.jnmcpa.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Anderson 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.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
September 15, 2020