

**Report**

**of**

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

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

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## INDEPENDENT AUDITORS' REPORT

To the Commissioners  
South Hopkins Water District  
Dawson Springs, Kentucky

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

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

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

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

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

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Hopkins Water District as of December 31, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

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

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

### **Other Matters**

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2016, on our consideration of South Hopkins Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Hopkins Water District's internal control over financial reporting and compliance.

*Alexander, Toney & Knight PLLC*

Madisonville, Kentucky  
February 8, 2016

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

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

Financial Highlights for the Year 2015

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

Overview Of The Financial Statements

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

Basic financial statements:

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

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

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

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

## District Financial Analysis

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

Table 1  
Condensed Statements of Net Position  
(in thousands)

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

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

### 2014 to 2015

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

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

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

2013 to 2014

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

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

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

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

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

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

\* as restated, see note O.

## 2014 to 2015

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

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

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

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

## 2013 to 2014

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

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

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

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

## Capital Assets and Debt Administration

### Capital Assets

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

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



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

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

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

#### Long-Term Debt

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

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

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

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

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

#### Requests For Information

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

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

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

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

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

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

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

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

The accompanying notes are an integral part of these statements.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Financial Reporting Entity

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

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

Basis of Presentation, Measurement Focus, and Basis of Accounting

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

Cash and Cash Equivalents

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

Inventory

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

Capital Assets

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

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Restricted Net Position

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

Long-Term Liabilities

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

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

Uncollectible Accounts

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

Use of Estimates

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

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

NOTE B - DEPOSITS

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

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

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

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

NOTE C - PREPAID EXPENSES

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

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



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

NOTE D - RESTRICTED CASH AND CASH EQUIVALENTS

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

Restricted balances as of December 31 are as follows:

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

NOTE E - CAPITAL ASSETS

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

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

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

NOTE F - LONG-TERM LIABILITIES

Long-term liability activity

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

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

Description of debt

Waterworks Revenue Bonds, 1994 Series A and B

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

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

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

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

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

NOTE F - LONG-TERM LIABILITIES continued

Debt Maturity

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

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

NOTE G - ACCUMULATED COMPENSATED ABSENCES

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

## NOTE H - EMPLOYEES' PENSION PLAN

### General Information about the Pension Plan

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

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

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

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

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

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

NOTE H - EMPLOYEES' PENSION PLAN continued

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

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

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

Year ended December 31:	
2016	\$ 12,250
2017	12,250
2018	12,250
2019	12,250

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

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

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

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

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

NOTE H - EMPLOYEES' PENSION PLAN continued

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

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

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

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

NOTE H - EMPLOYEES' PENSION PLAN continued

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

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

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

NOTE I - RISK MANAGEMENT

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

NOTE J - MAJOR SUPPLIER

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

NOTE K - CONSTRUCTION IN PROGRESS

2015

Rialto Mine Road Extension:

The District has incurred costs of \$11,928 during the year and \$11,928 costs has been capitalized upon placement into service.

St. Charles Sewer Project:

The District is participating in a pilot program involving the placement of septic tanks. The District is receiving funds as a sub-recipient from the City of St. Charles whom has a grant agreement with the Kentucky Infrastructure Authority. The District has incurred costs of \$8,886 during the year and \$8,886 costs has been capitalized upon placement into service.

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

NOTE K - CONSTRUCTION IN PROGRESS continued

2014

Interstate 69 line relocation project:

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

St. Charles Sewer Project:

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

NOTE L – CHANGE IN ACCOUNTING ESTIMATE

2014

The District revised estimates of the useful lives of certain items in the following asset groups: structures, improvements, and water system; vehicles and equipment; and machinery and equipment. The depreciable lives are now extended to better reflect the estimated periods during which the assets will remain in service. The change had the effect of reducing depreciation expense and increasing net income by \$5,213 for the year ended December 31, 2014.

NOTE M – OTHER INCOME

The District's water supplier is the City of Dawson Springs, Kentucky. The District's water purchase contract, amended June 15, 1990, called for funding of a reserve fund for the water supplier. The monthly reserve amount was charged against the District as a component of water cost. At the end of the supplier bond terms, the contract allowed that the remaining reserve balance may be allocated to the supplier and the District in a proportional amount. The District received \$78,549 in November 2015 as the supplier's bond terms have ended.

NOTE N – GAIN ON DISPOSITION OF ASSET

For the year ended December 31, 2014 the District was impacted by a lighting strike and certain capital assets were destroyed. The District suffered the loss of its telemetry system. The District's basis in the telemetry system was \$1,410. The District had purchased commercial insurance to cover its risk of loss and had insurance recoveries in the amount of \$110,300. Accordingly, the District has recorded a net gain on disposition of \$108,890.



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

NOTE O – ACCOUNTING CHANGES

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement no. 68, “Accounting and Financial Reporting for Pensions” (GASB 68). GASB 68 replaced the requirements of GASB 27, “Accounting for Pensions by State and Local Governmental Employers” and GASB 50, “Pension Disclosures”, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pensions benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

The provisions of GASB 68 are effective for fiscal periods beginning after June 15, 2014. The District adopted GASB 68 for the year ended December 31, 2015. The adoption of the standard did impact the District's financial position and resulted in a restatement to reduce beginning net position in the amount of \$449,001.

Required Supplementary Information

South Hopkins Water District  
 Schedule of Proportionate Share of the Net Pension Liability  
December 31, 2015 and 2014

	<u>2015</u>
District's proportion of the net pension liability (asset)	0.013415%
District's proportionate share of the net pension liability (asset)	\$ 435,000
District's covered-employer payroll	\$ 293,783
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employer payroll	148.07%
Total Pension Plan's fiduciary net position as a percentage of the total pension liability	66.80%

Note: This schedule is intended to present a 10-year trend per GASB 68. Additional years will be reported as incurred

South Hopkins Water District  
 Schedule of District Contributions  
December 31, 2015 and 2014

	<u>2015</u>
Actuarially determined contribution	\$ 50,984
Contributions in relation to the actuarially determined contribution	<u>50,984</u>
Contribution deficiency (excess)	\$ 0
	=====
 District's covered-employee payroll	 \$ 293,783
 Contributions as a percentage of covered-employee payroll	 17.35%

Note: This schedule is intended to present a 10-year trend per GASB 68. Additional years will be reported as incurred

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

To The Commissioners  
South Hopkins Water District  
Dawson Springs, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Hopkins Water District as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, and have issued our report thereon dated February 8, 2016.

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

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

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

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

## 2015-1 Segregation of Duties

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

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

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

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

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

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

## 2015-2 Lack of Financial Reporting Expertise

*Condition:* The District lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures. Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

*Criteria:* The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

*Effect:* Although no instances were noted, the absence of such controls may allow errors to go undetected.

*Cause:* There is a lack of personnel who possess the required knowledge.

*Recommendation:* We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

*Response:* Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.

## **Compliance and Other Matters**

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

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

South Hopkins Water District's response to the findings identified in our audit is described above. South Hopkins Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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

Alexander, Toney & Knight PLLC

Madisonville, Kentucky

February 8, 2016