Report

of

South Hopkins Water District
Dawson Springs, Kentucky

For The Years Ended December 31, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 and pension and OPEB schedules on pages 30-33 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 June 19, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of South Hopkins Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Hopkins Water District's internal control over financial reporting and compliance.

Knight Wagner, PLLC

Madisonville, Kentucky
June 19, 2020

SOUTH HOPKINS WATER DISTRICT
Management's Discussion and Analysis
December 31, 2019 and 2018

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, 2019 and 2018. It should be read in conjunction with the accompanying basic financial statements.

Financial Highlights for the Year 2019

* The District's change in net position was a decrease of $225.9 thousand for the year ended December 31, 2019.

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, 2019 and 2018. 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)

	2019	2018	dollar change	percent change	2017	dollar change	percent change
Current assets	$ 270.3	$ 277.7	($ 7.4)	(2.7%)	$ 292.5	($ 14.8)	(5.1%)
Capital assets	2,728.8	2,782.5	(53.7)	(1.9%)	2,359.0	423.5	18.0%
Other noncurrent assets	21.0	118.2	(97.2)	(82.2%)	174.6	(56.4)	(32.3%)
Total assets	3,020.1	3,178.4	(158.3)	(5.0%)	2,826.1	352.3	12.5%
Total deferred outflows of resources	204.1	208.2	(4.1)	(2.0%)	237.0	(28.8)	(12.2%)
Current liabilities	124.6	118.0	6.6	5.6%	109.3	8.7	8.0%
Long-term liabilities	2,079.2	2,063.7	15.5	0.8%	1,382.4	681.3	49.3%
Total liabilities	2,203.8	2,181.7	22.1	1.0%	1,491.7	690.0	46.3%
Total deferred inflows of resources	185.9	144.4	41.5	28.7%	81.6	62.8	77.0%
Net position invested in capital assets, net of related debt	1,704.9	1,764.7	(59.8)	(3.4%)	1,846.9	(82.2)	(4.5%)
Net position restricted for debt service	2.3	3.0	(0.7)	(23.3%)	12.6	(9.6)	(76.2%)
Net position restricted for capital projects	2.6	9.6	(7.0)	(72.9%)	58.6	(49.0)	(83.6%)
Unrestricted net position	(875.3)	(716.8)	(158.5)	(22.1%)	(428.3)	(288.5)	(67.4%)
Total net position	$ 834.5	$ 1,060.5	($ 226.0)	(21.3%)	$1,489.8	($ 429.3)	(28.8%)

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 $0.835 million at the close of the current year.

2018 to 2019

As shown in table 1, the District's total assets decreased $158,300 when compared to the prior year. Capital assets decreased $53,700 as depreciation expense outpaced new additions for the year. Other noncurrent assets decreased $97,200 as restricted cash was expended.

Deferred outflows of resources decreased $4,100 due to changes in the District's proportional share of the County Employee Retirement System (CERS) valuation measurements for pensions and OPEB.

The District's total liabilities increased $22,100. Long-term liabilities increased $15,500. Net pension liability, the District's proportional share as determined by valuations of the County Employee Retirement System, increased $37,600. Net OPEB liability, the District's proportional share as determined by valuations of the County Employee Retirement System, decreased $29,700. The District funded the purchase of a new pump with a Kentucky Infrastructure Authority Fund B loan of an additional $26,742.

Deferred inflows of resources increased $41,500 due to changes in the District's proportional share of the County Employee Retirement System valuation measurements for pensions and OPEB.

The District's total net position decreased $226,000, which results from the net effect of the increases/decreases in total assets, deferred outflows of resources, total liabilities, and deferred inflows of resources referred to above.

2017 to 2018

As shown in table 1, the District's total assets increased $352,300 when compared to the prior year. Capital assets increased $423,500 as new additions outpaced depreciation expense for the year. The District capitalized $535,515 cost of the renovation of two water storage tanks. Other noncurrent assets decreased $56,400 as restricted cash was expended.

Deferred outflows of resources decreased $28,800 due to changes in the District's proportional share of the County Employee Retirement System (CERS) valuation measurements.

The District's total liabilities increased $690,000. Long-term liabilities increased $681,300. Net pension liability, the District's proportional share as determined by valuations of the County Employee Retirement System, decreased $25,600. The District's adoption of GASB 75 added Net OPEB liability of $215,295. The District funded the renovation of two water storage tanks with a Kentucky Infrastructure Authority Fund B loan of $515,246.

Deferred inflows of resources increased $62,800 due to changes in the District's proportional share of the County Employee Retirement System valuation measurements and the adoption of GASB 75.

The District's total net position decreased $429,300, which results from the net effect of the increases/decreases in total assets, deferred outflows of resources, total liabilities, and deferred inflows of resources referred to above.

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)

	2019	2018	dollar change	percent change	2017	dollar change	percent change
Operating revenues	$1,583.8	$1,551.3	$ 32.5	2.1%	$1,430.9	$ 120.4	8.4%
Nonoperating revenues	5.6	2.4	(3.2)	133.3%	6.5	(4.1)	(63.1%)
Total revenues	1,589.4	1,553.7	35.7	2.3%	1,437.4	116.3	8.1%
Operating expenses	1,799.1	1,718.3	80.8	4.7%	1,585.7	132.6	8.4%
Nonoperating expenses	33.8	70.1	(36.3)	(51.8%)	24.4	45.7	187.3%
Total expenses	1,832.9	1,788.4	44.5	2.5%	1,610.1	178.3	11.1%
Income before capital contributions	(243.5)	(234.7)	(8.8)	(3.7%)	(172.7)	(62.0)	(35.9%)
Capital contributions	17.6	17.4	0.2	1.1%	34.1	(16.7)	(49.0%)
Changes in net position	(225.9)	(217.3)	(8.6)	(4.0%)	(138.6)	(78.7)	(57.8%)
Beginning net position	1,060.4	*1,277.7	(217.3)	(17.0%)	1,628.4	(350.7)	(21.5%)
Ending net position	$ 834.5	$1,060.4	($ 225.9)	(21.3%)	$1,489.8	($ 429.4)	(28.8%)

* as restated, see Note M

2018 to 2019
The District's total revenues increased $35,700 or 2.3%. Water sales increased as the District experienced a full year of increased water rates passed during the prior year.

The District's operating expenses increased $80,800. Water purchases increased $71,000. The District's increase in purchased water increased significantly higher than it's increase in water sales. The District's water loss percentage increased from 26% in 2018 to 36% in 2019. Salaries and wages decreased $20,000 and employee benefits decreased $21,000 from the prior year. This is partly due to the District going through a transition period of long term employees retiring and being replaced with newer employees. Depreciation expense increased $15,000 as the District experienced full year expense of large capital items added in 2018. Nonoperating expenses decreased $36,300. In the prior year, the District ceased participation in a pilot septic tank program with the City of St. Charles. A $42,000 loss on disposition of capital assets was incurred upon ceasing the program.

Capital contributions remained similar to the prior year increasing $200.

Changes in net position decreased $225,900 due to the net effect of the increased total revenues and increased total expenses mentioned above.

2017 to 2018
The District's total revenues increased $116,300 or 8.1%. Water sales increased as the District received permission for a 8.8% rate increase during 2018.

The District's operating expenses increased $178,300. Water purchases increased $103,300. The District sold approximately 8% more water during the year while purchasing approximately 15% more water. This is an indication of higher water loss during the current year. Materials and supplies cost increased $25,900 as higher repair costs were incurred. Employee benefits increased $22,200 partly due to the adoption of GASB 75 which increased OPEB expense. Nonoperating expenses increased $45,700. In the current year, the District ceased participation in a pilot septic tank program with the City of St. Charles. A $42,000 loss on disposition of capital assets was incurred upon ceasing the program.

Capital contributions decreased $16,700 due to less received in customer contributions as there were more line extensions during the prior year.

Changes in net position decreased $217,300 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, 2019, the District had $2,728,751 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 $53,704 from the prior year as depreciation expense outpaced new additions.

Significant additions during the year included $32,497 in new pumps/renovation and $14,722 in meters and installation.

At December 31, 2018, the District had $2,782,455 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 $423,411 from the prior year as new additions outpaced depreciation expense.

Significant additions during the year included $532,515 in tank renovations, $19,250 in meters and installation, and $10,089 of expenditures for line extensions.

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, 2019, the District had $470,800 in revenue bonds outstanding which was a decrease of $20,700 from the prior year balance of $491,500. Both of the District's bond issues were paid as scheduled. New borrowings during 2019 consisted of $26,742 of a Kentucky Infrastructure Authority Fund B loan. Loan proceeds were used to fund a new pump.

At December 31, 2018, the District had $491,500 in revenue bonds outstanding which was a decrease of $20,600 from the prior year balance of $512,100. Both of the District's bond issues were paid as scheduled. New borrowings during 2018 consisted of $526,292 of a Kentucky Infrastructure Authority Fund B loan. Loan proceeds were used to fund renovation of two water storage tanks.

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, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	$ 28,579	$ 14,782
Accounts receivable	161,392	160,679
Other receivables	1,100	11,018
Material and parts inventory	69,205	77,477
Prepaid expenses	10,018	13,778
Total current assets	270,294	277,734
Noncurrent assets		
Restricted cash and cash equivalents	21,065	118,161
Capital assets:		
Nondepreciable	34,342	34,429
Depreciable, net of accumulated depreciation	2,694,412	2,748,029
Total noncurrent assets	2,749,819	2,900,619
Total assets	3,020,113	3,178,353
Deferred outflows of resources		
Deferred outflows of resources-pensions	141,131	157,654
Deferred outflows of resources-OPEB	63,004	50,547
Total deferred outflows of resources	204,135	208,201
Liabilities		
Current liabilities payable from current assets		
Accounts payable	78,553	74,948
Accrued taxes and other payables	9,306	8,644
Accumulated compensated absences	12,287	12,430
	100,146	96,022
Current liabilities payable from restricted assets		
Accrued interest payable	816	793
Loan payable	11,607	11,046
Customer deposits	11,962	10,140
	24,385	21,979
Total current liabilities	124,531	118,001
Long-term liabilities		
Loan payable	541,427	515,246
Bonds payable	470,800	491,500
Net pension liability	776,167	738,571
Net OPEB liability	185,570	215,295
Customer deposits	89,415	94,654
Accumulated compensated absences	15,864	8,395
Total long-term liabilities	2,079,243	2,063,661
Total liabilities	2,203,774	2,181,662
Deferred inflows of resources		
Deferred inflows of resources-pensions	91,674	89,608
Deferred inflows of resources-OPEB	94,256	54,833
Total deferred inflows of resources	185,930	144,441
Net Position		
Invested in capital assets, net of related debt	1,704,920	1,764,666
Restricted for:		
Debt service	2,355	2,962
Capital projects	2,574	9,645
Unrestricted	(875,305)	(716,822)
Total net position	$ 834,544	$1,060,451

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, 2019 and 2018

	2019	2018
Operating revenues		
Water sales	$1,525,117	$1,491,473
Other operating revenues	58,673	59,784
Total operating revenues	1,583,790	1,551,257
Operating expenses		
Purchased water	877,707	806,650
Salaries and wages	292,820	312,982
Depreciation	110,496	95,063
Employee benefits	221,023	242,185
Transportation	24,488	17,968
Contract services	21,085	21,073
Taxes	26,645	27,860
Purchased power	66,787	60,339
Materials and supplies	88,467	77,490
Insurance	46,549	37,317
Miscellaneous	23,037	19,313
Total operating expenses	1,799,104	1,718,240
Operating income (loss)	(215,314)	(166,983)
Nonoperating revenues (expenses)		
Other income	2,641	419
Interest income	153	1,940
Interest expense	(33,750)	(27,596)
Gain (loss) on disposition of capital assets	2,763	(42,446)
Total nonoperating revenues (expenses)	(28,193)	(67,683)
Income (loss) before contributions and grants	(243,507)	(234,666)
Capital contributions-tap fees	16,000	8,000
Capital contributions-customers	1,600	9,388
Change in net position	(225,907)	(217,278)
Total net position – beginning, 2018 as restated, see Note M	1,060,451	1,277,729
Total net position - ending	$ 834,544	$1,060,451

The accompanying notes are an integral part of these statements.

South Hopkins Water District
Statement of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Cash received from customers	$1,520,378	$1,479,236
Cash payments to suppliers for goods and services	(1,313,878)	(1,239,840)
Cash payments to employees for services	(292,820)	(312,982)
Other operating revenues	58,673	59,784
Net cash provided (used) by operating activities	(27,647)	(13,802)
Cash flows from capital and related financing activities		
Miscellaneous revenues received	2,641	419
Acquisition and construction of capital assets	(51,188)	(569,836)
Principal paid on bond maturities	(20,700)	(20,600)
Interest paid on bonds/loans	(31,589)	(25,666)
Interest paid on customer deposits	(2,138)	(1,137)
Proceeds from loans	26,742	526,292
Proceeds from disposition of assets	2,827	0
Capital contributions received from customers	17,600	17,388
Net cash provided (used) for capital and related financing activities	(55,805)	(73,140)
Cash flows from investing activities		
Interest earned on bank deposits	153	1,940
Net cash provided (used) by investing activities	153	1,940
Net increase (decrease) in cash and cash equivalents	(83,299)	(85,002)
Cash and cash equivalents at beginning of year	132,943	217,945
Cash and cash equivalents at end of year	$ 49,644	$ 132,943

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

	2019	2018
Operating income (loss)	($ 215,314)	($ 166,983)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	110,496	95,063
Change in assets, outflows, liabilities, and inflows:		
(Increase) decrease in accounts receivable	(713)	(9,124)
(Increase) decrease in other receivables	9,918	(643)
(Increase) decrease in inventory	8,272	5,473
(Increase) decrease in prepaid expenses	3,760	(580)
(Increase) decrease in deferred outflows-pensions	16,523	79,347
(Increase) decrease in deferred outflows-OPEB	(12,457)	13,567
Increase (decrease) in accounts payable	(2,063)	(773)
Increase (decrease) in taxes and other payables	662	(2,198)
Increase (decrease) in net pension liability	37,596	(25,637)
Increase (decrease) in net OPEB liability	(29,725)	(47,175)
Increase (decrease) in customer deposits	(3,417)	(4,542)
Increase (decrease) in accumulated compensated absences	7,326	1,352
Increase (decrease) in deferred inflows-pensions	2,066	7,960
Increase (decrease) in deferred inflows-OPEB	39,423	41,091
Total adjustments	187,667	153,181
Net cash provided (used) by operating activities	($ 27,647)	($ 13,802)

The accompanying notes are an integral part of these statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Financial Reporting Entity

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

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statements No. 14 and 61. The District has no component units.

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.

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. The District does not have a formal deposit and investment policy for credit risk, custodial credit risk, or limitations on deposits and investments.

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, 2019 and 2018.

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

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 postion 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 $8,494 at December 31, 2019 and $8,457 at December 31, 2018.

Use of Estimates

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

NOTE B - DEPOSITS

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

Also by Kentucky law, the District is allowed to invest as specified in KRS 66.480 which includes U. S. Treasury and its Obligations, certain federal investments, repurchase agreements, commercial banks' certificates of deposits, and savings and loan deposits.

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, 2019 the reconciled balance of the District's deposits totaled $48,444 and the bank balances were $84,131. Of the bank balances $84,131 was covered by federal depository insurance (category 1).

On December 31, 2018 the reconciled balance of the District's deposits totaled $131,743 and the bank balances were $146,275. Of the bank balances $146,275 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, 2019, the District's prepaid expenses consisted of $3,731 of insurance and $6,287 of employee benefits. At December 31, 2018, the District's prepaid expenses consisted of $5,989 of insurance and $7,789 of employee benefits.

South Hopkins Water District
Notes to Financial Statements
December 31, 2019 and 2018

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:

	2019	2018
Bond and interest redemption fund	$ 2,355	$ 2,962
Bond depreciation fund	2,573	9,645
Meter deposit fund	16,137	105,553
Totals	$ 21,065	$ 118,160

NOTE E - CAPITAL ASSETS

Capital asset activities for the years ended December 31, 2019 and 2018, were as follows:

	Balances 12/31/17	Transfers/ Additions	Transfers/ Retirements	Balances 12/13/18	Transfers/ Additions	Transfers/ Retirements	Balances 12/31/19
Business-type activities:							
Capital assets not being depreciated							
Land & land rights	$ 31,915	$ 0	$ 0	$ 31,915	$ 0	$ 0	$ 31,915
Construction in progress	8,532	1,608	7,626	2,514	1,521	1,608	2,427
Total	40,447	1,608	7,626	34,429	1,521	1,608	34,342
Capital assets being depreciated							
Structures, improvements, & water system	5,120,560	574,765	10,836	5,684,489	47,219	2,150	5,729,558
Office furniture & equipment	52,561	0	0	52,561	5,977	0	58,538
Vehicles & equipment	143,049	0	0	143,049	0	0	143,049
Machinery & equipment	261,135	1,089	0	262,224	3,747	0	265,971
Other tangible property	60,623	0	60,623	0	0	0	0
Total	5,637,928	575,854	71,459	6,142,323	56,943	2,150	6,197,116
Total capital assets	5,678,375	577,462	79,085	6,176,752	58,464	3,758	6,231,458
Less accumulated depreciation for:							
Structures, improvements, & water system	3,031,546	69,616	10,400	3,090,762	85,411	2,086	3,174,087
Office furniture & equipment	48,826	1,379	0	50,205	976	0	51,181
Vehicles & equipment	101,198	10,475	0	111,673	11,024	0	122,697
Machinery & equipment	129,478	12,179	0	141,657	13,085	0	154,742
Other tangible property	8,283	1,414	9,697	0	0	0	0
Total accumulated depreciation	3,319,331	95,063	20,097	3,394,297	110,496	2,086	3,502,707
Total business-type activities capital assets, net	$2,359,044	$ 482,399	$ 58,988	$2,782,455	($ 52,032)	$ 1,672	$2,728,751

South Hopkins Water District
Notes to Financial Statements
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NOTE F - LONG-TERM LIABILITIES

Long-term liability activity

Long-term liability activity for the years ended December 31, 2019 and 2018, were as follows:

	Balances 12/31/17	Additions	Reductions	Balances 12/31/18	Additions	Reductions	Balances 12/31/19	Amounts Due Within One Year
Loan:								
KIA Fund B	$ 0	$ 526,292	$ 0	$ 526,292	$ 26,742	$ 0	$ 553,034	$ 11,607
Revenue Bonds:								
Series 1994A	$ 447,000	$ 0	$ 18,000	$ 429,000	$ 0	$ 18,000	$ 411,000	$ 0
Series 1994B	65,100	0	2,600	62,500	0	2,700	59,800	0
Total Bonds/Loans	512,100	526,292	20,600	1,017,792	26,742	20,700	1,023,834	11,607
Customer Deposits	109,336	10,935	14,712	105,559	9,725	13,907	101,377	11,962
Accumulated Compensated Absences	19,473	14,016	6,704	26,785	14,016	12,650	28,151	12,287
Business-type Activities Long-Term Liabilities	$ 640,909	$ 551,243	$ 42,016	$1,150,136	$ 50,483	$ 47,257	$1,153,362	$ 35,856

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:

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

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

NOTE F - LONG-TERM LIABILITIES continued

KIA "Fund B" Loan

The District entered an assistance agreement dated December 1, 2017 with the Kentucky Infrastucture Authority for a $765,000 loan to renovate water tanks. Principal will be payable semi-annually on June 1 and December 1 of each year. The first payment will be due either June 1 or December 1 after the last draw on the loan is made. Interest is payable semi-annually on June 1 and December 1 at 1.75% per annum. At December 31, 2019, the District has drawn $553,034 of the loan.

The assistance agreement provides that the following fund be created:
a) Replacement Reserve Account - Annual transfers of $1,900 until the fund equals at least $38,000.

Debt Maturity

Annual debt service requirements at December 31, 2019 are as follows:

Year Ended December 31		Business-type Activities Principal	Business-type Activities Interest
2020		$ 11,607	$ 15,898
2021		45,420	30,559
2022		46,933	29,160
2023		48,454	27,704
2024		50,082	26,191
2025-2029		277,297	105,990
2030-2034		329,685	57,598
2035-2039		198,052	9,523
2040		16,304	143
	Totals	$1,023,834	$ 302,766

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

NOTE H - EMPLOYEES' PENSION PLAN continued

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 Statue 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. There are currently three benefit tiers. Tier 1 members are those participating in the plan before 9/1/2008, Tier 2 members are those that began participation 9/1/2008 through 12/31/2013, and Tier 3 are those members that began participation on or after 1/1/2014.

Benefits provided-non hazardous. Tier 1 non-hazardous members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must contain at least 48 months. Reduced benefits for early retirement are available prior to age 65 with at least 25 but less than 27 years of service credit and at age 55 with at least 5 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service. Tier 2 non-hazardous members are eligible to retire based on the rule of 87: the member must be at least age 57 and age + earned service must equal 87 years at retirement or at age 65 with five years of service credit. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must be 60 months. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 non-hazardous members are also eligible to retire based on the rule of 87. Benefits are determined by a life annuity calculated in accordance with actuarial assumptions and methods adopted by the board based on a member's accumulated account balance. Tier 3 members are not eligible for reduced retirement benefits.

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, 2019, 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 actuarial determined rate. The District was required to contribute 24.06% or $34,727 of each employee's creditable compensation for the last six months of the year ended December 31, 2019. Of the 24.06%, 19.30% or $27,857 was comprised of amounts for pensions. The District was required to contribute 21.48% or $59,777 of each employee's creditable compensation for the first six months of the year ended December 31, 2019 and for the final six months of the year ended December 31, 2018. Of the 21.48%, 16.22% or $45,139 was comprised of amounts for pensions. The District was required to contribute 19.18% or $57,648 of each employee's creditable compensation for the first six months of the year ended December 31, 2018 and for the final six months of the year ended December 31, 2017. Of the 19.18%, 14.48% or $43,522 was comprised of amounts for pensions. The District was required to contribute 18.68% or $28,932 of each employee's creditable

NOTE H - EMPLOYEES' PENSION PLAN continued

compensation for the first six months of the year ended December 31, 2017. Of the 18.68%, 13.95% or $21,606 was comprised of amounts for pensions. The District's payable to the plan at December 31, 2019 and 2018 was $7,181 and $5,082, respectively, which consisted of employees' withholdings and legally required contributions for the month of December.

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

At December 31, 2019, the District reported a liability of $776,167 for its proportionate share of the net pension liability. The District's net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of June 30, 2017 and rolled forward from the valuation date to the plan's fiscal year ended June 30, 2019. At December 31, 2018, the District reported a liability of $738,571 for its proportionate share of the net pension liability. The District's net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of June 30, 2017 and rolled forward from the valuation date to the plan's fiscal year ended June 30, 2018.

For the year ended December 31, 2019, the District recognized pension expense of $105,916. For the year ended December 31, 2018, the District recognized pension expense of $106,898. At December 31, 2019 and 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	12/31/2019		12/31/2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ 14,899	$ 27,411	$ 34,344	$ 43,200
Net difference between expected and actual experience	19,818	3,280	24,090	10,811
Changes in proportional and differences between employer contributions and proportional share of contributions	-	60,983	3,762	35,597
Change of assumptions	78,557	-	72,180	-
District contributions subsequent to the measurement date	27,857	-	23,278	-
Total	$ 141,131	$ 91,674	$ 157,654	$ 89,608

$27,857 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, 2020. 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:	
2020	$ 23,100
2021	(3,443)
2022	1,055
2023	888

NOTE H - EMPLOYEES' PENSION PLAN continued

Actuarial assumptions.
The total pension liability in the June 30, 2019 and 2018 actuarial valuations using standard roll-forward techniques, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

2019	
Inflation	2.30%
Salary increases	3.30% to 11.55%, varies by source
Investment rate of return	6.25%, net of pension plan investment expense, including inflation
2018	
Inflation	2.30%
Salary increases	2.00%, average, including inflation
Investment rate of return	6.25%, net of pension plan investment expense, including inflation

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

The actuarial assumption used in the June 30, 2017 valuation and rolled forward to June 30, 2019 were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

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 2008 through 2013, is outlined in a report dated April 30, 2014. 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.

NOTE H - EMPLOYEES' PENSION PLAN continued

The target asset 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
U S Equity	18.75%	4.30%
Non U S Equity	18.75	4.80
Private Equity	10.00	6.65
Specially 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
Total	100.00%	

Discount rate. For CERS, 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 local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. The discount rate does not use a municipal bond rate.

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% for June 30, 2019 and 6.25% for June 30, 2018, 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% and 5.25%) or 1-percentage-point higher (7.25% amd 7.25%) than the current rate.

	1% Decrease (5.25%)	Discount Rate (6.25%)	1% Increase (7.25%)
District's 2019 proportionate share of the net pension liability	$ 970,765	$ 776,167	$ 613,971

	1% Decrease (5.25%)	Discount Rate (6.25%)	1% Increase (7.25%)
District's 2018 proportionate share of the net pension liability	$ 929,785	$ 738,571	$ 578,368

2018

Change in assumptions. Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated. The changes are noted below:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
  - 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).
  -

NOTE H – EMPLOYEES' PENSION PLAN continued

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

General Information about the OPEB 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. The Kentucky Retirement Systems' Insurance Fund (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. Ther are currently three benefit tiers. Tier 1 members are those participating in the plan before 9/1/2008, Tier 2 members are those that began participation 9/1/2008 through 12/31/2013, and Tier 3 are those members that began participation on or after 1/1/2014.

Benefits provided-non hazardous. Non-hazardous members are eligible for health insurance coverage upon retirement. Each year prior to the Open Enrollment period, the KRS board establishes the contribution rate ofr the following plan year. The monthly contribution rate is based on single coverage under the insurance plan approved by the KRS Board. To be eligible, tier 1 members must have at least 120 months of service in a state-administered retirement system. If a member retires with less than 120 months of service credit, that member cannot participate in the health plans KRS offers. If eligible, KRS will pay a contribution toward the premium based on how many years of service the member had at retirement. For non-hazardous retirees, KRS pays $10 toward the monthly premium for each full year of service the member has at retirement. To be eligible, tier 2 members must have at lest 150 months of service in a state-admininistered retirement system. If a member retires with less than 150 months of service credit, that member cannot participate in the health plans KRS

NOTE I – OTHER POST EMPLOYMENT BENEFITS (OPEB) continued

offers. If eligible, KRS will pay a contribution toward the premium based on how many years of service the member had at retirement. For non-hazardous retirees, KRS pays $10 toward the monthly premium for each full year of service the member has at retirement. To be eligible, tier 3 members must have at least 15 years of service in a state-admininistered retirement system. If eligible, KRS will pay a contribution toward the premium based on how many years of service the member had at retirement. For non-hazardous retirees, KRS pays $10 toward the monthly premium for each full year of service the member has at retirement.

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, 2019, 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 actuarial determined rate. The District was required to contribute 24.06% or $34,727 of each employee's creditable compensation for the last six months of the year ended December 31, 2019. Of the 24.06%, 4.76% or $6,870 was comprised of amounts for insurance. The District was required to contribute 21.48% or $59,777 of each employee's creditable compensation for the first six months of the year ended December 31, 2019 and for the final six months of the year ended December 31, 2018. Of the 21.48%, 5.26% or $14,638 was comprised of amounts for insurance. The District was required to contribute 19.18% or $57,648 of each employee's creditable compensation for the first six months of the year ended December 31, 2018 and for the final six months of the year ended December 31, 2017. Of the 19.18%, 4.70% or $14,126 was comprised of amounts for insurance. The District was required to contribute 18.68% or $28,932 of each employee's creditable compensation for the first six months of the year ended December 31, 2017. Of the 18.68%, 4.73% or $7,326 was comprised of amounts for insurance. The District's payable to the plan at December 31, 2019 and 2018 was $7,181 and $5,082, respectively, which consisted of employees' withholdings and legally required contributions for the month of December.

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

At December 31, 2019, the District reported a liability of $185,570 for its proportionate share of the net OPEB liability. The District's net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate net OPEB liability was determined by an actuarial valuation as of June 30, 2017 and rolled forward from the valuation date to the plan's fiscal year ended June 30, 2019.

At December 31, 2018, the District reported a liability of $215,295 for its proportionate share of the net OPEB liability. The District's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate net OPEB liability was determined by an actuarial valuation as of June 30, 2017 and rolled forward from the valuation date to the plan's fiscal year ended June 30, 2018.

South Hopkins Water District
Notes to Financial Statements
December 31, 2019 and 2018

NOTE I – OTHER POST EMPLOYMENT BENEFITS (OPEB) continued

For the year ended December 31, 2019, the District recognized OPEB expense of $14,431. For the year ended December 31, 2018, the District recognized OPEB expense of $24,725. At December 31, 2019 and 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	12/31/2019		12/31/2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Defered Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ 1,222	$ 9,465	$ -	$ 14,830
Net difference between expected and actual experience	-	55,991	-	25,090
Changes in proportional and differences between employer contributions and proportional share of contributions	-	28,433	-	14,416
Change of assumptions	54,912	367	42,998	497
District contributions subsequent to the measurement date	6,870	-	7,549	-
Total	$ 63,004	$ 94,256	$ 50,547	$ 54,833

$6,870 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	
2020	($ 7,303)
2021	(7,303)
2022	(4,682)
2023	(9,689)
2024	(7,641)
2025	(1,503)

Actuarial assumptions.
The total OPEB liability in the June 30, 2018 and 2017 actuarial valuations using standard roll-forward techniques, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

2019	
Inflation	2.30%
Salary increases	3.30% to 11.55%, varies by service
Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates (pre-65)	Initial trend starting at 7.25% 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% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years

South Hopkins Water District
Notes to Financial Statements
December 31, 2019 and 2018

NOTE I – OTHER POST EMPLOYMENT BENEFITS (OPEB) continued

2018

Inflation	2.30%
Salary increases	2.00%, average, including inflation
Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates (pre-65)	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Healthcare cost trend rates (post-65)	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years

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

The actuarial assumption used in the June 30, 2017 valuation and rolled forward to June 30, 2019 were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

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 2008 through 2013, is outlined in a report dated April 30, 2014. 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.

The target asset 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
U S Equity	18.75%	4.30%
Non U S Equity	18.75	4.80
Private Equity	10.00	6.65
Specially 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
Total	100.00%	

NOTE I – OTHER POST EMPLOYMENT BENEFITS (OPEB) continued

Discount rate. For CERS, the discount rate used to measure the total OPEB liability was 5.68% for 2019 and 5.85% for 2018. 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 27 year amortization period of the unfunded actuarial accrued liability. The discount rate does not use a municipal bond rate.

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 June 30, 2019 and 5.85% for June 30, 2018 as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.68% and 4.85%) or 1-percentage-point higher (6.68% and 6.85%) than the current rate.

	1% Decrease (4.68%)	Discount Rate (5.68%)	1% Increase (6.68%)
District's 2019 proportionate share of the net OPEB liability	$ 248,588	$ 185,570	$ 133,648

	1% Decrease (4.85%)	Discount Rate (5.85%)	1% Increase (6.85%)
District's 2018 proportionate share of the net OPEB liability	$ 279,633	$ 215,295	$ 160,490

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

	1% Decrease (6.25% & 4.1% decreasing to 3.05%)	Discount Rate (7.25% & 5.1% decreasing to 4.05%)	1% Increase (8.25% & 6.1% decreasing to 5.05%)
District's 2019 proportionate share of the net OPEB liability	$ 138,009	$ 185,570	$ 243,243

	1% Decrease (6.5% & 4.5% decreasing to 4.85%)	Discount Rate (7.5% & 5.5% decreasing to 5.85%)	1% Increase (8.5% & 6.5% decreasing to 6.85%)
District's 2018 proportionate share of the net OPEB liability	$ 160,289	$ 215,295	$ 280,131

NOTE I – OTHER POST EMPLOYMENT BENEFITS (OPEB) continued

2018

Change in assumptions. Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated. The changes are noted below:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
  For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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

NOTE J - 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 K - MAJOR SUPPLIER

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

NOTE L – LOSS ON DISPOSITION OF CAPITAL ASSETS

2018

Beginning in 2013, the District participated in a pilot program involving the placement of septic tanks. The District received funds as a subrecipient from the City of St. Charles, whom had a grant agreement with the Kentucky Infrastucture Authority. The District had incurred total depreciable cost of $60,623. Effective July 31, 2018, the District ceased participation in the program and turned ownership of the septic tanks to the program participants. Subsequent to the December 31, 2018, the District received a final payment of $8,916 from the City of St. Charles. The District's basis in the septic tanks at July 31, 2018 was $50,926.

NOTE M – ACCOUNTING CHANGES

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement no. 75, "Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions." GASB 75 replaced the requirements of GASB 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" and GASB 57 "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans" as they relate to governments that provide other post employment benefits through other post employment benefits plans administered as trusts or similar arrangements that meet certain criteria. GASB 75 requires governments providing other post employment benefits to recognize their long-term obligation for other post employment benefits as a liability to more comprehensively and comparably measure the annual costs of other post employment benefits. Cost-sharing governmental employers, such as the District, are required to report a net other post employment benefits liability, other post employment benefits expense and other post employment benefits-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

The provisions of GASB 75 are effective for fiscal periods beginning after June 15, 2017. The District adopted GASB 75 for the year ended December 31, 2018. 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 $212,098.

Required Supplementary Information

South Hopkins Water District
Schedule of Proportionate Share of the Net Pension Liability
December 31, 2019 and 2018

Last 10 years
(Dollar amounts in thousands)

	2019	2018	2017	2016
Total net pension liability for County Employees' Retirement System	$ 9,795,340	$ 8,508,762	$ 8,090,586	$ 6,639,560
District's proportion of the net pension liability (asset)	0.011036%	0.012127%	0.013056%	0.013280%
District's proprtionate share of the net pension liability (asset)	$ 776	$ 739	$ 764	$ 654
District's covered-employer payroll	$ 279	$ 295	$ 304	$ 317
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employer payroll	278.09%	250.28%	251.50%	206.52%
Total pension plan's fiduciary net position	$ 9,573,629	$ 9,367,300	$ 8,905,233	$ 8,151,568
Total pension plan's pension liability	$19,368,969	$17,876,062	$16,995,819	$14,791,128
Total Pension Plan's fiduciary net position as a percentage of the total pension liability	49.43%	52.40%	52.40%	55.11%

	2015
Total net pension liability for County Employees' Retirement System	$ 5,834,631
District's proportion of the net pension liability (asset)	0.012460%
District's proprtionate share of the net pension liability (asset)	$ 536
District's covered-employer payroll	$ 291
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employer payroll	184.28%
Total pension plan's fiduciary net position	$ 8,519,002
Total pension plan's pension liability	$14,353,633
Total Pension Plan's fiduciary net position as a percentage of the total pension liability	59.35%

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- Pension Plan
December 31, 2019 and 2018

	2019	2018	2017	2016
Actuarially determined contribution	$ 49,717	$ 45,227	$ 43,522	$ 44,091
Contributions in relation to the actuarially determined contribution	49,717	45,227	43,522	44,091
Contribution deficiency (excess)	$ 0	$ 0	$ 0	$ 0
District's covered-employee payroll	$ 279,111	$ 295,095	$ 303,864	$ 316,629
Contributions as a percentage of covered-employee payroll	17.81%	15.33%	14.32%	13.93%

	2015
Actuarially determined contribution	$ 39,845
Contributions in relation to the actuarially determined contribution	39,845
Contribution deficiency (excess)	$ 0
District's covered-employee payroll	$ 290,612
Contributions as a percentage of covered-employee payroll	13.71%

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 Proportionate Share of the Net OPEB Liability
December 31, 2019 and 2018

Last 10 years
(Dollar amounts in thousands)

	2019	2018	2017
Total net OPEB liability for County Employees' Retirement System	$ 2,421,815	$ 2,488,439	$ 2,837,014
District's proportion of the net OPEB liability (asset)	0.011036%	0.012127%	0.013056%
District's proprtionate share of the net OPEB liability (asset)	$ 186	$ 215	$ 262
District's covered-employer payroll	$ 279	$ 295	$ 304
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employer payroll	66.49%	72.96%	86.38%
Total OPEB plan's fiduciary net position	$ 3,910,225	$ 3,695,108	$ 3,401,537
Total OPEB plan's pension liability	$ 6,332,040	$ 6,183,547	$ 6,238,551
Total OPEB Plan's fiduciary net position as a percentage of the total OPEB liability	61.75%	59.76%	55.42%

Note: This schedule is intended to present a 10-year trend per GASB 75. Additional years will be reported as incurred

South Hopkins Water District
Schedule of District Contributions-OPEB Plan
December 31, 2019 and 2018

	2019	2018	2017
Actuarially determined contribution	$ 13,960	$ 14,673	$ 14,328
Contributions in relation to the actuarially determined contribution	13,960	14,673	14,328
Contribution deficiency (excess)	$ 0	$ 0	$ 0
District's covered-employee payroll	$ 279,111	$ 295,095	$ 303,864
Contributions as a percentage of covered-employee payroll	5.00%	4.97%	4.72%

Note: This schedule is intended to present a 10-year trend per GASB 75. 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, 2019 and 2018, and the related notes to the financial statements, and have issued our report thereon dated June 19, 2020.

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.

2019-1 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.

2019-2 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: 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.

Knight Wagner, PLLC

Madisonville, Kentucky
June 19, 2020