Report

of

South Hopkins Water District
Dawson Springs, Kentucky

For The Years Ended December 31, 2022 and 2021

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INDEPENDENT AUDITORS' REPORT

To the Commissioners
South Hopkins Water District
Dawson Springs, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of South Hopkins Water District as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, as listed in the table of contents.

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, 2022 and 2021, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the South Hopkins Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the South Hopkins Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statments

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with genrally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional ommissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards,* we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examing, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 South Hopkins Water District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the South Hopkins Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8 and pension and OPEB schedules on pages 30-33 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not 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 May 18, 2023, 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
May 18, 2023

SOUTH HOPKINS WATER DISTRICT
Management's Discussion and Analysis
December 31, 2022 and 2021

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, 2022 and 2021. It should be read in conjunction with the accompanying basic financial statements.

Financial Highlights for the Year 2022

* The District's change in net position was a increase of $89.5 thousand for the year ended December 31, 2022.

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, 2022 and 2021. 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)

	2022	2021	dollar change	percent change	2020	dollar change	percent change
Current assets	$ 333.0	$ 303.6	$ 29.4	9.7%	$ 306.2	($ 2.6)	(0.8%)
Capital assets	2,586.7	2,640.7	(54.0)	(2.0%)	2,638.4	2.3	0.1%
Other noncurrent assets	40.7	16.0	24.7	154.4%	29.7	(13.7)	(46.1%)
Total assets	2,960.4	2,960.3	0.1	0.00%	2,974.3	(14.0)	(0.5%)
Total deferred outflows of resources	229.2	190.6	38.6	20.3%	238.7	(48.1)	(20.2%)
Current liabilities	156.7	163.4	(6.7)	(4.1%)	126.0	37.4	29.7%
Long-term liabilities	1,945.1	1,992.7	(47.6)	(2.4%)	2,197.9	(205.2)	(9.3%)
Total liabilities	2,101.8	2,156.1	(54.3)	(2.5%)	2,323.9	(167.8)	(7.2%)
Total deferred inflows of resources	264.1	260.6	3.5	1.3%	118.5	142.1	119.9%
Net investment in capital assets	1,618.6	1,622.7	(4.1)	(0.3%)	1,636.4	(13.7)	(0.8%)
Net position restricted for debt service	2.9	2.2	0.7	31.8%	1.5	0.7	46.7%
Net position restricted for capital projects	4.8	1.0	3.8	380.0%	6.0	(5.0)	(83.3%)
Unrestricted net position	(802.6)	(891.7)	89.1	10.0%	(873.3)	(18.4)	(2.1%)
Total net position	$ 823.7	$ 734.2	$ 89.5	12.2%	$ 770.6	($ 36.4)	(4.7%)

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 $0.824 million at the close of the current year.

2021 to 2022

As shown in table 1, the District's total assets increased $100 when compared to the prior year. Current assets increased $29,400. Cash and cash equivalents increased $62,500 while Other receivables decreased $21,800. Capital assets decreased $54,000 as depreciation expense outpaced new additions for the year. Other noncurrent assets increased $24,700 as restricted cash had a positive cash flow.

Deferred outflows of resources increased $38,600 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 decreased $54,300. Current liabilities decreased $6,700 remaining similar to the prior year. Long-term liabilities decreased $47,600. Net pension liability, the District's proportional share as determined by valuations of the County Employee Retirement System, increased $17,000. Net OPEB liability, the District's proportional share as determined by valuations of the County Employee Retirement System, decreased $15,000. Bonds/loans payable decreased $50,300 as the District paid as scheduled.

Deferred inflows of resources increased $3,500 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 increased $89,500, 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.

2020 to 2021

As shown in table 1, the District's total assets decreased $14,000 when compared to the prior year. Capital assets increased $2,300 as new additions outpaced depreciation expense for the year. Other noncurrent assets decreased $13,700 as restricted cash had a negative cash flow.

Deferred outflows of resources decreased $48,100 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 decreased $167,800. Current liabilities increased $37,400. The District drew $51,100 on the KIA Fund B during the year. Long-term liabilities decreased $205,200. Net pension liability, the District's proportional share as determined by valuations of the County Employee Retirement System, decreased $142,600. Net OPEB liability, the District's proportional share as determined by valuations of the County Employee Retirement System, decreased $55,200. Bonds payable decreased $23,000 as the District paid as scheduled.

Deferred inflows of resources increased $142,100 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 $36,400, 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)

	2022	2021	dollar change	percent change	2020	dollar change	percent change
Operating revenues	$1,644.1	$1,614.3	$ 29.8	1.8%	$1,676.6	($ 62.3)	(3.7%)
Nonoperating revenues	157.9	22.0	135.9	617.7%	0.2	21.8	10900.0%
Total revenues	1,802.0	1,636.3	165.7	10.1%	1,676.8	(40.5)	(2.4%)
Operating expenses	1,712.3	1,681.1	31.2	1.9%	1,741.6	(60.5)	(3.5%)
Nonoperating expenses	29.5	30.2	(0.7)	(2.3%)	32.4	(2.2)	(6.8%)
Total expenses	1,741.8	1,711.3	30.5	1.8%	1,774.0	(62.7)	(3.5%)
Income before capital contributions	60.2	(75.0)	135.2	180.3%	(97.2)	22.2	22.8%
Capital contributions	29.3	38.6	(9.3)	(24.1%)	33.3	5.3	15.9%
Changes in net position	89.5	(36.4)	125.9	345.9%	(63.9)	27.5	43.0%
Beginning net position	734.2	770.6	(36.4)	(4.7%)	834.5	(63.9)	(7.7%)
Ending net position	$ 823.7	$ 734.2	$ 89.5	12.2%	$ 770.6	($ 36.4)	(4.7%)

2021 to 2022

The District's total revenues increased $165,700 or 10.1%. Water sales increased as more water was sold during the year. FEMA proceeds of $75,460 and insurance recoveries of $82,299 were received in 2022 due to damage and recovery expenses incurred from the December 2021 tornado which devastated the District area.

The District's operating expenses increased $31,200. Employee benefits decreased $47,000. The District's pension and OPEB expenses as calculated by CERS decreased significantly. Water purchases increased $18,700.

Capital contributions decreased $9,300 from the prior year.

Changes in net position increased $89,500 due to the net effect of the increased total revenues and increased total expenses mentioned above.

2020 to 2021

The District's total revenues decreased $40,500 or 2.4%. Water sales decreased as less water was sold during the year. Water gallons sold decreased 11%. Penalty income increased $14,000 from the prior year as Covid restrictions on collections were lifted. The District experienced a $21,800 gain on involuntary conversion due to insurance recoveries for losses during the December 2021 tornado which devastated the District area.

The District's operating expenses decreased $60,500. Employee benefits decreased $56,600. The District's pension and OPEB expenses as calculated by CERS decreased significantly. Materials and supplies purchased increased $18,800.

Capital contributions increased $5,300 over the prior year.

Changes in net position decreased $36,400 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, 2022, the District had $2,586,720 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 $53,968 from the prior year as depreciation expense outpaced new additions.

Significant additions during the year included $8,838 in pumping equipment renovation and $30,029 in meters and installation.

At December 31, 2021, the District had $2,640,688 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 $2,321 from the prior year as new additions outpaced depreciation expense.

Significant additions during the year included $51,278 in pumping equipment renovation and $32,374 in meters and installation.

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, 2022, the District had $401,800 in revenue bonds outstanding which was a decrease of $24,100 from the prior year balance of $425,900. Both of the District's bond issues were paid as scheduled. At December 31, 2022, the District had $566,351 in a loan outstanding which was a decrease of $25,719 from the prior year balance of $592,071. The District's loan was paid as scheduled.

At December 31, 2021, the District had $425,900 in revenue bonds outstanding which was a decrease of $23,000 from the prior year balance of $448,900. Both of the District's bond issues were paid as scheduled. New borrowings during 2021 consisted of $51,098 of a Kentucky Infrastructure Authority Fund B loan. Loan proceeds were used to fund pump equipment improvements.

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, 2022 and 2021

	2022	2021
Assets		
Current assets		
Cash and cash equivalents	$ 77,960	$ 15,446
Accounts receivable	162,343	169,839
Other receivables	0	21,852
Material and parts inventory	82,892	87,404
Prepaid expenses	9,850	9,085
Total current assets	333,045	303,626
Noncurrent assets		
Restricted cash and cash equivalents	40,678	15,990
Capital assets:		
Nondepreciable	53,928	37,187
Depreciable, net of accumulated depreciation	2,532,796	2,603,505
Total noncurrent assets	2,627,402	2,656,682
Total assets	2,960,447	2,960,308
Deferred outflows of resources		
Deferred outflows of resources-pensions	135,804	81,105
Deferred outflows of resources-OPEB	93,423	109,433
Total deferred outflows of resources	229,227	190,538
Liabilities		
Current liabilities payable from current assets		
Accounts payable	72,868	93,506
Accrued taxes and other payables	14,867	11,538
Accumulated compensated absences	22,962	14,417
	110,697	119,461
Current liabilities payable from restricted assets		
Accrued interest payable	826	826
Loan payable	26,172	25,719
Customer deposits	19,019	17,384
	46,017	43,929
Total current liabilities	156,714	163,390
Long-term liabilities		
Loan payable	540,179	566,352
Bonds payable	401,800	425,900
Net pension liability	726,227	709,242
Net OPEB liability	198,239	212,906
Customer deposits	78,661	78,282
Total long-term liabilities	1,945,106	1,992,682
Total liabilities	2,101,820	2,156,072
Deferred inflows of resources		
Deferred inflows of resources-pensions	135,492	135,731
Deferred inflows of resources-OPEB	128,698	124,861
Total deferred inflows of resources	264,190	260,592
Net Position		
Net investment in capital assets	1,618,573	1,622,721
Restricted for:		
Debt service	2,939	2,190
Capital projects	4,764	961
Unrestricted	(802,612)	(891,690)
Total net position	$ 823,664	$ 734,182

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, 2022 and 2021

	2022	2021
Operating revenues		
Water sales	$1,573,534	$1,548,024
Other operating revenues	70,535	66,243
Total operating revenues	1,644,069	1,614,267
Operating expenses		
Purchased water	846,579	827,857
Salaries and wages	288,084	279,186
Depreciation	104,850	107,575
Employee benefits	122,104	169,473
Transportation	26,849	28,133
Contract services	22,969	21,048
Taxes	25,737	26,777
Purchased power	77,249	68,221
Materials and supplies	119,126	98,103
Insurance	30,063	28,575
Miscellaneous	48,682	26,109
Total operating expenses	1,712,292	1,681,057
Operating income (loss)	(68,223)	(66,790)
Nonoperating revenues (expenses)		
Insurance recoveries	82,299	0
FEMA proceeds	75,460	0
Gain on involuntary conversion	0	21,852
Interest income	193	163
Interest expense	(29,502)	(30,239)
Total nonoperating revenues (expenses)	128,450	(8,224)
Income (loss) before contributions and grants	60,227	(75,014)
Capital contributions-grants	3,000	0
Capital contributions-tap fees	26,255	38,595
Change in net position	89,482	(36,419)
Total net position – beginning	734,182	770,601
Total net position - ending	$ 823,664	$ 734,182

The accompanying notes are an integral part of these statements.

South Hopkins Water District
Statement of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Cash received from customers	$1,568,170	$1,555,475
Cash payments to suppliers for goods and services	(1,320,422)	(1,307,986)
Cash payments to employees for services	(288,084)	(279,186)
Other operating revenues	70,535	66,243
Net cash provided (used) by operating activities	30,199	34,546
Cash flows from capital and related financing activities		
Insurance recoveries received	82,299	0
FEMA proceeds received	75,460	0
Grant proceeds received	3,000	0
Gain on involuntary conversion	0	21,852
Acquisition and construction of capital assets	(50,882)	(109,899)
Principal paid on bond maturities	(24,100)	(23,000)
Interest paid on bonds/loans	(29,394)	(30,117)
Interest paid on customer deposits	(108)	(104)
Proceeds from loans	0	51,098
Principal paid on loans	(25,720)	(12,061)
Capital contributions received from customers	26,255	38,595
Net cash provided (used) for capital and related financing activities	56,810	(63,636)
Cash flows from investing activities		
Interest earned on bank deposits	193	163
Net cash provided (used) by investing activities	193	163
Net increase (decrease) in cash and cash equivalents	87,202	(28,927)
Cash and cash equivalents at beginning of year	31,436	60,363
Cash and cash equivalents at end of year	$ 118,638	$ 31,436

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

	2022	2021
Operating income (loss)	($ 68,223)	($ 66,790)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	104,850	107,575
Change in assets, outflows, liabilities, and inflows:		
(Increase) decrease in accounts receivable	7,496	12,673
(Increase) decrease in other receivables	21,852	(20,752)
(Increase) decrease in inventory	4,512	(8,011)
(Increase) decrease in prepaid expenses	(765)	3,451
(Increase) decrease in deferred outflows-pensions	(54,699)	44,136
(Increase) decrease in deferred outflows-OPEB	16,010	3,976
Increase (decrease) in accounts payable	(20,638)	20,863
Increase (decrease) in taxes and other payables	3,329	609
Increase (decrease) in net pension liability	16,985	(142,656)
Increase (decrease) in net OPEB liability	(14,667)	(55,222)
Increase (decrease) in customer deposits	2,014	(3,122)
Increase (decrease) in accumulated compensated absences	8,545	(4,292)
Increase (decrease) in deferred inflows-pensions	(239)	90,346
Increase (decrease) in deferred inflows-OPEB	3,837	51,762
Total adjustments	98,422	101,336
Net cash provided (used) by operating activities	$ 30,199	$ 34,546

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.

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 $8,535 at December 31, 2022 and $8,939 at December 31, 2021.

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, 2022 the reconciled balance of the District's deposits totaled $118,638 and the bank balances were $118,926. Of the bank balances $118,926 was covered by federal depository insurance (category 1).

On December 31, 2021 the reconciled balance of the District's deposits totaled $31,436 and the bank balances were $103,926. Of the bank balances $103,926 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, 2022, the District's prepaid expenses consisted of $3,762 of insurance and $6,088 of employee benefits. At December 31, 2021, the District's prepaid expenses consisted of $3,524 of insurance and $5,561 of employee benefits.

South Hopkins Water District
Notes to Financial Statements
December 31, 2022 and 2021

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:

	2022	2021
Bond and interest redemption fund	$ 2,939	$ 2,190
Bond depreciation fund	4,764	960
Meter deposit fund	32,975	12,840
Totals	$ 40,678	$ 15,990

NOTE E - CAPITAL ASSETS

Capital asset activities for the years ended December 31, 2022 and 2021, were as follows:

	Balances 12/31/20	Transfers/ Additions	Transfers/ Retirements	Balances 12/13/21	Transfers/ Additions	Transfers/ Retirements	Balances 12/31/22
Business-type activities:							
Capital assets not being depreciated							
Land & land rights	$ 31,915	$ 0	$ 0	$ 31,915	$ 0	$ 0	$ 31,915
Construction in progress	4,417	6,590	5,735	5,272	21,865	5,124	22,013
Total	36,332	6,590	5,735	37,187	21,865	5,124	53,928
Capital assets being depreciated							
Structures, improvements, & water system	5,740,542	108,031	14,490	5,834,083	34,141	860	5,867,364
Office furniture & equipment	62,732	1,011	0	63,743	0	0	63,743
Vehicles & equipment	143,049	0	23,834	119,215	0	0	119,215
Machinery & equipment	265,971	0	0	265,971	0	0	265,971
Total	6,212,294	109,042	38,324	6,283,012	34,141	860	6,316,293
Total capital assets	6,248,626	115,632	44,059	6,320,199	56,006	5,984	6,370,221
Less accumulated depreciation for:							
Structures, improvements, & water system	3,257,064	89,080	14,490	3,331,654	92,076	860	3,422,870
Office furniture & equipment	53,187	2,485	0	55,672	2,472	0	58,144
Vehicles & equipment	131,947	7,369	23,834	115,482	3,158	0	118,640
Machinery & equipment	168,061	8,642	0	176,703	7,144	0	183,847
Total accumulated depreciation	3,610,259	107,576	38,324	3,679,511	104,850	860	3,783,501
Total business-type activities capital assets, net	$2,638,367	$ 8,056	$ 5,735	$2,640,688	($ 48,844)	$ 5,124	$2,586,720

South Hopkins Water District
Notes to Financial Statements
December 31, 2022 and 2021

NOTE F - LONG-TERM LIABILITIES

Long-term liability activity

Long-term liability activity for the years ended December 31, 2022 and 2021, were as follows:

	Balances 12/31/20	Additions	Reductions	Balances 12/31/21	Additions	Reductions	Balances 12/31/22	Amounts Due Within One Year
Loan:								
KIA Fund B	$ 553,034	$ 51,098	$ 12,061	$ 592,071	$ 0	$ 25,720	$ 566,351	$ 26,172
Revenue Bonds:								
Series 1994A	392,000	0	20,000	372,000	0	21,000	351,000	0
Series 1994B	56,900	0	3,000	53,900	0	3,100	50,800	0
Total Bonds/Loans	1,001,934	51,098	35,061	1,017,971	0	49,820	968,151	26,172
Customer Deposits	98,788	16,560	19,682	95,666	20,825	18,811	97,680	19,019
Accumulated Compensated Absences	18,709	33,247	37,539	14,417	27,125	18,580	22,962	22,962
Business-type Activities Long-Term Liabilities	$1,119,431	$ 100,905	$ 92,282	$1,128,054	$ 47,950	$ 87,211	$1,088,793	$ 68,153

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. Principal payments began December 1, 2021 and will be payable June 1 and December 1 each year. Interest is payable semi-annually on June 1 and December 1 at 1.75% per annum. At December 31, 2022, the District has drawn $604,132 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, 2022 are as follows:

Year Ended December 31		Business-type Activities Principal	Business-type Activities Interest
2023		$ 26,172	$ 9,797
2024		51,932	27,418
2025		53,500	25,812
2026		56,176	24,147
2027		56,761	22,376
2028-2032		318,177	83,275
2033-2037		283,840	29,697
2038-2041		121,593	4,293
	Totals	$ 968,151	$ 226,815

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 Public Pensions Authority (KPPA). The KPPA is the successor to Kentucky Retirement Systems and was created by state statute under Kentucky Revised Statute Section 61.645 as amended by House Bill 484 and House Bill 9 of the 2020 and 2021 regular sessions, respectively, of the Kentucky General Assembly. These amendments transferred governance of the CERS to a separate nine member board of trustees. The CERS Board of Trustees is reponsible for the proper operation and administration of the CERS. The KPPA issues a

NOTE H - EMPLOYEES' PENSION PLAN continued

publicly available financial report that can be obtained by writing to Kentucky Public Pensions Authority, Perimeter Park West 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (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 KPPA board based on a member's accumulated account balance. Tier 3 members are not eligible for reduced retirement benefits.

Contributions. Contributions for employees are established in the statutes governing the KPPA and may only be changed by the Kentucky General Assembly. Non-Hazardous employees contribute 5% of salary if they were plan members prior to September 1, 2008. Non-Hazardous employees that entered the plan after September 1, 2008, are 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 26.79% or $39,727 of each employee's creditable compensation for the last six months of the year ended December 31, 2022. Of the 26.79%, 23.40% or $34,700 was comprised of amounts for pensions. The District was required to contribute 26.95% or $75,128 of each employee's creditable compensation for the first six months of the year ended December 31, 2022 and for the final six months of the year ended December 31, 2021. Of the 26.95%, 21.17%/22.78% or $61,131 was comprised of amounts for pensions. The District was required to contribute 24.06% or $68,385 of each employee's creditable compensation for the first six months of the year ended December 31, 2021 and for the final six months of the year ended December 31, 2020. Of the 24.06%, 19.30% or $54,856 was comprised of amounts for pensions. The District was required to contribute 24.06% or $33,724 of each employee's creditable compensation for the first six months of the year ended December 31, 2020. Of the 24.06%, 19.30% or $27,052 was comprised of amounts for pensions. The District's payable to the plan at December 31, 2022 and 2021 was $10,912 and $9,185, respectively, which consisted of employees' withholdings and legally required contributions for the month of December.

South Hopkins Water District
Notes to Financial Statements
December 31, 2022 and 2021

NOTE H - EMPLOYEES' PENSION PLAN continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At December 31, 2022, the District reported a liability of $726,227 for its proportionate share of the net pension liability. For financial reporting, the actuarial valution as of June 30, 2021, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2022 were based on an actuarial valuation as of June 30, 2021. The total pension liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022, using generally accepted accuarial principles. At December 31, 2021, the District reported a liability of $709,242 for its proportionate share of the net pension liability. For financial reporting, the actuarial valution as of June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2021 were based on an actuarial valuation as of June 30, 2020. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted accuarial principles.

For the year ended December 31, 2022, the District recognized pension expense of $28,843. For the year ended December 31, 2021, the District recognized pension expense of $48,520. At December 31, 2022 and 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	12/31/2022		12/31/2021	
	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	$ 98,818	$ 80,200	$ 27,514	$ 122,044
Net difference between expected and actual experience	776	6,467	8,144	6,884
Changes in proportional and differences between employer contributions and proportional share of contributions	1,510	48,825	4,739	6,803
Change of assumptions	-	-	9,519	-
District contributions subsequent to the measurement date	34,700	-	31,189	-
Total	$ 135,804	$ 135,492	$ 81,105	$ 135,731

$34,700 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, 2023. 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:	
2023	($ 25,757)
2024	(23,159)
2025	(6,103)
2026	20,631

NOTE H - EMPLOYEES' PENSION PLAN continued

Actuarial assumptions. There have been no actuarial assumption or method changes since June 30, 2020. The assumptions based on June 30, 2020 are:

2020	
Inflation	2.30%
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.25%
Payroll growth rate	2.00%

During the 2018 legislation session, House Bill 185 was recommended, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from the 10% of the member's final pay to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.

Senate Bill 249 passed during the 2020 legislation session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurred in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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

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
Equity	60.00%	
Public Equity	50.00%	4.45%
Priviate Equity	10.00%	10.15%
Fixed Income	20.00%	
Core Bonds	10.00%	0.28%
Specially Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected	20.00%	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Expected real return	100.00%	4.28%
Long term inflation assumption	=========	2.30%
Expected norminal rate for porfolio		6.58%

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 required employee contributions each future year, as determined by the current funding policy established in statute as last amended by House Bill 8 (passed in 2021). The discount rate does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal real rates of return for each major asset class are summarized in the KPPA financial report.

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, 2022 and 6.25% for June 30, 2021, 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 2022 proportionate share of the net pension liability	$ 907,693	$ 726,227	$ 576,139

	1% Decrease (5.25%)	Discount Rate (6.25%)	1% Increase (7.25%)
District's 2021 proportionate share of the net pension liability	$ 909,637	$ 709,242	$ 543,420

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. Employees of the District are provided hospital and medical insurance through the Kentucky Public Pensions Authority's County Employees' Retirement Insurance Fund (Insurance Fund), a cost-sharing, multi-employer defined benefit OPEB plan. The KPPA was created by State stutute under the Kentucky Revised Statute Section 61.645. The CERS Board of Trustees is responsible for the proper operation and administration of the CERS. The KPPA issues a publicly available financial report that can be obtained by writing to Kentucky Public Pension Authority, Perimeter Park West 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (502) 564-4646.

Benefits provided. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn $10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Contributions. Contribution requirements of the participating employers are established and may be amended by the CERS Board of Trustees. Employees that entered the plan prior to September 1, 2008, are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008, are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund. The District is required to contribute at an actuarial determined rate. The District was required to contribute 26.79% or $39,727 of each employee's creditable compensation for the last six months of the year ended December 31, 2022. Of the 26.79%, 3.39% or $5,027 was comprised of amounts for insurance. The District was required to contribute 26.95% or $75,128 of each employee's creditable compensation for the first six months of the year ended December 31, 2022 and for the final six months of the year ended December 31, 2021. Of the 26.95%, 4.17%/5.78% or $13,997 was comprised of amounts for insurance. The District was required to contribute 24.06% or $68,385 of each employee's creditable compensation for the first six months of the year ended December 31, 2021 and for the final six months of the year ended December 31, 2020. Of the 24.06%, 4.76% or $13,529 was comprised of amounts for insurance. The District was required to contribute 24.06% or $33,724 of each employee's creditable compensation for the first six months of the year ended December 31, 2020. Of the 24.06%, 4.76% or $6,672 was comprised of amounts for insurance. The District's payable to the plan at December 31, 2022 and 2021 was $10,912 and $9,185, 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, 2022, the District reported a liability of $198,239 for its proportionate share of the net OPEB liability. For financial reporting, the actuarial valuation as of June 30, 2022, was performed by Gabriel Roeder Smith (GRS). The total OPEB expense, net OPEB liability, and sensitivity information as of June 30, 2022 were based on an actuarial valuation date as of June 30, 2021. The total OPEB liability was rolled-forward from the valuation date (June 30, 2021) to the plan's fiscal year ending June 30, 2022 using generally accepted accrurial principles. At December 31, 2021, the District reported a liability of $212,906 for its proportionate share of the net OPEB liability. For financial reporting, the actuarial valuation as of June 30, 2021, was

NOTE I – OTHER POST EMPLOYMENT BENEFITS (OPEB) continued

performed by Gabriel Roeder Smith (GRS). The total OPEB expense, net OPEB liability, and sensitivity information as of June 30, 2021 were based on an actuarial valuation date as of June 30, 2020. The total OPEB liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021 using generally accepted accruarial principles.

For the year ended December 31, 2022, the District recognized OPEB expense of $19,687. For the year ended December 31, 2021, the District recognized OPEB expense of $21,618. At December 31, 2022 and 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	12/31/2022		12/31/2021	
	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	$ 36,914	$ 28,868	$ 10,727	$ 44,033
Net difference between expected and actual experience	19,954	45,461	33,480	63,567
Changes in proportional and differences between employer contributions and proportional share of contributions	175	28,534	265	17,063
Change of assumptions	31,353	25,835	56,445	198
District contributions subsequent to the measurement date	5,027	-	8,516	-
Total	$ 93,423	$ 128,698	$ 109,433	$ 124,861

$5,027 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, 2023. 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:	
2023	($ 10,728)
2024	(9,393)
2025	(17,369)
2026	(2,813)

Actuarial assumptions.
Actuarial assumptions as of December 31, 2022 and 2021 were determined using the following updated assumptions:

2022	
Payroll growth rate	2.00%
Inflation	2.30%
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.25%
Healthcare cost trend rates (pre-65)	Initial trend starting at 6.40% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years
Healthcare cost trend rates (post-65)	Initial trend starting at 6.30% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years

South Hopkins Water District
Notes to Financial Statements
December 31, 2022 and 2021

NOTE I – OTHER POST EMPLOYMENT BENEFITS (OPEB) continued

2021

Payroll growth rate	2.00%
Inflation	2.30%
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.25%
Healthcare cost trend rates (pre-65)	Initial trend starting at 6.30% 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 6.30% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years

Senate Bill 209 passed during the 2022 legislation session and increased the insurance dollar contribution for members hired on or after July 1, 2003 by $5 for each year of service a member attains over certain thresholds, depending on a member's retirement eligibility requirement. This increase in the insurance dollar contribution does not increase by 1.5% annuallly and is only payable for non-Medicare retirees. Additionally, it is only payable when the member's applicable insurance fund is at least 90% funded. The increase is first payable January 1, 2023. Senate Bill 209 also allows members receiving the insurance dollar contribution to participate in a medical insurance reimbursement plan that would provide the reimbursement of premiums for health plans other than those administered by KPPA.

Senate Bill 169 passed during the 2021 legislative session changed the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related disability. The total OPEB liability as of June 30, 2021, is determined using the updated benefit provisions. There were no other material plan provision changes.

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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

South Hopkins Water District
Notes to Financial Statements
December 31, 2022 and 2021

NOTE I – OTHER POST EMPLOYMENT BENEFITS (OPEB) 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
Equity	60.00%	
Public Equity	50.00%	4.45%
Priviate Equity	10.00%	10.15%
Fixed Income	20.00%	
Core Bonds	10.00%	0.28%
Specially Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected	20.00%	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Expected real return	100.00%	4.28%
Long term inflation assumption		2.30%
Expected norminal rate for porfolio		6.58%

For 2022 and 2021, the discount rate used to measure the total OPEB liability was 5.70% and 5.20%, respectively. The discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.69% and 1.92%, respectively, as reported in Fidelity Index's "20-year Municipal GO AA Index" as of June 30, 2022 and June 30, 2021. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance future benefit payments of current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan.

However, the cost associated with the implicit employer subsidy was not included in the calculation of the plan's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the plan's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The projection of cash flows used to determine the single discount rate must include an assumption regarding actual employer contributions made each future year. Future contributions are projected assuming that each participating employer in each insurance plan contributes the actuarially determined employer contributions each future year calculated in accordance with the current funding policy, as most recently revised by House Bill 8, passed during the 2021 legislative session. The assumed future employer contributions reflect the provisions of House Bill 362 (passed during the 2018 legislative session) which limit the increases to the employer contribution rates to 12% over the fiscal year through June 30, 2028.

Discount rate. For CERS, the discount rate used to measure the total OPEB liability was 5.70% for 2022 and 5.20% for 2021.

South Hopkins Water District
Notes to Financial Statements
December 31, 2022 and 2021

NOTE I – OTHER POST EMPLOYMENT BENEFITS (OPEB) continued

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 5.70% for June 30, 2022 and 5.20% for June 30, 2021 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 (4.70% and 4.20%) or 1-percentage-point higher (6.70% and 6.20%) than the current rate.

	1% Decrease (4.70%)	Discount Rate (5.70%)	1% Increase (6.70%)
District's 2022 proportionate share of the net OPEB liability	$ 265,015	$ 198,239	$ 143,039

	1% Decrease (4.20%)	Discount Rate (5.20%)	1% Increase (6.20%)
District's 2021 proportionate share of the net OPEB liability	$ 292,318	$ 212,906	$ 147,735

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 (5.4% & 5.3% decreasing to 3.05%)	Discount Rate (6.4% & 6.3% decreasing to 4.05%)	1% Increase (7.4% & 7.3% decreasing to 5.05%)
District's 2022 proportionate share of the net OPEB liability	$ 147,387	$ 198,239	$ 259,304

	1% Decrease (5.25% & 4.5% decreasing to 3.05%)	Discount Rate (6.25% & 5.5% decreasing to 4.05%)	1% Increase (7.25% & 6.5% decreasing to 5.05%)
District's 2021 proportionate share of the net OPEB liability	$ 153,267	$ 212,906	$ 284,891

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 – FEMA PROCEEDS, INSURANCE RECOVERIES, AND GAIN ON INVOLUNTARY CONVERSION

A destructive tornado struck the District area in December 2021. The area was declared a federal disaster area. The District incurred total losses of equipment as well as damages to equipment and infrastucture. Fully depreciated equipment was lost and insurance recoveries in the amount of $21,852 were received subsequent to the December 31, 2021 balance sheet date. Also in 2022, additional insurance recoveries of $79,299 were received for repairs to damaged equipment and infrastucture which was not a total loss. During 2022, Federal Emergency Management Agency funds in the amount of $75,460 were received through the Commonwealth of Kentucky. These amounts were received for county wide waterline shut off expense, generator hookups, management costs, and aid in the recovery cost of meters and waterlines for homes completely destroyed.

Required Supplementary Information

South Hopkins Water District
Schedule of Proportionate Share of the Net Pension Liability
December 31, 2022 and 2021

Last 10 years
(Dollar amounts in thousands)

	2022	2021	2020	2019
Total net pension liability for County Employees' Retirement System	$10,280,470	$ 9,037,944	$10,684,945	$ 9,795,340
District's proportion of the net pension liability (asset)	0.010046%	0.011121%	0.011107%	0.011036%
District's proprtionate share of the net pension liability (asset)	$ 726	$ 709	$ 852	$ 776
District's covered-employer payroll	$ 280	$ 280	$ 292	$ 279
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employer payroll	259.62%	253.21%	291.78%	278.09%
Total pension plan's fiduciary net position	$10,681,820	$11,480,060	$ 9,407,031	$ 9,573,629
Total pension plan's pension liability	$20,962,290	$20,518,004	$20,091,976	$19,368,969
Total Pension Plan's fiduciary net position as a percentage of the total pension liability	50.96%	55.95%	46.82%	49.43%

	2018	2017	2016	2015
Total net pension liability for County Employees' Retirement System	$ 8,508,762	$ 8,090,586	$ 6,639,560	$ 5,834,631
District's proportion of the net pension liability (asset)	0.012127%	0.013056%	0.013280%	0.012460%
District's proprtionate share of the net pension liability (asset)	$ 739	$ 764	$ 654	$ 536
District's covered-employer payroll	$ 295	$ 304	$ 317	$ 291
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employer payroll	250.28%	251.50%	206.52%	184.28%
Total pension plan's fiduciary net position	$ 9,367,300	$ 8,905,233	$ 8,151,568	$ 8,519,002
Total pension plan's pension liability	$17,876,062	$16,995,819	$14,791,128	$14,353,633
Total Pension Plan's fiduciary net position as a percentage of the total pension liability	52.40%	52.40%	55.11%	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, 2022 and 2021

	2022	2021	2020	2019
Actuarially determined contribution	$ 64,642	$ 56,715	$ 56,382	$ 49,717
Contributions in relation to the actuarially determined contribution	64,642	56,715	56,382	49,717
Contribution deficiency (excess)	$ 0	$ 0	$ 0	$ 0
District's covered-employee payroll	$ 279,732	$ 279,585	$ 292,133	$ 279,111
Contributions as a percentage of covered-employee payroll	23.11%	20.29%	19.30%	17.81%

	2018	2017	2016	2015
Actuarially determined contribution	$ 45,227	$ 43,522	$ 44,091	$ 39,845
Contributions in relation to the actuarially determined contribution	45,227	43,522	44,091	39,845
Contribution deficiency (excess)	$ 0	$ 0	$ 0	$ 0
District's covered-employee payroll	$ 295,095	$ 303,864	$ 316,629	$ 290,612
Contributions as a percentage of covered-employee payroll	15.33%	14.32%	13.93%	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, 2022 and 2021

Last 10 years
(Dollar amounts in thousands)

	2022	2021	2020	2019
Total net OPEB liability for County Employees' Retirement System	$ 2,825,300	$ 2,723,009	$ 3,338,801	$ 2,421,815
District's proportion of the net OPEB liability (asset)	0.010045%	0.011121%	0.011104%	0.011036%
District's proprtionate share of the net OPEB liability (asset)	$ 198	$ 213	$ 268	$ 186
District's covered-employer payroll	$ 280	$ 280	$ 292	$ 279
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employer payroll	70.87%	76.07%	91.78%	66.49%
Total OPEB plan's fiduciary net position	$ 4,602,655	$ 4,874,625	$ 3,902,730	$ 3,910,225
Total OPEB plan's OPEB liability	$ 7,427,955	$ 7,597,634	$ 7,241,531	$ 6,332,040
Total OPEB Plan's fiduciary net position as a percentage of the total OPEB liability	61.96%	64.16%	53.89%	61.75%

	2018	2017
Total net OPEB liability for County Employees' Retirement System	$ 2,488,439	$ 2,837,014
District's proportion of the net OPEB liability (asset)	0.012127%	0.013056%
District's proprtionate share of the net OPEB liability (asset)	$ 215	$ 262
District's covered-employer payroll	$ 295	$ 304
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employer payroll	72.96%	86.38%
Total OPEB plan's fiduciary net position	$ 3,695,108	$ 3,401,537
Total OPEB plan's pension liability	$ 6,183,547	$ 6,238,551
Total OPEB Plan's fiduciary net position as a percentage of the total OPEB liability	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, 2022 and 2021

	2022	2021	2020	2019
Actuarially determined contribution	$ 10,508	$ 14,811	$ 13,906	$ 13,960
Contributions in relation to the actuarially determined contribution	10,508	14,811	13,906	13,960
Contribution deficiency (excess)	$ 0	$ 0	$ 0	$ 0
District's covered-employee payroll	$ 279,732	$ 279,585	$ 292,133	$ 279,111
Contributions as a percentage of covered-employee payroll	3.76%	5.30%	4.76%	5.00%

	2018	2017
Actuarially determined contribution	$ 14,673	$ 14,328
Contributions in relation to the actuarially determined contribution	14,673	14,328
Contribution deficiency (excess)	$ 0	$ 0
District's covered-employee payroll	$ 295,095	$ 303,864
Contributions as a percentage of covered-employee payroll	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, 2022 and 2021, and the related notes to the financial statements, and have issued our report thereon dated May 18, 2023.

Report on 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) as a basis for designing 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 identified certain deficiencies in internal control, as discussed below, as items that we consider to be significant deficiencies.

2022-1 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.

2022-2 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.

Report on Compliance and Other Matters

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

Government Auditing Standards require the auditor to perform limited procedures on 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 other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Knight Wagner, PLLC

Madisonville, Kentucky
May 18, 2023