

NICHOLAS COUNTY WATER DISTRICT
Carlisle, Kentucky

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
for the year ended December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Nicholas County Water District
Carlisle, Kentucky

We have audited the accompanying financial statements of the business-type activities of the Nicholas County Water District as of and for the year ended December 31, 2018, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Nicholas County Water District's management. Our responsibility is to an express opinion on these financial statements based on our audit.

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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Nicholas County Water District, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

The Schedule of the Proportionate Share of Net Pension Liability, the Schedule of Employer's Contributions – Net Pension Liability, Schedule of the Proportionate Share of Net OPEB Liability and the Schedule of Employer's Contributions – Net OPEB Liability are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 20, 2019, on our consideration of the Nicholas County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nicholas County Water District's internal control over financial reporting and compliance.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

September 13, 2019

This report contains 25 pages.

**Nicholas County Water District
Statement of Net Position
Proprietary Fund
December 31, 2018**

ASSETS and DEFERRED OUTFLOWS OF RESOURCES

Current Assets	
Cash and cash equivalents - unrestricted	\$ 282,279
Cash and cash equivalents - restricted	101,604
Accounts receivable - net of allowance for doubtful accounts	57,696
Inventory	17,399
Prepaid expenses	12,668
Total Current Assets	471,646
Noncurrent Assets	
Capital assets:	
Land	20,997
Plant, equipment and lines	8,896,852
Accumulated depreciation	(3,962,685)
Total Noncurrent Assets	4,955,164
Other Assets	
Bond issue costs	59,929
Accumulated amortization	(10,579)
Total Other Assets	49,350
Deferred Outflows of Resources	
Deferred Outflows of Resources - NPL	62,047
Deferred Outflows of Resources - OPEB	21,678
Total Deferred Outflows of Resources	83,725
Total Assets & Deferred Outflows of Resources	\$ 5,559,885

LIABILITIES and DEFERRED INFLOWS OF RESOURCES

Current Liabilities	
Accrued expenses	\$ 30,765
Bonds/loans payable	97,500
Customer deposits	31,395
Total Current Liabilities	159,660
Noncurrent Liabilities	
Bonds/loans payable	2,362,000
Net pension liability	291,604
Net OPEB liability	85,010
Total Noncurrent Liabilities	2,738,614
Deferred Inflows of Resources	
Deferred Inflows of Resources - NPL	32,610
Deferred Inflows of Resources - OPEB	19,488
Total Deferred Inflows of Resources	52,098
Total Liabilities & Deferred Inflows of Resources	2,950,372

NET POSITION

Net investment in capital assets	2,545,014
Restricted	70,209
Unrestricted	(5,710)
Total Net Position	\$ 2,609,513

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

Nicholas County Water District
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the year ended December 31, 2018

<hr/>	
Revenues	
User fees	\$ 765,513
Other revenue	<u>36,316</u>
Total Revenues	<u>801,829</u>
Expenses	
Salaries	87,738
Employee benefits	21,544
Retirement	51,551
Water purchased	292,285
Power purchased	19,800
Materials and supplies	45,753
Water testing	4,348
Contractual services	42,587
Transportation expenses	5,557
Insurance	23,683
Miscellaneous expenses	32,200
Utilities	570
Phone	6,564
Taxes	31,683
Depreciation and amortization	<u>197,469</u>
Total Operating Expenses	<u>863,332</u>
Operating Income (Loss)	<u>(61,503)</u>
Nonoperating Revenues (Expenses)	
Capital grants	633,915
Interest income	1,780
Interest expense	<u>(88,100)</u>
Net Nonoperating Revenues (Expenses)	<u>547,595</u>
Change in Net Position	486,092
Total Net Position - beginning	2,223,978
Prior period adjustment	<u>(100,557)</u>
Total Net Position - ending	<u><u>\$ 2,609,513</u></u>

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

**Nicholas County Water District
Statement of Cash Flows
Proprietary Fund
December 31, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	\$ 792,693
Cash paid to employees	(87,738)
Cash paid for general and administrative expenses	<u>(573,911)</u>
Net Cash provided / (used) by operating activities	<u>131,044</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	1,780
Customer deposits	<u>1,540</u>
Net Cash provided / (used) by investing activities	<u>3,320</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Capital grants	633,915
Bond/note payments - principal	(86,500)
Purchase of capital assets	(533,915)
Bond/note payments - interest	<u>(88,100)</u>
Net Cash provided / (used) by capital and financing activities	<u>(74,600)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	59,764
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>324,119</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u><u>\$ 383,883</u></u>
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Operating Income	\$ (61,503)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
depreciation and amortization	197,469
GASB 68/75 pension expense adjustment	5,532
(increase) / decrease in accounts receivable	(9,136)
increase / (decrease) in accounts payable	<u>(1,318)</u>
Net cash provided / (used) by operating activities	<u><u>\$ 131,044</u></u>

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

NICHOLAS COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

The Nicholas County Water District is a water utility which services areas of Nicholas County. Its sales are primarily to residential customers. The District is a corporate body set forth in Kentucky Revised Statutes (KRS) 74.070 which was created in 1966. The District began operations in 1966. The District is subject to the regulatory authority of the Kentucky Public Service Commission pursuant to KRS 278.040.

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Nicholas County Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing District, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria there are no other organizations included in these financial statements.

Enterprise Funds

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are operating grants and tenant rental revenue. Operating expenses of the District include the cost of producing the revenue 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.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) is segmented into net investment in capital assets, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use unrestricted resources first, and then restricted resources as they are needed.

Basis of Accounting

The records of the District are maintained, and the budgetary process is based on the accrual method of accounting.

Inventory

The cost of inventory is recorded as a disbursement at the time of payment for the purchase.

Deposits

The District considers all highly liquid investments with a maturity date of twelve months or less from the date of purchase to be cash equivalents. Certificates of deposit that are redeemable immediately with little or no penalty are considered cash equivalents. At December 31, 2018, the carrying amount of the District's deposits was \$383,883 and the bank balance was \$326,228. Of the bank balance, 100% was covered by federal deposit insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Summary of Cash & Cash Equivalents			
Description	Total	Restricted	Unrestricted
Certificates of deposit	\$ 198,381	\$ -	\$ 198,381
NCWD City Bank	13,841	-	13,841
NCWD escrow	37,555	37,555	-
NCWD operations & maintenance	43,813	-	43,813
NCWD Revenue	1,232	-	1,232
NCWD Sinking Fund Whitaker	11,947	11,947	-
NCWD Savings	25,012	-	25,012
NCWD Phase 10 Water Project	-	-	-
NCWD Phase 11 Water Project	9	9	-
NCWD Depreciation Reserve Fund	52,093	52,093	-
Totals	\$ 383,883	\$ 101,604	\$ 282,279

Capital Assets

Capital assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Donated assets are recorded at fair market value at the date of donation.

Depreciation of property and equipment is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

<u>Class</u>	<u>Useful Life</u>
Water lines, tanks	40-50 years
Equipment	5-10 years

The District’s capitalization policy is as follows: expenditures costing more than \$1,000 with an estimated useful life greater than one year are capitalized; all others are expensed.

Amortization

Bond issue costs are being amortized and charged to expense over the life of the outstanding revenue bonds by use of the straight-line method.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position is recorded as restricted when there are limitations imposed on their use by external restrictions.

Accounts Receivable

The receivable reflected in the statements in the amount of \$57,696 is net of allowance for uncollectible accounts in the amount of \$43,641.

Use of Estimates

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

Pensions

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

Note 2 - Notes Payable

The amount shown in the accompanying financial statements as notes payable represents the District’s future obligation to make loan payments from future revenues. At December 31, 2018, four separate loans had outstanding balances. Details of each of these issues are summarized as follows:

(A)
 Lender – Kentucky Rural Water Finance Corporation (KRWFC)
 Original loan amount - \$1,775,000
 Balance of loan - \$1,610,000
 Rate – 2.10-4.10%
 Principle due January 1
 Interest due January 1 and July 1
 Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days' notice.

Schedule of future payments:

	Principal	Interest	Trustee Fees	Total Payment
2019	\$ 65,000	\$ 58,103	\$ 450	\$ 123,553
2020	65,000	56,088	450	121,538
2021	70,000	53,971	450	124,421
2022	70,000	48,128	450	118,578
2023	75,000	48,128	450	123,578
2024-2028	405,000	198,697	2,250	605,947
2029-2033	485,000	121,826	2,250	609,076
2034-2038	290,000	41,725	2,250	333,975
2039-2041	85,000	3,588	900	89,488
Total	\$ 1,610,000	\$ 630,254	\$ 9,900	\$ 2,250,154

(B)
 Lender – Kentucky Rural Water Finance Corporation (KRWFC)
 Original balance of loan - \$185,000
 Balance of loan - \$140,000
 Rate – 2.10-4.10%
 Principle due January 1
 Interest due January 1 and July 1
 Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days' notice.

Schedule of future payments:

	Principal	Interest	Total Payment
2019	\$ 20,000	\$ 4,730	\$ 24,730
2020	20,000	4,110	24,110
2021	20,000	3,490	23,490
2022	20,000	5,860	25,860
2023	20,000	1,850	21,850
2024-2025	40,000	1,340	41,340
Total	\$ 140,000	\$ 21,380	\$ 161,380

(C)
 Lender – United States Department of Agriculture (USDA) – Rural Development
 Original balance of loan - \$555,000
 Balance of loan - \$538,000
 Rate – 2.75%
 Principle due January 1
 Interest due January 1 and July 1
 Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days' notice.

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Schedule of future payments:

	Principal	Interest	Total Payment
2019	\$ 9,000	\$ 14,671	\$ 23,671
2020	9,000	14,424	23,424
2021	9,500	14,169	23,669
2022	9,500	13,908	23,408
2023	10,000	13,640	23,640
2024-2028	54,000	63,897	117,897
2029-2033	61,500	55,955	117,455
2034-2038	71,000	46,848	117,848
2039-2043	81,000	36,398	117,398
2044-2048	92,500	24,511	117,011
2049-2053	106,000	10,905	116,905
2054	25,000	344	25,344
Total	\$ 538,000	\$ 309,670	\$ 847,670

(D)
 Lender – United States Department of Agriculture (USDA) – Rural Development
 Original balance of loan - \$203,000
 Balance of loan - \$171,500
 Rate – 4.125%
 Principle due January 1
 Interest due January 1 and July 1
 Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days' notice.

Schedule of future payments:

	Principal	Interest	Total Payment
2019	\$ 3,500	\$ 6,930	\$ 10,430
2020	4,000	6,786	10,786
2021	4,000	6,621	10,621
2022	4,000	6,456	10,456
2023	4,500	6,291	10,791
2024-2028	25,000	28,545	53,545
2029-2033	30,500	22,956	53,456
2034-2038	37,000	16,219	53,219
2039-2043	45,500	7,858	53,358
2044	13,500	413	13,913
Total	\$ 171,500	\$ 109,075	\$ 280,575

The following is a summary of changes in long-term obligations for the year:

	Outstanding 1/1/2018	Issued	Retired	Outstanding 12/31/2018	Due Within One Year
Rural Development	\$ 721,000	\$ -	\$ 11,500	\$ 709,500	\$ 12,500
KRWFC	1,825,000		75,000	1,750,000	85,000
Total	\$ 2,546,000	\$ -	\$ 86,500	\$ 2,459,500	\$ 97,500

Note 3 – Defined Benefit Pension Plan

General Information About the Pension Plan

Plan description - Regular, full-time, employees of the Water District are provided with pensions through the County Employees' Retirement System (CERS)—a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. The assets of CERS are pooled with two other retirement systems Kentucky Retirement System administers, KERS & SPRS. Although invested each system's assets are used only for the members of that plan. Kentucky Revised Statute (KRS) chapter 61 grants the authority to establish and amend the benefit terms to the Kentucky Retirement System's Board of Trustees (Board). Kentucky Retirement System issues a publicly available financial report that can be obtained on their website.

Benefits provided - CERS provides retirement, insurance, disability, and death benefits. Retirement benefits are determined from an average of the five highest years of compensation for those whose participation began before September 01, 2008. For those who began participation on or after September 01, 2008 retirement benefits are determined as an average of the last complete five years. A percentage is then taken from those averages based on the employee's months of service. Employees are eligible for service-related disability benefits with at least 60 months of service. If the member is receiving monthly benefits based on at least four years of service, then a \$5,000 death benefit is payable to the member's designated beneficiary. For those employees whose participation began prior to July 01, 2003, CERS will pay a portion of the monthly premium for single coverage based upon service credit accrued at retirement. For those employees whose participation began on or after July 01, 2003 and before September 01, 2008, employees are required to earn at least 10 years of service credit to be eligible for insurance benefits. Employees whose participation began on or after September 01, 2008 must earn at least 15 years of service credit to be eligible for insurance benefits.

Membership in the CERS Non-hazardous Pension Fund consisted of the following at June 30, 2018, the date of the latest actuarial valuation:

Membership Status

Inactive plan members currently receiving benefits	56,629
Inactive plan members entitled to but not yet receiving benefits	81,608
Active plan members	<u>84,435</u>
Total plan members	222,672

Cost of living adjustments to monthly retirement allowance must be approved by the Kentucky State Legislature (Legislature) and requires the system to be either 100% funded or appropriations are made to cover the increase are by the Legislature.

Contributions - Employees are required to contribute 5% of their annual pay. Employees whose participation began on or after September 01, 2008 are required to contribute an additional 1%. This additional 1% is credited to the insurance fund and is non-refundable. The Water District's contractually required contribution rate for the year ended December 31, 2018 was 19.18%/21.48 (14.48%/16.22% pension; 4.70%/5.26% insurance) of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Water District were \$25,281 for the year ended December 31, 2018. The contribution was allocated \$19,088 to the pension fund and \$6,193 to the insurance fund.

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

At December 31, 2018, the reported a liability of \$291,604 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Water District's portion of the net pension liability was based on the Water District's proportionate share of retirement contributions for the fiscal year ended June 30, 2018. At June 30, 2018 the Water District's proportionate share was 0.004788%.

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled deferred inflows. If they will increase pension expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period. For the year ended December 31, 2018, the Water District recognized pension expense of \$41,380. At December 31, 2018, the Water District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual Liability Experience	\$ 9,511	4,268
Changes in assumptions	28,498	-0-
Differences between expected and actual Investment Experience	13,560	17,056

Changes in proportion and differences between employer contributions and proportionate share of contributions	213	11,286
Contributions subsequent to the measurement date	<u>10,265</u>	<u>-0-</u>
Total	\$ 62,047	\$ 32,610

\$10,265 reported as deferred outflows of resources related to pensions resulting from the Water District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. The remaining amount of \$19,172 reported as the net effect of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Amount</u>
December 31, 2019	\$ 18,090
December 31, 2020	7,404
December 31, 2021	(4,757)
December 31, 2022	(1,565)
December 31, 2023	-0-
Thereafter	<u>-0-</u>
Total	\$ 71,293

Actuarial methods & assumptions: For financial reporting, the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

There have been no changes in actuarial assumptions since June 30, 2017. The actuarial assumptions are:

Inflation	2.30%
Salary Increases	3.05%
Investment Rate of Return	6.25% for CERS Non-hazardous, and hazardous, and KERS Hazardous, 5.25% for KERS Non-hazardous

However, during the 2018 legislative session, House Bill 185 was enacted, 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 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

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

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

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

Investment Rate of Return 7.50% for CERS Non-hazardous, CERS Hazardous, and KERS Hazardous, 6.75% for KERS Non-hazardous

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	17.50%	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	<u>2.00%</u>	1.50%
Total	100.00%	6.09%

Discount rate - The projection of cash flows used to determine the discount rate of 5.25% for the KERS Non-hazardous, and 6.25% for KERS Hazardous, CERS Non-hazardous, and CERS Hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

Sensitivity of the Water District's proportionate share of the net pension liability to changes in the discount rate - The following presents the net pension liability of the System, calculated using the discount rate of percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1- percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate for non-hazardous:

	1% Decrease <u>5.25%</u>	Current Discount Rate <u>6.25%</u>	1% Increase <u>7.25%</u>
Proportionate share of the net pension liability	\$ 367,099	\$ 291,604	\$ 228,352

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

Note 4 - Other Postemployment Benefits Plan (OPEB)

Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS) is a participating employer of the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description - The Kentucky Retirement Systems' (KRS) Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS and SPRS. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan and the administrative costs incurred by those receiving an insurance benefit.

The CERS Non-hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit Other Postemployment Benefits (OPEB) plan that covers substantially all regular full-time members employed in positions of each participating county, city and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

Actuarial Methods & Assumptions - For financial reporting the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled- forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

There have been no changes in actuarial assumptions since June 30, 2017. The actuarial assumptions are:

Inflation	2.30%
Payroll Growth Rate	0.0% for KERS non-hazardous and hazardous, and 2.0% for CERS non-hazardous and hazardous
Salary Increases	3.05%, average
Investment Rate of Return	6.25% Healthcare
Trend Rates	
Pre - 65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post - 65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50%	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	

Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	<u>2.00%</u>	1.50%
Total	100.00%	6.09%

Discount Rate - The projection of cash flows used to determine the discount rate of 5.86% for KERS Non-hazardous, 5.88% for KERS Hazardous, 5.85% for CERS Non-hazardous, and 5.97% for CERS Hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

Use of Estimates in the Preparation of the Schedules - The preparation of the schedules in conformity with U.S. generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

The following actuarial methods and assumptions, for actuarially determined contributions effective for the fiscal year ending June 30, 2018:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal Amortization
Method	Level Percent of Pay Remaining
Amortization Period	27 Years, Closed Payroll Growth
Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increases	4.00%, average
Investment Rate of Return	7.50% Healthcare 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.
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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

Implicit Subsidy - The fully-insured premiums KRS pays for the KERS, CERS and SPRS Health Insurance Plans are blended rates based on the combined experience of active and retired members. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for non-Medicare eligible retirees. Participating employers should adjust their contributions by the implicit subsidy in order to determine the total employer contribution for GASB Statement No. 75 purposes. This adjustment is needed for contributions made during the measurement period and for the purpose of deferred outflows related to contributions made after the measurement date. The Water District's implicit subsidy for the year ended December 31, 2018 was \$1,238.

Contributions - Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding 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 contributions rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

For the fiscal year ended December 31, 2018, participating employers contributed 4.70%/5.26% of each employee's covered payroll to the Kentucky Retirement Systems' Insurance Fund, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

Employees hired after September 1, 2008 are required to contribute an additional 1% of their covered payroll to the insurance fund. Contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h). These members are classified in the Tier 2/Tier 3 structure of benefits, and the 1% contribution to the 401(h) account is non-refundable.

The Water District contributed \$6,193 for the year ended December 31, 2018 of the required contribution to the insurance fund. Total contributions to the insurance fund, including the implicit subsidy for the year ended June 30, 2017 were \$6,592. For additional information regarding contributions, please refer to the Defined Benefit Pension Plan footnote.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources - At December 31, 2018, the Water District reported a liability of \$85,010 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016, rolled-forward to June 30, 2018 using generally accepted actuarial principles. The Water District's proportion of the net OPEB liability was determined using the Water District's actual contributions for the year ended June 30, 2018. This method is expected to be reflective of the Water District's long-term contribution effort. For the year ended December 31, 2018, the Water District's proportion was 0.004788% which is equal to its proportion measured as of June 30, 2018.

For the year ended December 31, 2018, the Water District recognized OPEB expense of \$10,171. At December 31, 2018, the Water District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual liability experience	\$ -0-	\$ 9,907
Effects of changes in assumptions	16,978	196
Differences between projected and actual earnings on plan investments	-0-	5,856
Changes in proportion and differences between employer contributions and proportionate share of contributions	-0-	3,529
Contributions subsequent to the measurement date + implicit subsidy	<u>4,700</u>	<u>-0-</u>
Total	\$ 21,678	\$ 19,488

\$4,700 reported of deferred outflows of resources resulting from the Water District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. Other amounts reported as the net effect of deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

<u>Year Ended</u>	<u>Amount</u>
December 31, 2019	\$ (371)
December 31, 2020	(371)
December 31, 2021	(371)
December 31, 2022	766
December 31, 2023	(1,414)
Thereafter	<u>(749)</u>
Total	\$ (2,510)

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the proportionate share of the net OPEB liability calculated using the single discount rate of 5.84%, as well as what the Water District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1% lower (4.84 percent) or 1% higher (6.84 percent) than the current rate:

	<u>Discount Rate</u>	<u>Proportionate Share of Net OPEB Liability</u>
1% decrease	4.84%	\$ 110,414
Current discount rate	5.84%	\$ 85,010
1% increase	6.84%	\$ 63,370

Sensitivity of the Water District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate - The following presents the proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates (see details in Actuarial Assumptions above), as well as what the proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1% lower or 1% higher than the current rates:

	<u>Proportionate Share of Net OPEB Liability</u>
1% decrease	\$ 63,291
Current healthcare cost trend rate	\$ 85,010
1% increase	\$ 110,611

Note 4 - Leave Policies

The Nicholas County Water District's vacation policy entitles an employee to two weeks of vacation time after one full year of employment., three with fifteen years of service and four weeks with twenty years of service. At the end of each year, employees are paid for any unused vacation time.

The District's personal/sick leave policy allows for six personal days and six sick days after one year of full-time employment. Employees may carry over no more than fifteen personal and sick days from one year to the next. Any unused personal days will be transferred to vacation days in December to replace any vacation days used and employees are compensated accordingly. Any unused sick days over the fifteen are lost at the end of each year.

Note 5 - Changes in Capital Assets

The following is a summary of changes in capital assets for the year:

	<u>Balance 1/1/2018</u>	<u>Transfers/ Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2018</u>
Land, non-depreciable	\$ 20,997	\$ -	\$ -	\$ 20,997
Utility plant and equipment	8,012,095	884,757	-	8,896,852
Construction in process, non-depreciable	<u>350,842</u>	<u>533,915</u>	<u>884,757</u>	<u>-</u>
	<u>\$ 8,383,934</u>	<u>\$ 1,418,672</u>	<u>\$ 884,757</u>	<u>\$ 8,917,849</u>
Accumulated depreciation	<u>\$ 3,766,724</u>	<u>\$ 195,961</u>	<u>\$ -</u>	<u>\$ 3,962,685</u>
Capital assets, net of accumulated depreciation	<u>\$ 4,617,210</u>	<u>\$ 1,222,711</u>	<u>\$ -</u>	<u>\$ 4,955,164</u>

Note 6 - Revenue Bonds

Water and Revenue Bonds constitute special obligations of the District solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions, which require the District to maintain pledged revenues. The District must transfer monthly 1/6 of the next succeeding interest payment and 1/12 of the next succeeding principal payment from the operations and maintenance account into the bond and interest sinking account

Note 7 – Contingencies

The District is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the District in the current and prior years. There were no examinations for the year ended December 31, 2018. Areas of noncompliance, if any, as a result of examinations would be included as a part of the “Findings and Questioned Costs” section of this report.

Note 8 – 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; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District management.

Note 9 – Compliance with Bond Ordinance

On or before the 20th day of each month and after the required payment to the Operation and Maintenance account, the District is required to set aside an amount into a special account known as the Nicholas County Water District, Bond and Interest Sinking Fund. The amount to be set aside and paid into the Sinking Fund each month shall be sums equal to the following amounts:

1. A sum equal to one-sixty (1/6) of the interest coming due on the next succeeding interest due date, with respect to all outstanding bond issues.
2. A sum equal to one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding January 1st.

The District had set aside \$11,947 into the restricted account as of December 31, 2018. All deposits required above were made by the District during the year.

Note 10 – Subsequent Events

The District has evaluated subsequent events through September 13, 2019, and that is the date that the financial statements were available to be issued.

Note 11 – Prior Period Adjustment

Adjustments were made in accordance with GASB 75. One prior period adjustment was made in the amount of \$100,557:

Debit (Credit) Account	<u>Amount</u>
Net OPEB liability	\$ 100,557

REQUIRED SUPPLEMENTARY INFORMATION

Nicholas County Water District
Schedule of Employer's Proportionate Share of Net Pension Liability
December 31, 2018

	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018
Proportion of the net pension liability (asset)	0.005218%	0.005180%	0.005230%	0.005002%	0.004788%
Proportionate share of the net pension liability (asset)	\$ 169,000	\$ 222,842	\$ 257,493	\$ 292,782	\$ 291,604
Covered employee payroll	\$ 190,000	\$ 123,000	\$ 113,000	\$ 121,781	\$ 125,394
Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	88.95%	181.17%	227.87%	240.42%	232.55%
Plan fiduciary net position as a percentage of the total pension liability (asset)	66.80%	59.97%	55.50%	53.32%	53.30%

Nicholas County Water District
Schedule of Employer's Contributions - Net Pension Liability
December 31, 2018

	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>
Contractually required contribution	\$ 22,615	\$ 15,474	\$ 14,858	\$ 18,424	\$ 19,088
Contributions in relation to the contractually required contribution	<u>22,615</u>	<u>15,474</u>	<u>14,858</u>	<u>18,424</u>	<u>19,088</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 190,000</u>	<u>\$ 123,000</u>	<u>\$ 113,000</u>	<u>\$ 129,625</u>	<u>\$ 124,221</u>
Contributions as a percentage of covered employee payroll	11.90%	12.58%	13.15%	14.21%	15.37%

**Nicholas County Water District
 Schedule of Employer's Proportionate Share of Net OPEB Liability
 December 31, 2018**

	12/31/2016	12/31/2017
Proportion of net OPEB liability (asset)	0.005002%	0.004788%
Proportionate share of net OPEB liability (asset)	\$ 100,557	\$ 85,010
Covered employee payroll	\$ 125,000	\$ 125,394
Proportionate share of net OPEB liability (asset) as a percentage of covered employee payroll	80.45%	67.79%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%	52.40%

Nicholas County Water District
Schedule of Employer's Contributions - Net OPEB Liability
December 31, 2018

	<u>12/31/2017</u>	<u>12/31/2018</u>
Statutorily required contribution	\$ 5,760	\$ 6,193
Contributions in relation to the statutorily required contribution	<u>5,760</u>	<u>6,193</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 122,293</u>	<u>\$ 124,221</u>
Contributions as a percentage of covered-employee payroll	4.71%	4.99%

Nicholas County Water District
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the year ended December 31, 2018

Net Pension Liability

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal year ending 2018, determined as of June 30, 2017. Based on the June 30, 2017 actuarial valuation report, the actuarial methods and assumptions used to calculate these contributions are below:

- Determined by the actuarial valuation as of: June 30, 2016
- Actuarial cost method: Entry age
- Asset valuation method: 20% of the difference between market value of assets and the expected actuarial value of assets is recognized

- Amortization method: Level percent of pay
- Amortization period: 27 years, closed
- Investment return: 7.50%
- Inflation: 3.25%
- Salary increase: 4.00%, average
- Mortality: RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

Net OPEB Liability

The actuarially determined contribution rates effective for fiscal year ending 2018 that are documented in the schedule, Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Trend Rate, are calculated as of June 30, 2017. Based on the June 30, 2017 actuarial valuation report, the actuarial methods and assumptions used to calculate these contributions are below:

- Determined by the actuarial valuation as of: June 30, 2016
- Actuarial cost method: Entry Age Normal
- Asset valuation method: 20% of the difference between market value of assets and the expected actuarial value of assets is recognized

- Amortization method: Level Percent of Pay
- Amortization period: 27 Years, Closed
- Payroll Growth Rate: 4.00%
- Investment return: 7.50%
- Inflation: 3.25%
- Salary Increase: 4.00%, average
- Mortality: RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)7.50%

- Healthcare 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.
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.

SUPPLEMENTARY INFORMATION

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

Board of Commissioners
Nicholas County Water District
Carlisle, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Nicholas County Water District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Nicholas County Water District's basic financial statements, and have issued our report thereon dated September 13, 2019.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

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. We consider the deficiency described in the accompany schedule of findings and questioned costs to be a significant deficiency. [2018-001]

Nicholas County Water District's Response to Findings

Nicholas County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Nicholas County 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.

Compliance and Other Matters

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

Purpose of this Report

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

John T. Lane & Associates LLC

Mount Sterling, Kentucky

September 13, 2019

NICHOLAS COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2018

PRIOR FINDINGS

2017-001 Lack of Segregation of Duties – Repeated as 2018-001

2017-002 Previous Manager Was Allegedly Stealing Money – Cleared

2017-003 \$47,635 in Uncategorized Expenses - Cleared

CURRENT FINDINGS

2018-001 Lack of Segregation of Duties

Condition: The District has an inadequate segregation of duties within its internal control process.

Criteria: All governmental entities should design their internal control to provide an adequate segregation of duties.

Cause: The District does not have sufficient employees to adequately design its internal control.

Recommendation: The District should continue to design and implement its internal control policies to provide the maximum segregation of duties possible.

Response: We will do as recommended.