

NICHOLAS COUNTY WATER DISTRICT
Carlisle, Kentucky

FINANCIAL STATEMENTS
December 31, 2019

CONTENTS

Independent Auditors' Report	1-2
Financial Statements	
Statement of Net Position	3
Statement of Revenues, Expenses and Changes in Net Position	4
Statement of Cash Flows.....	5
Notes to Financial Statements.....	6-17
Required Supplementary Information	
Schedule of Proportionate Share of the Net Pension Liability.....	18
Schedule of Contributions - Pension	19
Schedule of Proportionate Share of the Net OPEB Liability.....	20
Schedule of Contributions - OPEB	21
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 <i>Government Auditing Standards</i>	22-25



INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Nicholas County Water District
Carlisle, Kentucky

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension and OPEB schedules on pages 18-21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the Nicholas County 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 the District's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
August 20, 2020

**NICHOLAS COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2019**

ASSETS

Current assets

Cash and cash equivalents	\$ 164,934
Customer accounts receivable, net	54,060
Inventory	17,543
Prepaid expense	<u>2,152</u>
Total current assets	<u>238,689</u>

Restricted assets

Cash and cash equivalents	<u>62,371</u>
---------------------------	---------------

Capital assets

Property, plant and equipment	8,937,731
Less: accumulated depreciation	<u>(4,166,539)</u>
Total capital assets	<u>4,771,192</u>

Total assets	<u>5,072,252</u>
--------------	------------------

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows - pension	61,110
Deferred outflows - OPEB	<u>30,703</u>
Total deferred outflows of resources	<u>91,813</u>

Total assets and deferred outflows of resources	<u>\$ 5,164,065</u>
---	---------------------

LIABILITIES

Current liabilities

Accounts payable	\$ 29,760
Accrued liabilities	7,033
Customer deposits	37,150
Accrued interest payable	10,239
Current portion of long-term debt	<u>98,000</u>
Total current liabilities	<u>182,182</u>

Noncurrent liabilities

Net pension liability	345,463
Net OPEB liability	82,601
Bonds and notes payable, net	<u>2,264,000</u>
Total noncurrent liabilities	<u>2,692,064</u>

Total liabilities	<u>2,874,246</u>
-------------------	------------------

DEFERRED INFLOWS OF RESOURCES

Deferred inflows - pension	12,700
Deferred inflows - OPEB	<u>31,610</u>
Total deferred inflows of resources	<u>44,310</u>

NET POSITION

Net investment in capital assets	2,409,192
Restricted	62,371
Unrestricted	<u>(226,054)</u>

Total net position	<u>2,245,509</u>
--------------------	------------------

Total liabilities, deferred inflows of resources and net position	<u>\$ 5,164,065</u>
---	---------------------

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

NICHOLAS COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2019

OPERATING INCOME	
Water sales	\$ 678,820
Other revenue	<u>1,556</u>
Total operating income	<u>680,376</u>
OPERATING EXPENSES	
Water purchases	238,078
Wages and benefits	255,191
Professional fees	29,995
Insurance	17,835
Contract labor	22,791
Computer services	14,401
Utilities	27,728
General and administrative	<u>52,534</u>
Total operating expense	<u>658,553</u>
Operating income before depreciation	21,823
Depreciation expense	<u>(203,854)</u>
OPERATING INCOME (LOSS)	(182,031)
Non-operating income (expense)	
Interest income	1,634
Interest expense	<u>(82,517)</u>
Total non-operating income (expense)	<u>(80,883)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(262,914)
Capital contributions	
Grants	<u>7,620</u>
Change in net position	(255,294)
Net position, beginning of year as restated	<u>2,500,803</u>
NET POSITION, END OF YEAR	\$ <u>2,245,509</u>

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

**NICHOLAS COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
for the year ended December 31, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 680,939
Payments to suppliers	(407,970)
Payments for employee services and benefits	<u>(202,504)</u>
Net cash provided by operating activities	<u>70,465</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Retirement of debt principal	(97,500)
Interest paid	(81,821)
Purchase of capital assets	(19,822)
Grants	<u>7,620</u>
Net cash (used in) capital and related financing activities	<u>(191,523)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>1,634</u>
Net cash provided by investing activities	<u>1,634</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(119,424)
Cash and cash equivalents, beginning of year	<u>346,729</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 227,305</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (182,031)
Noncash items included in operating income:	
Depreciation	203,854
Net changes in pension liability	34,886
Net changes in OPEB liability	688
Changes in assets and liabilities:	
(Increase) decrease in accounts receivables	3,636
(Increase) decrease in inventory	(144)
(Increase) decrease in prepaid expense	(755)
Increase (decrease) in accounts payable	7,303
Increase (decrease) in accrued liabilities	(2,727)
Increase (decrease) in customer deposits	<u>5,755</u>
Net cash provided by operating activities	<u>\$ 70,465</u>
Components of cash on the Statement of Net Position	
Cash and cash equivalents	\$ 164,934
Restricted cash and cash equivalents	<u>62,371</u>
	<u>\$ 227,305</u>

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

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

1. ORGANIZATION AND ACCOUNTING POLICIES

The Nicholas County Water District (the District) was created and organized as a public body incorporated in Nicholas County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes. The District began operations in 1966.

Reporting Entity

The Nicholas County Water District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

There are no other entities that are subject to the District's oversight responsibility as indicated above.

Basis of Accounting

The accrual basis of accounting is utilized by the District. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

The District reports all revenues and expenses as operating, except interest income, interest expense, amortization, gains and losses on disposal of assets, and capital contributions.

The net position of the District is classified into three categories; net investment in capital assets, restricted and unrestricted. The restricted net assets consist of reserves for bond retirement and depreciation costs relating to the construction, replacement, extension, additions and/or improvements to the system in addition to customer deposits.

When both restricted and unrestricted resources are available for use, the District's Board of Commissioners makes a determination as to which resource should be used first.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District defines cash as cash on hand, cash in bank, money market funds in both unrestricted and restricted accounts, and certificates of deposit with an initial maturity of less than 90 days.

Accounts Receivable

The District's accounts receivable reserve represents its estimate of all uncollectible accounts. There was no reserve as of December 31, 2019, as the District believes all accounts are fully collectible.

Inventory

The District's inventory is composed of chemicals, equipment and supply-type items used for routine maintenance, repairs and new water lines. The inventory is stated at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets are recorded at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the asset, which ranges from 7 - 62.5 years. Land and land rights are not subject to depreciation.

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)

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 benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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 benefit terms. Investments are reported at fair value.

Estimates

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

Management's Review of Subsequent Events

The District has evaluated and considered the need to recognize or disclose subsequent events through August 20, 2020, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2019, have not been evaluated by the District.

2. CASH AND CASH EQUIVALENTS

KRS 66.480 authorizes the District to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which have a physical presence in Kentucky and are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). The Statute also authorizes investment in mutual funds, exchange traded funds, individual equity securities and high-quality corporate bonds that are managed by a professional investment manager and subject to additional requirements outlined in KRS 66.480.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest.

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

2. CASH AND CASH EQUIVALENTS (CONTINUED)

The District's deposits at December 31, 2019, were entirely covered by Federal Depository Insurance.

3. CAPITAL ASSETS

The following is a summary of capital asset activity during the year ended December 31, 2019:

	Balance 12/31/2018	Additions	Disposals	Balance 12/31/2019
Capital assets not depreciated:				
Land	\$ 20,997	\$ -	\$ -	\$ 20,997
Totals	<u>20,997</u>	<u>-</u>	<u>-</u>	<u>20,997</u>
Capital assets being depreciated:				
Distribution lines	8,534,219	19,882	-	8,554,101
Building and improvements	185,553	-	-	185,553
Equipment	<u>177,080</u>	<u>-</u>	<u>-</u>	<u>177,080</u>
Totals	8,896,852	19,882	-	8,916,734
Less: accumulated depreciation	<u>3,962,685</u>	<u>203,854</u>	<u>-</u>	<u>4,166,539</u>
Depreciable assets, net	<u>4,934,167</u>	<u>(183,972)</u>	<u>-</u>	<u>4,750,195</u>
Total capital assets, net	<u>\$ 4,955,164</u>	<u>\$ (183,972)</u>	<u>\$ -</u>	<u>\$ 4,771,192</u>

Depreciation expense totaled \$203,854 for the year ended December 31, 2019.

4. LONG-TERM DEBT

The following is a summary of the bonds and notes outstanding for the District for the year ended December 31, 2019:

Kentucky Rural Water Finance Corp. Bond - \$1,775,000, dated 5/12/15 with payments through 2040, bearing interest at 2.10 - 4.10%.	\$ 1,545,000
Kentucky Infrastructure Authority Loan - \$185,000 dated 5/12/15 with payments through 2025, bearing interest at 2.10 - 4.10%.	120,000
USDA, Rural Development Bond - \$203,000, with payments through 2044, bearing interest at 4.125%.	168,000
USDA, Rural Development Bond - \$555,000, with payments through 2054, bearing interest at a rate of 2.75%.	<u>529,000</u>
Totals	2,362,000
Less: current portion of debt	<u>(98,000)</u>
Long-term debt	<u>\$ 2,264,000</u>

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

4. LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize all bonds and notes outstanding as of December 31, 2019 are as follows:

Year Ending December 31,	Principle	Interest	Payment
2020	\$ 98,000	\$ 85,434	\$ 183,434
2021	103,500	83,531	187,031
2022	103,500	79,676	183,176
2023	109,500	76,719	186,219
2024	109,500	72,638	182,138
2025-2029	521,500	332,956	854,456
2030-2034	595,500	245,143	840,643
2035-2039	336,500	166,131	502,631
2040-2044	178,500	124,498	302,998
2045-2049	95,000	116,933	211,933
2050-2054	<u>111,000</u>	<u>118,921</u>	<u>229,921</u>
Total	<u>\$ 2,362,000</u>	<u>\$ 1,502,580</u>	<u>\$ 3,864,580</u>

The following is a summary of changes in long-term debt, net pension liability, and net OPEB liability for the year ended December 31, 2019:

	Balance 12/31/2018	Additions	Disposals	Balance 12/31/2019
Net pension liability	\$ 291,604	\$ 53,859	\$ -	\$ 345,463
Net OPEB liability	85,010	-	(2,409)	82,601
Long-term debt	<u>2,459,500</u>	<u>-</u>	<u>(97,500)</u>	<u>2,362,000</u>
Total	<u>\$ 2,836,114</u>	<u>\$ 53,859</u>	<u>\$ (99,909)</u>	<u>\$ 2,790,064</u>

5. RETIREMENT PLAN

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

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension 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 retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended December 31, 2019, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were 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 proceeding the July 1 of a new biennium.

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

5. RETIREMENT PLAN (CONTINUED)

The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2019, participating employers contributed 21.48% through June 30 and 24.06% thereafter, of each non-hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. The contributions are allocated to both the pension and insurance trust. The insurance trust is more fully described in Note 6. For the year ended December 31, 2019, plan members contributed 16.22% to the pension trust through June 30th and 19.30%, thereafter for non-hazardous job classifications. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District contributed \$21,835 for the year ended December 31, 2019, or 100% of the required contribution.

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old and 4 years service At least 5 years service and 55 years old or 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+ At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+ Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

5. RETIREMENT PLAN (CONTINUED)

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2019, the District reported a net pension liability of \$345,463 for its proportionate share of the total net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2019, the District's proportion was 0.004912 percent, which was an increase of 0.000124 percent from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the District recognized pension expense of \$56,721. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 8,821	\$ 1,460
Changes of assumptions	34,965	-
Net difference between projected and actual earnings on Plan investments	-	5,569
Changes in proportion and differences between District contributions and proportionate share of contributions	5,323	5,671
District contributions subsequent to the measurement date	12,001	-
Total	\$ 61,110	\$ 12,700

The \$12,001 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources as of December 31, 2019 will be recognized in pension expense as follows:

Year ending December 31,	
2020	\$ 22,090
2021	\$ 9,539
2022	\$ 4,385
2023	\$ 395

Actuarial Assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.30% to 10.30%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

The mortality table used for active members was a Pub-2010 General Mortality table, 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.

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

5. RETIREMENT PLAN (CONTINUED)

The actuarial assumption used in the June 30, 2018 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019.

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. As of December 31, 2019, the target allocation and best estimates of nominal 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
Growth	62.50%	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	6.25%

Discount Rate – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute funds as required by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, 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 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Discount rate	District's proportionate share of net pension liability
1% decrease	5.25%	\$ 432,076
Current discount rate	6.25%	\$ 345,463
1% increase	7.25%	\$ 273,272

Payable to the Pension Plan – At December 31, 2019, the District reported a payable of \$3,407 for the outstanding amount of contributions to the pension plan required for the year ended. The payable includes both the pension and insurance contribution allocation.

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 7, the District participates in the County Employees’ Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension 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. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 7, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2019, the employer’s contribution was 5.26% through June 30th and 4.76% thereafter to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. 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 proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended December 31, 2019, the District contributed \$6,149, or 100% of the required contribution for non-hazardous job classifications.

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance eligibility Benefit	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2019, the District reported a liability for its proportionate share of the net OPEB liability of \$82,601. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share at June 30, 2019 was .004911 percent, which was an increase of 0.000123 percent from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the District recognized OPEB expense of \$8,675. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ 24,923
Changes of assumptions	24,442	163
Net difference between projected and actual earnings on Plan investments	-	3,669
Changes in proportion and differences between District contributions and proportionate share of contributions	1,527	2,855
District contributions subsequent to the measurement date	<u>4,734</u>	<u>-</u>
Total	<u>\$ 30,703</u>	<u>\$ 31,610</u>

The \$4,734 of deferred outflows of resources resulting from the 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, 2020. This includes an adjustment of \$1,774 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

Year ending December 31,

2020	\$	(1,000)
2021	\$	(1,000)
2022	\$	167
2023	\$	(2,067)
2024	\$	(1,534)
2025	\$	(207)

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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

Non-hazardous

Inflation	2.30%
Salary increases	3.30 to 10.30%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 7.00% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post – 65	Initial trend starting at 4.05% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

The mortality table used for active members was a Pub-2010 General Mortality table, 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 actuarial assumption used in the June 30, 2019 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2018) to the plan’s fiscal year ending June 30, 2019.

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 nominal 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
Growth	62.50%	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	6.25%

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Discount Rate – The discount rate used to measure the total OPEB liability as of June 30, 2019, was 5.68%, for non-hazardous classifications. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. As of June 30, 2019, the discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.13%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index”. 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.

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 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 or 1-percentage-point higher than the current rate:

	Discount rate	Proportionate share of net OPEB liability
1% decrease	4.68%	\$ 110,651
Current discount rate	5.68%	\$ 82,601
1% increase	6.68%	\$ 59,489

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 healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Proportionate share of net OPEB liability
1% decrease	\$ 61,431
Current trend rate	\$ 82,601
1% increase	\$ 108,272

OPEB plan fiduciary net position – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued financial report.

7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the District also carries commercial insurance for all other risks of loss such as worker’s compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

8. RESTATEMENT OF NET POSITION

During 2019, errors were identified in the prior year report, and beginning net position was restated as follow:

Net position, at beginning of year	\$ 2,609,513
Adjustment to opening cash balance	(37,154)
Adjustment to reflect accrued interest	(10,935)
Adjustment to correct prepaid expense	(11,271)
Adjustment to remove bond issue cost	<u>(49,350)</u>
Net position, at beginning of year, as restated	<u>\$ 2,500,803</u>

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

8. SUBSEQUENT EVENT

In early 2020, various restrictions have been placed on business and travel across the United States in response to the COVID-19 pandemic. The duration and impact of these restrictions are uncertain as of the date of these financial statements. In addition, the Kentucky Public Service Commission issued an order that halts all disconnections for non-payment and fees for late payment. Management of the District is evaluating the impact of COVID-19 and related responses on the operations and finances of the District. The District is evaluating any potential impact, however a specific estimate of the impact could not reasonably be determined due to a number of unknown factors regarding the severity and duration of the event.

REQUIRED SUPPLEMENTARY INFORMATION

**NICHOLAS COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Two Calendar Years**

	2018	2019
District's proportion of the net pension liability	0.004788%	0.004912%
District's proportionate share of the net pension liability (asset)	\$ 291,604	\$ 345,463
District's covered employee payroll	\$ 125,394	\$ 123,914
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	232.55%	278.79%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	50.45%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2019 valuation:

The assumed rate of salary increases were increased from 3.05%, to 3.3% to 10.3%, on average.

The District's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the District's calendar year payroll, reported on the Schedule of Contributions.

The measurement date of the net pension liability is 6 months preceding the calendar year of the District.

The above schedule will present 10 years of historical data, once available.

**NICHOLAS COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF CONTRIBUTIONS - PENSION
Last Two Calendar Years**

	2018	2019
Contractually required employer contribution	\$ 19,088	\$ 21,835
Contributions relative to contractually required employer contribution	<u>19,088</u>	<u>21,835</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 124,221	\$ 122,809
Employer contributions as a percentage of covered-employee payroll	15.37%	17.78%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2019 valuation:

The assumed rate of salary increases were increased from 3.05%, to 3.3% to 10.3%, on average.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

The District's covered payroll reported above is payroll for the District's corresponding calendar year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

The above schedule will present 10 years of historical data, once available.

**NICHOLAS COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Last Two Calendar Years**

	2018	2019
District's proportion of the net OPEB liability	0.004788%	0.004911%
District's proportionate share of the net OPEB liability (asset)	\$ 85,010	\$ 82,601
District's covered employee payroll	\$ 125,394	\$ 123,914
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	67.79%	66.66%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	60.44%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2019 valuation:

The assumed rate of salary increases were increased from 3.05%, to 3.3% to 10.3%, on average.

The District's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the District's calendar year payroll, reported on the Schedule of Contributions.

The measurement date of the net OPEB liability is 6 months preceding the calendar year of the District.

The above schedule will present 10 years of historical data, once available.

**NICHOLAS COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF CONTRIBUTIONS - OPEB
Last Two Calendar Years**

	2018	2019
Contractually required employer contribution	\$ 6,193	\$ 6,149
Contributions relative to contractually required employer contribution	<u>6,193</u>	<u>6,149</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 124,221	\$ 122,809
Employer contributions as a percentage of covered-employee payroll	4.99%	5.01%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2019 valuation:

The assumed rate of salary increases were increased from 3.05%, to 3.3% to 10.3%, on average.

The District's covered payroll reported above is payroll for the District's corresponding calendar year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

The above schedule will present 10 years of historical data, once available.



**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**

The 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 Nicholas County Water District (the District), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 20, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 have not been identified. We did identify a certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (2019-001, 2019-002, and 2019-003).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Nicholas County Water District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. 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.

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.

RFH

RFH, PLLC
Lexington, Kentucky
August 20, 2020

**NICHOLAS COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2019**

2019-001 - The District should have internal controls in place that enable it to prepare complete financial statements.

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.

Condition: Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements.

Cause: The District lacks personnel with the expertise to draft the financial statements, including the related note disclosures, in conformity with generally accepted accounting principles.

Effect: The auditor prepared 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.

Recommendation: We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements.

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

2019-002 - All bank accounts should be reconciled monthly to the District's financial records.

Criteria: All bank accounts should be reconciled to the District's financial records monthly.

Condition: Multiple bank accounts were not reconciled for several months and transactions were not recorded accurately.

Cause: The office staff has not been properly trained to utilize the accounting system used by the District.

Effect: Auditors identified several bank accounts that were not reconciled timely. Numerous material audit adjustments were needed in order for the District's year end financial statements to be fairly presented.

Recommendation: We recommend that the District take steps to ensure that all bank accounts are reconciled monthly and that all financial activity is recorded accurately. We recommend the District obtain outside bookkeeping assistance until the office staff is properly trained to perform these functions.

Response: The office personnel will no longer use previous employee's reconciliation procedures. Current personnel have made arrangements for online training from accounting software provider to begin immediately.

**NICHOLAS COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2019**

2019-003 - Lack of segregation of duties

Criteria: The basic premise of segregation of duties is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. In addition, proper segregation of duties should include oversight of the finance personnel activity by individuals with knowledge of internal controls and accounting regulations, who were not involved in the original transaction.

Condition: During the audit, we noted that the Organization lacks segregation of duties in multiple accounting functions.

Cause: The Organization has only two dedicated employees to finance and accounting.

Effect: There is a lack of oversight over the office employees and the transactions being recorded.

Recommendation: We recommend that the District appoint a commissioner to perform increased oversight and monitoring of the financial reporting functions. A common method for achieving this goal is for a commissioner to review the District's bank statements, payroll registers, credit card statements and other financial information such as water adjustments on a monthly basis. While not a preventative control, this increased oversight can detect irregularities in the financial reporting function that are caused by a lack of segregation of duties within a relatively short period of time.

Response: A commissioner will be appointed to review the monthly financial packet and will work in close contact with office employees.