

NICHOLAS COUNTY WATER DISTRICT
AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

KERBAUGH, RODES & BUTLER, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
DANVILLE, KENTUCKY

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Kerbaugh, Rodes & Butler, PLLC

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Nicholas County Water District
Carlisle, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Nicholas County Water District (the District) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on 2020 Financial Statements

The financial statements of District as of December 31, 2020, were audited by other auditors whose report dated March 25, 2021, expressed an unmodified opinion on those financial statements.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards*

will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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 GASB, 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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2024, 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 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.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
February 23, 2024

NICHOLAS COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2021 and 2020

ASSETS	<u>2021</u>	<u>2020</u>
Current assets		
Cash and cash equivalents	\$ 23,198	\$ 99,879
Customer accounts receivable, net	49,761	50,992
Inventory	6,421	6,921
Prepaid expense	<u>2,174</u>	<u>2,174</u>
Total current assets	<u>81,554</u>	<u>159,966</u>
Restricted assets		
Cash and cash equivalents	<u>43,128</u>	<u>84,876</u>
Capital assets		
Property, plant and equipment	8,948,391	8,943,391
Less: accumulated depreciation	<u>(4,571,526)</u>	<u>(4,369,032)</u>
Total capital assets	<u>4,376,865</u>	<u>4,574,359</u>
Total assets	<u>4,501,547</u>	<u>4,819,201</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	47,358	48,253
Deferred outflows - OPEB	<u>52,430</u>	<u>50,106</u>
Total deferred outflows of resources	<u>99,788</u>	<u>98,359</u>
Total assets and deferred outflows of resources	<u>\$ 4,601,335</u>	<u>\$ 4,917,560</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 43,481	\$ 59,345
Accrued liabilities	68,008	8,493
Customer deposits	41,192	38,670
Accrued interest payable	6,576	10,543
Current portion of long-term debt	<u>103,500</u>	<u>103,500</u>
Total current liabilities	<u>262,757</u>	<u>220,551</u>
Noncurrent liabilities		
Net pension liability	312,796	364,321
Net OPEB liability	93,885	114,674
Bonds and notes payable, net of current portion	<u>2,044,000</u>	<u>2,160,500</u>
Total noncurrent liabilities	<u>2,450,681</u>	<u>2,639,495</u>
Total liabilities	<u>2,713,438</u>	<u>2,860,046</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	60,230	7,696
Deferred inflows - OPEB	<u>50,953</u>	<u>24,039</u>
Total deferred inflows of resources	<u>111,183</u>	<u>31,735</u>
NET POSITION		
Net investment in capital assets	2,229,365	2,310,359
Restricted	43,128	84,876
Unrestricted	<u>(495,779)</u>	<u>(369,456)</u>
Total net position	<u>1,776,714</u>	<u>2,025,779</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 4,601,335</u>	<u>\$ 4,917,560</u>

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

NICHOLAS COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the years ended December 31, 2021 and 2020

	2021	2020
OPERATING INCOME		
Water sales	\$ 755,462	\$ 715,847
Other revenue	318	-
Total operating income	755,780	715,847
OPERATING EXPENSES		
Water purchases	313,872	257,522
Wages and benefits	246,210	250,248
Professional fees	9,000	8,500
Insurance	14,948	15,344
Contract labor	25,300	22,355
Computer services	1,975	5,309
Utilities	42,860	31,184
General and administrative	94,477	61,429
Total operating expense	748,642	651,891
Operating income before depreciation	7,138	63,956
Depreciation expense	(202,494)	(202,493)
OPERATING INCOME (LOSS)	(195,356)	(138,537)
Non-operating income (expense)		
Interest income	147	825
PPP Loan Forgiveness	32,815	-
Interest expense	(86,671)	(82,018)
Total non-operating income (expense)	(53,709)	(81,193)
Change in net position	(249,065)	(219,730)
Net position, beginning of year	2,025,779	2,245,509
NET POSITION, END OF YEAR	\$ 1,776,714	\$ 2,025,779

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

**NICHOLAS COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2021 and 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 757,011	\$ 718,915
Payments to suppliers	(455,759)	(358,478)
Payments for employee services and benefits	(240,505)	(218,438)
	60,747	141,999
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Retirement of debt principal	(116,500)	(98,000)
Interest paid	(90,638)	(81,714)
Purchase of capital assets	(5,000)	(5,660)
Proceeds from PPP Loan	32,815	-
	(179,323)	(185,374)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	147	825
	147	825
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(118,429)	(42,550)
Cash and cash equivalents, beginning of year	184,755	227,305
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 66,326	\$ 184,755
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (195,356)	\$ (138,537)
Noncash items included in operating income:		
Depreciation	202,494	202,493
Net changes in pension liability	1,904	26,711
Net changes in OPEB liability	3,801	5,099
Changes in assets and liabilities:		
(Increase) decrease in accounts receivables	1,231	3,068
(Increase) decrease in inventory	500	10,622
(Increase) decrease in prepaid expense	-	(22)
Increase (decrease) in accounts payable	(15,864)	29,585
Increase (decrease) in accrued liabilities	59,515	1,460
Increase (decrease) in customer deposits	2,522	1,520
	60,747	141,999
Components of cash on the Statement of Net Position		
Cash and cash equivalents	\$ 23,198	\$ 99,879
Restricted cash and cash equivalents	43,128	84,876
	\$ 66,326	\$ 184,755

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

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

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. The reserve at December 31, 2021 and 2020, totaled \$15,000 and \$15,000, respectively.

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.

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'

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

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 February 23, 2024, 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, 2021, have not been evaluated by the District.

2. CASH & INVESTMENTS

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.

The District's deposits at December 31, 2021 and 2020, were entirely covered by Federal Depository Insurance.

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

3. CAPITAL ASSETS

The following is a summary of capital asset activity during the year ended December 31, 2021:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land	\$ 20,997	\$ 5,000	\$ -	\$ 25,997
Totals	20,997	5,000	-	25,997
Capital assets being depreciated				
Distribution lines	8,554,101	-	-	8,554,101
Buildings and improvements	191,213	-	-	191,213
Equipment	177,080	-	-	177,080
Totals	8,922,394	-	-	8,922,394
Less: accumulated depreciation	(4,369,032)	(202,494)	-	(4,571,526)
Depreciable assets, net	4,553,362	(202,494)	-	4,350,868
Total capital assets, net	<u>\$ 4,574,359</u>	<u>\$ (197,494)</u>	<u>\$ -</u>	<u>\$ 4,376,865</u>

The following is a summary of capital asset activity during the year ended December 31, 2020:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land	\$ 20,997	\$ -	\$ -	\$ 20,997
Totals	20,997	-	-	20,997
Capital assets being depreciated				
Distribution lines	8,554,101	-	-	8,554,101
Buildings and improvements	185,553	5,660	-	191,213
Equipment	177,080	-	-	177,080
Totals	8,916,734	5,660	-	8,922,394
Less: accumulated depreciation	(4,166,539)	(202,493)	-	(4,369,032)
Depreciable assets, net	4,750,195	(196,833)	-	4,553,362
Total capital assets, net	<u>\$ 4,771,192</u>	<u>\$ (196,833)</u>	<u>\$ -</u>	<u>\$ 4,574,359</u>

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

4. LONG-TERM DEBT

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

	2021	2020
Kentucky Rural Water Finance Corp. Bond - \$1,775,000, dated 5/12/15 with payments through 2040, bearing interest at 2.10 - 4.10%	\$ 1,410,000	\$ 1,480,000
Kentucky Infrastructure Authority Loan - \$185,000 dated 5/12/15 with payments through 2025, bearing interest at 2.10 - 4.10%	80,000	100,000
USDA, Rural Development Bond - \$203,000, with payments through 2044, bearing interest at 4.125%	156,500	164,000
USDA, Rural Development Bond - \$555,000, with payments through 2054, bearing interest at a rate of 2.75%.	501,000	520,000
Total Outstanding Bonds and Notes	2,147,500	2,264,000
Less: Current Portion	(103,500)	(103,500)
Long-Term Debt	\$ 2,044,000	\$ 2,160,500

The annual requirements to amortize bonds outstanding as of December 31, 2021, are as follows:

Year Ending December 31,	Principal	Interest	Total
2022	\$ 90,000	\$ 54,220	\$ 144,220
2023	95,000	50,428	145,428
2024	95,000	46,533	141,533
2025	100,000	43,035	143,035
2026	80,000	40,245	120,245
2027-31	450,000	157,724	607,724
2032-36	405,000	71,446	476,446
2037-40	175,000	15,843	190,843
Total	\$ 1,490,000	\$ 479,474	\$ 1,969,474

The annual requirements to amortize direct borrowing loans outstanding as of December 31, 2021, are as follows:

Year Ending December 31,	Principal	Interest	Total
2022	\$ 13,500	\$ 20,364	\$ 33,864
2023	14,500	19,931	34,431
2024	14,500	19,470	33,970
2025	15,500	19,002	34,502
2026	16,000	18,501	34,501
2027-31	86,500	84,583	171,083
2032-36	101,500	69,660	171,160
2037-41	118,500	52,107	170,607
2042-46	117,000	31,916	148,916
2047-51	100,000	16,570	116,570
2052-54	60,000	2,950	62,950
Total	\$ 657,500	\$ 355,054	\$ 1,012,554

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

The following is a summary of changes in long-term debt and net pension liability for the year ended December 31, 2021:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Net pension liability	\$ 364,321	\$ -	\$ (51,525)	\$ 312,796	\$ -
Net OPEB liability	114,674	-	(20,789)	93,885	-
Bonds payable	1,580,000	-	(90,000)	1,490,000	90,000
Notes payable	684,000	-	(26,500)	657,500	13,500
Long-term Debt Total	<u>\$ 2,742,995</u>	<u>\$ -</u>	<u>\$ (188,814)</u>	<u>\$ 2,554,181</u>	<u>\$ 103,500</u>

The following is a summary of changes in long-term debt and net pension liability for the year ended December 31, 2020:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Net pension liability	\$ 345,463	\$ 18,858	\$ -	\$ 364,321	\$ -
Net OPEB liability	82,601	32,073	-	114,674	-
Bonds payable	1,665,000	-	(85,000)	1,580,000	90,000
Notes payable	697,000	-	(13,000)	684,000	13,500
Long-term Debt Total	<u>\$ 2,790,064</u>	<u>\$ 50,931</u>	<u>\$ (98,000)</u>	<u>\$ 2,742,995</u>	<u>\$ 103,500</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, 2021, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 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. For the year ended December 31, 2021, plan members contributed 24.06% through June 30th and 26.95% thereafter, to the pension for non-hazardous job classifications, 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, 2020, participating employers contributed 24.06% of each non-hazardous employee's wages. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

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 5.00% 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 \$18,513 for the year ended December 31, 2021, or 100% of the required contribution. The District contributed \$24,201 for the year ended December 31, 2020, 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.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2021, the District reported a net pension liability of \$312,796 for its proportionate share of the total net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date and rolled forward to June 30, 2021 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 December 31, 2021, the District's proportion was 0.004906 percent, which was equal to its proportion measured as of June 30, 2021. At December 31, 2020, the District's proportion was 0.004750 percent, which was equal to its proportion measured as of June 30, 2020.

For the year ended December 31, 2021, the District recognized pension expense of \$1,904. At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 3,592	\$ 3,036
Change of assumptions	4,198	-
Net differences between projected and actual earnings on Plan investments	12,134	53,825
Changes in proportion and differences between District contributions and proportionate share of contributions	8,921	3,369
District contributions subsequent to the measurement date	<u>18,513</u>	<u>-</u>
Total	<u>\$ 47,358</u>	<u>\$ 60,230</u>

The \$18,513 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources as of December 31, 2021 will be recognized in pension expense as follows:

Year ending December 31,	
2022	\$ (2,725)
2023	\$ (6,498)
2024	\$ (9,104)
2025	\$ (13,058)

Actuarial Assumptions – The total pension liability in the June 30, 2021 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%, varies by service
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 2020. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumption used in the June 30, 2021 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, 2020) to the plan's fiscal year ending June 30, 2021.

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, 2021, the target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

Asset Class	Target Allocation	Long-Term Expected Real Rate Of Return
Growth	68.50%	
US Equity	21.75%	5.70%
Non US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Special credit/high yield	15.00%	2.80%
Liquidity	11.50%	
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies	20.00%	
Real Estate	10.00%	5.40%
Real Return	10.00%	4.55%
Total	100.00%	

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 the actuarially determined contribution rate of projected compensation over the remaining amortization period of the unfunded actuarial accrued liability. The projection of cash flows used to determine the discount rate of 6.25% for assumes that the funds receive the required employer contributions each future year. Senate Bill 249 passed during the 2020 legislative session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total OPEB Liability and only impacts the calculation of the contribution rates payable starting July 1, 2020. There were no other material plan provision changes. The actuarial determined contribution rates are determined on an annual basis. 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:

	<u>Discount rate</u>	<u>Nonhazardous</u>
1% decrease	5.25%	401,176
Current discount rate	6.25%	312,796
1% increase	7.25%	239,664

Payable to the Pension Plan – At December 31, 2021 and 2020, the District reported a payable of \$5,091 and \$4,135 for the outstanding amount of contributions to the pension plan required for the years ended, respectively. The payable includes both the pension and insurance contribution allocation.

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 5, 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.

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

Contributions – As more fully described in Note 5, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2021, the employer’s contribution was 5.78% 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, 2021, the District contributed \$5,054, or 100% of the required contribution for non-hazardous job classifications. For the year ended December 31, 2020, the District contributed \$5,969, 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

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2021, the District reported a liability for its proportionate share of the net OPEB liability of \$93,885. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date and rolled forward to June 30, 2021 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 December 31, 2021 was .004904 percent, which was equal to its proportion measured as of June 30, 2021. The District’s proportionate share at December 31, 2020 was .004749, which was equal to its proportion measured as of June 30, 2020.

For the year ended December 31, 2020, the District recognized OPEB expense of \$3,801. At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 14,763	\$ 28,031
Changes of assumptions	24,891	87
Net difference between projected and actual earnings on Plan investments	4,730	19,417
Changes in proportion and differences between District contributions and proportionate share of contributions	2,992	3,418
District contributions subsequent to the measurement date	<u>5,054</u>	<u>-</u>
Total	<u>\$ 52,430</u>	<u>\$ 50,953</u>

The \$5,054 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

Year ending December 31,		
2022	\$	1,898
2023	\$	(362)
2024	\$	(128)
2025	\$	(4,985)

Actuarial Assumptions – The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous	
Inflation	2.30%
Payroll Growth Rate	2.00%
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 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post – 65	Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 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, 2021 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, 2020) to the plan's fiscal year ending June 30, 2021.

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

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	68.50%	
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Special credit/high yield	15.00%	2.80%
Liquidity	11.50%	
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies	20.00%	
Real Estate	10.00%	5.40%
Real Return	10.00%	4.55%
Total	100.00%	

Discount Rate – The discount rate used to measure the total OPEB liability as of June 30, 2021 was 5.20% (5.34% in prior year) 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 amortization period of the unfunded actuarial accrued liability. Senate Bill 249 passed during the 2020 legislative session reset the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total OPEB Liability and only impacts the calculation of the contribution rates payable starting July 1, 2020. There were no other material plan provision changes. The actuarial determined contribution rates are determined on an annual basis.

The discount rate uses an expected rate of return of 6.25%, and a municipal bond rate of 1.92%, as reported in the Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2021. However, the cost associated with the implicit employer subsidy was not included in the calculation of the actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The District’s proportionate share of the implicit subsidy was \$3,089 at December 31, 2021.

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:

	<u>Nonhazardous</u>
1% decrease	128,903
Current discount rate	93,885
1% increase	65,146

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

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:

	<u>Nonhazardous</u>
1% decrease	67,586
Current healthcare tend rate	93,885
1% increase	125,628

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.

REQUIRED SUPPLEMENTARY INFORMATION

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

Reporting Year End (Measurement Date)	December 31, 2018 (June 30, 2018)	December 31, 2019 (June 30, 2019)	December 31, 2020 (June 30, 2020)	December 31, 2021 (June 30, 2021)
District's proportion of the net pension liability	0.004788%	0.004912%	0.004750%	0.004906%
District's proportionate share of the net pension liability (asset)	\$ 291,604	\$ 345,463	\$ 364,321	\$ 312,796
District's covered employee payroll	\$ 125,394	\$ 123,914	\$ 121,680	\$ 112,678
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	232.55%	278.79%	299.41%	277.60%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	50.45%	47.81%	57.33%

Notes:

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

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

	2018	2019	2020	2021
Contractually required employer contribution	\$ 19,088	\$ 21,835	\$ 24,201	\$ 18,513
Contributions relative to contractually required employer contribution	<u>19,088</u>	<u>21,835</u>	<u>24,201</u>	<u>18,513</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered employee payroll	 \$ 124,221	 \$ 122,809	 \$ 125,394	 \$ 112,678
Employer contributions as a percentage of covered-employee payroll	15.37%	17.78%	19.30%	16.43%

Notes:

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 Four Calendar Years**

Reporting Year End (Measurement Date)	December 31, 2018 (June 30, 2018)	December 31, 2019 (June 30, 2019)	December 31, 2020 (June 30, 2020)	December 31, 2021 (June 30, 2021)
District's proportion of the net OPEB liability	0.004788%	0.004911%	0.004749%	0.004904%
District's proportionate share of the net OPEB liability (asset)	\$ 85,010	\$ 82,601	\$ 114,674	\$ 93,885
District's covered employee payroll	\$ 125,394	\$ 123,914	\$ 121,680	\$ 112,678
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	67.79%	66.66%	94.24%	83.32%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	60.44%	51.67%	62.91%

Notes:

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

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

	2018	2019	2020	2021
Contractually required employer contribution	\$ 6,193	\$ 6,149	\$ 5,969	\$ 5,054
Contributions relative to contractually required employer contribution	<u>6,193</u>	<u>6,149</u>	<u>5,969</u>	<u>5,054</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 124,221	\$ 122,809	\$ 125,394	\$ 112,678
Employer contributions as a percentage of covered-employee payroll	4.99%	5.01%	4.76%	4.49%

Notes:

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

COMPLIANCE SECTION

NICHOLAS COUNTY WATER DISTRICT
NOTES TO REQUIRED PENSION AND OPEB SUPPLEMENTARY INFORMATION
DECEMBER 31, 2021

Note 1. General Information

Contributions

Contractually required employer contributions reported on the Schedule of Pension Contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of OPEB Contributions.

Payroll

The District's covered payroll reported on the Proportionate Share of the Net Pension Liability and the Proportionate Share of the Net OPEB Liability Schedules is one year prior to the District's fiscal year payroll as reported on the Schedule of Contributions for Pension and OPEB.

Measurement Date

The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

Note 2. Changes of Assumptions (Measurement Date)

June 30, 2021 –OPEB Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for pension. The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The single discount rate used to calculate the OPEB liability was decreased from 5.34% to 5.20% for non-hazardous and from 5.30% to 5.05% for hazardous.
- The healthcare trend rate starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years for pre-65. The healthcare trend rate starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years for post-65.

June 30, 2020 –OPEB Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for pension. The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The healthcare trend rate starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years for pre-65. The healthcare trend rate starting at 2.90% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years for post-65.

June 30, 2019 – Pension and OPEB Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both pension and OPEB:

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

June 30, 2018 – Pension and OPEB – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018, for either pension or OPEB.

June 30, 2017 – Pension – Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%

**NICHOLAS COUNTY WATER DISTRICT
NOTES TO REQUIRED PENSION AND OPEB SUPPLEMENTARY INFORMATION
DECEMBER 31, 2021**

June 30, 2016 – Pension and OPEB – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016, for either pension or OPEB.

June 30, 2015 – Pension – Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For Disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

June 30, 2014 – Pension – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2014.

June 30, 2013 – Pension – Hazardous and Nonhazardous

The following assumptions were made by the Kentucky Legislature and reflected in the initial valuation performed as of June 30, 2013:

- The assumed rate of return was 7.75%.
- The assumed rate of inflation was 3.5%.
- The assumed rate of wage inflation was 1%.
- Payroll growth assumption was 4.5%.

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members.

Kerbaugh, Rodes & Butler, PLLC

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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, KY

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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 23, 2024.

Report on 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) as a basis for designing 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 District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (2021-001, 2021-002, 2021-003, and 2021-004).

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or

other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2021-004.

The District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit described in the accompanying schedule of findings and responses. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
February 23, 2024

**NICHOLAS COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2021**

2021-001 - The District should have internal controls in place that enable it to prepare complete financial statements (recurring)

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.

2021-002 - All bank accounts should be reconciled monthly to the District's financial records (recurring)

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

Condition: Multiple bank accounts were not reconciled for the year 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.

Response: The office personnel will no longer use previous employee's reconciliation procedures. Current personnel have made been trained on the accounting software and have begun to reconcile the bank accounts monthly.

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SCHEDULE OF FINDINGS AND RESPONSES
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2021-003 - Lack of segregation of duties (recurring)

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 District lacks segregation of duties in multiple accounting functions.

Cause: The District 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.

2021-004 – Quarterly Form 941s not Filed

Criteria: Form 941, *Employer's Quarterly Federal Tax Return*, is required to be filed quarterly by the last day of the month day following the close of each quarter. Form 941 reports the amount of federal income tax withheld, employee portions of social security and Medicare tax withheld, and the employer portions the social security and Medicare tax. In addition, the District is required to make monthly deposits of those tax amounts by the 15th of the following.

Condition: During the audit, we noted that the District did not file Form 941 for any quarter and did not pay any of the amounts due for federal income tax withheld, employee portions of social security and Medicare tax withheld, and the employer portions of social security and Medicare tax.

Cause: The District did not have any oversight over the Form 941 process to ensure the employee responsible was performing the job duties.

Effect: The District was charged penalties totaling \$17,691 and interest totaling \$6,576.

Recommendation: We recommend that the District appoint a commissioner to perform increased oversight and monitoring of the payroll reporting functions. The District may develop a monthly and quarterly checklist to assist the Commissioner in the oversight process to ensure the monthly and quarterly payroll filing requirements are met.

Response: The individuals responsible for the reporting and filing requirements are no longer with the District. The District will appoint a commissioner to review the monthly and quarterly payroll filings and will work in close contact with office employees.