

**NORTH NELSON WATER DISTRICT**

**BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION,  
AND INDEPENDENT AUDITOR'S REPORTS**

**YEAR ENDED DECEMBER 31, 2015**

**NORTH NELSON WATER DISTRICT  
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YEAR ENDED DECEMBER 31, 2015**

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# BROWN & COMPANY

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William G. Brown, CPA - W. Gilbert Brown III, CPA

### INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
North Nelson Water District  
Cox's Creek, Kentucky 40013

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the North Nelson Water District ("District") as of and for the year ended December 31, 2015, 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.

#### Auditor's Responsibility

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

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

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

#### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the North Nelson Water District, Kentucky as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As described in Note N to the financial statements, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective July 1, 2014. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 3-7 and 22-25 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 inquires 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 Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Debt and Lease Obligations and the Statement of Revenues, Expenditures, and Changes in Retained Earnings – Budget and Actual – Proprietary Funds are presented for purpose of additional analysis and is not a required part of the basic financial statements.

The supplemental schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Governmental Auditing Standards*, we have issued our report dated February 17, 2016, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the District's internal control over financial reporting and compliance.

***Brown & Company, CPA's***

Bardstown, Kentucky  
February 17, 2016

**NORTH NELSON WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

Our discussion and analysis of North Nelson Water District's (hereinafter referred to as the "District") financial performance provides an overview of the District's financial activities for the year ended December 31, 2015. Please review it in conjunction with the District's basic financial statements, which begins on page 8.

**FINANCIAL HIGHLIGHTS**

- The combined ending balances of cash on hand and cash in the operating account was \$207,070.
- Assets of the District exceeded its liabilities at December 31, 2015, by \$8,759,319 (net position). Of this amount, \$710,530 is unrestricted and may be used to meet the District's ongoing obligations.
- Total net position increased \$149,067, which represents a 1.73% increase in total net position from 2014.
- Operating revenues in the form of charges for services accounted for \$1,408,362 or 96% of all revenues.
- The unrestricted net position represented 48% of total operating expenses.
- The District's total debt consists of revenue bonds issued to finance the construction of water lines. The District's total debt decreased by \$75,000 during the current year.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis serves as an introduction to the District's basic financial statements. The District's basic financial statements comprise fund financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The District is a special-purpose government entity engaged in only a single activity. Therefore, the District presents only a single set of basic financial statements: 1) the Statement of Fund Net Position, 2) the Statement of Revenues, Expenses, and Changes in Net Position, and 3) the Statement of Cash Flows. These basic financial statements provide both long-term and short-term information about the District's overall financial status, as well as reporting the District's operations in detail. The District's fund is a proprietary fund, which presents financial information about the activities of the District in a manner similar to private sector companies.

The financial statements also provide notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of supplementary information that further supports the information in the financial statements.

**Reporting on the District as a whole**

The basic financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Fund Net Position includes all of the District's assets (what the District owns) and liabilities (what the District owes). The Statement of Revenues, Expenses, and Changes in Fund Net position include all of the current year's revenues and expenses regardless of when cash is received or paid. These statements allow analysis of the District's net position (the difference between assets and liabilities) as one-way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors, such as changes in the District's service area, the availability of government support for capital projects, and the local economic picture to assess the overall health of the District.

**NORTH NELSON WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**Reporting the District's Fund**

**Proprietary Fund:** The District uses a proprietary fund – the enterprise fund – to report its services provided to customers for a fee. The enterprise fund focuses on how money flows into and out of a set of accounts and establishes balances left at year-end that are available for spending. This fund is reporting using an accounting method called accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. Enterprise fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance District operations.

**Notes to the Financial Statements:** The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 12-21 of this report.

**Other Information:** In addition to the basic financial statements and accompanying notes, this report also presents a schedule of operating expenses, which can be found on page 23 of this report.

**The District as a Whole**

The Districts total net position changed from a year ago, increasing from \$8,610,252 to \$8,759,319. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the District.

	<u>2014</u>	<u>2015</u>		<u>2014</u>	<u>2015</u>
Current And Other Assets	\$ 2,578	\$ 2,945	Net Position		
Capital Assets	7,760	7,471	Net Investment In Capital Assets	\$ 6,242	\$ 6,206
Total Assets	10,338	10,416	Restricted	1,574	1,843
Deferred Outflows of Resources	-	36,349	Unrestricted	1,066	710
Long-Term Obligations	\$ 1,265	\$ 1,462	Total Net Position	<u>\$ 8,882</u>	<u>\$ 8,759</u>
Other Liabilities	191	201			
Total Liabilities	<u>\$ 1,456</u>	<u>\$ 1,663</u>			
Deferred Inflows of Resources	<u>\$ -</u>	<u>\$ 30,000</u>			

Net position of the District's activities increased 1.73% or \$149,067. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased from \$1,066,570 to \$710,530 at the end of 2015.

**NORTH NELSON WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

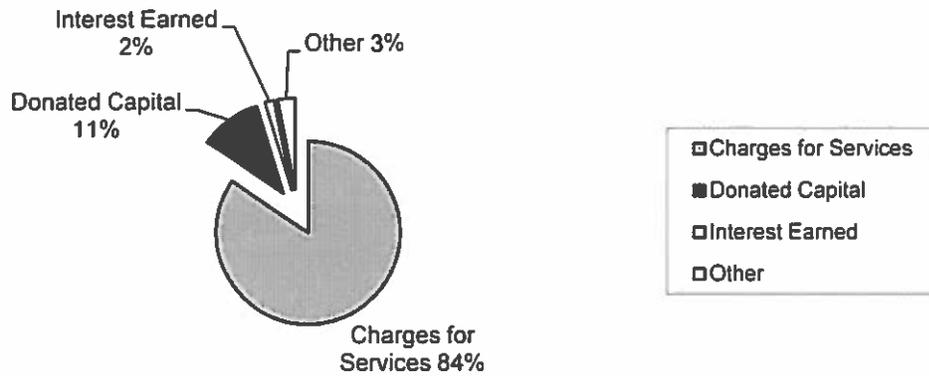
Table 2 compares the 2015 change in net position to the 2014 change in net position.

**Table 2  
Changes In Net Position For 2015  
Compared With 2014 Activity (In Thousands)**

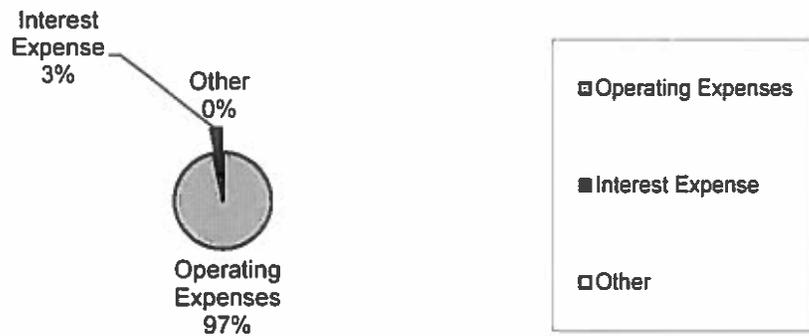
	<u>2014</u>	<u>2015</u>	<u>% Change</u>
<b>Program Revenues</b>			
Charges For Services	\$ 1,393	\$ 1,408	1.08%
Donated Capital	406	180	-55.67%
<b>Total Program Revenues</b>	<b>\$ 1,799</b>	<b>\$ 1,588</b>	<b>-11.73%</b>
<b>Other Revenues</b>			
Interest Earned	\$ 27	\$ 27	0.00%
Other	51	51	0.00%
<b>Total Other Revenues</b>	<b>\$ 78</b>	<b>\$ 78</b>	<b>0.00%</b>
<b>Total Revenues</b>	<b>\$ 1,877</b>	<b>\$ 1,666</b>	<b>-11.24%</b>
<b>Program Expenses</b>			
Operating Expenses	\$ 1,374	\$ 1,468	6.84%
Interest Expense	52	44	-15.38%
Other Expenses	9	5	-44.44%
<b>Total Program Expenses</b>	<b>\$ 1,435</b>	<b>\$ 1,517</b>	<b>5.71%</b>
<b>Increases In Net Assets</b>	<b>\$ 442</b>	<b>\$ 149</b>	<b>-66.29%</b>

**NORTH NELSON WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**2015 Revenues**



**2015 Expenses**



The District is not legally required to adopt a budget. Therefore, budgetary comparison information is not presented in this analysis nor in the basic financial statements or supplementary information.

**NORTH NELSON WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEAR THE ENDED DECEMBER 31, 2015**

**Capital Assets and Debt Administration**

**Capital Assets**

At year-end, the District had \$7,470,520 invested in a range of capital assets net of depreciation as shown below in Table 3. The total decrease in this net investment was 1.46% attributed to current year depreciation exceeding new capital acquisitions and improvements.

<b>Capital Assets Net Of Accumulated Depreciation (In Thousands)</b>			
	<b>2014</b>	<b>2015</b>	<b>% Change</b>
Land And Land Rights	\$ 90	\$ 90	0.00%
Structures And Improvements	354	354	0.00%
Water Lines And System	11,549	11,724	1.52%
Office Furniture And Equipment	33	33	0.00%
Transportation Equipment	66	66	0.00%
Other	13	13	0.00%
<b>Totals At Historical Costs</b>	<b>\$ 12,105</b>	<b>\$ 12,280</b>	<b>1.45%</b>
<b>Accumulated Depreciation</b>	<b>(4,524)</b>	<b>(4,810)</b>	<b>6.32%</b>
<b>Net Capital Assets</b>	<b>\$ 7,581</b>	<b>\$ 7,470</b>	<b>-1.46%</b>

**Long-Term Debt**

At the year-end, the District had total revenue bonds outstanding of \$1,265,000. Revenue bonds are supported by pledged revenues generated by the District's operations.

**Economic Factors**

The District has operated in Nelson, Spencer and Bullitt Counties, Kentucky for a number of years. At year-end, the District has no plans to expand its services beyond its current service areas. However, the District does anticipate new customers within its current service areas, as has been its historical experience. The District also has no current plans for any rate increases in the upcoming fiscal year.

**Request For Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District Manager, 5555 Louisville Road, Cox's Creek, Kentucky 40013-0025 or by telephone at 502-348-8342.

**NORTH NELSON WATER DISTRICT  
STATEMENT OF FUND NET POSITION- PROPRIETARY FUND  
DECEMBER 31, 2015**

	<u>Enterprise Fund</u>
<b>Assets</b>	
<b><u>Current Assets</u></b>	
Cash On Hand & In Banks	\$ 207,070
Certificates Of Deposit	549,944
Accounts Receivable	116,233
Accrued Interest Receivable	3,370
Inventory	56,752
Prepaid Insurance	6,134
Total Current Assets	<u>\$ 939,503</u>
<b><u>Restricted Assets</u></b>	
Cash In Banks	\$ 206,744
Certificates Of Deposit	1,636,525
Total Restricted Assets	<u>\$ 1,843,269</u>
<b><u>Noncurrent Assets</u></b>	
Capital Assets, Net Of Accumulated Depreciation	\$ 7,470,520
Notes Receivable	41,215
Unamortized Bond Discount	121,686
Total Noncurrent Assets	<u>\$ 7,633,421</u>
Total Assets	<u>\$ 10,416,193</u>
<b>Deferred Outflows of Resources</b>	
Deferred pension contributions after measurement date	<u>\$ 36,349</u>
<b>Liabilities &amp; Net Assets</b>	
<b><u>Current Liabilities</u></b>	
Accounts Payable	\$ 65,005
Other Current Liabilities	8,051
Accrued Interest Payable On Bonds Payable	15,812
Revenue Bonds Payable, Current	75,000
Total Current Liabilities	<u>\$ 163,868</u>
<b><u>Liabilities Payable From Restricted Assets</u></b>	
Accrued Interest On Customer Deposits	\$ 265
Customer Deposits	37,090
Total Liabilities Payable From Restricted Assets	<u>\$ 37,355</u>
<b><u>Noncurrent Liabilities</u></b>	
Noncurrent Portion Of Bond Obligations	\$ 1,190,000
Net Pension Liability	272,000
Total Noncurrent Liabilities	<u>\$ 1,462,000</u>
Total Liabilities	<u>\$ 1,663,223</u>
<b>Deferred Inflows of Resources</b>	
Differences between projected and actual earnings on plan investments	<u>\$ 30,000</u>
<b><u>Net Position</u></b>	
Net Investment In Capital Assets	\$ 6,205,520
Restricted	1,843,269
Unrestricted	710,530
Total Net Position	<u>\$ 8,759,319</u>

See independent auditor's report and accompanying notes to financial statements.

**NORTH NELSON WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
FUND NET POSITION - PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Enterprise Fund</u>
<b>Operating Revenues:</b>	
Charges For Services:	
Metered Sales To General Customers	\$ 1,408,362
Forfeited Discounts	17,457
Miscellaneous	17,220
Other Water Revenues	<u>16,614</u>
 Total Operating Revenues	 \$ 1,459,653
<b>Operating Expenses:</b>	
Wages & Benefits	\$ 261,482
Maintenance & Operations	770,894
Materials & Supplies	100,992
Depreciation	285,500
Pension Expense	30,349
Taxes & Licenses	<u>18,311</u>
 Total Operating Expenses	 <u>\$ 1,467,528</u>
 Income (Loss) From Operations	 <u>\$ (7,875)</u>
<b>Non-Operating Revenues (Expenses):</b>	
Interest Income	\$ 27,052
Gain or (Loss) on Sale of Assets	-
Amortization Of Bond Discount & Issue Costs	(5,228)
Interest Expense	<u>(44,497)</u>
 Total Non-Operating Revenues (Expenses)	 <u>\$ (22,673)</u>
 Income (Loss) Before Contributions	 <u>\$ (30,548)</u>
<b>Capital Contributions In Aid Of Construction:</b>	
Customers	\$ 62,600
State & Local Governments	<u>117,015</u>
 Total Capital Contributions In Aid Of Construction	 <u>\$ 179,615</u>
 Change In Net Position	 \$ 149,067
 <b>Net Position, January 1</b>	 8,882,441
 <b>Prior Period Adjustment</b>	 <u>(272,189)</u>
 <b>Net Position, December 31</b>	 <u><u>\$ 8,759,319</u></u>

See independent auditor's report and accompanying notes to financial statements.

**NORTH NELSON WATER DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

<b>Cash Flows From Operating Activities</b>	
Cash Received From Customers	\$ 1,404,994
Cash Paid To / For:	
Operations	(761,813)
Supplies	(96,008)
Employees	(261,482)
Taxes & Licenses	(18,311)
Other Operating Revenues	<u>51,291</u>
 Net Cash Provided By Operating Activities	 <u>\$ 318,671</u>
 <b>Cash Flows From Capital &amp; Related Financing Activities</b>	
Acquisition Of Capital Assets	\$ (174,485)
Acquisition Of Bond Procurement Expenses	-
Principal Paid On Revenue Bonds	(75,000)
Interest Paid On Revenue Bonds	(44,497)
Principal Received On Notes Receivable	10,613
Capital Contributions	<u>179,615</u>
 Net Cash Provided (Used) By Capital & Related Financing Activities	 <u>\$ (103,754)</u>
 <b>Cash Flows From Investing Activities</b>	
Investment Income	<u>\$ 27,052</u>
 Net Cash Provided (Used) By Investing Activities	 <u>\$ 27,052</u>
 <b>Net Increase (Decrease) In Cash &amp; Cash Investments</b>	 <u>\$ 241,969</u>
 <b>Cash &amp; Cash Investments, Beginning Of Year</b>	 <u>2,358,314</u>
 <b>Cash &amp; Cash Investments, End Of Year</b>	 <u><u>\$ 2,600,283</u></u>
 <b>Classified as:</b>	
<b>Unrestricted-</b>	
Cash On Hand And In Banks	\$ 207,070
Certificates Of Deposit	549,944
<b>Restricted</b>	
Cash In Banks	206,744
Certificates Of Deposit	<u>1,636,525</u>
 Total Cash And Cash Investments	 <u><u>\$ 2,600,283</u></u>

See independent auditor's report and accompanying notes to financial statements.

**NORTH NELSON WATER DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Enterprise Fund</u>
<b><u>Reconciliation Of Operating Income (Loss) To Net Cash Provided (Used) By Operating Activities:</u></b>	
Operating Income (Loss)	\$ (7,875)
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided (Used) By Operating Activities:	
Depreciation	285,500
Changes In Assets And Liabilities:	
Prior Period Adjustment Relating To Accounts Receivable	(36,886)
(Increase) Decrease In Accounts Receivable	31,661
(Increase) Decrease In Inventory	4,984
(Increase) Decrease In Prepaids	237
Increase (Decrease) In Accounts Payable	11,586
Increase (Decrease) In Other Current Liabilities	(1,744)
Increase (Decrease) In Accrued Interest Payable	(998)
Increase (Decrease) In Customer Deposits Liability	1,857
Total Adjustments	296,197
 Net Cash Provided (Used) By Operating Activities	 \$ 288,322

See independent auditor's report and accompanying notes to financial statements.

**NORTH NELSON WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**Note A - Summary of Significant Accounting Policies**

The North Nelson Water District (the "District") was created by an order entered by the County Court of Nelson County, Kentucky, on June 10, 1965, and exists as a statutory water district under KRS Chapter 74. The District provides water service to customers in a defined area in Nelson, Bullitt and Spencer Counties, Kentucky. The District is regulated as a Class A water district by the Public Service Commission of Kentucky.

The District is governed by a Board of Commissioners ("Board") that acts as the authoritative body of the entity. The Board is comprised of three members, all of which are voting members. Each member is appointed by the Nelson County Fiscal Court for a term of four years with no limit on reappointments. The Board appoints a District manager to oversee day-to-day operations of the District.

The Board has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. There are no component units included within the reporting entity.

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States as applied to government units. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, including statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis – for State and Local governments, which mandates the new reporting model implemented by the District, and Statement No. 38, Certain Financial Statement Disclosures, which changes note disclosure requirements for governmental entities. The following is a description of the District's more significant accounting policies used in preparing its financial statements.

**Government-Wide and Fund Financial Statements-** The financial statement presentation for the District includes only a single set of financial statements, as the District is a special-purpose government entity engaged in only a single activity. These financial statements present both an entity-wide and detailed fund financial presentation of the activities of the District.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation-** The financial statements are reported using the economic resources measurement focus and the accrual basis accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Furthermore, both long-term and current assets and liabilities are included in the financial statements. Day-to-day financial records are maintained according to the Uniform System of Accounts for Class A Water Districts and Associations as prescribed by the Public Service Commission of the Commonwealth of Kentucky.

The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**Fund Accounting**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District is a special-purpose government engaged in only a single business-type activity and, therefore, reports only an enterprise fund as described below.

The Enterprise fund accounts for operations that are financed and operated in a manner similar to private business enterprises. Principal operating revenues for the enterprise fund are charges for water sold to customers. Principal operating expenses are the cost of administering the activities of the District on a continuing basis and include personnel expenses, purchased water, administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

**NORTH NELSON WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**Note A - Summary of Significant Accounting Policies - continued**

**Cash and Cash Equivalents-** Cash and Cash Equivalents include demand deposits as well as all highly liquid temporary cash investments regardless of maturity dates and including restricted assets. Temporary cash investments (certificated of deposit) are stated at cost plus any periodic interest that has been credited to the account. Carrying amounts at December 31, 2014, approximate fair value.

**Allowance for Uncollectible Accounts-** At December 31, 2015, management deemed all accounts receivable collectible. Therefore, no allowance for doubtful accounts is included in the balance sheet. Accounts previously deemed uncollectible during the year ended December 31, 2014, were charged to operations as bad debt expense.

**Inventories-** Inventories of materials and supplies are stated at lower of cost or market (first-in, first-out). Market value is considered as the net realizable value. They are recorded as expenditures at the time individual inventory items are used.

**Capital Assets-** All capital assets are capitalized at historical cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$500. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Structures And Improvements	10-40 years
Distribution Reservoirs And Standpipes	40 years
Transmission And Distribution Mains, Services, Meters And Installations	40 years
Hydrants	40 years
Office Furniture And Equipment	5-10 years
Transportation Equipment	5 years
Tools And Shop Equipment	5 years
Communication Equipment	5 years

**Deferred Debt Expense and Bond Discount-** Bond issuance costs and bond discounts are capitalized and amortized over the terms of the respective bonds using the straight-line method, which approximates the effective interest method.

**Contributions in Aid of Construction-** Payments received for construction purposes, including federal, state, and local grants, tap-on fees and contributions from customers have been included in income as proceeds from capital contributions in aid of construction. These amounts are closed to Net position-Donated Capital at the end of each year and the cumulative balance is classified on the Statement of Fund Net position as Net position-Donated Capital.

**NORTH NELSON WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**Note A - Summary of Significant Accounting Policies - continued**

**Net position-** Net position presents the difference between assets and liabilities in the statement of fund net position. Net position invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

**Estimates-** The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Budgets and Budgetary Accounting-** The District's annual budget is a management tool that assists its management and governing board in analyzing financial activity for its fiscal year. The budget is not a legally required or adopted budget.

**Note B - Deposits- Concentration of Credit Risk**

The District maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to a maximum of \$250,000 for the aggregate of all time and savings accounts at the institution and up to an additional maximum of \$250,000 for the aggregate of all demand deposit accounts at the institution. At December 31, 2015, the District had \$2,600,283 total cash in financial institutions of which \$2,600,283 was insured by FDIC coverage and \$0 was uncollateralized and uninsured.

**Note C - Customer Accounts Receivable**

Accounts receivable from customers as of December 31, 2015 was \$116,233.

**Note D - Notes Receivable**

As part of the District's extension of water lines in Bullitt County, Kentucky, customers were permitted to finance the required customer contribution in aid of construction amount of \$2,500 per service over a 120-month period bearing interest at a rate of 7% per annum and due in monthly installments of \$29. Such notes receivable are secured by a lien against the customer's property in such that, in the event the customer sells the property before the note is paid in full, the entire outstanding balance of the note receivable will be due and payable at the time of sale and will be disbursed from the sale proceeds. This financing arrangement is available to any customer connecting to the water lines in this extension for a period of ten years after the project completion date. At December 31, 2015, the Bullitt County project notes receivable had a balance of \$38,210, all of which is deemed collectible by the District's management.

As part of the District's extension of water lines on Highway 48, customers were permitted to finance the required \$2,500 contribution in aid of construction over a 120-month period bearing interest at a rate of 6% per annum and due in monthly installments of \$27.76. Such notes receivables are secured by a lien against the customer's property as described in the preceding paragraph. The Highway 48 project notes receivable had a balance of \$3,005 at December 31, 2015, all of which is deemed collectible by the District's management.

**NORTH NELSON WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**Note E - Restricted Assets**

Restricted assets (demand deposit accounts and certificated of deposit) have been established by the District to provide funds for specific payments. Restricted assets consist of the following at December 31, 2015:

	<u>Cash In Bank</u>	<u>Certificates Of Deposit</u>	<u>Totals</u>
System Development Charge Fund	\$ 18,021	\$ 438,439	\$ 456,460
Depreciation Reserve Fund	-	78,005	78,005
Debt Service Sinking Fund	98,753	-	98,753
Membership Deposits Fund	14,204	26,716	40,920
Construction Fund	75,766	1,093,365	1,169,131
<b>Total Restricted Assets</b>	<b>\$ 206,744</b>	<b>\$ 1,636,525</b>	<b>\$ 1,843,269</b>

The **System Development Charge (SDC) Fund** was established for the purpose of accounting separately for all SDCs collected, which must be used solely for the projects for which the fee was collected. Funds from the account are to be used exclusively to fund growth-related capital projects.

The **Depreciation Reserve Fund** was established in accordance with bond indentures for the purpose of (1) paying the cost of unusual or extraordinary maintenance and repairs, (2) paying the cost of constructing extensions, additions or improvements to the system, and (3) if necessary, paying principal and interest on water and revenue bonds.

The **Debt Service Sinking Fund** was established to accumulate funds for the payment of principal and interest on water revenue bonds as they become due.

The **Membership Deposits Fund** was established to segregate amounts deposited with the District by customers as security for the payment of bills.

The **Construction Fund** was established to aid in the record keeping for any large projects undertaken by the District.

Amounts payable from the preceding restricted Membership Deposits Fund assets at December 31, 2014, are as follows:

Accrued Interest Payable	\$ 265
Customer Deposits	37,090
<b>Total</b>	<b>\$ 37,355</b>

**Note F - Interest on Customer Deposits**

KRS 278.460 requires public utilities to pay interest on amounts required to be deposited by customers to secure utility service. KRS 278.460, as amended in 2012, requires the PSC to calculate in December of each year the maximum interest rate that utilities shall pay on customer deposits during the following calendar year. A water district shall pay the lesser of either the rate it earns on its interest-bearing accounts where customer deposits are held or the maximum rate set by the PSC. The maximum rate set by the PSC for calendar year 2015 was 0.18%. Since the District earned a higher interest rate, it paid interest on customer deposits at the maximum rate set by PSC. OAG 83-224, which was adopted by the District in 1988, requires that such interest be compounded. This interest along with the deposit principal is paid to customers or credited to customer's bills monthly, except that no refund or credit will be made if a customer's bill is delinquent on the anniversary date of the deposit. Upon termination of service, the deposit and any accrued interest will be credited to the final bill with any remainder refunded to the customer.

**NORTH NELSON WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**Note G - Capital Assets**

The following table provided a summary of changes in capital assets:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<b>Assets Not Depreciated:</b>				
Land And Land Rights	\$ 89,481	\$ -	\$ -	\$ 89,481
<b>Assets Depreciated:</b>	-			-
Structures And Improvements	353,387	-	-	353,387
Reservoirs And Standpipes	576,380	-	-	576,380
Transmission And Distribution Mains	9,857,191	174,484	-	10,031,675
Services	48,577	-	-	48,577
Meters And Installations	1,066,784	-	-	1,066,784
Hydrants	1,707	-	-	1,707
Office Furniture And Equipment	33,452	-	-	33,452
Transportation Equipment	66,613	-	-	66,613
Tools And Shop Equipment	782	-	-	782
Communication Equipment	11,527	-	-	11,527
Total Assets Depreciated	<u>12,016,400</u>	<u>174,484</u>	<u>-</u>	<u>12,190,884</u>
Accumulated Depreciation	<u>(4,524,345)</u>	<u>(285,500)</u>	<u>-</u>	<u>(4,809,845)</u>
Net Assets Depreciated	<u>7,492,055</u>	<u>(111,016)</u>	<u>-</u>	<u>7,381,039</u>
<b>Total Capital Assets, Net</b>	<u>\$ 7,581,536</u>	<u>\$ (111,016)</u>	<u>\$ -</u>	<u>\$ 7,470,520</u>

**Note H - Revenue Bonds Payable**

Bond indentures contain significant requirements for annual debt service and flow of funds through restricted accounts. Specifically, the bond indentures require the use of a debt service (sinking) fund for the payment of bond principal and interest, a debt service reserve fund, and a depreciation reserve fund for the purpose of accumulating a reserve to pay for additions to or improvements to the District's capital assets. The sinking fund requirements consist of a monthly transfer of funds to a separate restricted account equivalent to 1/6 of the interest next due plus 1/12 of the principal next due. Debt service reserve is maintained at the lesser of three specified amounts for the purpose of paying principal and interest on outstanding bonds if insufficient funds are available in the sinking fund. The depreciation reserve fund requires monthly fixed transfers to a separate restricted account until a minimum reserve funding level as specified by the bond indentures is reached. The District is in compliance with all significant requirements of the various bond covenants as of and for the year ending December 31, 2015.

Bonds payable at December 31 are comprised of the following individual issue:

\$1,340,000 Water Revenue Bonds due in annual installments ranging from \$50,000 to \$120,000 through February 1, 2028; interest from 2.250% to 4.375%.

**NORTH NELSON WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**Note H - Revenue Bonds Payable - continued**

The annual requirements to amortize all debt outstanding as of December 31, 2015 including interest payments are as follows:

Year Ending December 31	Principal	Interest	Total
2016	\$ 75,000	\$ 46,100	\$ 121,100
2017	80,000	43,808	123,808
2018	85,000	41,168	126,168
2019	85,000	38,342	123,342
2020-2028	940,000	180,946	1,120,946
	<u>\$ 1,265,000</u>	<u>\$ 350,364</u>	<u>\$ 1,615,364</u>

**Note I – Employee Retirement System**

**General information about the County Employees Retirement System Non-Hazardous (“CERS”)**

Plan description—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided—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 At least 5 years service and 55 years old At least 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 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 87 Not available

**NORTH NELSON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**Note I – Employee Retirement System - continued**

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.

Contributions—Required contributions by the employee are based on the tier:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

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

At December 31, 2015, the District reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District was \$272,000. The net pension liability for each plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was 0.00839% for nonhazardous and 0.00000% for hazardous..

For the year ended December 31, 2015, the District recognized pension expense of \$30,349 related to CERS. On June 30, 2014, 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 experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	30,000
Changes in proportion and differences between District contributions and proportionate share contributions	-	-
District contributions subsequent to the measurement date	36,349	-
<b>Totals</b>	<b>\$ 36,349</b>	<b>\$ 30,000</b>

**NORTH NELSON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**Note I – Employee Retirement System - continued**

\$36,349 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2016	6,000
2017	6,000
2018	6,000
2019	6,000
2020	6,000

Actuarial assumptions—The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS
Inflation	3.50%
Projected salary increases	4.50%
Investment rate of return, net of investment expense & inflation	7.75%

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District’s net pension 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.

**NORTH NELSON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**Note I – Employee Retirement System - continued**

	Net Pension Liability - City Nonhazardous		
	6.75%	7.75%	8.75%
Proportionate Share	\$ 307,097	\$ 272,000	\$ 236,903
% per Proportionate Share		0.008390%	

Pension plan fiduciary net position—Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of CERS.

**Note J - Cash Flow Activity**

The following information for the year ended December 31, 2015 is presented as supplemental disclosure to the statement of cash flows as required by Statement of Financial Accounting Standards No. 95.

Interest Expense                      \$ 44,497

**Note K - Risk Management**

The District is exposed to various forms of losses associated with the risks of fire; personal liability, vehicular accidents; errors and omissions; torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchase certain policies that are retrospectively rated which include worker’s compensations insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**Note L - Litigation**

The North Nelson Water District’s attorney Damon R. Talley has not advised us of any litigation against the organization.

**Note M - Subsequent Events**

No subsequent events to report for North Nelson Water District.

**NORTH NELSON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**Note N – Prior Period Adjustment**

Net position as of June 30, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* and for correction of two accounts receivables errors.

	<b>Business-Type Activities</b>
Net Position as previously reported at December 31, 2014	\$ 8,882,441
Correction of accounts receivable errors	
Increase (decrease) in assets	(36,887)
Prior period adjustment implementation of GASB 68:	
Net pension liability (measurement date as of June 30, 2013)	(271,651)
Deferred outflows - District contributions made during fiscal year 2014	36,349
Total prior period adjustment for GASB 68	(235,302)
Total prior period adjustment	(272,189)
Net Position as restated December 31, 2014	\$ 8,610,252

## **Required Supplementary Information**

**NORTH NELSON WATER DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
RETAINED EARNINGS - BUDGET AND ACTUAL - PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues	\$ 1,497,400	\$ 1,390,000	\$ 1,459,653	\$ 69,653
Operating Expenses	<u>1,154,450</u>	<u>1,100,000</u>	<u>1,163,717</u>	<u>63,717</u>
Income (Loss) From Operations	\$ 342,950	\$ 290,000	\$ 295,936	\$ 5,936
<b>Non-Operating Revenues (Expenses):</b>				
Depreciation	\$ (285,000)	\$ (285,000)	\$ (285,500)	\$ (500)
Amortization	(5,000)	(5,000)	(5,228)	(228)
Taxes Other Than Income	(19,700)	(18,500)	(18,311)	189
Interest Expense	(51,706)	(51,706)	(44,497)	7,209
Interest Income	<u>20,000</u>	<u>24,400</u>	<u>27,052</u>	<u>2,652</u>
Total Non-Operating Revenues (Expenses)	<u>\$ (341,406)</u>	<u>\$ (335,806)</u>	<u>\$ (326,484)</u>	<u>\$ 9,322</u>
Net Income (Loss)	\$ 1,544	\$ (45,806)	\$ (30,548)	\$ 15,258
Capital Contributions	<u>\$ 28,000</u>	<u>\$ 198,000</u>	<u>\$ 179,615</u>	<u>(18,385)</u>
Change In Retained Earnings	\$ 29,544	\$ 152,194	\$ 149,067	\$ (3,127)
Retained Earnings, December 31, 2014	\$ 8,882,441	\$ 8,882,441	\$ 8,882,441	\$ -
Prior Period Adjustment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (272,189)</u>	<u>\$ (272,189)</u>
Retained Earnings, December 31, 2015	<u><u>\$ 8,911,985</u></u>	<u><u>\$ 9,034,635</u></u>	<u><u>\$ 8,759,319</u></u>	<u><u>\$ (275,316)</u></u>

**NORTH NELSON WATER DISTRICT  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY  
AS OF DECEMBER 31, 2015**

	(Reporting Fiscal Year)	
	Measurement Date	
	2015	(2014)
	<u>Nonhazardous</u>	<u>Hazardous</u>
District's proportion of the net pension liability	0.00839%	0.00000%
District's proportionate share of the net pension liability	272,000	-
District's covered-employee payroll	194,510	-
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	139.839%	0.000%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	0.00%

\* Schedule is intended to show information for ten years.  
Additional years will be displayed as they become available.

**NORTH NELSON WATER DISTRICT  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>2015</u>	<u>2014</u>
	<b>Nonhazardous</b>	<b>Nonhazardous</b>
Contractually required contribution	36,349	36,349
Contributions in relation to the contractually required contribution	<u>36,349</u>	<u>36,349</u>
Contribution deficiency (excess)	-	-
District's covered-employee payroll	194,510	183,653
District's contributions as a percentage of its covered-employee payroll	18.69%	19.79%

\* Schedule is intended to show information for ten years.  
Additional years will be displayed as they become available.

**NORTH NELSON WATER DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**CHANGES OF ASSUMPTIONS**

There were no changes of assumptions.

**METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS**

The actuarially determined contribution rates in the schedule of contributions are calculated on a biennial basis beginning with the fiscal years ended 2015 and 2016, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the contribution rates reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	29 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

**CHANGES OF BENEFITS**

There were no changes in benefit terms.

## **Other Supplementary Information**

**NORTH NELSON WATER DISTRICT  
SCHEDULE I - OPERATING EXPENSES PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Source of Supply/Pumping	Water Treatment	Transmission/ Distribution	Customer Accounts	Administrative/ General	Total
<b>Personal Services</b>						
Salaries And Wages	\$ -	\$ -	\$ 101,184	\$ 39,755	\$ 53,571	\$ 194,510
Commissioners' Fees	-	-	-	-	7,200	7,200
Employee Benefits	-	-	31,094	12,217	16,461	59,772
<b>Total Personal Services</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 132,278</b>	<b>\$ 51,972</b>	<b>\$ 77,232</b>	<b>\$ 261,482</b>
<b>Maintenance, Operations, And Contractual Services:</b>						
Purchased Water	\$ 630,336	\$ -	\$ -	\$ -	\$ -	\$ 630,336
Purchased Power	17,089	-	-	-	-	17,089
Contract Services - Accounting & Legal	-	-	-	-	17,360	17,360
Contract Services - Other	-	4,285	67,281	-	518	72,084
Transportation Expenses	-	-	8,622	2,221	2,221	13,064
Insurance - General Liability	-	-	4,946	3,763	2,042	10,751
Insurance - Workers' Compensation	-	-	807	614	333	1,754
Miscellaneous Expense	-	-	3,890	2,960	1,606	8,456
<b>Total Maintenance, Operations, And Contractual Services</b>	<b>\$ 647,425</b>	<b>\$ 4,285</b>	<b>\$ 85,546</b>	<b>\$ 9,558</b>	<b>\$ 24,080</b>	<b>\$ 770,894</b>
<b>Materials And Supplies</b>						
	\$ -	\$ -	\$ 32,317	\$ 28,278	\$ 40,397	\$ 100,992
<b>Taxes Other Than Income Taxes</b>						
Utility Regulatory Assessment Fee	\$ -	\$ -	\$ -	\$ -	\$ 3,244	\$ 3,244
Payroll Taxes	-	-	7,838	3,080	4,149	15,067
<b>Total Taxes Other Than Income Taxes</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,838</b>	<b>\$ 3,080</b>	<b>\$ 7,393</b>	<b>\$ 18,311</b>

# BROWN & COMPANY

## CERTIFIED PUBLIC ACCOUNTANTS FINANCIAL ADVISORS & BUSINESS CONSULTANTS

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William G. Brown, CPA - W. Gilbert Brown III, CPA

### 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.

To the Board of Commissioners  
North Nelson Water District  
Cox's Creek, Kentucky 40013

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the North Nelson Water District, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the North Nelson Water District's basic financial statements, and have issued our report thereon dated February 17, 2016.

#### Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

#### Compliance and Other Matters

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

**Purpose of this Report**

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

*Brown & Company, CPA's*

Bardstown, Kentucky  
February 17, 2016

**NORTH NELSON WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**Financial Statements**

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?                     Yes             No
- Significant deficiency(ies) identified that are  
not considered to be material weakness(es)?             Yes             None Reported

Noncompliance material to financial  
statements noted?     Yes             No