

NORTH NELSON WATER DISTRICT

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

YEAR ENDED DECEMBER 31, 2019

**NORTH NELSON WATER DISTRICT
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FOR THE YEAR ENDED DECEMBER 31, 2019**

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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 North Nelson Water District (the "District"), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 opinion.

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6, and the schedule of the District's proportionate share of net pension liability in County Employees Retirement System (CERS), and the schedule of the District's contributions to the CERS on pages 27 through 29 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 Supplementary 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 Revenues, Expenditures, and Changes in Net Position - Budget and Actual - Proprietary Funds, and Schedule I - Operating Expenses Proprietary Funds on pages 34 through 35 in presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is 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 March 30, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

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STUEDLE SPEARS & COMPANY PSC

Louisville, Kentucky

March 30, 2020

NORTH NELSON WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
DECEMBER 31, 2019

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, 2019. 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 \$208,088.
- Assets and Deferred Outflows of the District exceeded its liabilities and Deferred Inflows at December 31, 2019, by \$9,112,381 (net position). Of this amount, \$822,313 is unrestricted and may be used to meet the District's ongoing obligations.
- Total net position increased 92,155, which represents a .11% increase in total net position from 2018.
- Operating revenues in the form of charges for services accounted for \$1,602,230 or 97% of all revenues.
- The unrestricted net position represented 33% 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 \$85,000 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)
DECEMBER 31, 2019**

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 10-25 of this report.

Other Supplementary 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 29 of this report.

The District as a Whole

The District's total net position changed from a year ago, increasing from \$9,059,904 to \$9,020,226. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the District.

Net position of the District's activities decreased .44% or \$39,678. 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 \$621,550 to \$543,022 at the end of 2019.

**Table 1
Net Position (In Thousands)**

	<u>2019</u>	<u>2018</u>
Current And Other Assets	\$ 3,428	\$ 3,245
Capital Assets	7,287	7,395
Total Assets	10,715	10,640
Deferred Outflows of Resources	176	226
Total Assets and Deferred Outflows	<u>\$ 10,891</u>	<u>\$ 10,866</u>
Long-Term Obligations	\$ 1,534	\$ 1,624
Other Liabilities	177	164
Total Liabilities	1,711	1,788
Deferred Inflows of Resources	67	57
Net Position		
Net Investment In Capital Assets	\$ 6,323	\$ 6,338
Restricted	1,968	2,140
Unrestricted	822	543
Total Net Position	<u>9,113</u>	<u>9,021</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 10,891</u>	<u>\$ 10,866</u>

**NORTH NELSON WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
DECEMBER 31, 2019**

Table 2 compares the 2019 change in net position to the 2018 change in net position.

**Table 2
Changes In Net Position For 2018
Compared With 2018 Activity (In Thousands)**

	<u>2019</u>	<u>2018</u>	<u>% Change</u>
Program Revenues			
Charges For Services	\$ 1,552	\$ 1,525	-1.74%
Donated Capital	61	76	24.59%
Total Program Revenues	<u>1,613</u>	<u>1,601</u>	<u>-0.74%</u>
Other Revenues			
Interest Earned	58	44	-24.14%
Other	51	47	-7.84%
Total Other Revenues	<u>109</u>	<u>91</u>	<u>-16.51%</u>
Total Revenues	1,722	1,692	-1.74%
Program Expenses			
Operating Expenses	1,585	1,686	6.37%
Interest Expense	40	41	2.50%
Other Expenses	5	5	0.00%
Total Program Expenses	<u>1,630</u>	<u>1,732</u>	<u>6.26%</u>
Increases In Net Position	<u>\$ 92</u>	<u>\$ (40)</u>	<u>-143.48%</u>

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 required supplementary information.

Capital Assets and Debt Administration

Capital Assets

At year-end, the District had \$7,728,135 invested in a range of capital assets net of depreciation as shown below in Table 3. The total decrease in this net investment was 1.04% attributed to current year depreciation exceeding new capital acquisitions and improvements.

**NORTH NELSON WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
DECEMBER 31, 2019**

**Capital Assets
Net Of Accumulated Depreciation
(In Thousands)**

	<u>2019</u>	<u>2018</u>	<u>% Change</u>
Land And Land Rights	\$ 90	\$ 90	0.00%
Structures And Improvements	354	354	0.00%
Water Lines And System	12,519	12,365	-1.23%
Office Furniture And Equipment	27	33	22.22%
Transportation Equipment	67	52	-22.39%
Other	14	14	0.00%
Totals At Historical Costs	<u>\$ 13,071</u>	<u>\$ 12,908</u>	<u>-1.25%</u>
Accumulated Depreciation	<u>(5,909)</u>	<u>(5,647)</u>	<u>-4.43%</u>
Net Capital Assets	<u><u>\$ 7,162</u></u>	<u><u>\$ 7,261</u></u>	<u><u>1.38%</u></u>

Long-Term Debt

At the year-end, the District had total revenue bonds outstanding of \$925,000. Revenue bonds are supported by pledged revenues generated by the District's operations. See Note 8 for further information on long-term debt for the District.

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 NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2019**

Assets

Current Assets:

Cash & Cash Equivalents - unrestricted	\$ 208,088
Cash & Cash Equivalents - restricted	204,081
Certificates of Deposit - unrestricted	1,063,721
Certificates of Deposit - restricted	1,763,540
Accounts Receivable	111,765
Accrued Interest Receivable	3,770
Inventory	64,342
Prepaid Expenses	8,492
Total Current Assets	3,427,799

Noncurrent Assets:

Depreciable Assets	12,983,417
Accumulated Depreciation	(5,909,306)
Nondepreciable Assets	89,481
Notes Receivable	22,770
Unamortized Bond Discount and Issue Costs	100,773
Total Noncurrent Assets	7,287,135

Total Assets 10,714,934

Deferred Outflows of Resources

Total Assets and Deferred Outflows \$ 10,890,999

Liabilities & Net Position

Current Liabilities:

Accounts Payable	\$ 47,928
Other Current Liabilities	27,004
Accrued Interest on Bonds	16,918
Current Portion of Bonds Payable	85,000
Total Current Liabilities	176,850

Noncurrent Liabilities:

Accrued Interest on Customer Deposits	-0-
Customer Deposits	20,717
Noncurrent Portion of Bonds Payable	840,000
Net Pension Liability	673,390
Total Noncurrent Liabilities	1,534,107

Total Liabilities 1,710,957

Deferred Inflows of Resources

Total Liabilities and Deferred Inflows 1,778,621

Net Position

Net Investment in Capital Assets	6,322,447
Restricted	1,967,621
Unrestricted	822,310
Total Net Position	9,112,378
Total Liabilities, Deferred Inflows and Net Position	\$ 10,890,999

**NORTH NELSON WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

Operating Revenues

Charges for Services:	
Metered Sales to General Customers	\$ 1,551,697
Forfeited Discounts	21,538
Sewer Bill Collection	21,834
Other Water Revenues	7,161
	<hr/>
Total Operating Revenues	1,602,230

Operating Expenses

Wages & Benefits	355,640
Maintenance & Operations	823,720
Materials & Supplies	98,581
Depreciation	292,018
Taxes & Licenses	14,851
	<hr/>
Total Operating Expenses	1,584,810

Income (Loss) From Operations 17,420

Non-Operating Revenues (Expenses):

Interest Income	58,170
Gain (Loss) on Sale of Assets	590
Amortization of Bond Discount & Issue Costs	(5,228)
Interest Expense	(39,400)
	<hr/>
Total Non-Operating Revenues (Expenses)	14,132

Income (Loss) Before Contributions 31,552

Capital Contributions in Aid of Construction

Customers	60,600
State & Local Governments	-0-
	<hr/>
Total Capital Contributions in Aid of Construction	60,600
	<hr/>
Change in Net Position	92,152

Net Position, December 31, 2018

9,020,226

Net Position, December 31, 2019

\$ 9,112,378

**NORTH NELSON WATER DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Water & Sewer Fun
Cash Flows From Operating Activities	
Receipts From Customers	\$ 1,592,178
Payments For Supplies And Services	(905,070)
Payments To Employees	(296,755)
Net Cash Flows from Operating Activities	390,353
Cash Flows From Capital & Related Financing Activities	
Purchase Of Capital Assets	(194,110)
Proceeds From Sale of Assets	590
Principal Paid On Debt	(85,000)
Interest Paid On Debt	(42,386)
Net Cash Flows from Capital & Related Financing Activities	(320,906)
Cash Flows From Investing Activities	
Receipt Of Interest Income	58,170
Principal Received on Notes Receivable	4,967
Capital Contributions	60,600
Net Cash Flows from Investing Activities	123,737
Net Change in Cash and Cash Equivalents	193,184
Balances, Beginning Of Year	3,046,246
Balances, End Of Year	\$ 3,239,430
Shown in the Financial Statements as:	
Cash & Cash Equivalents - unrestricted	\$ 208,088
Cash & Cash Equivalents - restricted	204,081
Certificates of Deposit - unrestricted	1,063,721
Certificates of Deposit - restricted	1,763,540
	\$ 3,239,430
Reconciliation Of Operating Income (Loss) To Net Cash	
Net Cash Flows from Operating Activities	
Operating Income (Loss)	\$ 17,420
Adjustments To Reconcile Operating Income To Net Cash	
Provided (Used) By Operating Activities	
Depreciation	292,018
Pension Expense	60,369
Change In Assets & Liabilities	
Receivables	(4,644)
Prepaid Expenses	(2,073)
Inventory	16,776
Accounts Payable	17,379
Other Current Liabilities	(1,484)
Customer Deposits	(5,408)
Net Cash Flows from Operating Activities	\$ 390,353
Noncash Pension Activity	
Pension Expense	\$ 60,369
Net Pension Liability	53
Deferred Outflows for Pensions	(49,548)
Deferred Inflows for Pensions	(10,874)
Net Effect of Noncash Pension Activity	\$ -0-

See independent auditors' report

**NORTH NELSON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Note 1 - 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 a 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 relies to a significant extent on fees and charges for support.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's Enterprise Funds, are charges to customers for sales and services. The District also recognizes as operating revenue contributions in aid of construction intended to recover the costs of connecting new customers to the utility system. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, depreciation and amortization on capital and intangibles assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The accounting policies of the North Nelson Water District conform to generally accepted accounting principles (GAAP), as applicable to governmental units. The Governmental Accounting Standards Board (GASB), is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies:

**NORTH NELSON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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 a proprietary fund as described below.

The proprietary 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.

Cash and Cash Equivalents and Certificates of Deposit - 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 (certificates of deposit) are stated at cost plus any periodic interest that has been credited to the account.

Accounts Receivable - Trade accounts receivable are reported at the amount management expects to collect from outstanding balances. Management considers all accounts receivable as collectible at year-end.

Allowance for Uncollectible Accounts - At December 31, 2019, management deemed all accounts receivable collectible. Therefore, no allowance for doubtful accounts is included in the balance sheet. Accounts previously deemed uncollectible were charged to operations as bad debt expense, if applicable.

Notes Receivable - Notes receivable are recorded for contributions in aid of construction for constructed water transmission lines, and other improvements necessary to serve and make water service available to the customer. The District finances these through signed promissory notes and charges interest on these notes (See Note 4).

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

**NORTH NELSON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Impairment of Capital Assets - The District is required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset and construction stop. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. No impaired assets were noted for the District.

Prepaid Expenses - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

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.

Unamortized Bond Discount and Issue Costs - 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.

Deferred Outflows/Inflows of Resources - In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Pension - 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 pension plan's fiduciary net position of the County Employees Retirement System ("CERS") and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 at the end of each year and the cumulative balance is classified on the Statement of Net Position as Net Position

Net position - Net position presents the difference between assets and liabilities in the statement of fund net position. Net investments in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net Position is classified as net position and displayed in three components:

1. Net investment in capital assets - Consists of capital assets including restricted balances, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**NORTH NELSON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

2. Restricted – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments: or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, and then unrestricted resources as they are needed.

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.

Statement of Cash Flows – For purposes of the statement of cash flows, cash includes amounts held in checking accounts and certificates of deposit (including those held as restricted assets).

Note 2 - 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, 2019, the District had \$3,046,246 total cash in financial institutions of which \$3,036,514 was insured by FDIC coverage and 9,731 uninsured.

Note 3 - Customer Accounts Receivable

Accounts receivable from customers as of December 31, 2019 was \$111,765. Management considers all of this amount collectible at year end.

Note 4 - 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, 2019, the Bullitt County project notes receivable had a balance of \$22,770, all of which is deemed collectible by the District’s management.

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Note 5 - Restricted Cash & Cash Equivalents and Certificates of Deposit

Restricted assets (demand deposit accounts and certificate of deposits) have been established by the District to provide funds for specific payments. Restricted assets consist of the following at December 31, 2019:

	<u>Cash & Cash Equivalents</u>	<u>Certificates of Deposit</u>
System Development Charge Fund	\$ 17,889	\$ 467,677
Depreciation Reserve Fund	-0-	50,250
Debt Service Sinking Fund	106,143	104,160
Membership Deposits Fund	23,566	10,767
Construction Fund	<u>56,483</u>	<u>1,130,686</u>
Total Restricted Cash	<u>\$ 204,081</u>	<u>\$ 1,763,540</u>

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, 2019, is as follows:

Customer Deposits	<u>\$ 23,566</u>
Total Restricted Cash	<u>\$ 23,566</u>

Note 6 - 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 2019 was 0.37%. Since the District earned a higher interest rate, it paid interest on customer

**NORTH NELSON WATER DISTRICT
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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.

Note 7 - Capital Assets

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

	Balance December 31, 2018	Additions	Retirements	Balance December 31, 2019
Capital Assets Not Being Depreciated:				
Land and Land Rights	\$ 89,481	\$ -0-	\$ -0-	\$ 89,481
Construction In Process	-0-	-0-	-0-	-0-
Total Capital Assets Not Being Depreciated	<u>89,481</u>	<u>-0-</u>	<u>-0-</u>	<u>89,481</u>
Capital Assets Being Depreciated:				
Structures and Improvements	353,387	-0-	-0-	353,387
Reservoirs and Standpipes	576,380	-0-	-0-	576,380
Transmission and Distribution Mains	10,561,671	-0-	-0-	10,561,671
Services	48,577	-0-	-0-	48,577
Meters and Installations	1,179,081	154,872	-0-	1,333,953
Hydrants	1,707	-0-	-0-	1,707
Office Furniture and Equipment	33,452	7,506	13,518	27,440
Transportation Equipment	52,217	31,732	15,955	67,994
Tools and Shop Equipment	782	-0-	-0-	782
Communication Equipment	11,527	-0-	-0-	11,527
Total Capital Assets Being Depreciated	<u>12,818,781</u>	<u>194,110</u>	<u>29,473</u>	<u>12,983,418</u>
Less: Accumulated Depreciation	<u>(5,646,761)</u>	<u>(292,018)</u>	<u>(29,473)</u>	<u>(5,909,306)</u>
Total Capital Assets Being Depreciated, net	<u>7,172,020</u>	<u>(97,908)</u>	<u>-0-</u>	<u>7,074,112</u>
Total Capital Assets, Net	<u>\$ 7,261,501</u>	<u>\$ (97,908)</u>	<u>\$ -0-</u>	<u>\$ 7,163,593</u>

Note 8 - 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, 2019.

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Bonds payable at December 31, 2019 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%.

The annual requirements to amortize all debt outstanding as of December 31, 2019 including interest payments are as follows:

<u>Revenue Bonds Payable</u> Year Ending December 31, :	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	85,000	33,836	118,836
2021	90,000	30,506	120,506
2022	95,000	26,873	121,873
2023-2027	655,000	71,295	726,295
	<u>\$ 925,000</u>	<u>\$ 162,510</u>	<u>\$ 1,087,510</u>

Long-term liability activity for the year ended December 31, 2019 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds Payable	\$ 1,010,000	\$ -0-	\$ 85,000	\$ 925,000	\$ 85,000
Total	<u>\$ 1,010,000</u>	<u>\$ -0-</u>	<u>\$ 85,000</u>	<u>\$ 925,000</u>	<u>\$ 85,000</u>

Note 9 - Employee Retirement System

General Information about the Pension Plan

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 June 30, 2019, plan members were required to contribute 5% of wages for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium.

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 the actuarial basis adopted by the Board. For the year ended June 30, 2019, participating employers contributed 21.48% of each employee's wages for non-

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hazardous job classifications and 35.34% of each employee's wages for hazardous job classifications. The contributions are allocated to both the pension and insurance trusts.

The insurance trust is more fully described in Note 8. Plan members contributed 16.22% to the pension trust for non-hazardous job classifications and 24.87% to the pension trust for hazardous job classifications. 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.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account for non-hazardous job classifications and 8% of wages to their own account for hazardous classifications. Plan members also contribute 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. Each member's account is credited with a 4% employer pay credit for non-hazardous members, and a 7.5% pay credit for hazardous members. The employer pay credit represents a portion of the employer contribution.

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 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

Net Pension Liability

The District's net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

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

Inflation 3.25 percent
Salary increases 4.00 percent, average
Investment rate of return 7.50 percent

The mortality table used for active and healthy retired members, and beneficiaries is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is

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the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years.)

At the time of the last experience study, performed as of June 30, 2013, this mortality assumption provided 37% and 19% margin for future improvement for males and females, respectively, this will be reviewed again when the next experience investigation is conducted.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. 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 (See chart below.). 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 time frame. The assumptions are intended to be long-term assumptions and are 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.

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

The long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 7.50 percent based on a blending of the factors described above.

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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 employee contributions will be made at the current rate and that contributions from the District will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of the District calculated using the discount rate of 6.25 percent, as well as what the net pension liability (asset) 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:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Net Pension Liability - nonhazardous	\$ 656,377	\$ 521,391	\$ 408,296
Total	<u>\$ 656,377</u>	<u>\$ 521,391</u>	<u>\$ 408,296</u>

Pension expense. For the year ended December 31, 2019, District recognized pension expense of 109,217.

Deferred outflows of resources and deferred inflows of resources. For the year ended December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

The amount shown below for "Contributions subsequent to the measurement date of December 31, 2018," will be recognized as a reduction to net pension liability in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Nonhazardous		
Liability experience	\$ 17,006	\$ 7,632
Investment experience	24,245	30,497
Change of assumptions	50,955	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,655	50
Contributions subsequent to the measurement date	36,880	-
Total	<u>\$ 133,741</u>	<u>\$ 38,179</u>

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		Recognition of Existing Deferred Outflows (Inflows) of Resources for Future Years Ending June 30
2019	\$	45,546
2020		21,997
2021		(6,062)
2022		(2,799)
	\$	58,682

In the table shown above, deferred inflows of resources amounts will decrease pension expense while deferred outflows of resources amounts will increase pension expense.

Payable to the Pension Plan

At December 31, 2019, the District reported a payable (included in payroll liabilities amount on the Statement of Net Position) the outstanding amount of contributions to the pension plan required at the year ended December 31, 2019.

Note 10. Postemployment Benefits Other Than Pensions (OPEB) General Information about the Pension Plan

Plan Description - As more fully described in Note 7, the City of Vine Grove participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions - As more fully described in Note 7, plan members contribute to CERS for nonhazardous and hazardous job classifications. For the year ending June 30, 2019, the employer's contribution was 5.26% to the insurance trust for non-hazardous job classifications and 10.47% to the insurance trust for hazardous job classifications. Employees hired after September 1, 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. 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.

At December 31, 2019, the District reported a liability of \$172,166 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2018. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2018, the District's proportion was .008564%.

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For the year ended December 31, 2019, the District recognized OPEB expense of \$19,619. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Nonhazardous		
Liability experience	\$ -0-	\$ 17,713
Investment experience	-	10,470
Change of assumptions	30,356	351
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	951
Contributions subsequent to the measurement date	11,968	-
Total	<u>\$ 42,324</u>	<u>\$ 29,485</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$1,577 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

	<u>Recognition of Existing Deferred Outflows (Inflows) of Resources for Future Years Ending June 30</u>	
2018	\$	4,894
2019		4,894
2020		4,894
2021		4,894
2022		6,929
Thereafter		<u>1,940</u>
	\$	28,445

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified:

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Inflation	3.25 percent
Salary increases	4.00 percent, average
Investment rate of return	7.50 percent
Healthcare cost trend rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Healthcare cost trend rates (Post-65)	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013 with Scale BB (set back 1 year for females).

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period of July 1, 2008 through June 30, 2013.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. 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 (See chart below.). 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 time frame. The assumptions are intended to be long-term assumptions and are 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.

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

Discount rate. The discount rate used to measure the total OPEB liability was 5.84%. The discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2018).

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the discount rate. The following presents the District's proportionate share of the collective net OPEB liability as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.85%) or 1 percentage point higher (6.85%) than the current discount rate:

	<u>1% Decrease (4.85%)</u>	<u>Current Discount Rate (5.85%)</u>	<u>1% Increase (6.85%)</u>
Net OPEB Liability - nonhazardous	\$ 197,422	\$ 151,999	\$ 113,307
Total	<u>\$ 197,422</u>	<u>\$ 151,999</u>	<u>\$ 113,307</u>

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates. The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current health care cost trend rates:

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	1% Decrease	Current	1% Increase
Net OPEB Liability - nonhazardous	\$ 113,165	\$ 151,999	\$ 197,773
Total	\$ 113,165	\$ 151,999	\$ 197,773

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued K.RS financial report.

Payables to the OPEB Plan. At December 31, 2019, the District reported a payable of \$19,907 included in payroll liabilities amount on the Statement of Net Position and for the outstanding amount of contributions to the OPEB plan required at the year ended December 31, 2019.

Note 11 - Restricted Net Position

The following is a summary of the restricted net position for the District as of December 31, 2019:

	Cash & Cash Equivalents	Certificates of Deposit
System Development Charge Fund	\$ 17,889	\$ 467,677
Depreciation Reserve Fund	-	50,250
Debt Service Sinking Fund	106,143	104,160
Membership Deposits Fund	23,566	10,767
Construction Fund	56,483	1,130,686
Total Restricted Cash	\$ 204,081	\$ 1,763,540

See Note 5 for further detail on restricted net position balances related to restricted cash and cash equivalents and certificates of deposit.

Note 12 - 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 13 - Contingent Liabilities

The District currently has no legal claims and is not aware of any future claims that could have a material adverse effect on the financial condition of the District.

Note 14 - Recent GASB Pronouncements

Management has not currently determined what, if any, effects of implementation of the following statements may have on the financial statements:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015, will be effective for periods beginning after June 15, 2018. This Statement addresses

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DECEMBER 31, 2019**

accounting and financial reporting for Other Postemployment Benefits (OPEB) that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosures and required supplementary information requirements about defined benefit OPEB will be enhanced.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statement No. 67, No. 68, and No. 73*, will be effective for periods beginning after June 15, 2016. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

GASB Statement No. 85, *Omnibus 2018*, will be effective for reporting periods beginning after June 15, 2018. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits – OPEB).

GASB Statement No. 87, *Leases*, will be effective for reporting periods beginning after December 15, 2019. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH NELSON WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY IN COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)
DECEMBER 31, 2019

CERS - Nonhazardous	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total net pension liability for County Employees Retirement System	\$ 6,090,304,793	\$ 5,853,307,463	\$ 4,923,618,000	\$ 4,299,525,000	\$ 3,244,377,000
District's proportion of the net pension liability	0.008561%	0.008564%	0.008393%	0.008091%	0.008388%
District's proportionate share of the net pension liability	521,391	501,277	413,261	347,894	272,125
District's covered-employee payroll	227,075	220,175	203,777	194,510	192,425
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	229.61%	227.67%	202.80%	178.86%	141.42%
Plan fiduciary net position as a percentage of the total pension liability	56.39%	53.30%	55.50%	59.97%	66.80%

Note:

This schedule is intended to present 10 years of the proportionate share of the net pension liability. Currently, only those years with information available are presented. The amounts presented above for the fiscal year were determined as of June 30 for the year prior (measurement date).

**NORTH NELSON WATER DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS TO THE COUNTY EMPLOYEES
RETIREMENT SYSTEM (CERS)
DECEMBER 31, 2019**

CERS - Nonhazardous	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution for pension	\$ 48,848	\$ 43,553	\$ 41,706	\$ 36,446	\$ 33,757
Districts's contributions in relation to the statutorily required contribution	<u>(48,848)</u>	<u>(43,553)</u>	<u>(41,706)</u>	<u>(36,446)</u>	<u>(33,757)</u>
Annual contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
District's contributions as a percentage of statutorily required contribution for pension	100.00%	100.00%	100.00%	100.00%	100.00%
District's covered-employee payroll	\$ 227,411	\$ 227,075	\$ 220,175	\$ 203,777	\$ 194,510
Contributions as a percentage of its covered employee payroll	21.48%	19.18%	18.94%	17.89%	17.35%
Pension contribution	16.22%	14.48%	13.95%	12.07%	12.78%
Insurance contribution	5.26%	4.70%	4.99%	5.82%	4.57%

Note:

This schedule is intended to present 10 years of contributions and related ratios. Currently, only those years with information available are presented. The amounts presented above for the fiscal year were determined as of the fiscal year ended above.

NORTH NELSON WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE COLLECTIVE NET OPEB
LIABILITY IN THE COUNTY EMPLOYEES RETIREMENT SYSTEM INSURANCE FUND
DECEMBER 31, 2019

	2019
	\$ 1,775,480,122
District's proportion of the net opeb liability	0.008561%
District's proportionate share of the net pension liability	151,999
District's covered-employee payroll	227,411
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	66.84%
Plan fiduciary net position as a percentage of the total pension liability	52.40%

Note:

This schedule is intended to present 10 years of the proportionate share of the net pension liability. Currently, only those years with information available are presented. The amounts presented above for the fiscal year were determined as of June 30 for the year prior (measurement date).

OTHER SUPPLEMENTARY INFORMATION

**NORTH NELSON WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
NET POSITION - BUDGET AND ACTUAL - PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Operating Revenues	\$ 1,562,000	\$ 1,562,000	\$ 1,602,230	\$ 40,230
Operating Expenses				
Operations and Maintenance Expenses	1,310,550	1,310,550	1,277,941	(32,609)
Depreciation	300,000	300,000	292,018	(7,982)
Taxes Other Than Income	23,200	23,200	14,851	(8,349)
Total Operating Expenses	<u>1,633,750</u>	<u>1,633,750</u>	<u>1,584,810</u>	<u>(48,940)</u>
Income (Loss) From Operations	(71,750)	(71,750)	17,420	89,170
Non-Operating Revenues (Expenses):				
Amortization	(5,500)	(5,500)	(5,228)	272
Gain (Loss) on Sale of Assets	-0-	-0-	590	590
Interest Income	37,000	37,000	58,170	21,170
Interest Expense	<u>(38,000)</u>	<u>(38,000)</u>	<u>(39,400)</u>	<u>(1,400)</u>
Total Non-Operating Revenues (Expenses)	<u>(6,500)</u>	<u>(6,500)</u>	<u>14,132</u>	<u>20,632</u>
Capital Contributions	100,000	100,000	60,600	(39,400)
Net Change in Net Position	21,750	21,750	92,152	109,802
Net Position, December 31, 2018	<u>9,020,226</u>	<u>9,020,226</u>	<u>9,020,226</u>	<u>-0-</u>
Net Position, December 31, 2019	<u>\$ 9,041,976</u>	<u>\$ 9,081,654</u>	<u>\$ 9,112,378</u>	<u>\$ 109,802</u>

**NORTH NELSON WATER DISTRICT
NOTE TO SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – PROPRIETARY FUND
DECEMBER 31, 2019**

The District prepares its financial statements and proprietary fund budget using accounting principles generally accepted in the United States of America (GAAP).

NORTH NELSON WATER DISTRICT
SCHEDULE I - OPERATING EXPENSES PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Source of Supply/Pumping	Water Treatment	Transmission/ Distribution	Customer Accounts	Administrative /General	Total
Personal Services						
Salaries And Wages	\$ -0-	\$ -0-	\$ 104,350	\$ 42,141	\$ 54,182	\$ 200,673
Commissioners' Fees	-0-	-0-	-0-	-0-	7,200	7,200
Employee Benefits	-0-	-0-	76,838	31,031	39,897	147,766
Total Personal Services	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 181,188</u>	<u>\$ 73,172</u>	<u>\$ 101,279</u>	<u>\$ 355,639</u>
Maintenance, Operations, And Contractual Services:						
Purchased Water	\$ 687,851	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 687,851
Purchased Power	14,734	-0-	-0-	-0-	-0-	14,734
Contract Servs - Accting & Legal	-0-	-0-	-0-	-0-	25,003	25,003
Contract Services - Other	-0-	26,037	484	-0-	6,227	32,748
Transportation Expenses	-0-	-0-	6,867	1,769	1,769	10,405
Insurance - General Liability	-0-	-0-	7,136	5,429	2,947	15,512
Insurance - Workers' Compensation	-0-	-0-	1,362	550	707	2,619
Miscellaneous Expense	-0-	-0-	14,614	11,119	6,036	31,769
Total Maintenance, Operations, And Contractual	<u>\$ 702,585</u>	<u>\$ 26,037</u>	<u>\$ 30,463</u>	<u>\$ 18,867</u>	<u>\$ 42,689</u>	<u>\$ 820,641</u>
Materials And Supplies	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 31,546</u>	<u>\$ 26,617</u>	<u>\$ 40,418</u>	<u>\$ 98,581</u>
Taxes Other Than Income Taxes						
Utility Regulatory Assessment Fee	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 3,076	\$ 3,076
Payroll Taxes	-0-	-0-	7,723	3,119	4,010	14,852
Total Taxes Other Than Income Taxes	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 7,723</u>	<u>\$ 3,119</u>	<u>\$ 7,086</u>	<u>\$ 17,928</u>

STUEDLE SPEARS & COMPANY PSC

CERTIFIED PUBLIC ACCOUNTANTS

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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.

To the Board of Commissioners
North Nelson Water District
Cox's Creek, Kentucky 400013

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 North Nelson Water District (the "District"), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 30, 2020.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that 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 as item 2019-1.

Compliance and Other Matters

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

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Staedle Spears & Company PSC

STUEDLE SPEARS & COMPANY PSC

Louisville, Kentucky
March 30, 2020

**NORTH NELSON WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2019**

Finding 2019-1

<i>Condition:</i>	We are required to give consideration to the District's ability to prepare financial statements and related note disclosures, as well as the oversight of the financial reporting process by those charged with governance.
<i>Criteria:</i>	Such preparation would require the District to maintain appropriate technical knowledge to prepare the financial statements with all related note disclosures.
<i>Cause:</i>	The nature and complexity of the transactions involved with preparing financial statements and related note disclosures.
<i>Effect:</i>	As a result of the above conditions, the District does not have controls in place that would assure the preparation of the financial statements and related note disclosures in accordance with modified accrual or accrual basis of accounting.
<i>Recommendation:</i>	As with many small water districts, the District engages the auditor to draft the financial statements and to perform the necessary steps to ensure the disclosures are complete. Once drafted, the financial statements are submitted to the District for approval. While this practice is common and practical, we must inform those charged with governance of this finding.
<i>Response:</i>	We accept the auditor's recommendation. Due to the complexity of the financial reporting process and full governmental disclosures, the District will continue to rely on the auditor in future years to ensure the financial statements and related disclosures are appropriate.