

NORTH NELSON WATER DISTRICT

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL
STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2020

NORTH NELSON WATER DISTRICT

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YEAR ENDED DECEMBER 31, 2020

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Heartland CPAs and Advisors PLLC

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of North Nelson Water District as of and for the year ended December 31, 2020, and the related notes to the 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 are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of North Nelson Water District, as of December 31, 2020, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, during the year ended December 31, 2020, the District adopted Governmental Accounting Standards Board Statement 95, Postponement of the Effective Dates of Certain Authoritative Guidance. 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 on pages 4 to 8, schedule of proportionate share of the net pension and OPEB liabilities on pages 30 and 31 and schedule of contributions on pages 32 and 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Nelson Water District's basic financial statements. Schedule I is presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedule I is the responsibility of management and was derived from and relate 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, Schedule I is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Schedule II has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2021, on our consideration of North Nelson Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Nelson Water District's internal control over financial reporting and compliance.

Heartland CPAs and Advisors PLLC

Heartland CPAs and Advisors, PLLC

Elizabethtown, Kentucky

May 28, 2021

REQUIRED SUPPLEMENTARY INFORMATION

**NORTH NELSON WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2020**

The discussion and analysis of North Nelson Water District's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2020. The intent of this discussion and analysis is to review the District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- The ending cash and investment balance for the District was \$2.63 million. The balance at December 31, 2019, was \$3.24 million. This reflects a \$.61 million decrease in cash and investments during the year.
- The District invested approximately \$186,000 in capital assets during the year.
- The District retired its lone bond issue during the year.

USING THIS ANNUAL REPORT

The basic financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. The basic financial statements include a statement of net position; a statement of revenues, expenses, and changes in fund net position; a statement of cash flows; and notes to the basic financial statements.

The **statement of net position** presents the financial position of the District on a full accrual historical cost basis. The statement presents information on all of the District's assets, deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the District is improving or deteriorating.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the **statement of revenues, expenses, and changes in fund net position** presents the results of the District's activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The **statement of cash flows** presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The **notes to the basic financial statements** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

ENTITY-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$9.82 million and \$9.62 million as of December 31, 2020 and 2019.

The largest portion of the District's net position reflects its investment in infrastructure and capital assets (e.g., land, buildings, vehicles, equipment, transmission and distribution systems and construction in progress), less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

(Table 1)
Summary of Net Position
as of December 31, 2020 and 2019

	2020	2019
Assets		
Current and Other Assets	\$ 3,650,200	\$ 4,259,582
Capital Assets	7,050,411	7,163,592
Total Assets	<u>10,700,611</u>	<u>11,423,174</u>
Deferred Outflows of Resources	<u>141,598</u>	<u>176,065</u>
Liabilities		
Long-term Liabilities	823,030	1,513,390
Other Liabilities	118,753	1,554,299
Total Liabilities	<u>941,783</u>	<u>3,067,689</u>
Deferred Inflows of Resources	<u>72,581</u>	<u>67,664</u>
Net Position		
Net investment in capital assets	7,050,411	6,322,447
Restricted	1,463,446	1,967,621
Unrestricted	1,313,988	1,334,293
Total Net Position	<u>\$ 9,827,845</u>	<u>\$ 9,624,361</u>

Unrestricted net position, the portion 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 \$27 thousand at December 31, 2020. Restricted net position decreased \$504 thousand. Net investment in capital assets increased \$728 thousand.

(Table 2)
Changes in Net Position
Years Ending December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES:		
Water sales	\$ 1,610,198	\$ 1,572,680
Other operating income	13,669	7,161
TOTAL OPERATING REVENUES	<u>1,623,867</u>	<u>1,579,841</u>
OPERATING EXPENSES:		
Water purchased	694,262	687,851
Power purchased	12,819	14,734
Bad debt	10,000	-
Repairs and maintenance	81,606	121,410
General and administrative expenses	442,693	408,276
Depreciation	299,782	297,247
TOTAL OPERATING EXPENSES	<u>1,541,162</u>	<u>1,529,518</u>
OPERATING INCOME	82,705	50,323
NON-OPERATING REVENUES (EXPENSES):		
Interest income	51,659	58,725
Gain on sale of capital asset	-	590
Miscellaneous income	25,462	-
Interest expense on long-term debt	(23,440)	(38,668)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>53,681</u>	<u>20,647</u>
CAPITAL CONTRIBUTIONS	<u>67,100</u>	<u>60,600</u>
CHANGE IN NET POSITION	<u>\$ 203,486</u>	<u>\$ 131,570</u>

Operating revenue increased 2.7% as compared to the prior year as new customers were added. Total operating expenses decreased less than .1%. Interest expense on long-term debt expense declined 39.3%. The District continues to receive capital contributions from customers.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2020 and 2019, the District had \$7.05 million and \$7.16 million invested in a variety of capital assets, as reflected in the following tables:

(Table 3)
Capital Assets (Net of Depreciation)
as of December 31, 2020 and 2019

	2020	2019
Non-Depreciable Assets:		
Land and land rights	\$ 89,481	\$ 89,481
Depreciable Assets:		
Structures and improvements	107,342	114,012
Electric pumping equipment		
Standpipes and tanks	372,132	398,088
Transmission and distribution mains	5,537,546	5,767,153
Hydrants	4,229	30,448
Office furniture and fixtures	7,302	6,433
Transportation equipment	22,743	29,088
Meters & installation	909,636	728,890
Capital Assets, net of accumulated depreciation	<u>\$ 7,050,411</u>	<u>\$ 7,163,593</u>

(Table 4)
Changes in Capital Assets
Years Ended December 31, 2020 and 2019

	2020	2019
Beginning Balance	\$ 7,163,593	\$ 7,290,974
Additions	186,602	194,110
Retirements	-	(29,473)
Depreciation	(299,784)	(292,018)
Ending Balance	<u>\$ 7,050,411</u>	<u>\$ 7,163,593</u>

Debt

At December 31, 2020 and 2019, the District had \$-0- and \$915 thousand, in revenue bonds outstanding. A total of \$-0- is due within the 2021 calendar year.

(Table 5)
Outstanding Debt
as of December 31, 2020 and 2019

	2020	2019
Revenue bonds	\$ -	\$ 925,000
Notes payable	-	-
Unamortized discount premium	-	(9,948)
Total	<u>\$ -</u>	<u>\$ 915,052</u>

District Challenges for the Future

The District continues to be financially sound. However, the current state and national financial climate requires the District to remain prudent.

The District will continue to use careful planning and monitoring of finances to provide quality services to its customers.

Contacting the District's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact Cole Cissel, General Manager, 5555 Louisville Road, Cox's Creek, Kentucky 40013-0025, (502) 348-8342.

NORTH NELSON WATER DISTRICTSTATEMENT OF NET POSITIONDECEMBER 31, 2020

<u>ASSETS</u>	<u>2020</u>
CURRENT ASSETS:	
Cash and cash equivalents	185,437
Unrestricted investments	981,923
Accounts receivable, net	124,087
Unbilled receivables	60,539
Notes receivable	19,638
Prepaid expenses	8,493
Materials and supplies	71,657
	<hr/>
TOTAL CURRENT ASSETS	1,451,774
NONCURRENT ASSETS:	
Restricted cash and cash equivalents	148,530
Restricted investments	1,314,916
Regulatory asset- CERS Pension	573,215
Regulatory asset- CERS OPEB	161,765
Non-depreciable capital assets	89,481
Depreciable capital assets, net of accumulated depreciation	6,960,930
	<hr/>
TOTAL NONCURRENT ASSETS	9,248,837
TOTAL ASSETS	10,700,611
	<hr/>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
CERS Pension	65,635
CERS OPEB	75,963
	<hr/>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	141,598
<u>LIABILITIES</u>	
CURRENT LIABILITIES:	
Accounts payable	51,312
Payroll and other accrued liabilities	21,181
Customer deposits	2,115
Due to City of Bardstown	18,746
Accrued vacation	25,399
	<hr/>
TOTAL CURRENT LIABILITIES	118,753
NONCURRENT LIABILITIES:	
Customer deposits	19,033
Net pension liability- CERS Pension	611,522
Net pension liability- CERS OPEB	192,475
	<hr/>
TOTAL NONCURRENT LIABILITIES	823,030
TOTAL LIABILITIES	941,783
	<hr/>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
CERS Pension	27,328
CERS OPEB	45,253
	<hr/>
TOTAL DEFERRED INFLOWS OF RESOURCES	72,581
<u>NET POSITION</u>	
Net investment in capital assets	7,050,411
Restricted net position	1,463,446
Unrestricted	1,313,988
	<hr/>
TOTAL NET POSITION	\$ 9,827,845

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

NORTH NELSON WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

YEAR ENDED DECEMBER 31, 2020

	2020
OPERATING REVENUES:	
Water sales	\$ 1,610,198
Other operating income	13,669
	1,623,867
TOTAL OPERATING REVENUES	1,623,867
OPERATING EXPENSES:	
Water purchased	694,262
Power purchased	12,819
Bad debt	10,000
Repairs and maintenance	81,606
General and administrative expenses	442,695
Depreciation	299,782
	1,541,164
TOTAL OPERATING EXPENSES	1,541,164
OPERATING INCOME	82,703
NON-OPERATING REVENUES (EXPENSES):	
Interest income	51,659
Miscellaneous income	25,462
Interest expense on long-term debt	(23,440)
	53,681
TOTAL NON-OPERATING REVENUES (EXPENSES)	53,681
CAPITAL CONTRIBUTIONS	67,100
CHANGE IN NET POSITION	203,484
NET POSITION, beginning of year (as previously stated)	9,112,378
RESTATEMENTS	511,983
NET POSITION, beginning of year (restated)	9,624,361
NET POSITION, end of year	\$ 9,827,845

The accompanying notes are integral part of these financial statements.

NORTH NELSON WATER DISTRICTSTATEMENT OF CASH FLOWSYEAR ENDED DECEMBER 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 1,611,365
Payments to suppliers	(910,506)
Payments to employees	<u>(321,884)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	378,975
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal payments on debt	(925,000)
Acquisition and construction of capital assets	(186,602)
Capital contributions	67,100
Interest on long-term debt	<u>(40,358)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,084,860)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from redemption of investments	576,024
Interest income	<u>51,659</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>627,683</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(78,202)
CASH AND RESTRICTED CASH AND EQUIVALENTS, beginning of year	<u>412,169</u>
CASH AND RESTRICTED CASH AND EQUIVALENTS, end of year	<u><u>\$ 333,967</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 82,703
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	299,782
Provision for bad debts	10,000
Increase in accounts receivable	(12,322)
Increase in unbilled receivables	(2,529)
Increase in materials and supplies	(7,315)
Decrease in accrued interest receivable	3,770
Increase in accounts payable	3,382
Increase in customer deposits	431
Increase in due to City of Bardstown	1,689
Decrease in accrued payroll and taxes payroll	(5,823)
Increase in accrued vacation	<u>5,207</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 378,975</u></u>

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

NOTES TO FINANCIAL STATEMENTS

NORTH NELSON WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brief history - The North Nelson Water District was organized pursuant to the provisions of Kentucky Revised Statutes KRS 74.010 and KRS 44.020 in order to provide a water supply for the residents of North Nelson, Kentucky.

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in *Water Utility Accounting* and is regulated by the Kentucky Public Service Commission. The more significant accounting policies established in GAAP and used by the District are discussed below.

A. REPORTING ENTITY

These financial statements present the District's financial activities. As defined by GASB No. 14, *The Financial Reporting Entity*, as amended by GASB No. 39, *Determining Whether Certain Organizations Are Component Units* the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, the District does not include any component units in its reporting entity.

B. BASIC FINANCIAL STATEMENTS

All activities of the District are accounted for within a single proprietary (enterprise) fund. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The GAAP applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

C. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The proprietary fund financial statements are presented on the accrual basis of accounting. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

(Continued next page)

NORTH NELSON WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. FINANCIAL STATEMENT AMOUNTS

1. Accounts Receivable - The allowance method is used to record uncollectible accounts. At December 31, 2020, accounts receivable was stated net of an allowance for uncollectible accounts of \$10,000. Bad debt expense for each of the year ended December 31, 2020 was 10,000. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.
2. Materials and Supplies – Materials and supplies are composed of items used for the construction of capital projects.
3. Restricted Assets – Restricted assets consist of demand deposit savings accounts and certificates of deposit plus accrued interest.
4. Capital assets – Capital assets in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. The District does not have a capitalization policy.

Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Source of supply equipment	15-50
Water treatment plant	10-40
Transmission and distribution systems	10-50
Equipment	3-20
Structures and improvements, including buildings	10-50
Office furniture, equipment and vehicles	3-20
Meters and installation	10-40

5. Cash Equivalents – For purposes of the statements of cash flows, the District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.
6. Compensation for Future Absences – Accumulated vacation to be paid to employees is recorded as an expense as the benefit is used and a liability as the benefit is earned.

(Continued next page)

NORTH NELSON WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. Claims and Judgments – These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.
8. Revenues and Rate Structure – Revenues from water services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.
9. Capital Contributions – Contributions are recognized in the Statements of Revenues, Expenses and Changes in Fund Net Position when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.
10. Defining Operating Revenues and Expenses – The District distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses consist of charges for services and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.
11. Use of Restricted Resources – When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is first apply the expense toward restricted resources and then toward unrestricted resources.
12. Net Position – Net position is divided into three components:
 - a. Net investment in capital assets – consists of the historical cost of capital assets less accumulated depreciated and less any debt that remains outstanding that was used to finance those assets.
 - b. Restricted net position – consists of assets that are restricted by the District's creditors (for example, through debt covenants), by grantors (federal, state and local) and by other contributors.
 - c. Unrestricted – all other net position is reported in this category.
13. Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, deferred outflows, liabilities, deferred inflows, designated net position, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(Continued next page)

NORTH NELSON WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. Pensions and OPEB – For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS except that CERS's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The District's rates are regulated by the Kentucky Public Service Commission. In accordance with GASB Statement No. 62, Paragraphs 476-500, Regulated Operations, which requires that the effects of the rate-making process be recorded in the financial statements, the District has elected to record a regulatory asset for the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions. Accordingly, the District recognizes the actuarially determined contribution as the current year pension and OPEB expense.

15. Impact Of Recently Issued Accounting Principles

Recently Issued And Adopted Accounting Principles

In May 2020, the GASB issued Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This statement was effective upon issuance. For the postponement dates, see individual standard descriptions below.

Recently Issued Accounting Pronouncements

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. This statement was effective for periods beginning after December 15, 2018, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2017, the GASB issued Statement 87, *Leases*. This statement is effective for periods beginning after December 15, 2019, but was delayed by eighteen months with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2018, the GASB issued Statement 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement is effective for periods beginning after December 15, 2019, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. This statement is effective for periods beginning after December 15, 2018, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

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NORTH NELSON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In May 2019, the GASB issued Statement 91, *Conduit Debt Obligations*. This statement is effective for periods beginning after December 15, 2020, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In January 2020, the GASB Issued Statement 92, *Omnibus 2020*. This statement is effective for periods beginning after June 15, 2020, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2020, the GASB issued Statement 93, *Replacement of Interbank Offered Rates*. This statement is effective, except for paragraphs 11b, 13, and 14 for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 15, 2021. These dates were delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2020, the GASB issued Statement 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This statement is effective for periods beginning after June 15, 2022. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2020, the GASB issued Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans— an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The requirements in (1) paragraph 4 of the Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of the Statement are effective immediately. The requirements in paragraphs 6–9 of the Statement are effective for fiscal years beginning after June 15, 2021. All other requirements of the Statement are effective for reporting periods beginning after June 15, 2021. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

(Continued next page)

NORTH NELSON WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020NOTE 2 – DEPOSITS

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2020, \$230,324 of the District's bank balance of \$2,441,157 was exposed to custodial credit risk. At December 31, 2020, \$38,098 of the amount exposed to custodial risk were not collateralized. The remaining amount was collateralized by securities held by the pledging financial institution.

NOTE 3 – RESTRICTED CASH AND CASH EQUIVALENTS AND INVESTMENTS

The District has restricted cash and certificates of deposit for debt service and construction. The following schedule represents restricted cash at December 31, 2020:

<u>Restricted For</u>	<u>December 31, 2020</u>
Construction	\$ 1,064,637
Customer Deposits	25,266
System Development	373,543
	<u>\$ 1,463,446</u>

NOTE 4 – CAPITAL ASSETS

Capital assets are recorded at cost. Capital asset costs and accumulated depreciation at December 31, 2020, is summarized as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>12/31/2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/2020</u>
Non-Depreciable Assets:				
Land and land rights	\$ 89,481	\$ -	\$ -	\$ 89,481
Depreciable Assets:				
Total capital assets being depreciated	12,983,415	186,603	-	13,170,018
Total accumulated depreciation	(5,909,306)	(299,782)	-	(6,209,088)
Total capital assets being depreciated, net	7,074,109	(113,179)	-	6,960,930
Capital assets, net	<u>\$ 7,163,590</u>	<u>\$ (113,179)</u>	<u>\$ -</u>	<u>\$ 7,050,411</u>

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NORTH NELSON WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020NOTE 5 – LONG-TERM OBLIGATIONS

The construction cost of the District's water facilities have been financed by issuance of revenue bonds and notes payable authorized under Kentucky Revised Statutes. During the year the District paid off its only outstanding bond issue.

Changes in long-term obligations during the year ended December 31, 2020 were:

	Balance 12/31/2019	Additions	Reductions	Balance 12/31/2020	Due Within One Year
Bonds and notes payable:					
Revenue Bonds Payable	\$ 925,000	\$ -	\$ (925,000)	\$ -	\$ -
Unamortized Discount	(9,948)	-	9,948	-	-
Total	<u>915,052</u>	<u>-</u>	<u>(915,052)</u>	<u>-</u>	<u>-</u>
Other Liabilities:					
Customer Deposits	<u>20,717</u>	<u>431</u>	<u>-</u>	<u>21,148</u>	<u>2,115</u>
Long-Term Liabilities	<u>\$ 935,769</u>	<u>\$ 431</u>	<u>\$ (915,052)</u>	<u>\$ 21,148</u>	<u>\$ 2,115</u>

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NORTH NELSON WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020NOTE 6 - RETIREMENT PLANPlan Description

The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which is a cost-sharing multiple-employer defined benefit plan. CERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The CERS issues a publicly available financial report that includes financial statements, required supplementary information and detailed information about CERS. CERS' report may be obtained at www.kyret.ky.gov.

Benefits Provided

The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly has the authority to increase, suspend or reduce COLAs. Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100% funded or (2) the Legislature appropriates sufficient funds to pay the increased liability for the COLA. No COLA has been granted since July 1, 2011.

Contributions

For the calendar year ended December 31, 2020, plan members were required to contribute 5% of their annual creditable compensation. 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 preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

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NORTH NELSON WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020NOTE 6 - RETIREMENT PLAN (CONTINUED)

The District's contractually required contribution rate for the calendar year ended December 31, 2020, was 19.30 percent of creditable compensation. Contributions to the pension plan for the year ended December 31, 2020 from the District was \$40,446.

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

At December 31, 2020, the District reported a liability of \$611,522 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 using standard roll-forward techniques. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all, actuarially determined. At June 30, 2020, the District's proportion was 0.007973 percent, which was a decrease of .000219 percent from its proportion measured as of June 30, 2018.

For the years ended December 31, 2020 the District recognized pension expense of \$40,446. At December 31, 2020, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2020</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 15,249	\$ -
Changes in actuarial assumptions	23,879	-
Difference between projected and actual investment earnings	26,507	11,205
Changes in proportionate and proportionate share of contributions	-	16,123
	<u>\$ 65,635</u>	<u>\$ 27,328</u>

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NORTH NELSON WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020NOTE 6 - RETIREMENT PLAN (CONTINUED)

The total pension liability in the June 30, 2019 actuarial valuation using standard roll-forward techniques was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	6.25 percent
Inflation	2.30 percent
Salary increases	3.05 percent, to 10.30, including inflation
Investment rate of return	6.25 percent, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2018.

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NORTH NELSON WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020NOTE 6 - RETIREMENT PLAN (CONTINUED)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	18.75%	4.30%
Non- U.S. Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/ High Yield	15.00%	2.60%
Core Bonds	13.50%	1.35%
Cash	1.00%	20.00%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 year (closed) amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Of The District's Proportionate Share Of The Net Pension Liability To Changes In The Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	\$ 754,140	\$ 611,522	\$ 493,430

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NORTH NELSON WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020NOTE 6 - RETIREMENT PLAN (CONTINUED)Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLANPlan Description

The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky and is a cost-sharing multiple-employer defined benefit plan. CERS provides other post-employment benefits to plan members and beneficiaries. The Board of Trustees of Kentucky Retirement Systems (KERS) administers CERS. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained at www.kyret.ky.gov. The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

Benefits Provided

For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003, and before September 1, 2008, are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 for each year of earned service increased by the CPI prior to July 1, 2009, and by 1.5% annually from July 1, 2009.

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NORTH NELSON WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN (CONTINUED)Contributions

For the fiscal year ended June 30, 2020, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. 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 preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

The District's contractually required contribution rate for the calendar year ended December 31, 2020, was 4.76 percent of creditable compensation. Contributions to the OPEB plan from the District was \$9,976 for the period ended December 31, 2020.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At December 31, 2020, the District reported a liability of \$192,475 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating government entities, actuarially determined. At June 30, 2019, the District's proportion was 0.007971 percent, which was a decrease of .000219 percent from its proportion measured as of June 30, 2018.

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NORTH NELSON WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN (CONTINUED)

For the years ended December 31, 2020, the District recognized OPEB expense of \$9,976. At December 31, 2020, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>2020</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 32,159	\$ 32,184
Changes in actuarial assumptions	33,479	204
Difference between projected and actual investment earnings	10,325	3,927
Changes in proportionate and proportionate share of contributions	-	8,938
	<u>\$ 75,963</u>	<u>\$ 45,253</u>

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NORTH NELSON WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN (CONTINUED)Actuarial assumptions

The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.05% to 10.30%, including inflation
Inflation rate	2.30%
Real Wage Growth	2.00%
Healthcare Trend Rate:	
Pre-65	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Post-65	Initial trend starting at 2.90% starting at January 1, 2022, and gradually increasing to an ultimate trend rate of 4.05% over a period of 14 years.
Municipal Bond Index Rate	2.45%
Discount Rate	5.34%

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2013 — June 30, 2018.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	18.75%	4.30%
Non- U.S. Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/ High Yield	15.00%	2.60%
Core Bonds	13.50%	1.35%
Cash	1.00%	20.00%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	<u>100.00%</u>	

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NORTH NELSON WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN (CONTINUED)

The projection of cash flows used to determine the discount rate of 5.68% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 28, 2019. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

Sensitivity Of The District's Proportionate Share Of The Net OPEB Liability To Changes In The Discount Rate

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.34%, 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 (4.34%) or 1-percentage-point higher (6.34%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	\$ 247,274	\$ 192,475	\$ 147,467

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 were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	\$ 149,024	\$ 192,475	\$ 245,205

OPEB plan fiduciary net position

Detailed information about the OPEB plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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NORTH NELSON WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020NOTE 8 – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the years ended December 31, 2020:

<u>Source</u>	<u>2020</u>
Tap fees	\$ 67,100
	<u>\$ 67,100</u>

NOTE 9 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The District was insured for workers' compensation, general liability coverage under a retrospectively rated commercial policy.

NOTE 10 – ECONOMIC DEPENDENCY

The District obtains a majority of its revenues from customer in the Nelson County area. An economic downturn in the area could have a negative impact on the financial condition of the District.

NOTE 11 – ACCOUNTING FOR THE EFFECTS OF RATE REGULATION

The District is subject to the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement recognizes the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulating entities. Accordingly, the District records these future economic benefits and obligations as regulatory assets and regulatory liabilities.

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the ratemaking process.

In order for rate-regulated entity to continue to apply the provisions of GASB Statement No. 62, it must continue to meet the following three criteria:

1. The entities' rates for regulated services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers;
2. The regulated rates must be designed to recover the specific entities cost of providing the regulated services;
3. In view of the demand for the regulated services and the level of competition, it is reasonable to assume that the rates set at levels that will recover the entities' cost can be charged to and collected from customers.

Based on the District's management evaluation of the three criteria discussed above in relation to its operations, and the effects of competition on its ability to recover its costs, the District believes that GASB Statement No. 62 continues to apply.

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NORTH NELSON WATER DISTRICTNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020NOTE 12 – RESTATEMENTS

For the year ended the District had various restatements to its financial statements. The descriptions and amounts are as follows:

<u>DESCRIPTION</u>	<u>ADJUSTMENT</u>	<u>BALANCE</u>
As previously stated		\$ 9,112,378
To remove improperly capitalized bond issuance costs	\$ (90,825)	
To adjust for adoption of GASB 62 Paragraphs No. 476 - 500	\$ 564,990	
To establish balance for previously unrecorded accrued vacation	\$ (20,192)	
To establish balance for previously unrecorded unbilled receivables	\$ 58,010	\$ 511,983
Balance as restated		<u>\$ 9,624,361</u>

REQUIRED SUPPLEMENTARY INFORMATION

NORTH NELSON WATER DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY

December 31, 2020

Last 10 Years *

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of the net pension liability	0.007973%	0.008561%	0.008564%
Proportionate share of the net pension liability	\$ 611,522	\$ 521,391	\$ 501,227
Covered - payroll	\$ 209,563	\$ 227,075	\$ 220,175
Proportionate share of the net pension liability as percentage of covered payroll	291.8%	229.6%	227.6%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	50.45%	53.54%
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.008393%	0.008091%	0.008388%
Proportionate share of the net pension liability	\$ 413,261	\$ 347,894	\$ 272,125
Covered - payroll	\$ 203,777	\$ 194,510	\$ 192,425
Proportionate share of the net pension liability as percentage of covered payroll	202.80%	178.86%	141.42%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%

* Calendar year 2015 was the first year of implementation, therefore, only six years are shown.

NORTH NELSON WATER DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET OPEB LIABILITY

December 31, 2020

Last 10 Years *

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of the net pension liability	0.007971%	0.856100%	0.012218%
Proportionate share of the net pension liability	\$ 192,475	\$ 137,752	\$ 151,999
Covered - payroll	\$ 209,563	\$ 227,411	\$ 220,175
Proportionate share of the net pension liability as percentage of covered payroll	91.8%	60.6%	69.0%
Plan fiduciary net position as a percentage of the total pension liability	51.67%	60.44%	57.62%

* Calendar year 2018 was the first year of implementation, therefore, only three years are shown.

NORTH NELSON WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS TO CERS PENSION

December 31, 2020

Last 10 Years *

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ 40,446	\$ 36,886	\$ 32,880
Contribution in relation to the actuarially determined contributions	<u>40,446</u>	<u>36,886</u>	<u>32,880</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 209,563	\$ 227,411	\$ 227,075
Contributions as a percentage of covered payroll	19.30%	16.22%	14.48%
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 30,718	\$ 24,589	\$ 24,865
Contribution in relation to the actuarially determined contributions	<u>30,718</u>	<u>24,589</u>	<u>24,865</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 220,175	\$ 203,777	\$ 194,510
Contributions as a percentage of covered payroll	13.95%	12.07%	12.78%

* Calendar year 2015 was the first year of implementation, therefore, only six years are shown.

NORTH NELSON WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS TO CERS OPEB

December 31, 2020

Last 10 Years *

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ 9,976	\$ 11,962	\$ 10,673
Contribution in relation to the actuarially determined contributions	<u>9,976</u>	<u>11,962</u>	<u>10,673</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 209,563	\$ 227,411	\$ 227,075
Contributions as a percentage of covered payroll	4.76%	5.26%	4.70%

* Calendar year 2018 was the first year of implementation, therefore, only three years are shown.

NORTH NELSON WATER DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2020

CERS PENSION

Changes of benefit terms. There were no changes in benefit terms from 2015 through 2020.

Changes of assumptions (as of June 30 of the year measurement date):

2015 – The assumed investment rate of return was decreased from 7.75% to 7.50%. The assumed rate of inflation was reduced from 3.50% to 3.25%. The assumed rate of wage inflation was reduced from 1.00% to 0.75%. Payroll growth assumption was reduced from 4.50% to 4.00%. The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

2016 and 2017 – No changes.

2018 – The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

2019 – Annual salary increases and annual rates of retirement, disability, withdrawal and mortality were updated based on the 2018 experience study and the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members.

2020 – No changes.

CERS OPEB

Changes of benefit terms. There were no changes in benefit terms for 2018 through 2020.

Changes of assumptions (as of June 30 of the year measurement date):

2018 – The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

2019 – The discount rate was changed from 5.85% to 5.68% . Annual salary increases and annual rates of retirement, disability, withdrawal and mortality were updated based on the 2018 experience study and the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members.

2020 – The discount rate used to calculate the total OPEB liability decreased from 5.68% to 5.34%. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. Also, the June 30, 2020 actuarial information reflects the anticipated savings from the repeal of the “Cadillac Tax” and “Health Insurer Fee”, which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee.

SUPPLEMENTARY INFORMATION

NORTH NELSON WATER DISTRICTSCHEDULE I - GENERAL AND ADMINISTRATIVE EXPENSESYEAR ENDED DECEMBER 31, 2020

Auto expense	\$	8,330
Payroll and benefits expense		321,884
Other general and administrative		9,806
Insurance - general liability		17,026
Professional fees		72,182
Insurance - workmens' compensation		3,063
Commissioners' salaries		7,200
Regulatory commission expense & other taxes		<u>3,204</u>
	\$	<u><u>442,695</u></u>

NORTH NELSON WATER DISTRICT

SCHEDULE II - ORGANIZATION DATA

DECEMBER 31, 2020

WATER COMMISSIONERS

Ricky Napier – Chairman
Don Mudd – Secretary
Robert Greenwell – Treasurer

CALENDAR YEAR

January 1 to December 31

INTERNAL CONTROL AND FISCAL COMPLIANCE



HCA

Heartland CPAs and Advisors PLLC

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the North Nelson Water District, as of and for the year ended December 31, 2020, and have issued our report thereon dated May 28, 2021.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2020-001 and 2020-002, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Nelson Water District's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2020-003.

North Nelson Water District's Responses to Findings

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

Purpose of this Report

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

Heartland CPAs and Advisors PLLC

Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
May 28, 2021

NORTH NELSON WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2020

REFERENCE NUMBER 2020-001 PREPARATION OF FINANCIAL STATEMENTS

Criteria: The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

Condition: The District does not have sufficient controls over the preparation of the financial statements, including footnotes disclosures.

Cause: The District has financial personnel with limited financial reporting experience.

Effect: The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

Recommendation: We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements.

Views of Responsible Officials: The District has made strides in this area and is continuously working to obtain the goal of current personnel being able to adequately prepare the financial statements.

REFERENCE NUMBER 2020-002 FINANCIAL STATEMENT PRESENTATION

Criteria: The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

Condition: As part of the audit we noted that generally accepted accounting principles were not always applied and that material adjustments were not identified by the District's internal control.

Cause: The District has a limited number of personnel with limited financial reporting experience.

Effect: The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

Recommendation: We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements and develop internal control policies to ensure proper financial statement presentation.

Views of Responsible Officials: It would be beneficial to have financial training.

REFERENCE NUMBER 2020-003 INADEQUATE COLLATERAL OF DEPOSITS

Criteria: The District's management is responsible for ensuring deposits are adequately collateralized in the event financial institutions holding those deposits become insolvent. KRS 41.240 requires governments to have adequate collateral in for all deposits.

Condition: As part of the audit of the audit we noted deposits at a certain financial institution that exceeded the FDIC statutory amounts but the remaining amounts were not collateralized.

Cause: Deposits in excess of FDIC insurance limits were not collateralized.

Effect: The District was at risk of losing cash balances if the financial institution failed.

Recommendation: We recommend the District diversify deposits to more financial institutions in a manner that prevents deposits from exceeding FDIC insurance limits or obtain third-party collateral for the amount of deposits in excess of FDIC insurance limits.

Views of Responsible Officials: Management will bring this item before the board for further review.