

**NORTH NELSON WATER DISTRICT
Cox's Creek, Kentucky**

**FINANCIAL STATEMENTS
December 31, 2021**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North Nelson Water District, as of December 31, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and OPEB schedules on pages 4-7 and 23-26 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. Schedule I – General and Administrative Expenses and Schedule II – Organization Data are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 – General and Administrative Expenses and Schedule II – Organization Data are 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 *Government Auditing Standards*, we have also issued our report dated July 6, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
July 6, 2022

**NORTH NELSON WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2021**

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, 2021. 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 \$2.85 million. The balance at December 31, 2020, was \$2.63 million. This reflects a \$0.22 million increase in cash and investments during the year.
- The District invested approximately \$261,000 in capital assets 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 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 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 an entity's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$10.21 million and \$9.82 million as of December 31, 2021 and 2020.

**NORTH NELSON WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2021**

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.

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, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Assets		
Current and Other Assets	\$ 3,894,904	\$ 3,650,200
Capital Assets	<u>7,203,496</u>	<u>7,050,411</u>
Total Assets	<u>11,098,400</u>	<u>10,700,611</u>
Deferred Outflows of Resources	<u>109,063</u>	<u>141,598</u>
Liabilities		
Current Liabilities	142,041	125,116
Other Liabilities	<u>690,950</u>	<u>823,030</u>
Total Liabilities	<u>832,991</u>	<u>948,146</u>
Deferred Inflows of Resources	<u>162,101</u>	<u>72,581</u>
Net Position		
Net investment in capital assets	7,203,496	7,050,410
Restricted	23,738	1,463,446
Unrestricted	<u>2,985,137</u>	<u>1,307,626</u>
Total Net Position	<u>\$ 10,212,371</u>	<u>\$ 9,821,482</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), increased \$1,677,511 at December 31, 2021. Restricted net position decreased \$1,439,708. The large change in restricted/unrestricted net position in the current year is mostly related to the District determining there are no longer any external restrictions on investments since the District has paid off all of its debt. Net investment in capital assets increased \$153,086.

**NORTH NELSON WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2021**

**(Table 2)
Changes in Net Position
Years Ending December 31, 2021 and 2020**

	2021	2020
OPERATING REVENUES:		
Water sales	\$ 1,622,728	\$ 1,610,197
Other operating income	43,573	39,132
TOTAL OPERATING REVENUES	1,666,301	1,649,329
OPERATING EXPENSES:		
Water purchases	726,325	694,262
Salaries	234,477	209,588
Employee benefits	86,924	99,547
Taxes	16,898	15,812
Insurance	8,850	17,477
Repairs and maintenance	78,120	81,606
Contract labor	53,610	72,183
Utilities and telephone	17,717	17,584
Miscellaneous	30,946	39,686
TOTAL OPERATING EXPENSES	1,253,867	1,247,745
OPERATING INCOME	412,434	401,584
NON-OPERATING REVENUES (EXPENSES):		
Interest income	22,806	51,659
Depreciation	(317,783)	(299,782)
Interest expense on long-term debt	-	(23,440)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(294,977)	(271,563)
CAPITAL CONTRIBUTIONS	273,432	67,100
CHANGE IN NET POSITION	\$ 390,889	\$ 197,121

Operating revenue increased 1.03% as compared to the prior year as new customers were added. Total operating expenses increased less than 1%. The District continues to receive capital contributions from customers.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2021 and 2020, the District had \$7.2 million and \$7.05 million invested in a variety of capital assets, as reflected in the following tables:

**NORTH NELSON WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2021**

**(Table 3)
Capital Assets
as of December 31, 2021 and 2020**

	2021	2020
Non-Depreciable Assets:		
Land and land rights	\$ 89,481	\$ 89,481
Depreciable Assets:		
Structures and improvements	353,386	353,386
Standpipes and tanks	576,380	576,380
Transmission and distribution mains	11,919,319	11,677,033
Communication Equipment	11,527	11,527
Hydrants	5,622	5,622
Office furniture and fixtures	32,198	29,448
Transportation equipment	68,323	67,994
Tool and shop equipment	7,261	782
Meters & installation	666,872	447,848
Capital Assets	<u>13,730,369</u>	<u>13,259,501</u>
Accumulated depreciation	<u>(6,526,873)</u>	<u>(6,209,090)</u>
Capital Assets (Net of Accumulated Depreciation)	<u>\$ 7,203,496</u>	<u>\$ 7,050,411</u>

**(Table 4)
Changes in Capital Assets
Years Ended December 31, 2021 and 2020**

	2021	2020
Beginning Balance	\$ 7,050,411	\$ 7,163,593
Additions	470,868	186,602
Retirements	-	-
Depreciation	<u>(317,783)</u>	<u>(299,784)</u>
Ending Balance	<u>\$ 7,203,496</u>	<u>\$ 7,050,411</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 DISTRICT
STATEMENT OF NET POSITION
December 31, 2021

ASSETS

Current assets

Cash and cash equivalents	\$ 182,714
Investments - certificates of deposit	2,649,550
Customer accounts receivable, net	170,601
Notes receivable	8,123
Inventory	104,938
Prepays	<u>11,252</u>
Total current assets	<u>3,127,178</u>

Noncurrent assets

Restricted cash and cash equivalents	23,738
Regulatory asset - CERS Pension	582,620
Regulatory asset - CERS OPEB	161,368

Capital assets

Nondepreciable capital assets	89,481
Property, plant and equipment, net	<u>7,114,015</u>

Total noncurrent assets	<u>7,971,222</u>
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Total assets	<u>11,098,400</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows - pension	31,454
Deferred outflows - OPEB	<u>77,609</u>

Total deferred outflows of resources	<u>109,063</u>
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Total assets and deferred outflows of resources	<u>\$ 11,207,463</u>
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LIABILITIES

Current liabilities

Accounts payable	\$ 57,141
Accrued expenses	42,806
Customer deposits payable	18,360
Due to City of Bardstown	<u>23,734</u>

Total current liabilities	<u>142,041</u>
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Noncurrent liabilities

Net pension liability	531,421
Net OPEB liability	<u>159,529</u>

Total noncurrent liabilities	<u>690,950</u>
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Total liabilities	<u>832,991</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred inflows - pension	82,653
Deferred inflows - OPEB	<u>79,448</u>

Total deferred inflows of resources	<u>162,101</u>
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NET POSITION

Net investment in capital assets	7,203,496
Restricted	23,738
Unrestricted	<u>2,985,137</u>

Total net position	<u>10,212,371</u>
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Total liabilities, deferred inflows of resources and net position	<u>\$ 11,207,463</u>
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The accompanying notes are an integral part of the financial statements.

NORTH NELSON WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2021

OPERATING INCOME	
Water sales	\$ 1,622,728
Other revenue	<u>43,573</u>
Total operating income	<u>1,666,301</u>
OPERATING EXPENSES	
Water purchases	726,325
Salaries	234,477
Employee benefits	86,924
Taxes	16,898
Insurance	8,850
Repairs and maintenance	78,120
Contract labor	53,610
Utilities and telephone	17,717
Miscellaneous	<u>30,946</u>
Total operating expenses	<u>1,253,867</u>
Operating income (loss) before depreciation	412,434
Depreciation expense	<u>(317,783)</u>
OPERATING INCOME (LOSS)	94,651
Non-operating income (expenses)	
Interest income	<u>22,806</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	117,457
Other capital contributions	209,432
Tap fees	<u>64,000</u>
Change in net position	390,889
Net position, beginning of year	<u>9,821,482</u>
NET POSITION, END OF YEAR	<u>\$ 10,212,371</u>

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

**NORTH NELSON WATER DISTRICT
STATEMENT OF CASH FLOWS
for the year ended December 31, 2021**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,687,680
Payments to suppliers	(940,704)
Payments for employee services and benefits	<u>(347,149)</u>
Net cash provided (used) by operating activities	<u>399,827</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(261,669)
Tap fees	64,000
Other capital contributions	<u>232</u>
Net cash provided (used) by capital and related financing activities	<u>(197,437)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of certificates of deposit	(352,710)
Interest income	<u>22,806</u>
Net cash provided (used) by investing activities	<u>(329,904)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(127,514)
Cash and cash equivalents, beginning of year	<u>333,966</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 206,452</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 94,651
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	317,783
Changes in assets and liabilities:	
(Increase) decrease in receivables	7,664
(Increase) decrease in notes receivable	11,515
(Increase) decrease in inventory	(33,281)
(Increase) decrease in prepaids	(2,760)
Increase (decrease) in due to City of Bardstown	4,988
Increase (decrease) in accounts payable	5,829
Increase (decrease) in customer deposits	(2,788)
Increase (decrease) in accrued expenses	<u>(3,774)</u>
Net cash provided by operating activities	<u><u>\$ 399,827</u></u>
Supplemental disclosure of cash flow information:	
Noncash capital and related financing activities:	
Developer contributions of capital assets	<u><u>\$ 209,200</u></u>

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

**NORTH NELSON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The North Nelson Water District (the 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 County, 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.

Reporting Entity

The North Nelson Water District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The only entity included in these financial statements are the general operations of the North Nelson Water District.

Basic of 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.

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.

Financial Statement Amounts

Cash Equivalents - For purposes of the statements of cash flows, the District considers all highly liquid debt instruments (including restricted assets) purchased with an initial maturity of three months or less to be cash equivalents.

Investments - consist of certificates of deposit with original maturities of 90 days or longer. Investments are recorded at cost, which approximates fair value.

Accounts Receivable - The allowance method is used to record uncollectible accounts. At December 31, 2021, accounts receivable was stated net of an allowance for uncollectible accounts of \$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.

NORTH NELSON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts (continued)

Inventory - The District's inventory is composed of chemicals, equipment and supply-type items used for routine maintenance, repairs and new water lines. The inventory is stated at cost.

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

Pension and OPEB - For purposes of measuring the net pension and OPEB liabilities, deferred outflows/inflows of resources and regulatory assets, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with benefit terms.

Regulatory asset - 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 and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB. Accordingly, the District recognizes the actuarially determined contribution as the current year pension and OPEB expense.

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 depreciation 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.

**NORTH NELSON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts (continued)

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

Management's Review of Subsequent Events

The District has evaluated and considered the need to recognize or disclose subsequent events through July 6, 2022, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2021, have not been evaluated by the District.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

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

The North Nelson Water District's deposits at December 31, 2021, were not entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name. The bank balances of the District's deposits were \$2,849,650 at December 31, 2021; \$2,610,011 was covered by FDIC and \$236,602 was covered by collateral held at the custodial bank in the District's name. The District was under collateralized by \$3,037.

**NORTH NELSON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021**

3. CAPITAL ASSETS

A summary of capital asset activity during the fiscal year follows:

	Balance 12/31/2020	Additions	Disposals	Balance 12/31/2021
Capital assets not depreciated:				
Land	\$ 89,481	\$ -	\$ -	\$ 89,481
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>89,481</u>	<u>-</u>	<u>-</u>	<u>89,481</u>
Capital assets that are depreciated:				
Property, plant and equipment	<u>13,170,019</u>	<u>470,869</u>	<u>-</u>	<u>13,640,888</u>
Less accumulated depreciation	<u>6,209,090</u>	<u>317,783</u>	<u>-</u>	<u>6,526,873</u>
Totals	<u>6,960,929</u>	<u>153,086</u>	<u>-</u>	<u>7,114,015</u>
Capital assets, net	<u>\$ 7,050,410</u>	<u>\$ 153,086</u>	<u>\$ -</u>	<u>\$ 7,203,496</u>

4. LONG-TERM LIABILITIES

The following is a summary of long-term liabilities for the year ended December 31, 2021:

	Balance January 1, 2020	Additions	Retirements	Balance December 31, 2021
Net pension liability	\$ 611,522	\$ -	\$ 80,101	\$ 531,421
Net OPEB liability	<u>192,475</u>	<u>-</u>	<u>32,946</u>	<u>159,529</u>
Total long-term liabilities	<u>\$ 803,997</u>	<u>\$ -</u>	<u>\$ 113,047</u>	<u>\$ 690,950</u>

5. RETIREMENT PLAN

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

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

**NORTH NELSON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021**

5. RETIREMENT PLAN (CONTINUED)

Contributions – For the year ended December 31, 2021, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium.

The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2021, participating employers contributed 24.06% through June 30th and 26.95% thereafter, of each non-hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. The contributions are allocated to both the pension and insurance trust. The insurance trust is more fully described in Note 6. Plan members contributed 19.30% through June 30th and 21.17% thereafter to the pension trust for non-hazardous job classifications. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

For the year ended December 31, 2021, the District contributed \$47,204 or 100% of the required contribution for non-hazardous job classifications.

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

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

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

**NORTH NELSON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021**

5. RETIREMENT PLAN (CONTINUED)

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

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2021, the District reported a liability of \$531,421 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2021, the District's proportion was .008335 percent, which was an increase of .00036 percent from its proportion measured as of June 30, 2020.

For the year ended December 31, 2021, the District recognized pension expense of \$47,204. At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 6,102	\$ 5,158
Changes of assumptions	7,132	-
Net difference between projected and actual earnings on Plan investments	-	70,828
Changes in proportion and differences between District contributions and proportionate share of contributions	18,220	6,667
Total	\$ 31,454	\$ 82,653

Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending December 31,		
2022	\$	(5,029)
2023	\$	(8,676)
2024	\$	(15,314)
2025	\$	(22,180)

**NORTH NELSON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021**

5. RETIREMENT PLAN (CONTINUED)

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

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

The mortality table used for active members was a Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumption used in the June 30, 2021 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. As of December 31, 2021, the target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	68.50%	
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Special credit/high yield	15.00%	2.80%
Liquidity	11.50%	
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies	20.00%	
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%
Total	100.00%	5.00%
Long term inflation assumption		2.30%
Expected nominal return for portfolio		7.30%

**NORTH NELSON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021**

5. RETIREMENT PLAN (CONTINUED)

Discount Rate – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the closed 30-year 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. The discount rate determination does not use a municipal bond rate.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Discount rate	District's proportionate share of net pension liability
1% decrease	5.25%	\$ 681,573
Current discount rate	6.25%	\$ 531,421
1% increase	7.25%	\$ 407,175

Payable to the Pension Plan – The District reported a payable of \$8,299 as of December 31, 2021, for the outstanding amount of contributions to the pension plan required for the year then ended. The payable includes both the pension and insurance contribution allocation.

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 5, the District participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 5, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2021, the employer's contribution was 4.76% through June 30th and 5.78% thereafter to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

**NORTH NELSON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021**

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

For the year ended December 31, 2021, the District contributed \$12,888, or 100% of the required contribution for non-hazardous job classifications.

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

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

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

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2021, the District reported a liability for its proportionate share of the net OPEB liability of \$159,529. The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined.

The District's proportionate share at June 30, 2021 was .008335 percent, which was an increase of .00036 percent from its proportion measured as of June 30, 2020.

**NORTH NELSON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021**

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

For the year ended December 31, 2021, the District recognized OPEB expense of \$12,888. At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 25,086	\$ 47,631
Changes of assumptions	42,295	148
Net difference between projected and actual earnings on Plan investments	-	24,956
Changes in proportion and differences between District contributions and proportionate share of contributions	4,979	6,713
Total	\$ 72,360	\$ 79,448

The above amounts exclude an adjustment of \$5,249 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

Year ending December 31,	
2022	\$ 3,092
2023	\$ (696)
2024	\$ (978)
2025	\$ (8,506)

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

Non-hazardous

Inflation	2.30%
Salary increases	3.30 to 10.30%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post – 65	Initial trend starting at 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

The mortality table used for active members was a Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

**NORTH NELSON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021**

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

The actuarial assumption used in the June 30, 2021 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021.

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 following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	68.50%	
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Special credit/high yield	15.00%	2.80%
Liquidity	11.50%	
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies	20.00%	
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%
Total	100.00%	5.00%
Long term inflation assumption		2.30%
Expected nominal return for portfolio		7.30%

Discount Rate – The discount rate used to measure the total OPEB liability as of June 30, 2021 was 5.20% for non-hazardous classifications. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. As of June 30, 2021, the discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index". However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Discount rate	Proportionate share of net OPEB liability
1% decrease	4.20%	\$ 219,035
Current discount rate	5.20%	\$ 159,529
1% increase	6.20%	\$ 110,698

**NORTH NELSON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2021**

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

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the District's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

		Proportionate share of net OPEB liability
1% decrease	\$	114,843
Current trend rate	\$	159,529
1% increase	\$	213,470

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

7. RISK MANAGEMENT

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

8. COVID-19 PANDEMIC

Since early 2020, various restrictions were placed on travel and business across the United States in response to the COVID-19 pandemic. The duration and pervasiveness of these restrictions are uncertain as of the date of these financial statements. The District is continuously evaluating the impact of COVID-19 and related responses on the operations and finances of the District. Restrictions placed on the District could negatively impact the District's revenue and expenses for an unknown period of time. At this time, a specific estimate of the impact could not reasonably be determined due to a number of unknown factors regarding the severity and duration of the event.

REQUIRED SUPPLEMENTARY INFORMATION

**NORTH NELSON WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Seven Years**

Reporting Year End (Measurement Date)	December 31, 2015 (June 30, 2015)	December 31, 2016 (June 30, 2016)	December 31, 2017 (June 30, 2017)	December 31, 2018 (June 30, 2018)	December 31, 2019 (June 30, 2019)	December 31, 2020 (June 30, 2020)	December 31, 2021 (June 30, 2021)
District's proportion of the net pension liability	0.008388%	0.008091%	0.008393%	0.008564%	0.008561%	0.007973%	0.008335%
District's proportionate share of the net pension liability (asset)	\$ 272,125	\$ 347,894	\$ 413,261	\$ 501,227	\$ 521,391	\$ 611,522	\$ 531,421
District's covered employee payroll	\$ 192,425	\$ 194,510	\$ 203,777	\$ 220,175	\$ 227,075	\$ 227,411	\$ 209,563
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	141.42%	178.86%	202.80%	227.65%	229.61%	268.91%	253.59%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	55.50%	53.30%	53.54%	50.45%	47.81%	57.33%

Notes:

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

**NORTH NELSON WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
CONTRIBUTIONS - PENSION
Last Seven Calendar Years**

	2015	2016	2017	2018	2019	2020	2021
Contractually required employer contribution	\$ 24,865	\$ 24,589	\$ 30,718	\$ 32,880	\$ 36,886	\$ 40,446	\$ 47,204
Contributions relative to contractually required employer contribution	<u>24,865</u>	<u>24,589</u>	<u>30,718</u>	<u>32,880</u>	<u>36,886</u>	<u>40,446</u>	<u>47,204</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 194,510	\$ 203,777	\$ 220,175	\$ 227,075	\$ 227,411	\$ 209,563	\$ 222,978
Employer contributions as a percentage of covered-employee payroll	12.78%	12.07%	13.95%	14.48%	16.22%	19.30%	21.17%

Notes:

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

**NORTH NELSON WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Last Four Years**

Reporting Year End (Measurement Date)	December 31, 2018 (June 30, 2018)	December 31, 2019 (June 30, 2019)	December 31, 2020 (June 30, 2020)	December 31, 2021 (June 30, 2021)
District's proportion of the net OPEB liability	0.0122180%	0.856100%	0.007971%	0.008335%
District's proportionate share of the net OPEB liability (asset)	\$ 151,999	\$ 137,752	\$ 192,475	\$ 159,529
District's covered employee payroll	\$ 220,175	\$ 227,075	\$ 227,411	\$ 209,563
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	69.04%	60.66%	84.64%	76.12%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	60.44%	51.67%	62.91%

Notes:

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

**NORTH NELSON WATER DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE
CONTRIBUTIONS - OPEB
Last Four Calendar Years**

	2018	2019	2020	2021
Contractually required employer contribution	\$ 10,673	\$ 11,962	\$ 9,976	\$ 12,288
Contributions relative to contractually required employer contribution	<u>10,673</u>	<u>11,962</u>	<u>9,976</u>	<u>12,288</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered employee payroll	 \$ 227,075	 \$ 227,411	 \$ 209,563	 \$ 222,978
Employer contributions as a percentage of covered-employee payroll	4.70%	5.26%	4.76%	5.51%

Notes:

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

**NORTH NELSON WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2021**

1. GENERAL INFORMATION

Contributions

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

Payroll

The District's covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability and the Schedule of Proportionate Share of the Net OPEB Liability is for the corresponding measurement date of the net liabilities and differs from the District's calendar year payroll as reported on the Schedule of Contributions for Pension and OPEB.

2. CHANGES OF ASSUMPTIONS

December 31, 2021 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.40% to 6.30%. The initial healthcare trend rate for post-65 was changed from 2.90% to 6.30%.

December 31, 2020 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 7% to 6.40%. The initial healthcare trend rate for post-65 was changed from 5% to 2.90%, which increases to 6.30% in 2023.

December 31, 2019 – Pension and OPEB

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

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average for non-hazardous and 3.05% to 3.55% to 19.05% on average for hazardous.

December 31, 2018 – Pension and OPEB

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

**NORTH NELSON WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2021**

2. CHANGES OF ASSUMPTIONS (CONTINUED)

December 31, 2017 – Pension

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

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

December 31, 2016 – Pension and OPEB

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

December 31, 2015 – Pension

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

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

December 31, 2014 – Pension

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

December 31, 2013 – Pension

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

- The assumed rate of return was 7.75%.
- The assumed rate of inflation was 3.5%.
- The assumed rate of wage inflation was 1%.
- Payroll growth assumption was 4.5%.
- Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members.

SUPPLEMENTARY INFORMATION

NORTH NELSON WATER DISTRICT
Schedule I - General and Administrative Expenses
for the year ended December 31, 2021

Auto expense	\$ 11,870
Payroll and benefits expense	329,674
Other general and administrative	10,692
Insurance - general liability	8,266
Contract labor	53,610
Insurance - workmen's' compensation	8,625
Commissioners' salaries	7,200
Regulatory commission expense & other taxes	<u>3,248</u>
	<u>\$ 433,185</u>

NORTH NELSON WATER DISTRICT
Schedule II - Organization Data
for the year ended December 31, 2021

WATER COMMISSIONERS

Nicky Rapier - Chairman

Don Mudd - Secretary

Robert Greenwell - Treasurer

Calendar Year

January 1 to December 31



**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 (the District), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 6, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 a certain deficiency in internal control, described in the accompanying schedule of findings and responses, that we consider to be a material weakness (2021-001).

Report on Compliance and Other Matters

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

North Nelson Water District's Response to Finding

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

Purpose of This Report

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

RFH

RFH, PLLC
Lexington, Kentucky
July 6, 2022

**NORTH NELSON WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2021**

FINDING:

2021-001 – Internal Control Over Financial Reporting (Recurring)

Criteria:

The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

Condition:

Management engaged the auditor to prepare cash to accrual adjustments and the draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the adjustments and the financial statements prior to their issuance.

Cause:

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

Effect:

Management engaged the auditor to prepare cash to accrual adjustments and draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the adjustments and the financial statements prior to their issuance.

Recommendation:

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements on the accrual basis of accounting, including preparing all cash to accrual adjustments.

Management's Response:

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to prepare cash to accrual adjustments and draft the financial statements and related notes. Management has reviewed and accepts responsibility for the adjustments and the financial statements.