

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

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**FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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## INDEPENDENT AUDITORS' REPORT

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 years ended December 31, 2023 and 2022, 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, 2023 and 2022, and the respective changes in financial position, and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits 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 Auditors' 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.

#### ***Auditors' 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 auditors' 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 25-28 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. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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, the schedule of expenditures of federal awards, 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 May 29, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
May 29, 2024

**NORTH NELSON WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED DECEMBER 31, 2023**

The management's 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, 2023. 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 \$3.25 million. The balance at December 31, 2022, was \$2.96 million. This reflects a \$0.29 million increase in cash and investments during the year.
- The District invested approximately \$4.19 million in capital assets during the year. The majority of the investment in capital assets in 2023 was related to the Bullitt South Project (\$2.1 million) and the Nelson County Water Supply Project (\$1.9 million). Both projects were funded by grants awarded to the District.

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 \$14.85 million and \$10.77 million as of December 31, 2023 and 2022.

**NORTH NELSON WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED DECEMBER 31, 2023**

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.

**(Table 1)  
Summary of Net Position  
as of December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>Assets</b>		
Current and Other Assets	\$ 5,192,885	\$ 4,160,360
Capital Assets	<u>11,425,165</u>	<u>7,590,832</u>
<b>Total Assets</b>	<u>16,618,050</u>	<u>11,751,192</u>
<b>Deferred Outflows of Resources</b>	<u>100,558</u>	<u>113,164</u>
<b>Liabilities</b>		
Current Liabilities	1,109,332	266,957
Noncurrent Liabilities	<u>514,860</u>	<u>730,825</u>
<b>Total Liabilities</b>	<u>1,624,192</u>	<u>997,782</u>
<b>Deferred Inflows of Resources</b>	<u>246,045</u>	<u>90,325</u>
<b>Net Position</b>		
Net investment in capital assets	11,425,165	7,590,832
Restricted	31,111	29,821
Unrestricted	<u>3,392,095</u>	<u>3,155,596</u>
<b>Total Net Position</b>	<u>\$ 14,848,371</u>	<u>\$ 10,776,249</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 \$236,499 at December 31, 2023. Restricted net position increased \$1,290. Net investment in capital assets increased \$3,834,333.

**NORTH NELSON WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED DECEMBER 31, 2023**

**(Table 2)  
Changes in Net Position  
Years Ending December 31, 2023 and 2022**

	2023	2022
<b>OPERATING REVENUES:</b>		
Water sales	\$ 1,735,859	\$ 1,707,764
Other operating income	41,869	50,348
	1,777,728	1,758,112
<b>OPERATING EXPENSES:</b>		
Water purchases	830,468	770,093
Salaries	261,770	235,895
Employee benefits	132,952	114,462
Taxes	19,852	17,841
Insurance	10,096	8,962
Repairs and maintenance	114,897	280,204
Contract labor	137,404	69,899
Utilities and telephone	23,059	20,148
Miscellaneous	29,826	30,160
	1,560,324	1,547,664
Depreciation	(344,282)	(321,444)
<b>OPERATING INCOME (LOSS)</b>	(126,878)	(110,996)
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Gain from disposal of capital assets	21,172	-
Interest income	107,105	4,348
	1,399	(106,648)
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS:</b>	1,399	(106,648)
<b>CAPITAL CONTRIBUTIONS (EXPENSES):</b>		
Capital grants	3,954,917	422,826
Other capital contributions	406	171,000
Tap fees	115,400	76,700
	4,072,122	563,878
<b>CHANGE IN NET POSITION</b>	\$ 4,072,122	\$ 563,878

Operating revenue increased by 1.12% as compared to the prior year as new customers were added. Total operating expenses increased by 1.0%.



**NORTH NELSON WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED DECEMBER 31, 2023**

**Capital Assets and Debt Administration**

**Capital Assets**

At December 31, 2023 and 2022, the District had approximately \$11.4 million and \$7.6 million invested in a variety of capital assets, as reflected in the following tables:

**(Table 3)  
Capital Assets  
as of December 31, 2023 and 2022**

	2023	2022
Non-Depreciable Assets:		
Land and land rights	\$ 89,481	\$ 89,481
Construction in progress	2,276,972	528,306
Depreciable Assets:		
Structures and improvements	353,386	353,386
Standpipes and tanks	576,380	576,380
Transmission and distribution mains	14,320,094	12,059,348
Communication Equipment	11,527	11,527
Hydrants	5,622	5,622
Office furniture and fixtures	32,198	32,198
Transportation equipment	121,281	68,323
Tool and shop equipment	7,261	7,261
Meters & installation	801,878	707,317
Capital Assets	18,596,080	14,439,149
Accumulated depreciation	(7,170,915)	(6,848,317)
Capital Assets (Net of Accumulated Depreciation)	\$ 11,425,165	\$ 7,590,832

**(Table 4)  
Changes in Capital Assets  
Years Ended December 31, 2023 and 2022**

	2023	2022
Beginning Balance	\$ 7,590,832	\$ 7,203,496
Additions	4,188,664	708,780
Retirements	(10,049)	-
Depreciation	(344,282)	(321,444)
Ending Balance	\$ 11,425,165	\$ 7,590,832

**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,**

<b>ASSETS</b>	<b>2023</b>	<b>2022</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 157,319	174,540
Investments - certificates of deposit	3,059,148	2,759,225
Customer accounts receivable, net	201,867	204,037
Notes receivable	3,761	5,747
Grants receivable	951,528	51,567
Inventory	114,908	215,576
Prepays	<u>12,896</u>	<u>11,861</u>
Total current assets	<u>4,501,427</u>	<u>3,422,553</u>
<b>Noncurrent assets</b>		
Restricted cash and cash equivalents	31,111	29,821
Net OPEB asset	11,079	-
Regulatory asset - CERS Pension	514,529	544,121
Regulatory asset - CERS OPEB	134,739	163,865
<b>Capital assets</b>		
Nondepreciable capital assets	89,481	89,481
Construction in progress	2,276,972	528,306
Property, plant and equipment, net	<u>9,058,712</u>	<u>6,973,045</u>
Total noncurrent assets	<u>12,116,623</u>	<u>8,328,639</u>
Total assets	<u>16,618,050</u>	<u>11,751,192</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows - pension	64,067	52,821
Deferred outflows - OPEB	<u>36,491</u>	<u>60,343</u>
Total deferred outflows of resources	<u>100,558</u>	<u>113,164</u>
Total assets and deferred outflows of resources	<u>\$ 16,718,608</u>	<u>\$ 11,864,356</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 69,238	\$ 178,755
Construction payable	889,247	-
Retainage payable	65,446	-
Accrued expenses	44,738	42,140
Customer deposits payable	15,560	20,730
Due to City of Bardstown	<u>25,103</u>	<u>25,332</u>
Total current liabilities	<u>1,109,332</u>	<u>266,957</u>
<b>Noncurrent liabilities</b>		
Net pension liability	514,860	574,128
Net OPEB liability	<u>-</u>	<u>156,697</u>
Total noncurrent liabilities	<u>514,860</u>	<u>730,825</u>
Total liabilities	<u>1,624,192</u>	<u>997,782</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows - pension	63,736	22,814
Deferred inflows - OPEB	<u>182,309</u>	<u>67,511</u>
Total deferred inflows of resources	<u>246,045</u>	<u>90,325</u>
<b>NET POSITION</b>		
Net investment in capital assets	11,425,165	7,590,832
Restricted	31,111	29,821
Unrestricted	<u>3,392,095</u>	<u>3,155,596</u>
Total net position	<u>14,848,371</u>	<u>10,776,249</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 16,718,608</u>	<u>\$ 11,864,356</u>

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 years ended December 31,

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	<b>2023</b>	<b>2022</b>
<b>OPERATING INCOME</b>		
Water sales	\$ 1,735,859	\$ 1,707,764
Other revenue	<u>41,869</u>	<u>50,348</u>
Total operating income	<u>1,777,728</u>	<u>1,758,112</u>
<b>OPERATING EXPENSES</b>		
Water purchases	830,468	770,093
Salaries	261,770	235,895
Employee benefits	132,952	114,462
Taxes	19,852	17,841
Insurance	10,096	8,962
Repairs and maintenance	114,897	280,204
Contract labor	137,404	69,899
Utilities and telephone	23,059	20,148
Miscellaneous	<u>29,826</u>	<u>30,160</u>
Total operating expenses	<u>1,560,324</u>	<u>1,547,664</u>
Operating income (loss) before depreciation	217,404	210,448
Depreciation expense	<u>(344,282)</u>	<u>(321,444)</u>
<b>OPERATING INCOME (LOSS)</b>	(126,878)	(110,996)
Non-operating income (expenses)		
Gain from disposal of capital assets	21,172	-
Interest income	<u>107,105</u>	<u>4,348</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	1,399	(106,648)
Capital grants	3,954,917	422,826
Other capital contributions	406	171,000
Tap fees	<u>115,400</u>	<u>76,700</u>
Change in net position	4,072,122	563,878
Net position, beginning of year	<u>10,776,249</u>	<u>10,212,371</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 14,848,371</u>	<u>\$ 10,776,249</u>

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

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

	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 1,776,485	\$ 1,731,020
Payments to suppliers	(1,142,940)	(1,280,747)
Payments for employee services and benefits	<u>(424,670)</u>	<u>(377,160)</u>
Net cash provided (used) by operating activities	<u>208,875</u>	<u>73,113</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(3,233,971)	(472,798)
Proceeds from disposal of capital assets	31,220	-
Tap fees	115,400	76,700
Other capital contributions	406	54,962
Grants received	<u>3,054,957</u>	<u>371,259</u>
Net cash provided (used) by capital and related financing activities	<u>(31,988)</u>	<u>30,123</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit	(299,923)	(109,675)
Interest income	<u>107,105</u>	<u>4,348</u>
Net cash provided (used) by investing activities	<u>(192,818)</u>	<u>(105,327)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(15,931)	(2,091)
Cash and cash equivalents, beginning of year	<u>204,361</u>	<u>206,452</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 188,430</u>	<u>\$ 204,361</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ (126,878)	\$ (110,996)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	344,282	321,444
Changes in assets and liabilities:		
(Increase) decrease in receivables	2,170	(33,436)
(Increase) decrease in notes receivable	1,986	2,376
(Increase) decrease in inventory	100,668	(110,638)
(Increase) decrease in prepaids	(1,035)	(609)
Increase (decrease) in due to City of Bardstown	(229)	1,598
Increase (decrease) in accounts payable	(109,517)	1,670
Increase (decrease) in customer deposits	(5,170)	2,370
Increase (decrease) in accrued expenses	<u>2,598</u>	<u>(666)</u>
Net cash provided by operating activities	<u>\$ 208,875</u>	<u>\$ 73,113</u>
<b>Supplemental disclosure of cash flow information:</b>		
Noncash capital and related financing activities:		
Developer contributions of capital assets	\$ -	\$ 116,038
Capital asset additions included in accounts payable, net	<u>954,693</u>	<u>119,944</u>
	<u>\$ 954,693</u>	<u>\$ 235,982</u>

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

**NORTH NELSON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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**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 investments (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, 2023 and 2022, 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, 2023 and 2022**

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**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:

	<b>Years</b>
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'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.

*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, 2023 and 2022**

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**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.

**Change in Accounting Policy**

Effective January 1, 2023, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 96, Subscription-based Information Technology Arrangements. GASB Statement No. 96 requires recognition of a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability for subscription-based information technology arrangements (SBITA) that were previously classified as operating expenses. It establishes uniform guidance for SBITA accounting based on the foundational principle that SBITA are financings of the right to use vendor-provided information technology assets. Government entities are required to recognize a subscription liability and an intangible right-to-use subscription asset. These changes had no effect on the financial statements.

**Management's Review of Subsequent Events**

The District has evaluated and considered the need to recognize or disclose subsequent events through May 29, 2024, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2023, 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, 2023 and 2022, were fully covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name. As of December 31, 2023, the bank balances of the District's deposits totaled \$3,254,965; \$1,303,674 was covered by FDIC and \$1,951,291 was covered by collateral held at the custodial bank in the District's name. As of December 31, 2022, the bank balances of the District's deposits totaled \$2,965,061; \$1,432,393 was covered by FDIC and \$1,532,668 was covered by collateral held at the custodial bank in the District's name.

**NORTH NELSON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**3. CAPITAL ASSETS**

A summary of capital asset activity for the December 31, 2023 and 2022 follows:

	<b>Balance 12/31/2022</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 12/31/2023</b>
Capital assets not depreciated:				
Land	\$ 89,481	\$ -	\$ -	\$ 89,481
Construction in progress	<u>528,306</u>	<u>4,009,412</u>	<u>(2,260,746)</u>	<u>2,276,972</u>
Totals	<u>617,787</u>	<u>4,009,412</u>	<u>(2,260,746)</u>	<u>2,366,453</u>
Capital assets that are depreciated:				
Property, plant and equipment	<u>13,821,362</u>	<u>2,439,997</u>	<u>(31,732)</u>	<u>16,229,627</u>
Less accumulated depreciation	<u>6,848,317</u>	<u>344,282</u>	<u>(21,684)</u>	<u>7,170,915</u>
Totals	<u>6,973,045</u>	<u>2,095,715</u>	<u>(10,048)</u>	<u>9,058,712</u>
Capital assets, net	<u>\$ 7,590,832</u>	<u>\$ 6,105,127</u>	<u>\$ (2,270,794)</u>	<u>\$ 11,425,165</u>
	<b>Balance 12/31/2021</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 12/31/2022</b>
Capital assets not depreciated:				
Land	\$ 89,481	\$ -	\$ -	\$ 89,481
Construction in progress	<u>-</u>	<u>528,306</u>	<u>-</u>	<u>528,306</u>
Totals	<u>89,481</u>	<u>528,306</u>	<u>-</u>	<u>617,787</u>
Capital assets that are depreciated:				
Property, plant and equipment	<u>13,640,888</u>	<u>180,474</u>	<u>-</u>	<u>13,821,362</u>
Less accumulated depreciation	<u>6,526,873</u>	<u>321,444</u>	<u>-</u>	<u>6,848,317</u>
Totals	<u>7,114,015</u>	<u>(140,970)</u>	<u>-</u>	<u>6,973,045</u>
Capital assets, net	<u>\$ 7,203,496</u>	<u>\$ 387,336</u>	<u>\$ -</u>	<u>\$ 7,590,832</u>



**NORTH NELSON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**4. LONG-TERM LIABILITIES**

The following is a summary of long-term liabilities for the year ended December 31, 2023 and 2022:

	<b>Balance January 1, 2022</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance December 31, 2023</b>
Net pension liability	\$ 574,128	\$ -	\$ 59,268	\$ 514,860
Net OPEB liability	<u>156,697</u>	<u>-</u>	<u>156,697</u>	<u>-</u>
Total long-term liabilities	<u>\$ 730,825</u>	<u>\$ -</u>	<u>\$ 215,695</u>	<u>\$ 514,860</u>

  

	<b>Balance January 1, 2021</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance December 31, 2022</b>
Net pension liability	\$ 531,421	\$ 42,707	\$ -	\$ 574,128
Net OPEB liability	<u>159,529</u>	<u>-</u>	<u>2,832</u>	<u>156,697</u>
Total long-term liabilities	<u>\$ 690,950</u>	<u>\$ 42,707</u>	<u>\$ 2,832</u>	<u>\$ 730,825</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 Public Pensions Authority administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority's 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.

*Contributions* – For the years ended December 31, 2023 and 2022, plan members were required to contribute 5% 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, 2023, participating employers contributed 26.79% through June 30<sup>th</sup> and 23.34% thereafter, of each non-hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. For the year ended December 31, 2022, participating employers contributed 26.95% through June 30<sup>th</sup> and 26.79% 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. For the year ended December 31, 2023, plan members contributed 23.40% through June 30<sup>th</sup> and 23.34% thereafter to the pension for non-hazardous job classifications. For the year ended December 31, 2022, plan members contributed 22.78% through June 30<sup>th</sup> and 23.40% thereafter to the pension for non-hazardous job classifications. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

**NORTH NELSON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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**5. RETIREMENT PLAN (CONTINUED)**

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, 2023, the District contributed \$60,268 or 100% of the required contribution for non-hazardous job classifications. For the year ended December 31, 2022, the District contributed \$51,955 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 1 month of service At least 5 years service and 55 years old or 25 years service and any age
Tier 2	Participation date Unreduced retirement  Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+  At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement  Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+  Not available

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

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – For the years ended December 31, 2023 and 2022, the District reported a liability of \$514,860 and \$574,128, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022 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, 2023, the District's proportion was .008024 percent, which was an increase of .000082 percent from its proportion measured as of June 30, 2022.

**NORTH NELSON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**5. RETIREMENT PLAN (CONTINUED)**

For the years ended December 31, 2023 and 2022, the District recognized pension expense of \$30,819 and \$39,596, respectively. This expense was offset by recording a regulatory asset balance described further in Note 8. At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 26,653	\$ 1,399
Changes of assumptions	-	47,187
Net difference between projected and actual earnings on Plan investments	-	7,024
Changes in proportion and differences between District contributions and proportionate share of contributions	3,436	8,126
District contributions subsequent to the measurement date	<u>33,978</u>	<u>-</u>
<b>Total</b>	<b>\$ 64,067</b>	<b>\$ 63,736</b>

The \$33,978 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2024. 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,**

2024	\$ (22,157)
2025	\$ (17,997)
2026	\$ 11,494
2027	\$ (4,987)

At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 613	\$ 5,113
Changes of assumptions	-	-
Net difference between projected and actual earnings on Plan investments	14,719	-
Changes in proportion and differences between District contributions and proportionate share of contributions	9,418	17,701
District contributions subsequent to the measurement date	<u>28,071</u>	<u>-</u>
<b>Total</b>	<b>\$ 52,821</b>	<b>\$ 22,814</b>

**NORTH NELSON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**5. RETIREMENT PLAN (CONTINUED)**

*Actuarial Assumptions* – The total pension liability in the June 30, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.50%, 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 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

The actuarial assumption used in the June 30, 2023 valuation was based on the results of an actuarial experience study for the period July 1, 2018 - June 30, 2022. The total pension liability was rolled-forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2023.

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 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
<b>Equity</b>	<b>60.00%</b>	
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
<b>Fixed Income</b>	<b>20.00%</b>	
Core Fixed Income	10.00%	2.45%
Specialty Credit	10.00%	3.65%
Cash	0.00%	1.39%
<b>Inflation Protected</b>	<b>20.00%</b>	
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
<b>Total</b>	<b>100.00%</b>	<b>5.75%</b>
<b>Long term inflation assumption</b>		<b>2.50%</b>
<b>Expected nominal return for portfolio</b>		<b>8.25%</b>

*Discount Rate* – The discount rate used to measure the total pension liability was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining closed 28-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.

**NORTH NELSON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**5. RETIREMENT PLAN (CONTINUED)**

*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 6.50 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 (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate at December 31, 2023:

	<u>Discount rate</u>		<u>District's proportionate share of net pension liability</u>
1% decrease	5.50%	\$	650,043
Current discount rate	6.50%	\$	514,860
1% increase	7.50%	\$	402,519

*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 at December 31, 2022:

	<u>Discount rate</u>		<u>District's proportionate share of net pension liability</u>
1% decrease	5.25%	\$	717,589
Current discount rate	6.25%	\$	574,128
1% increase	7.25%	\$	455,474

*Payable to the Pension Plan* – At December 31, 2023 and 2022, the District reported a payable of \$6,571 and \$8,454, respectively, 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, 2023, the employer's contribution was 3.39% through June 30<sup>th</sup> and 0.00% thereafter to the insurance trust for non-hazardous job classifications. For the year ended December 31, 2022, the employer's contribution was 4.17% through June 30<sup>th</sup> and 3.39% 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 Public Pensions Authority are financed through employer contributions and investment earnings.

**NORTH NELSON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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

For the year ended December 31, 2023, the District contributed \$3,829, or 100% of the required contribution for non-hazardous job classifications. For the year ended December 31, 2022, the District contributed \$7,527, 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, 2023, the District reported an asset for its proportionate share of the net OPEB asset of \$11,079. At December 31, 2022, the District reported a liability for its proportionate share of the net OPEB liability of \$156,697. The net OPEB asset was measured as of June 30, 2023, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2022 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net OPEB asset 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, 2023 was .008024 percent, which was an increase of .007942 percent from its proportion measured as of June 30, 2022.

**NORTH NELSON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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

For the year ended December 31, 2023, the District recognized OPEB expense of \$(23,719). This expense was offset by recording a regulatory asset balance described further in Note 8. At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 7,723	\$ 157,303
Changes of assumptions	21,802	15,194
Net difference between projected and actual earnings on Plan investments	-	2,572
Changes in proportion and differences between District contributions and proportionate share of contributions	3,347	7,240
District contributions subsequent to the measurement date	<u>3,619</u>	<u>-</u>
Total	<u>\$ 36,491</u>	<u>\$ 182,309</u>

The \$3,619 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2024. This includes an adjustment of \$3,619 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,**

2024	\$ (38,199)
2025	\$ (45,389)
2026	\$ (35,742)
2027	\$ (30,107)

For the year ended December 31, 2022, the District recognized OPEB expense of \$21,191. This expense was offset by recording a regulatory asset balance described further in Note 8. At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 15,773	\$ 35,934
Changes of assumptions	24,783	20,421
Net difference between projected and actual earnings on Plan investments	6,361	-
Changes in proportion and differences between District contributions and proportionate share of contributions	3,709	11,156
District contributions subsequent to the measurement date	<u>9,717</u>	<u>-</u>
Total	<u>\$ 60,343</u>	<u>\$ 67,511</u>

**NORTH NELSON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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

*Actuarial Assumptions* – The total OPEB liability in the June 30, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Non-hazardous**

Inflation	2.50%
Salary increases	3.30 to 10.30%, average, including inflation
Investment rate of return	6.50%, net of Plan investment expense, including inflation
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 6.80% at January 1, 2025, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post – 65	Initial trend starting at 8.50% at January 1, 2025, 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 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

The actuarial assumption used in the June 30, 2023 valuation was based on the results of an actuarial experience study for the period July 1, 2018 - June 30, 2022. The total OPEB liability was rolled-forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2023.

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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
<b>Equity</b>	<b>60.00%</b>	
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
<b>Fixed Income</b>	<b>20.00%</b>	
Core Fixed Income	10.00%	2.45%
Specialty Credit	10.00%	3.65%
Cash	0.00%	1.39%
<b>Inflation Protected</b>	<b>20.00%</b>	
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
<b>Total</b>	<b>100.00%</b>	<b>5.75%</b>
<b>Long term inflation assumption</b>		<b>2.50%</b>
<b>Expected nominal return for portfolio</b>		<b>8.25%</b>



**NORTH NELSON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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

*Discount Rate* – The discount rate used to measure the total OPEB asset as of June 30, 2023 was 5.93% 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 22-year amortization period of the unfunded actuarial accrued liability. As of June 30, 2023, the discount rate determination used an expected rate of return of 6.50%, and a municipal bond rate of 3.86%, 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/Asset to Changes in the Discount Rate* – The following presents the District’s proportionate share of the net OPEB liability/asset calculated using the discount rate as well as what the District’s proportionate share of the net OPEB liability/asset 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 at December 31, 2023:

	<b>Discount rate</b>		<b>Proportionate share of net OPEB liability (asset)</b>
1% decrease	4.93%	\$	20,790
Current discount rate	5.93%	\$	(11,079)
1% increase	6.93%	\$	(37,764)

*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 at December 31, 2023:

		<b>Proportionate share of net OPEB liability (asset)</b>
1% decrease	\$	(35,508)
Current trend rate	\$	(11,079)
1% increase	\$	18,931

*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 at December 31, 2022:

	<b>Discount rate</b>		<b>Proportionate share of net OPEB liability</b>
1% decrease	4.70%	\$	209,479
Current discount rate	5.70%	\$	156,697
1% increase	6.70%	\$	113,064

**NORTH NELSON WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

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**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 at December 31, 2022:

	<b>Proportionate share of net OPEB liability</b>
1% decrease	\$ 116,501
Current trend rate	\$ 156,697
1% increase	\$ 204,965

*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. 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 the District 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. As of December 31, 2023, the District had regulatory assets of \$514,529 and \$134,739, which equates to the net impact of pension and OPEB expense on the statement of net position. As of December 31, 2022, the District had regulatory assets of \$544,121 and \$163,865, which equates to the net impact of pension and OPEB expense on the statement of net position.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

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<b>Reporting Year End (Measurement Date)</b>	<b>December 31, 2015 (June 30, 2015)</b>	<b>December 31, 2016 (June 30, 2016)</b>	<b>December 31, 2017 (June 30, 2017)</b>	<b>December 31, 2018 (June 30, 2018)</b>	<b>December 31, 2019 (June 30, 2019)</b>	<b>December 31, 2020 (June 30, 2020)</b>	<b>December 31, 2021 (June 30, 2021)</b>	<b>December 31, 2022 (June 30, 2022)</b>	<b>December 31, 2023 (June 30, 2023)</b>
District's proportion of the net pension liability	0.008388%	0.008091%	0.008393%	0.008564%	0.008561%	0.007973%	0.008335%	0.007942%	0.008024%
District's proportionate share of the net pension liability (asset)	\$ 272,125	\$ 347,894	\$ 413,261	\$ 501,227	\$ 521,391	\$ 611,522	\$ 531,421	\$ 574,128	\$ 514,860
District's covered employee payroll	\$ 192,425	\$ 194,510	\$ 203,777	\$ 220,175	\$ 227,075	\$ 227,411	\$ 209,563	\$ 222,978	\$ 222,031
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%	257.48%	231.89%
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%	52.42%	57.48%

Notes:

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

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

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	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Contractually required employer contribution	\$ 24,865	\$ 24,589	\$ 30,718	\$ 32,880	\$ 36,886	\$ 40,446	\$ 50,794	\$ 51,955	\$ 60,268
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>50,794</u>	<u>51,955</u>	<u>60,268</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<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	\$ 222,031	\$ 258,542
Employer contributions as a percentage of covered-employee payroll	12.78%	12.07%	13.95%	14.48%	16.22%	19.30%	22.78%	23.40%	23.31%

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 Six Years**

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<b>Reporting Year End (Measurement Date)</b>	<b>December 31, 2018 (June 30, 2018)</b>	<b>December 31, 2019 (June 30, 2019)</b>	<b>December 31, 2020 (June 30, 2020)</b>	<b>December 31, 2021 (June 30, 2021)</b>	<b>December 31, 2022 (June 30, 2022)</b>	<b>December 31, 2023 (June 30, 2023)</b>
District's proportion of the net OPEB liability	0.0122180%	0.856100%	0.007971%	0.008335%	0.007942%	0.008024%
District's proportionate share of the net OPEB liability (asset)	\$ 151,999	\$ 137,752	\$ 192,475	\$ 159,529	\$ 156,697	\$ (11,079)
District's covered employee payroll	\$ 220,175	\$ 227,075	\$ 227,411	\$ 209,563	\$ 222,978	\$ 222,031
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%	70.27%	-4.99%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	60.44%	51.67%	62.91%	60.95%	104.23%

Notes:

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

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

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Contractually required employer contribution	\$ 10,673	\$ 11,962	\$ 9,976	\$ 9,298	\$ 7,527	\$ 3,829
Contributions relative to contractually required employer contribution	<u>10,673</u>	<u>11,962</u>	<u>9,976</u>	<u>9,298</u>	<u>7,527</u>	<u>3,829</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 227,075	\$ 227,411	\$ 209,563	\$ 222,978	\$ 222,031	\$ 258,542
Employer contributions as a percentage of covered-employee payroll	4.70%	5.26%	4.76%	4.17%	3.39%	1.48%

Notes:

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

**NORTH NELSON WATER DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2023 and 2022**

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**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, 2023 – Pension and OPEB**

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2023, for Pension:

- The rate of inflation was increased from 2.30% to 2.50%.
- The salary productivity assumption was reduced by .20%, resulting in no change in the salary increase assumption for long-service employees of 3.30% in the non-hazardous funds.
- The individual rates of salary increases were increased during the select period for the CERS funds.
- The investment return assumption was increased from 6.25% to 6.50%.
- The Tier 3 cash balance interest crediting rate assumption was increased to 6.75% for the CERS pension funds.

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2023, for OPEB:

- The rate of inflation was increased from 2.30% to 2.50%.
- The salary productivity assumption was reduced by .20%, resulting in no change in the salary increase assumption for long-service employees of 3.30% in the non-hazardous funds.
- The individual rates of salary increases were increased during the select period for the CERS funds.
- The investment return assumption was increased from 6.25% to 6.50%.
- The initial healthcare trend rate for pre-65 was changed from 6.20% to 6.8%. The initial healthcare trend rate for post-65 was changed from 9.00% to 8.50%.

**December 31, 2022 – Pension and OPEB**

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.30% to 6.2%. The initial healthcare trend rate for post-65 was changed from 6.30% to 9.00%.



**NORTH NELSON WATER DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2023 and 2022**

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**2. CHANGES OF ASSUMPTIONS (CONTINUED)**

**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

**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.

**NORTH NELSON WATER DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2023 and 2022**

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**2. CHANGES OF ASSUMPTIONS (CONTINUED)**

**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 years ended December 31,**

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	<b>2023</b>	<b>2022</b>
Auto expense	\$ 15,749	\$ 14,887
Payroll and benefits expense	402,496	356,652
Other general and administrative	11,116	7,163
Insurance - general liability	8,027	8,852
Contract labor	137,404	69,899
Insurance - workmen's compensation	12,069	11,546
Commissioners' salaries	7,200	7,000
Regulatory commission expense & other taxes	<u>2,289</u>	<u>2,482</u>
	<u>\$ 596,350</u>	<u>\$ 478,481</u>

**NORTH NELSON WATER DISTRICT**  
**Schedule II - Organization Data**  
**for the year ended December 31, 2023**

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WATER COMMISSIONERS

Robert Cecil - Chairman  
Don Mudd - Secretary  
Robert Greenwell - Treasurer

Calendar Year

January 1 to December 31

**INDEPENDENT AUDITORS' 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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 29, 2024.

**Report on Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 deficiency in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be a material weakness (2023-001).

**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 questioned costs. 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  
May 29, 2024

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited the North Nelson Water District's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the North Nelson Water District's major federal programs for the year ended December 31, 2023. The North Nelson Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the North Nelson Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the North Nelson Water District and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the North Nelson Water District's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the North Nelson Water District's federal programs.



### ***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the North Nelson Water District's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the North Nelson Water District's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 North Nelson Water District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the North Nelson Water District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the North Nelson Water District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
May 29, 2024

**NORTH NELSON WATER DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
for the year ended December 31, 2023**

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<b>GRANTOR/PROGRAM TITLE</b>	<b>Federal AL Number</b>	<b>Pass Through Grantor's Number</b>	<b>Expenditures</b>
U.S. Department of the Treasury			
Passed through the Kentucky Infrastructure Authority			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	21CWW020	\$ 1,950,215
Passed through the Kentucky Department for Local Government and the Bullitt County Fiscal Court			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	<u>116,958</u>
Passed through the Kentucky Department for Local Government and the Spencer County Fiscal Court			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	<u>8,250</u>
Passed through the Kentucky Department for Local Government and the Nelson County Fiscal Court			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	<u>1,875,694</u>
Total COVID-19 - Coronavirus State and Local Fiscal Recovery Funds			<u>3,951,117</u>
<b>Total expenditures of federal awards</b>			<u><u>\$ 3,951,117</u></u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of North Nelson Water District and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in, or used, in the preparation of, the basic financial statements may differ from those numbers.

Note 2 - North Nelson Water District did not pass through any funds to subrecipients.

Note 3 - Indirect Cost Rates

North Nelson Water District did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

Note 4 - Passthrough grantor numbers are presented when available.

**NORTH NELSON WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
for the year ended December 31, 2023**

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**I. SUMMARY OF AUDITORS' RESULTS**

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified  X Yes  No

Significant deficiencies identified that are not considered to be material weaknesses  Yes  X No

Noncompliance material to financial statements noted  Yes  X No

Federal Awards:

Internal control over major programs:

Material weaknesses identified  Yes  X No

Significant deficiencies identified that are not considered to be material weaknesses  Yes  X None reported

Type of auditors' report issued on compliance for major programs:

Unmodified for all major programs.

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  Yes  X No

**Major Programs:**

<b>AL Number</b>	<b>Name of Federal Program or Cluster</b>
21.027	COVID-19 Coronavirus State & Local Fiscal Recovery Fund

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as a low-risk auditee?  Yes  X No

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS**

**2023-001 – 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.

**NORTH NELSON WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
for the year ended December 31, 2023**

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**II. FINDINGS RELATED TO FINANCIAL STATEMENTS (CONTINUED)**

**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.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

NONE

**IV. PRIOR YEAR FINDINGS**

**2022-001 – Internal Control Over Financial Reporting (Recurring)**

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.

*Status: Repeated as Finding 2023-001*