

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

**ELECTRONIC INVESTIGATION INTO )  
WHOLESALE WATER RATES )  
CHARGED BY THE CITY OF )  
CARLISLE TO SHARPSBURG WATER ) CASE NO. 2021-00382  
DISTRICT AND NICHOLAS COUNTY )  
WATER DISTRICT PURSUANT TO )  
KRS 278.200, KRS 278.160, KRS 278.180, )  
KRS 278.190 AND 807 KAR 5:011 )**

**RESPONSE OF  
NICHOLAS COUNTY WATER DISTRICT  
TO  
THE CITY OF CARLISLE, KENTUCKY'S FIRST REQUEST FOR  
INFORMATION**

**DATED JANUARY 7, 2022**

**FILED: February 7, 2022**

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**RESPONSE OF NICHOLAS COUNTY WATER DISTRICT TO  
THE CITY OF CARLISLE, KENTUCKY’S FIRST REQUEST FOR  
INFORMATION**

Comes Nicholas County Water District (“Nicholas District”) for its Response to the City of Carlisle, Kentucky’s First Request for Information, and states as shown on the following pages.



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*Counsel for Nicholas County Water District*

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

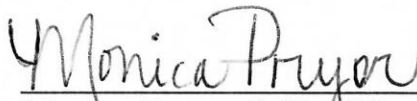
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**CERTIFICATION OF RESPONSE OF NICHOLAS COUNTY WATER  
DISTRICT TO THE CITY OF CARLISLE, KENTUCKY'S FIRST  
REQUEST FOR INFORMATION**

This is to certify that I have supervised the preparation of Nicholas District's Responses to the City of Carlisle, Kentucky's First Request for Information. The response submitted on behalf of Nicholas District is true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

Date: February 7, 2022

  
\_\_\_\_\_  
Monica Pryor, Office Manager  
Nicholas County Water District

## CERTIFICATE OF SERVICE

In accordance with the Commission's Order of July 22, 2021 in Case No. 2020-00085 (Electronic Emergency Docket Related to the Novel Coronavirus COVID-19), this is to certify that the electronic filing has been transmitted to the Commission on February 7, 2022; and that there are currently no parties in this proceeding that the Commission has excused from participation by electronic means.



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Damon R. Talley

**NICHOLAS COUNTY WATER DISTRICT**

**CASE NO. 2021-00382**

**Response to the City of Carlisle, Kentucky's First Request for Information**

**Question No. 1**

**Responding Witness: Monica Pryor, Office Manager**

**Q-1. Copies of current contracts with all its wholesale water suppliers.**

A-1. Nicholas District purchases water on a daily basis from the City of Carlisle and the Western Fleming Water District. It purchases water on an emergency basis from the Buffalo Trail Water Association, Inc. A copy of each of these contracts is on the PSC website. A copy of each of these contracts is also attached to this Response as **Exhibit 1**.

**NICHOLAS COUNTY WATER DISTRICT**

**CASE NO. 2021-00382**

**Response to the City of Carlisle, Kentucky's First Request for Information**

**Question No. 2**

**Responding Witness: Monica Pryor, Office Manager**

**Q-2. Copies of three (3) most recent audits.**

A-2. The Audit Reports for Nicholas District for calendar years 2020, 2019, and 2018 are attached to this Response as **Exhibit 2**.

**NICHOLAS COUNTY WATER DISTRICT**

**CASE NO. 2021-00382**

**Response to the City of Carlisle, Kentucky's First Request for Information**

**Question No. 3**

**Responding Witness: Monica Pryor, Office Manager**

**Q-3. Copies of all Grant Applications to Commonwealth or any U.S. agency from 1 JAN 2019 to date.**

A-3. On August 25, 2021, the United States Department of Agriculture, Rural Development ("RD") issued its Letter of Conditions to Nicholas District setting forth the conditions under which it would make a loan of \$1,221,000 and a grant of \$204,000 for its Phase 12 Water System Improvement Project (the "Project"). The Project is also conditioned upon Nicholas District receiving a \$500,000 grant from the Appalachian Regional Commission. RD then issued an Amended Letter of Conditions on September 21, 2021 to increase the retail rates to be charged by Nicholas District. Both the Letter of Conditions and the Amended Letter of Conditions are attached to this Response.

More information about the Project is contained in the Preliminary Engineering Report (the "PER") prepared by Bluegrass Engineering and submitted to RD. The PER is attached to this Response as **Exhibit 3**.



August 25, 2021

Mr. Silas Cleaver, Chairman  
Nicholas County Water District  
1639 Old Paris Road  
Carlisle, KY 40311

RE: FY21 Phase 12 Water System

Dear Mr. Cleaver:

This letter establishes conditions that must be understood and agreed to by you before further consideration may be given to the application. The loan and grant will be administered on behalf of the Rural Utilities Service (RUS) by the State and Area office staff of USDA Rural Development. Any changes in project cost, source of funds, scope of services or any other significant changes in the project or applicant must be reported to and approved by USDA Rural Development, by written amendment to this letter. Any changes not approved by Rural Development shall be cause for discontinuing processing of the application. It should also be understood that Rural Development is under no obligation to provide additional funds to meet an overrun in construction costs.

This letter is not to be considered as loan or grant approval or as a representation as to the availability of funds. The docket may be completed on the basis of a RUS loan not to exceed \$1,221,000, a RUS grant not to exceed \$204,000, and an Appalachian Regional Commission (ARC) grant of \$500,000.

If Rural Development makes the loan, the interest rate will be the lower of the rate in effect at the time of loan approval or the rate in effect at the time of loan closing, unless the applicant otherwise chooses. The loan will be considered approved on the date a signed copy of Form RD 1940-1, "Request for Obligation of Funds," is mailed to you.

Please complete and return the attached Form RD 1942-46, "Letter of Intent to Meet Conditions," if you desire that further consideration be given to your application.

The "Letter of Intent to Meet Conditions" must be executed within three weeks from the date of this letter, or it becomes invalid unless a time extension is granted by Rural Development.

If the conditions set forth in this letter are not met within 240 days from the date hereof, Rural Development reserves the right to discontinue the processing of the application. In signing Form RD 1942-46, "Letter of Intent to Meet Conditions," you are agreeing to complete the following as expeditiously as possible:

1. Number of Users and Their Contribution:

There shall be 1,610 water users all of which are existing customers. The Field Director will review and authenticate the number of users obtained and check evidence of cash contribution prior to advertising for construction bids.

**Rural Development • Kentucky State Office**

771 Corporate Drive, Suite 200, Lexington, Kentucky 40502  
Voice (859) 224-7300 • Fax (855) 661-8335 • TTY (859) 224-7422

USDA is an equal opportunity provider, employer and lender.



2. Grant Agreement:

Attached is a copy of RUS Bulletin 1780-12, "Water and Waste System Grant Agreement," for your review. You will be required to execute a completed form at the time of grant closing.

3. Drug-Free Workplace:

Prior to grant closing, the District will be required to execute Form AD-1049, "Certification Regarding Drug-Free Workplace Requirements (Grants) Alternative I - For Grantees Other Than Individuals."

4. Repayment Period:

The loan will be scheduled for repayment over a period not to exceed 40 years from the date of the Bond. Principal payment will **not** be deferred. Payments will be in accordance with applicable KRS, which requires interest to be paid semi-annually (January 1st and July 1st) and principal will be due on or before the first of January. Rural Development may require the District to adopt a supplemental payment agreement providing for monthly payments of principal and interest so long as the bond is held or insured by RUS. Monthly payments will be approximate amortized installments

5. Recommended Repayment Method:

Payments on this loan shall be made using the Preauthorized Debit (PAD) payment method. This procedure eliminates the need for paper checks and ensures timely receipt of RD loan payments. To initiate PAD payments, Form RD 3550-28, "Authorization Agreement for Preauthorized Payments," should be signed by the District to authorize the electronic withdrawal of funds from your designated bank account on the exact installment payment due date. The Field Director will furnish the necessary forms and further guidance on the PAD procedure.

6. Reserve Accounts:

Reserves must be properly budgeted to maintain the financial viability of any operation. Reserves are important to fund unanticipated emergency maintenance, pay for repairs, and assist with debt service should the need arise.

The District will be required to deposit \$315 per month into a "Funded Debt Reserve Account" until the account reaches \$37,800. The deposits are to be resumed any time the account falls below the \$37,800.

The required monthly deposits to the Reserve Account and required Reserve Account levels are in addition to the requirements of the District's prior bond ordinances which have not been properly funded prior to the underwriting of this project. The District will also need to catch up reserve payments for existing RD Bonds in conjunction with the new reserves. RD loan 91-12 (2007) requires a monthly deposit of \$95 until the account reaches \$11,400 and RD loan 91-14 (2014) requires a monthly deposit of \$195 until the account reaches \$23,400. Payments to catch up reserves for existing bonds will need to commence immediately.

The monthly deposits to the Reserve Account are required to commence with the first month of the first full fiscal year after the facility becomes operational.

The District also needs to fund an account for short-lived assets by depositing a sum of \$1,666 monthly into the account. The funds in the short-lived asset account may be used by the District as needed to replace or add short-lived assets in the District's utility system.

7. Security Requirements:

A pledge of gross revenue(s) will be provided in the Bond Ordinance. Bonds shall rank on a parity with existing bonds, if possible.

If this is not possible, the bond will be subordinate and junior to the existing bonds, in which case the District will be required to abrogate its right to issue additional bonds ranking on a parity with the existing bonds, so long as any unpaid indebtedness remains on this bond issue. Additional security requirements are contained in [RUS Bulletin 1780-12, "Water and Waste System Grant Agreement," and RUS Bulletin 1780-27, "Loan Resolution Public Body." A draft of all security instruments, including, draft bond resolution, must be reviewed and concurred in by the Agency prior to advertising for bids.

The Bond Resolution and Loan Resolution must be duly adopted and executed prior to loan closing. The Grant Agreement must be fully executed prior to the first disbursement of grant funds.

8. Land Rights and Real Property:

The District will be required to furnish satisfactory title, easements, etc., necessary to install, maintain and operate the facility to serve the intended users.

The pipelines will be on private rights-of-way where feasible. Easements and options are to be secured prior to advertising for construction bids.

9. Organization:

The District will be legally organized under applicable KRS, which will permit them to perform this service, borrow, or repay money.

The District must maintain a current registration of their Dun and Bradstreet Data Universal Numbering System (DUNS) number in SAM.gov (System for Award Management) in order to receive federal loan and/or grant financial assistance. This registration must be updated/renewed at least annually.

10. Business Operations:

The District will be required to operate the system under a well-established set of resolutions, rules and regulations. A budget must be established annually and adopted by the District after review by Rural Development. At no later than loan pre-closing, the District will be required to furnish a prior approved management plan to include, as a minimum, provisions for management, maintenance, meter reading, miscellaneous services, billing, collecting, delayed payment penalties, disconnect/reconnect fees, bookkeeping, making and delivering required reports and audits.

11. Conflict of Interest Policy:

Prior to obligation of funds, you will certify in writing that your organization has in place an up-to-date written policy on conflict of interest. The policy will include, at a minimum: (1) a requirement for those with a conflict/potential conflict to disclose the conflict/potential

conflict, (2) a prohibition of interested members of the applicant's governing body from voting on any matter in which there is a conflict, and (3) a description of the specific process by which the governing body will manage identified or potential conflicts. You must also submit a disclosure of planned or potential transactions related to the use of Federal funds that may constitute or present the appearance of personal or organizational conflict of interest. Sample conflict of interest policies may be found at the National Council of Nonprofits website, <https://www.councilofnonprofits.org/tools-resources/conflict-of-interest>, or in Internal Revenue Service Form 1023, Appendix A, "Sample Conflict of Interest Policy," at <http://www.irs.gov/pub/irs-pdf/i1023.pdf>. Though these examples reference non-profit corporations, the requirement applies to all types of Agency borrowers.

Disclosure must be in the form of a written letter signed and dated by the applicant's official. A negative disclosure of the same format is required if no conflicts are anticipated. Assistance in developing a conflict of interest policy is available through Agency-contracted technical assistance providers if desired.

12. Accounts, Records and Audits:

The District will be required to maintain adequate records and accounts and submit annual budgets and year-end reports (annual audits)/statistical and financial reports, quarterly and annually, in accordance with subsection 1780.47 of RUS Instruction 1780.

The District shall be required to submit a copy of its audit agreement for review and concurrence by Rural Development prior to pre-closing the loan.

13. Accomplish Audits for Years in Which Federal Financial Assistance is Received:

The type of financial information that must be submitted is specified below:

Audits – An annual audit under the Single Audit Act is required if you expend \$750,000 or more in Federal financial assistance per fiscal year. The total Federal funds expended from all sources shall be used to determine Federal financial assistance expended. Expenditures of interim financing are considered Federal expenditures.

All audits are to be performed in accordance with 2 CFR Part 200, as adopted by USDA through 2 CFR Part 400. Further guidance on preparing an acceptable audit can be obtained from the Agency. It is not intended that audits required by this part be separate and apart from audits performed in accordance with State and local laws. To the extent feasible, the audit work should be done in conjunction with those audits. The audit must be prepared by an independent licensed Certified Public Accountant, or a State or Federal auditor if allowed by State law, and must be submitted within 9 months of your fiscal year end.

14. Insurance and Bonding:

The following insurance and bonding will be required:

- A. Adequate Liability and Property Damage Insurance including vehicular coverage, if applicable, must be obtained and maintained by the District. The District should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.

- B. Worker's Compensation - The District will carry worker's compensation insurance for employees in accordance with applicable state laws.
- C. Fidelity Bond - The District will provide Fidelity Bond Coverage for all persons who have access to funds. Coverage may be provided either for all individual positions or persons, or through "blanket" coverage providing protection for all appropriate employees and/or officials. The amount of coverage required for all RUS loans is \$60,000.
- D. Real Property Insurance - The District will obtain and maintain adequate fire and extended coverage on all structures including major items of equipment or machinery located in the structures.  
The amounts of coverage should be based on recommendations obtained by the District from its attorney, consulting engineer and/or insurance provider. Subsurface lift stations do not have to be covered except for the value of electrical and pumping equipment therein.
- E. Flood Insurance - The District will obtain and maintain adequate coverage on any facilities located in special flood and mudslide prone areas.

15. Planning and Performing Development:

- A. The engineer should not be authorized to commence work on final plans and specifications until a determination has been made that the project can be planned and constructed within the estimated cost shown in paragraph "28" of this letter. The engineer may then proceed to develop final plans and specifications to be completed no later than 210 days from this date, and prepare bid documents. The Field Director is prepared to furnish the necessary guide to follow so as to keep the project plans and documents within our guidelines and requirements. The project must be constructed by the design/bid/build method of construction. The project should not be advertised for construction bids until all easements and enforceable options have been obtained, and total funds are committed or available for the project.
- B. The following documents will be submitted to Rural Development for review and must be concurred in by Rural Development prior to advertisement for construction bids:
  - 1. Final plans, specifications and bid documents.
  - 2. Applicant's letter on efforts to encourage small business and minority-owned business participation.
  - 3. Legal Service Agreements.
  - 4. Engineering Agreements.

Revision in these documents will be subject to Rural Development concurrence. Any agreements, contracts, etc. not reviewed and approved by Rural Development will not be eligible for payment from project funds or revenues from facilities financed by this Agency.

Prior to receipt of an authorization to advertise for construction bids, the District will obtain advance clearance from Bond Counsel and/or Local Counsel regarding compliance with KRS 424 pertaining to publishing of the

advertisement for construction bids in local newspapers and the period of time the notice is required to be published.

16. Bid Tabulation:

Immediately after bid opening, you must provide the Agency with the bid tabulation and your engineer's evaluation of bids and recommendations for contract awards. If the Agency agrees that the construction bids received are acceptable, adequate funds are available to cover the total project costs, and all the requirements of this letter have been satisfied, the Agency will authorize you to issue the Notice of Award.

- A. Cost Overruns – If bids are higher than expected, or if unexpected construction problems are encountered, you must utilize all options to reduce cost overruns. Negotiations, redesign, use of bidding alternatives, rebidding or other means will be considered prior to commitment of subsequent funding by the Agency. Any requests for subsequent funding to cover cost overruns will be contingent on the availability of funds.

Cost overruns exceeding 20% of the development cost at time of loan or grant approval or where the scope of the original purpose has changed will compete for funds with all other applications on hand as of that date.

- B. Excess Funds – If bids are lower than anticipated at time of obligation, excess funds must be de-obligated prior to start of construction except in the cases addressed in this paragraph. In cases where the original PER for the project included items that were not bid, or were bid as an alternate, the State Office official may modify the project to fully utilize obligated funds for those items. Amendments to the PER, ER, and letter of conditions may be needed for any work not included in the original project scope. In all cases, prior to start of construction, excess funds will be de-obligated, with grant funds being de-obligated first. Excess funds do not include contingency funds as described in this letter.

17. Contract Documents, Final Plans, and Specifications:

- A. The contract documents must consist of the EJCDC construction contract documents as indicated in RUS Bulletin 1780-26 or other Agency-approved forms of agreement.
- B. The contract documents, final plans, and specifications must comply with RUS Instruction 1780, Subpart C – Planning, Designing, Bidding, Contracting, Constructing and Inspections, and must be submitted to the Agency for concurrence prior to advertising for bids along with an updated cost estimate. The Agency may require another updated cost estimate if a significant amount of time elapses between the original submission and advertising for bids.
- C. The use of any procurement method other than competitive sealed bids must be requested in writing and approved by the Agency.

18. Contract Review:

Your attorney will certify that the executed contract documents, including performance and payment, if required, are adequate and that the persons executing these documents have been properly authorized to do so in accordance with RUS Instruction 1780.61 (b).

19. Civil Rights & Equal Opportunity:

You should be aware of and will be required to comply with other federal statute requirements including but not limited to:

A. Section 504 of the Rehabilitation Act of 1973:

Under Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), no handicapped individual in the United States shall, solely by reason of their handicap, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Rural Development financial assistance.

B. Civil Rights Act of 1964:

All borrowers are subject to, and facilities must be operated in accordance with, Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d et seq.) and Subpart E of Part 1901 of this Title, particularly as it relates to conducting and reporting of compliance reviews.

Instruments of conveyance for loans and/or grants subject to the Act must contain the covenant required by paragraph 1901.202(e) of this Title.

C. The Americans with Disabilities Act (ADA) of 1990:

This Act (42 U.S.C. 12101 et seq.) prohibits discrimination on the basis of disability in employment, state and local government services, public transportation, public accommodations, facilities, and telecommunications. Title II of the Act applies to facilities operated by state and local public entities that provide services, programs, and activities. Title III of the Act applies to facilities owned, leased, or operated by private entities that accommodate the public.

D. Age Discrimination Act of 1975:

This Act (42 U.S.C. 6101 et seq.) provides that no person in the United States shall, on the basis of age, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance.

E. Limited English Proficiency (LEP) under Executive Order 13166:

LEP statutes and authorities prohibit exclusion from participation in, denial of benefits of, and discrimination under Federally assisted and/or conducted programs on the ground of race, color, or national origin. Title VI of the Civil Rights Act of 1964 covers program access for LEP persons.

LEP persons are individuals who do not speak English as their primary language and who have a limited ability to read, speak, write, or understand English. These individuals may be entitled to language assistance, free of charge. You must take reasonable steps to ensure that LEP persons receive the language assistance necessary to have meaningful access to USDA programs, services, and information your organization provides.

These protections are pursuant to Executive Order 13166 entitled, "Improving Access to Services by Persons with Limited English Proficiency" and further affirmed in the USDA Departmental Regulation 4330-005, "Prohibition Against National Origin Discrimination Affecting Persons with Limited English Proficiency in Programs and Activities Conducted by USDA."

Agency financial programs must be extended without regard to race, color, religion, sex, national origin, marital status, age, or physical or mental handicap. You must display posters (provided by the Agency) informing users of these requirements, and the Agency will monitor your compliance with these requirements during compliance reviews.

20. Closing Instructions:

The Office of General Counsel, our Regional Attorney, will be required to write closing instructions in connection with this loan. Conditions listed therein must be met by the District.

21. Compliance with Special Laws and Regulations:

The District will be required to conform to any and all state and local laws and regulations affecting this type project.

22. Treatment Plant and System Operator:

The District is reminded that the water system operator must have an Operator's Certificate issued by the State.

23. Prior to Pre-Closing the Loan, the District Will Be Required to Adopt:

- A. Form RUS Bulletin 1780-27, "Loan Resolution (Public Bodies)."
- B. Form RD 400-1, "Equal Opportunity Agreement."
- C. Form RD 400-4, "Assurance Agreement."
- D. Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transaction."
- E. Form RD 1910-11, "Applicant Certification Federal Collection Policies for Consumer or Commercial Debts."
- F. RD Instruction 1940-Q, Exhibit A-1, "Certification for Contracts, Grants and Loans."
- G. RUS Bulletin 1780-22, "Eligibility Certification."

24. Refinancing and Graduation Requirements:

The District is reminded that if at any time it shall appear to the Government that the District is able to refinance the amount of the RUS indebtedness then outstanding, in whole or in part, by obtaining a loan from commercial sources at reasonable rates and

terms, upon the request of the Government, the District will apply for and accept such loan in sufficient amount to repay the Government.

25. Commercial Interim Financing:

The District will be required to use commercial interim financing for the project during construction for the RUS loan portion of the financing, if available at reasonable rates and terms.

Before the loan is closed, the District will be required to provide Rural Development with statements from the contractor, engineer and attorneys that they have been paid to date in accordance with their contract or other agreements and, in the case of the contractor, that he has paid his suppliers and sub-contractors.

26. Disbursement of Project Funds:

A construction account for the purpose of disbursement of project funds (RUS) will be established by the District prior to start of construction. The position of officials entrusted with the receipt and disbursement of RUS project funds will be covered by a "Fidelity Bond," with USDA Rural Development as Co-Obligee, in the amount of construction funds on hand at any one time during the construction phase.

For each "construction account" as established, if the amount of RUS loan and grant funds plus any applicant contributions or funds from other sources to be deposited into the account are expected to exceed \$250,000 at any time, the financial institution will secure the amount in excess of \$250,000 by pledging collateral with the Federal Reserve Bank in an amount not less than the excess in accordance with 7 CFR, 1902.7(a).

Agency funds will be disbursed into the construction account through an electronic transfer system. The borrower should complete Form SF-3881, "Electronic Funds Transfer Payment Enrollment Form," for each account where funds will be electronically received. The completed form(s) must be received by Rural Development at least thirty (30) days prior to the first advance of funds.

Monthly audits of the District's construction account records shall be made by Rural Development.

Borrowers receiving federal loan and/or grant funds by EFT will have funds directly deposited to a specified account at a financial institution with funds being available to the recipient on the date of payment.

Any applicant contribution will be the first funds expended, followed by other funding sources. Interim financing or Agency loan funds will be expended after all other funding sources unless an agreement is reached with all other funding sources on how funds are to be disbursed prior to start of construction or loan closing, whichever occurs first. Interim financing funds or Agency loan funds must be used prior to the use of Agency grant funds. The Grant funds must not be disbursed prior to loan funds except as specified in RUS Instruction 1780.45 (d). In the unlikely event the Agency mistakenly disburses funds, the funds will be remitted back to the Agency electronically.



During construction, the District shall disburse project funds in a manner consistent with subsection 1780.76 (e) of RUS Instruction 1780. Form RD 1924-18, "Partial Payment Estimate," or similar form approved by Rural Development, shall be used for the purpose of documenting periodic construction estimates, and shall be submitted to Rural Development for review and acceptance. Prior to disbursement of funds by the District, the District Council shall review and approve each payment estimate. All bills and vouchers must be approved by Rural Development prior to payment by the District. Form RD 440-11, "Estimate of Funds Needed for 30-Day Period Commencing \_\_\_\_\_," will be prepared by the District and submitted to Rural Development in order that a periodic advance of federal cash may be requested.

27. Disbursement of Grant Funds:

The RUS funds will be advanced as they are needed in the amount(s) necessary to cover the RUS proportionate share of obligations due and payable by the District.

Grant funds are to be deposited in an interest-bearing account in accordance with 2 CFR part 200 and interest in excess of \$500 per year remitted to the Agency.

The funds should be disbursed by the recipient immediately upon receipt and there should be little interest accrual on the Federal funds. Recipients shall maintain advances of Federal funds in interest-bearing account, unless:

- a. The recipient receives less than \$120,000 in Federal awards per year.
- b. The best reasonably available interest-bearing account would not be expected to earn interest in excess of \$500 per year on Federal cash balances.
- c. The depository would require an average or minimum balance so high that it would not be feasible within the expected Federal and non-Federal cash resources.
- d. A foreign government or banking system prohibits or precludes interest-bearing accounts.

28. Project Budget:

Estimated expenditures are as follows:

Project Costs:

Development	\$1,493,000
Land and Rights	5,000
Legal and Administrative	15,000
Engineering Fees	224,000
Interest	40,000
Contingencies	<u>\$ 148,000</u>
TOTAL PROJECT COST	\$1,925,000

Project Funding:

RUS Loan	\$1,221,000
RUS Grant	204,000
ARC Grant	<u>\$ 500,000</u>
TOTAL FUNDING	\$1,925,000

Any changes in funding sources following obligation of Agency funds must be reported to the processing official. Project feasibility and funding will be reassessed if there is a significant change in project costs after bids are received. If actual project costs exceed the project cost estimates, an additional contribution by the Owner may be necessary. Prior to advertisement for construction bids, you must provide evidence of applicant contributions and approval of other funding sources. This evidence should include a copy of the commitment letter. Agency funds will not be used to pre-finance funds committed to the project from other sources.

Obligated loan or grant funds not needed to complete the proposed project will be de-obligated prior to start of construction. Any reduction will be applied to grant funds first. An amended letter of conditions will be issued for any changes to the total project budget.

29. Commitment of Other Project Funds:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the ARC grant in the amount of \$500,000.

30. Construction Completion Timeframe:

All projects are required to be completed and all funds disbursed within five years of obligation. If funds are not disbursed within five years of obligation, you must submit a written waiver request with adequate justification of extenuating circumstances beyond your control for an extension of time. Any additional requests for waivers beyond the initial extension will be submitted through the State Office to the Assistant Administrator for concurrence decision.

31. Use of Remaining Project Funds:

The applicant contribution shall be considered as the first funds expended. After providing for all authorized costs, any remaining project funds will be considered to be RUS/ARC grant funds and refunded in proportion to participation in the project. If the amount of unused project funds exceeds the grants, that part would be RUS loan funds.

32. Proposed Operating Budget:

You will be required to submit to Rural Development a copy of your proposed annual operating budget that supports the proposed loan repayment prior to this agency giving you written authorization to proceed with the bidding phase. The operating budget should be based on a typical year cash flow, subject to completion of this project in the first full year of operation. Form RD 442-7, "Operating Budget," or similar form may be utilized for this purpose.

33. Rates and Charges:

Rates and charges for facilities and services rendered by the District must be at least adequate to meet cost of maintaining, repairing and operating the water system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

Water rates will be at least:

<u>5/8" x 3/4" Meter (Residential)</u>				
First	1,000	Gallons @	\$20.91	- Minimum Bill
Next	2,000		\$9.94	
Next	2,000		\$8.15	
Next	5,000		\$6.51	
Next	15,000		\$5.86	
All Over	25,000	Gallons @	\$5.53	

<u>1" Meter (Residential)</u>				
First	3,000	Gallons @	\$40.78	- Minimum Bill
Next	2,000		\$8.15	
Next	5,000		\$6.51	
Next	15,000		\$5.86	
All Over	25,000	Gallons @	\$5.53	

<u>1 1/2" Meter (Residential)</u>				
First	5,000	Gallons @	\$57.09	- Minimum Bill
Next	5,000		\$6.51	
Next	15,000		\$5.86	
All Over	25,000	Gallons @	\$5.53	

<u>2" Meter (Residential)</u>				
First	10,000	Gallons @	\$89.62	- Minimum Bill
Next	15,000		\$5.86	
All Over	25,000	Gallons @	\$5.53	

<u>3" Meter (Residential)</u>				
First	15,000	Gallons @	\$118.93	- Minimum Bill
Next	10,000		\$5.86	
All Over	25,000	Gallons @	\$5.53	

<u>4" Meter (Residential)</u>				
First	25,000	Gallons @	\$177.56	- Minimum Bill
All Over	25,000	Gallons @	\$5.53	

Wholesale water rates will be @ \$3.02 per 1,000 gallons.

34. Water Purchase Contract:

The District will submit a Water Purchase Contract for approval by Rural Development before advertising for construction bids. If the contract is not on Form RD 442-30, "Water Purchase Contract," the contract will require approval by our Regional Attorney. The contract must meet the requirements of subsection 1780.62 of RUS Instruction 1780, which includes there must be 40 years left on the term of the water purchase contract. The contract term must match the term of the loan.

35. Vulnerability Assessment/Emergency Response Plan (VA/ERP):

The Agency requires all financed water and wastewater systems to have a VA/ERP in place. Borrowers with existing systems must provide a certification that a VA/ERP has

been completed prior to advertising for bids. The documents are not submitted to the Agency for VA/ERP requirements throughout the life of the loan.

36. Floodplain Construction:

The District will be required to pass and adopt a Resolution or amend its By-Laws whereby the District will deny any water service to any future customer wishing to build on or develop property located within a designated floodplain.

If a customer or developer requests service for construction in a designated floodplain, the customer or developer must provide evidence and a justification for approval by the District and Rural Development officials that there are no other alternatives to construction or development within the designated floodplain. The community must be a participant in the National Flood Insurance Program (NFIP), and the customer or developer must obtain the required permits prior to the tap on restrictions being waived.

37. Mitigation Measures:

The project shall be in compliance with requirements as noted in the Governor's Office for Local Government (A-95) letter of January 24, 2021.

The line design and construction shall be accomplished in a way that will leave the flood plains and wetlands unaffected after construction is completed. The U.S. Corps of Engineer's Nationwide Permit 12 applies to all flood plain and utility line construction.

Any excavation by the Contractor that uncovers or disturbs a historical or archaeological artifact shall be immediately reported to the Owner and a representative of this agency. Construction shall be halted pending the notification process and further directions issued by this agency after consultation with the State Historic Preservation Officer.

The design and construction of the project shall be accomplished with all local, state, and federal statues, regulations, and permits in effect.

Best Management Practices shall be incorporated into the project design, construction, and maintenance.

Since all corridor construction will occur in the existing highway right-of-way, if a stream is encountered it will necessarily be directional bored. Notify RD of any relocation of the line is anticipated for stream crossings.

All requirements sated in the USFWS letter of February 16, 2021, shall be made a part of the project design, construction, and maintenance.

38. System for Award Management:

You will be required to maintain a Dun and Bradstreet Data Universal Numbering System (DUNS) number and maintain an active registration in the System for Award Management (SAM) database. Renewal can be done on-line at: <http://sam.gov>. This registration must be renewed and revalidated every twelve (12) months for as long as there are Agency funds to be expended.

To ensure the information is current, accurate and complete, and to prevent the SAM account expiration, the review and updates must be performed within 365 days of the activation date, commonly referred to as the expiration date. The registration process may take up to 10 business days. (See 2 CFR Part 25 and the “Help” section at <http://sam.gov>).

39. Prepayment and Extra Payments:

Prepayments of scheduled installments, or any portion thereof, may be made at any time at the option of borrower, with no penalty.

Security instruments, including bonding documents, must contain the following language regarding extra payments, unless prohibited by State statute:

*Prepayments of scheduled installments, or any portion thereof, may be made at any time at the option of the borrower. Refunds, extra payments and loan proceeds obtained from outside sources for the purpose of paying down the Agency debt, shall, after payment of interest, be applied to the installments last to become due under this note and shall not affect the obligation of borrower to pay the remaining installments as scheduled in your security instruments.*

40. Security/Operational Inspections:

The Agency will inspect the facility and conduct a review of your operations and records management system and conflict of interest policy every three years for the life of the loan. You must participate in these inspections and provide the required information.

41. American Iron and Steel:

Section 746 of Title VII of the Consolidated Appropriations Act of 2017 (Division A - Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2017) applies a new American Iron and Steel requirement:

- (1) No Federal funds made available for this fiscal year for the rural water, wastewater, waste disposal, and solid waste management programs authorized by the Consolidated Farm and Rural Development Act (7 U.S.C. 1926 et seq.) shall be used for a project for the construction, alteration, maintenance, or repair of a public water or wastewater system unless all of the iron and steel products used in the project are produced in the United States.
- (2) The term “iron and steel products” means the following products made primarily of iron or steel: lined or unlined pipes and fittings, manhole covers and other municipal castings, hydrants, tanks, flanges, pipe clamps and restraints, valves, structural steel, reinforced precast concrete, and construction materials.
- (3) The requirement shall not apply in any case or category of cases in which the Secretary of Agriculture (in this section referred to as the “Secretary”) or the designee of the Secretary finds that— a. applying the requirement would be inconsistent with the public interest; b. iron and steel products are not

produced in the United States in sufficient and reasonably available quantities or of a satisfactory quality; or c. inclusion of iron and steel products produced in the United States will increase the cost of the overall project by more than 25 percent.

42. Final Approval Conditions:

Final approval of this assistance will depend on your willingness, with the assistance of all your co-workers, to meet the conditions of this letter in an orderly and systematic manner. Then too, final approval will depend on funds being available.

If you desire to proceed with your application, the Field Director will allot a reasonable portion of time to provide guidance in application processing.

Sincerely,

TRACI VAUGHT  
Acting State Director

Enclosures

cc: Field Director – Shelbyville, Kentucky  
Field Specialist – Morehead, Kentucky  
Bluegrass ADD – Lexington Kentucky  
Rubin & Hays – Louisville, Kentucky  
Dawn Letcher – Carlisle, Kentucky  
Cherokee Willoughby, Bluegrass Engineering – Georgetown, Kentucky  
PSC – ATTN: Linda Bridwell – Frankfort, Kentucky



September 21, 2021

Mr. Silas Cleaver, Chairman  
Nicholas County Water District  
1639 Old Paris Road  
Carlisle, Kentucky 40311

Re: Letter of Conditions Dated August 25, 2021

Dear Mr. Cleaver:

This letter shall serve as Amendment No. 1 to the Letter of Conditions dated August 25, 2021. The purpose of this amendment is to revise the rates and charges.

Paragraph numbered "33" is revised to read as follows:

"33. Rates and Charges:

Rates and charges for facilities and services rendered by the District must be at least adequate to meet cost of maintaining, repairing and operating the water system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

Water rates will be at least:

<u>5/8" x 3/4" Meter (Residential)</u>				
First	1,000	Gallons @	\$21.93	- Minimum Bill
Next	2,000		\$10.43	
Next	2,000		\$ 8.55	
Next	5,000		\$ 6.83	
Next	15,000		\$ 6.15	
All Over	25,000	Gallons @	\$ 5.81	

<u>1" Meter (Residential)</u>				
First	3,000	Gallons @	\$42.78	- Minimum Bill
Next	2,000		\$ 8.55	
Next	5,000		\$ 6.83	
Next	15,000		\$ 6.15	
All Over	25,000	Gallons @	\$ 5.81	

<u>1 1/2" Meter (Residential)</u>				
First	5,000	Gallons @	\$59.88	- Minimum Bill
Next	5,000		\$ 6.83	
Next	15,000		\$ 6.15	
All Over	25,000	Gallons @	\$ 5.81	

**Rural Development • Kentucky State Office**  
771 Corporate Drive, Suite 200, Lexington, Kentucky 40503  
Voice (859) 224-7300 • Fax (859) 224-4748 • TTY (859) 224-7422

USDA is an equal opportunity provider and employer.

<u>2" Meter (Residential)</u>				
First	10,000	Gallons @	\$94.01	- Minimum Bill
Next	15,000		\$ 6.15	
All Over	25,000	Gallons @	\$ 5.81	

<u>3" Meter (Residential)</u>				
First	15,000	Gallons @	\$124.76	- Minimum Bill
Next	10,000		\$ 6.15	
All Over	25,000	Gallons @	\$ 5.81	

<u>4" Meter (Residential)</u>				
First	25,000	Gallons @	\$186.26	- Minimum Bill
All Over	25,000	Gallons @	\$ 5.81	

Wholesale water rates will be @ \$3.02 per 1,000 gallons.

All other provisions of the referenced Letter of Conditions remain in full force and unchanged.

Sincerely,

TRACI VAUGHT  
Acting State Director

cc: Field Director – Shelbyville, Kentucky  
Field Specialist – Morehead, Kentucky  
Bluegrass ADD – Lexington Kentucky  
Rubin & Hays – Louisville, Kentucky  
Dawn Letcher – Carlisle, Kentucky  
Cherokee Willoughby, Bluegrass Engineering – Georgetown, Kentucky  
PSC – ATTN: Linda Bridwell – Frankfort, Kentucky



**NICHOLAS COUNTY WATER DISTRICT**

**CASE NO. 2021-00382**

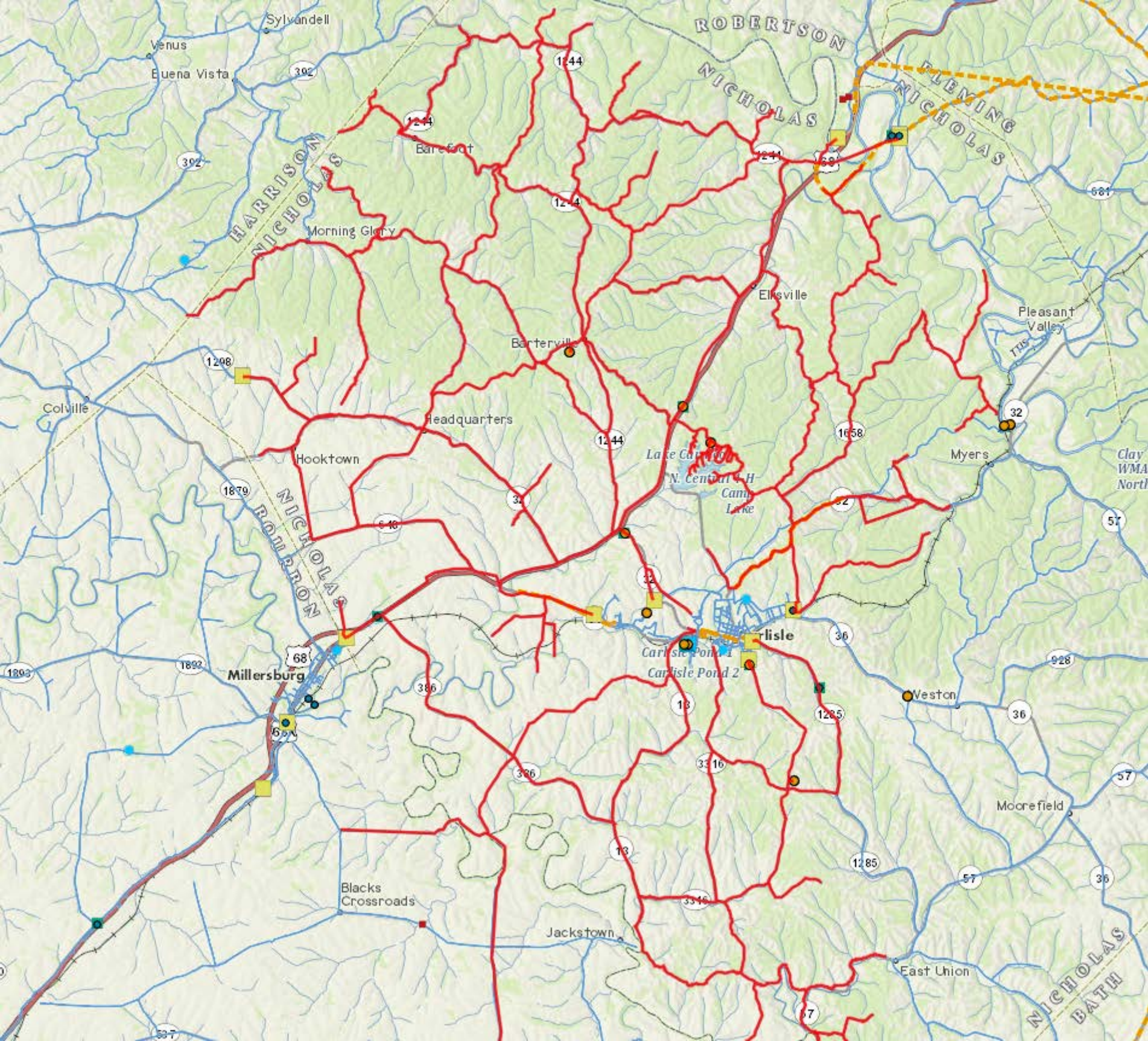
**Response to the City of Carlisle, Kentucky's First Request for Information**

**Question No. 4**

**Responding Witness: Monica Pryor, Office Manager**

**Q-4. Copy of Service Area map showing where NCWD sells retail or wholesale.**

**A-4. A map depicting Nicholas District's service area is attached to this Response.**



**NICHOLAS COUNTY WATER DISTRICT**

**CASE NO. 2021-00382**

**Response to the City of Carlisle, Kentucky's First Request for Information**

**Question No. 5**

**Responding Witness: Monica Pryor, Office Manager**

**Q-5. List all other potable water suppliers serving or operating in service map noted above, identifying where others so operating or serving.**

A-5. No other service provider serves or operates within Nicholas District's service area.

**NICHOLAS COUNTY WATER DISTRICT**

**CASE NO. 2021-00382**

**Response to the City of Carlisle, Kentucky's First Request for Information**

**Question No. 6**

**Responding Witness: Kirk Robinson, Distribution Operator**

**Q-6. Provide the following data on each of the four (4) meters through which the City serves NCWD:**

- a. Make and manufacturer of each meter;**
- b. Serial number of meter;**
- c. Date of manufacture;**
- d. Date placed in service;**
- e. Copies of any calibration tests performed on any of the four (4) meters;**
- f. Copy of schedule of calibration testing and regular maintenance servicing of four (4) meters;**
- g. Dates of servicing from 1 JAN 2019 to date;**

A-6. About two weeks ago, Nicholas District's Distribution Operator started compiling the information needed to answer this particular information request. Unfortunately, he has not yet finished compiling this information. Last week's inclement weather, repairing the water line breaks that occurred late last week and again over the weekend of February 5, and dealing with the unexpected interruption of the water supply from Carlisle has prevented him from providing this information by today's deadline. It will be provided as soon as possible.

**NICHOLAS COUNTY WATER DISTRICT**

**CASE NO. 2021-00382**

**Response to the City of Carlisle, Kentucky's First Request for Information**

**Question No. 7**

**Responding Witness: Monica Pryor, Office Manager**

**Q-7. Detailed billing records for sales to Harrison County Water District from 1 JAN 2019 to date.**

A-7. Attached to this Response are the detailed billing records for sales from Nicholas District to Harrison County Water Association, Inc. (the "Harrison Water Association") from January 1, 2019 through the present.

BY: GL

Customer History Report  
 Select Customer By: Account Range: From 102503 To 102503  
 Status: All Accounts  
 Transaction Types:

Date	Type	Cls	Amount	Applied	Reference	Usage	Balance
Account: 102503 HARRISON CO. WATER, MASTER METER							
Location: 09-0573 HICK HARDY ROAD							
10/01/18	WATER	WAT	3,697.05	3,697.05	32096400-33856900 A10	1760500	3,697.05
10/01/18	911 FEE	OTH	2.00	2.00			3,699.05
10/11/18	PAYMENT	CHK	-3,699.05				0.00
10/30/18	WATER	WAT	323.40	323.40	33856900-34010900 A10	154000	323.40
10/30/18	911 FEE	OTH	2.00	2.00			325.40
11/09/18	PAYMENT	CHK	-325.40				0.00
11/29/18	WATER	WAT	1,056.09	1,056.09	34010900-34513800 A11	502900	1,056.09
11/29/18	911 FEE	OTH	2.00	2.00			1,058.09
12/10/18	PAYMENT	CHK	-1,058.09				0.00
12/28/18	WATER	WAT	3,169.74	3,169.74	34513800-36023200 A12	1509400	3,169.74
12/28/18	911 FEE	OTH	2.00	2.00			3,171.74
01/09/19	PAYMENT	CHK	-3,171.74				0.00
01/30/19	WATER	WAT	5,469.45	5,469.45	36023200-38627700 A1/	2604500	5,469.45
01/30/19	911 FEE	OTH	2.00	2.00			5,471.45
02/11/19	PAYMENT	CHK	-5,471.45				0.00
02/28/19	WATER	WAT	3,989.79	3,989.79	38627700-40527600 A2/	1899900	3,989.79
02/28/19	911 FEE	OTH	2.00	2.00			3,991.79
03/22/19	PAYMENT	CHK	-3,991.79				0.00
03/29/19	WATER	WAT	4,498.20	4,498.20	40527600-42669600 A3/	2142000	4,498.20
03/29/19	911 FEE	OTH	2.00	2.00			4,500.20
04/08/19	PAYMENT	CHK	-4,500.20				0.00
04/30/19	WATER	WAT	4,450.95	4,450.95	42669600-44789100 A4/	2119500	4,450.95
04/30/19	911 FEE	OTH	2.00	2.00			4,452.95
05/10/19	PAYMENT	CHK	-4,452.95				0.00
05/31/19	WATER	WAT	5,611.20	5,611.20	44789100-47461100 A5/	2672000	5,611.20
05/31/19	911 FEE	OTH	2.00	2.00			5,613.20
06/10/19	PAYMENT	CHK	-5,613.20				0.00
07/02/19	WATER	WAT	5,137.65	5,137.65	47461100-49907600 A7/	2446500	5,137.65
07/02/19	911 FEE	OTH	2.00	2.00			5,139.65
07/12/19	PAYMENT	CHK	-5,139.65				0.00
07/29/19	WATER	WAT	3,537.03	3,537.03	49907600-51591900 A7/	1684300	3,537.03
07/29/19	911 FEE	OTH	2.00	2.00			3,539.03
08/08/19	PAYMENT	CHK	-3,539.03				0.00
08/30/19	WATER	WAT	4,517.10	4,517.10	51591900-53742900 A8/	2151000	4,517.10
08/30/19	911 FEE	OTH	2.00	2.00			4,519.10
09/16/19	PAYMENT	CHK	-4,519.10				0.00
09/30/19	WATER	WAT	6,187.02	6,187.02	53742900-56689100 A9/	2946200	6,187.02
09/30/19	911 FEE	OTH	2.00	2.00			6,189.02
10/10/19	PAYMENT	CHK	-6,189.02				0.00
10/31/19	WATER	WAT	3,318.21	3,318.21	56689100-58269200 A10	1580100	3,318.21
10/31/19	911 FEE	OTH	2.00	2.00			3,320.21
11/15/19	PAYMENT	CHK	-3,320.21				0.00
12/02/19	WATER	WAT	5,456.01	5,456.01	58269200-60867300 A12	2598100	5,456.01
12/02/19	911 FEE	OTH	2.00	2.00			5,458.01
12/09/19	PAYMENT	CHK	-5,458.01				0.00
12/30/19	WATER	WAT	3,754.59	3,754.59	60867300-62655200 A12	1787900	3,754.59
12/30/19	911 FEE	OTH	2.00	2.00			3,756.59
01/08/20	PAYMENT	CHK	-3,756.59				0.00
01/31/20	WATER	WAT	4,698.96	4,698.96	62655200-64892800 A1/	2237600	4,698.96
01/31/20	911 FEE	OTH	2.00	2.00			4,700.96

BY: GL

Customer History Report  
 Select Customer By: Account Range: From 102503 To 102503  
 Status: All Accounts  
 Transaction Types:

Date	Type	Cls	Amount	Applied	Reference	Usage	Balance
Account: 102503 HARRISON CO. WATER, MASTER METER Location: 09-0573 HICK HARDY ROAD							
02/14/20	PAYMENT	CHK	-4,700.96				0.00
03/02/20	WATER	WAT	5,418.21	5,418.21	64892800-67472900 A3/	2580100	5,418.21
03/02/20	911 FEE	OTH	2.00	2.00			5,420.21
03/09/20	PAYMENT	CHK	-5,420.21				0.00
03/31/20	WATER	WAT	4,257.12	4,257.12	67472900-69500100 A3/	2027200	4,257.12
03/31/20	911 FEE	OTH	2.00	2.00			4,259.12
04/15/20	PAYMENT	CHK	-4,259.12				0.00
05/01/20	WATER	WAT	3,854.97	3,854.97	69500100-71335800 A5/	1835700	3,854.97
05/01/20	911 FEE	OTH	2.00	2.00			3,856.97
05/07/20	PAYMENT	CHK	-3,856.97				0.00
05/29/20	WATER	WAT	5,911.12	5,911.12	71335800-73748500 A5/	2412700	5,911.12
05/29/20	911 FEE	OTH	2.00	2.00			5,913.12
06/08/20	PAYMENT	CHK	-5,913.12				0.00
06/25/20	WATER	WAT	4,941.41	4,941.41	73748500-75765400 A6/	2016900	4,941.41
06/25/20	911 FEE	OTH	2.00	2.00			4,943.41
07/10/20	PAYMENT	CHK	-4,943.41				0.00
07/30/20	WATER	WAT	5,371.38	5,371.38	75765400-77957800 A7/	2192400	5,371.38
07/30/20	911 FEE	OTH	2.00	2.00			5,373.38
08/14/20	PAYMENT	CHK	-5,373.38				0.00
08/31/20	WATER	WAT	5,858.93	5,858.93	77957800-80349200 A8/	2391400	5,858.93
08/31/20	911 FEE	OTH	2.00	2.00			5,860.93
09/14/20	PAYMENT	CHK	-5,860.93				0.00
09/30/20	WATER	WAT	4,742.71	4,742.71	80349200-82285000 A9/	1935800	4,742.71
09/30/20	911 FEE	OTH	2.00	2.00			4,744.71
10/12/20	PAYMENT	CHK	-4,744.71				0.00
10/29/20	WATER	WAT	5,889.07	5,889.07	82285000-84688700 A10	2403700	5,889.07
10/29/20	911 FEE	OTH	2.00	2.00			5,891.07
11/09/20	PAYMENT	CHK	-5,891.07				0.00
11/30/20	WATER	WAT	6,753.43	6,753.43	84688700-87445200 A11	2756500	6,753.43
11/30/20	911 FEE	OTH	2.00	2.00			6,755.43
12/14/20	PAYMENT	CHK	-6,755.43				0.00
12/30/20	WATER	WAT	4,961.50	4,961.50	87445200-89470300 A12	2025100	4,961.50
12/30/20	911 FEE	OTH	2.00	2.00			4,963.50
01/19/21	PAYMENT	CHK	-4,963.50				0.00
02/01/21	WATER	WAT	5,288.33	5,288.33	89470300-91628800 A2/	2158500	5,288.33
02/01/21	911 FEE	OTH	2.00	2.00			5,290.33
02/12/21	PAYMENT	CHK	-5,290.33				0.00
03/01/21	WATER	WAT	5,465.46	5,465.46	91628800-93859600 A3/	2230800	5,465.46
03/01/21	911 FEE	OTH	2.00	2.00			5,467.46
03/12/21	PAYMENT	CHK	-5,467.46				0.00
04/01/21	WATER	WAT	192.33	192.33	93859600-93938100 A4/	78500	192.33
04/01/21	911 FEE	OTH	2.00	2.00			194.33
04/12/21	PAYMENT	CHK	-194.33				0.00
05/03/21	WATER	WAT	2,389.49	2,389.49	93938100-94913400 A5/	975300	2,389.49
05/03/21	911 FEE	OTH	2.00	2.00			2,391.49
05/14/21	PAYMENT	CHK	-2,391.49				0.00
06/01/21	WATER	WAT	5,954.97	5,954.97	94913400-97344000 A6/	2430600	5,954.97
06/01/21	911 FEE	OTH	2.00	2.00			5,956.97
06/09/21	PAYMENT	CHK	-5,956.97				0.00

BY: GL

Customer History Report  
 Select Customer By: Account Range: From 102503 To 102503  
 Status: All Accounts  
 Transaction Types:

Date	Type	Cls	Amount	Applied	Reference	Usage	Balance
Account: 102503 HARRISON CO. WATER, MASTER METER							
Location: 09-0573 HICK HARDY ROAD							
07/01/21	WATER	WAT	2,546.53	2,546.53	97344000-98383400 A7/	1039400	2,546.53
07/01/21	911 FEE	OTH	2.00	2.00			2,548.53
07/12/21	PAYMENT	CHK	-2,548.53				0.00
08/02/21	WATER	WAT	1,282.82	1,282.82	98383400-98907000 A8/	523600	1,282.82
08/02/21	911 FEE	OTH	2.00	2.00			1,284.82
08/16/21	PAYMENT	CHK	-1,284.82				0.00
09/01/21	WATER	WAT	1,105.20	1,105.20	98907000-99358100 A9/	451100	1,105.20
09/01/21	911 FEE	OTH	2.00	2.00			1,107.20
09/13/21	PAYMENT	CHK	-1,107.20				0.00
10/01/21	WATER	WAT	1,446.73	1,446.73	99358100-99948600 A10	590500	1,446.73
10/01/21	911 FEE	OTH	2.00	2.00			1,448.73
10/12/21	PAYMENT	CHK	-1,448.73				0.00
11/01/21	WATER	WAT	2.45	2.45	99948600-99948600 A11		2.45
11/01/21	911 FEE	OTH	2.00	2.00			4.45
11/09/21	WATER	WAT	125.69	125.69	99948600-99999900 A11	51300	130.14
11/09/21	911 FEE	OTH	2.00	2.00			132.14
11/09/21	WATER	WAT	508.62	508.62	A11/1/2021 34032444	207600	640.76
11/09/21	911 FEE	OTH	2.00	2.00			642.76
11/19/21	PAYMENT	CHK	-642.76				0.00
12/01/21	WATER	WAT	634.55	634.55	207600-466600 A12/1/2	259000	634.55
12/01/21	911 FEE	OTH	2.00	2.00			636.55
12/13/21	PAYMENT	CHK	-636.55				0.00
01/03/22	WATER	WAT	1,193.15	1,193.15	466600-953600 A1/3/20	487000	1,193.15
01/03/22	911 FEE	OTH	2.00	2.00			1,195.15
01/14/22	PAYMENT	CHK	-1,195.15				0.00
02/01/22	WATER	WAT	1,621.41		953600-1615400 A2/1/2	661800	1,621.41
02/01/22	911 FEE	OTH	2.00				1,623.41
ENDING BAL							1,623.41

\* Denotes an unposted transaction.

<< End of Customer History Report: 9 Page(s) >>



**NICHOLAS COUNTY WATER DISTRICT**

**CASE NO. 2021-00382**

**Response to the City of Carlisle, Kentucky's First Request for Information**

**Question No. 8**

**Responding Witness: Monica Pryor, Office Manager**

**Q-8. Copies of initial application to the PSC for wholesale rate to HCWD and any subsequent applications for adjustment in NCWD wholesale rate.**

A-8. Nicholas District is not aware of any application to the PSC for approval of the wholesale rate that it charges the Harrison Water Association. The Water Purchase Contract between Nicholas District and Harrison Water Association was submitted to the PSC in 2021 and was approved by the PSC on July 1, 2021. The approved Water Purchase Contract includes a wholesale rate of \$3.02 per 1,000 gallons.

**NICHOLAS COUNTY WATER DISTRICT**

**CASE NO. 2021-00382**

**Response to the City of Carlisle, Kentucky's First Request for Information**

**Question No. 9**

**Responding Witness: Monica Pryor, Office Manager**

**Q-9. Copies of any notification to Carlisle of intent to sell water from Carlisle at wholesale to HCWD.**

A-9. To the best of Nicholas District's knowledge, it never notified, nor was it required to notify, Carlisle of its intent to provide wholesale water service to the Harrison Water Association.

**NICHOLAS COUNTY WATER DISTRICT**

**CASE NO. 2021-00382**

**Response to the City of Carlisle, Kentucky's First Request for Information**

**Question No. 10**

**Responding Witness: Monica Pryor, Office Manager**

**Q-10. Record of any termination in service from any other wholesale provider resulting in an increase in purchase of water from Carlisle and reason for such termination from 1 JAN 2019 to date.**

A-10. None of Nicholas District's wholesale water providers, except Carlisle, has ever provided a termination notice to Nicholas District

**NICHOLAS COUNTY WATER DISTRICT**

**CASE NO. 2021-00382**

**Response to the City of Carlisle, Kentucky's First Request for Information**

**Question No. 11**

**Responding Witness: Monica Pryor, Office Manager**

**Q-11. Schedule of salaries paid to board members of NCWD from 1 JAN 2019 to date, reflecting any changes.**

A-11. Each of Nicholas District's commissioners receive \$200 per month as approved by the Nicholas Fiscal Court. The amount has not been changed by the Nicholas Fiscal Court for several years.

**NICHOLAS COUNTY WATER DISTRICT**

**CASE NO. 2021-00382**

**Response to the City of Carlisle, Kentucky's First Request for Information**

**Question No. 12**

**Responding Witness: Monica Pryor, Office Manager**

**Q-12. Copies of all correspondence, email traffic, or other written communication between NCWD, its officers and employees, and Nicholas County Judge Executive or Nicholas County fiscal Court from 1 JAN 2019 to date relating to service from City of Carlisle.**

A-12. To the best of our knowledge, there has not been any such correspondence between Nicholas District, its officers, its commissioners, or its employees concerning water service from Carlisle since January 1, 2019.

**EXHIBIT 1**

**CARLISLE WATER PURCHASE CONTRACT**

RECEIVED

AUG 19 1994

RECEIVED

AUG 19 1994

P.S.C.  
RATES & RESEARCH DIV.

WATER PURCHASE CONTRACT

PUBLIC SERVICE  
COMMISSION

This contract for the sale and purchase of water is entered into as of the 25<sup>th</sup> day of January, 1993, between the City of Carlisle, Nicholas County, Kentucky, City Hall, 107 Chestnut Street, Carlisle, Kentucky 40311, hereinafter referred to as the "Seller" and the Nicholas County Water District, P.O. Box 304, Carlisle, Kentucky 40311, hereinafter referred to as the "Purchaser".

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

W I T N E S S E T H:

WHEREAS the Purchaser is organized and established under the provisions of Chapter 74 of the Kentucky Revised Statutes for the purpose of constructing and operating a distribution system serving water users within the area described in plans now on file in the office of the Purchaser, and to accomplish this purpose the Purchaser requires for its existing system, and will require for an extension thereto, a supply of treated water; and

SEP 09 1994

PURSUANT TO 807 KAR 5.011.

SECTION 9 (1)  
BY: Jordan B. Neal  
FOR THE PUBLIC SERVICE COMMISSION

WHEREAS, the Seller owns and operates a water supply distribution system with a capacity currently capable of serving the present customers of the Seller's system and the estimated number of water users to be served by the said Purchaser as shown in the plans of the existing system and the extension thereto, respectively, now on file in the office of the Purchaser, and

WHEREAS, by Resolution No. 8 enacted on the 23<sup>d</sup> day of DECEMBER, 1992, by the Seller, the sale of water to the Purchaser in accordance with the provisions of the said

Resolution was approved, and the execution of this contract carrying out the said Resolution by the Mayor, and attested by the City Clerk, was duly authorized, and

WHEREAS, by Resolution of the Nicholas Co. Water District of the Purchaser, enacted on the 21<sup>ST</sup> day of January, 1993, the purchase of water from the Seller in accordance with the terms set forth in the said resolution was approved, and the execution of this contract by the Chairman, and attested by the Secretary was duly authorized;

NOW THEREFORE, in consideration of the foregoing and the mutual agreements hereinafter set forth,

It is the intent of the parties hereto that this Agreement shall supercede and replace all prior Agreements of the parties for the sale of water from City of Carlisle to Nicholas County Water District, and all sales after the effective date hereof shall be governed by the terms and conditions herein, as they may be modified from time to time by City Ordinances relating to rates for Outside City Customers, or by mutual written agreement.

A. The Seller Agrees:

1. Quality and Quantity. To furnish the Purchaser at the point of delivery hereinafter specified, during the term of this contract or any renewal or extension thereof, potable treated water meeting applicable purity standards of the Kentucky Division of Water Quality in such quantity as may be required by the Purchaser not to exceed Four Million (4,000,000) gallons per month.

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

SEP 09 1994

PURSUANT TO 807 KAR 5:011,  
SECTION 9(1)

BY: Judson C. Neal  
FOR THE PUBLIC SERVICE COMMISSION



2. Points of Delivery and Pressure. That water will be furnished at a reasonably constant pressure, from existing main supplies, at points located, through meters sized, as follows:

A. From a tap on the north side of Kentucky Highway #36 across from the Deposit Bank, from a four (4") inch supply main, through a two (2") inch meter, at plus or minus (+/-) fifty-five (55) PSI.

B. From a tap on the north side of Kentucky Highway #36 on the County Barn property, from a four (4") inch supply main, through a four (4") inch compound meter, at plus or minus (+/-) seventy-five (75) PSI.

C. From a tap on the south side of Kentucky Highway #32 in the Henryville neighborhood, east of Laytart's Store, from a ten (10") inch supply main, through a six (6") inch meter, at plus or minus (+/-) thirty-two (32) PSI.

D. From a tap at the end of High Street, on the property of Billy Mack Gaunce, from a four (4") inch supply main, through a two (2") inch turbine meter, at plus or minus (+/-) forty-eight (48) PSI.

E. From a tap on the west side of Dorsey Road, serving the Concord Road area, from a four (4") inch supply main, through a two (2") turbine meter, at plus or minus (+/-) fifty-six (56) PSI.

F. From a tap on the west side of Kentucky Highway #32 "Old Paris Pike", next to the Reno Runck farm, from a ten (10") inch supply main, which tap shall be ten (10") inches by six (6") inches, and which meter shall be four (4") inches minimum to six

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE  
SEP 09 1994  
PURSUANT TO 807 KAR 5011,  
SECTION 9(1)  
BY: Andrew C. Steel  
COMMISSION

(6") inches maximum, at plus or minus (+/-) seventy-five (75) PSI.

If a greater pressure than that normally available at the points of delivery is required by the Purchaser, the cost of providing such greater pressure shall be borne by the Purchaser. Emergency failures of pressure or supply due to main supply line breaks, power failure, flood, fire and use of water to fight fire, earthquake or other catastrophe shall excuse the Seller from this provision for such reasonable period of time as may be necessary to restore service.

3. Billing Procedure. To furnish the Purchaser at the above address not later than the 10th day of each month, (or the first working day thereafter), with an itemized statement of the amount of water furnished the Purchaser during the preceding month.

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

SEP 09 1994

B. The Purchaser Agrees:

1. Metering Equipment. To furnish and install meter pit and connection for its extension to system, at its own expense at the new point of delivery in 2.F. above, including any required meter house or pit, and required devices of a standard type, which shall follow good and normal engineering principles, and which said design and installation shall be approved by the Seller and the Seller's engineer and performed by the Purchaser.

PURSUANT TO 807 KAR 5.011,  
SECTION 9(1)  
BY: James A. Neal  
FOR THE SELLER'S ENGINEER

2. Operation and maintenance. Upon completion, testing, and acceptance by the Seller, Purchaser is to operate and maintain at its own expense, all necessary connections, from the

tapping valve and line, and metering equipment, including meter houses and pits, for properly measuring the quantity of water delivered to the Purchaser, at all points of delivery and to calibrate such metering equipment whenever requested by the Seller but not more frequently than once every twelve (12) months. A meter registering not more than two percent (2%) above or below the test result shall be deemed to be accurate. The previous readings of any meter disclosed by test to be inaccurate shall be corrected for the six (6) months previous to such test in accordance with the percentage of inaccuracy found by such tests. If any meter fails to register for any period, the amount of water furnished during such period shall be deemed to be the amount of water delivered in the corresponding period immediately prior to the failure, unless Seller and Purchaser shall agree upon a different amount. The metering equipment shall be read by the last of the month. An appropriate official of the Seller at all reasonable times shall have access to the meter for the purpose of verifying its readings.

3. Outside City Rates and Payment Date. To pay the Seller, not later than than ten (10) working days following billing by Seller, for water delivered in accordance with the City of Carlisle Water rates for Outside City Users as established from time to time by Ordinance in the Code of Ordinances of the City, currently per the following schedule of rates:

**PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE**

**SEP 09 1994**

**PURSUANT TO 807 KAR 5.011,  
SECTION 9 (1)**

BY: Jordan A. Neal  
FOR THE PUBLIC SERVICE COMMISSION

Outside City

SEP 09 1994

First 1,000 gallons	\$7.80
Next 4,000 gallons	2.08
Next 5,000 gallons	2.02
Next 5,000 gallons	1.69
Next 10,000 gallons	1.56
Next 25,000 gallons	1.30
All over 50,000 gallons	1.24
Industrial rate	1.30

PURSUANT TO 807 KAR 5:011,  
SECTION 9(1)

BY: *Jordan C. Paul*  
ALBERT DESPER  
1,000 gallons

A penalty of ten (10%) percent of the amount due will be assessed and paid on all bills not paid in full within ten (10) working days in accordance with Ordinances of Seller.

4. Connection Fee. No connection fee will need to be paid if the Water District or its contractors install all meter equipment and other needed materials and make all water main taps. If the City does any work for the Water District, it will be reimbursed at an agreed cost of labor and materials furnished.

C. It is further mutually agreed between the Seller and the Purchaser as follows:

1. Term of Contract. That this contract shall extend for a term of forty (40) years from the date of the initial delivery of any water as shown by the first bill submitted by the Seller to the Purchaser and, thereafter may be renewed or extended for such term, or terms, as may be agreed upon by the Seller and Purchaser.

2. Delivery of Water. That thirty (30) days prior to the estimated date of completion of construction of the extension to Purchaser's water supply distribution system, the Purchaser will notify the Seller in writing the date for the initial delivery of water.

3. Water for Testing. When requested by the Purchaser the Seller will make available to Purchaser's contractor at the point of delivery, or other point reasonably close thereto, water sufficient for testing, flushing, and trench filling the system extension of the Purchaser during construction, irrespective of whether the metering equipment has been installed at that time, at a flat charge per one thousand (1,000) gallons at the then current over fifty (50,000) thousand gallons rate for Outside City Users, which will be paid by the contractor or, for Outside City Users, which will be paid by the contractor or, failure to pay, by the Purchaser.

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

4. Failure to Deliver. That the Seller will, at all times, operate and maintain its system in an efficient manner will take such action as may be necessary to furnish the Purchaser with quantities of water required by the Purchaser. Temporary or partial failures to deliver water shall be remedied with all possible dispatch. In the event of an extended shortage of water, or the supply of water available to the Seller is otherwise diminished over an extended period of time, the supply of water to Purchaser's consumers shall be reduced or diminished as set forth in the City of Carlisle Code of Ordinances.

SEP 09 1994  
PURSUANT TO 807 KAR 5011,  
SECTION 10  
BY: *Jordan C. Neal*  
FOR THE PUBLIC SERVICE COMMISSION

5. Modification of Contract. That the provisions of this contract pertaining to the schedule of rates to be paid by the Purchaser for water delivered are subject to modification in accordance with the City of Carlisle Water Rates, as established from time to time by Ordinance of the City in its Code of Ordinances. Any increase or decrease in rates shall be based on a demonstrable increase or decrease in the costs of production of

finished water by Seller, which may include increased capitalization of the Seller's system based on improvements benefiting Purchaser. Other provisions of the contract may be modified or altered by mutual agreement.

6. Regulatory Agencies. That this contract is subject to such rules, regulations, or laws as may be applicable to similar agreements in this State and the Seller and Purchaser will collaborate in obtaining such permits, certificates, or the like, as may be required to comply therewith.

7. Miscellaneous. That the extension of its water supply distribution system by the Purchaser is being financed by a loan made or insured by, and/or a grant from the United States of America, acting through the Farmers Home Administration of the United States Department of Agriculture, and the provisions hereof pertaining to the undertakings of the Purchaser regarding the extension to its system are conditioned upon the approval, in writing, of the State Director of the Farmers Home Administration.

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

8. Successor to the Purchaser. That in the event of any occurrence rendering the Purchaser incapable of performing this contract, any successor of the Purchaser, whether by legal process, assignment, or otherwise, shall succeed to the rights of the Purchaser hereunder.

SEP 09 1994

PURSUANT TO 807 KAR 8.011,  
SECTION 4

BY: *Jordan C. Neal*  
Kentucky State

9. Conflicts of Law. This contract shall be construed in accordance with the laws of the Commonwealth of Kentucky.

10. Modification. Except as to rates for water provided as set forth in Paragraph C. 5. above, this Contract shall not

modified except in writing executed by both parties hereto.

IN WITNESS WHEREOF, the parties hereto, acting under authority of their respective governing bodies, have caused this contract to be duly executed in four (4) counterparts, each of which shall constitute an original.

Seller: City of Carlisle

Frankie Hughes

By: Frankie Hughes

Title: Mayor

Attest:

Mary Tapp  
Mary Tapp  
City Clerk

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

SEP 09 1994

PURSUANT TO 807 KAR 5.011,  
SECTION 9 (1)

BY: Jordan C. Paul  
FOR THE PUBLIC SERVICE COMMISSION

Purchaser: Nicholas County Water  
District

Garvey Curtsinger

By: Garvey Curtsinger

Title: Chairman

Attest:

Paula J Hunter

This contract is approved on behalf of the Farmers Home Administration this the 22<sup>nd</sup> day of FEBRUARY, 1993.

Jimmy H. Hall  
By: JIMMY H. HALL  
Title: COMMUNITY AND BUSINESS PROGRAMS SPECIALIST

**EXHIBIT 1**

**WESTERN FLEMING WATER PURCHASE CONTRACT**



**WATER PURCHASE CONTRACT**

This contract for the sale and purchase of water is entered into as of the 18 day of Sept. 2000

2000  
19, between the Nicholas County Water Dist.  
364 East Main St Carlisle, Ky 40311  
(Address)

hereinafter referred to as the "Seller" and the Western Fleming Co Water Dist.  
RR# 2 Box 85 Ewing, Ky 41039  
(Address)

hereinafter referred to as the "Purchaser",

**WITNESSETH:**

Whereas, the Purchaser is organized and established under the provisions of Chapter 7x of the  
Code of Ky Revised Statutes, for the purpose of constructing and operating a water supply distribution  
system serving water users within the area described in plans now on file in the office of the Purchaser and to accomplish this purpose,  
the Purchaser will require a supply of treated water, and

Whereas, the Seller owns and operates a water supply distribution system with a capacity currently capable of serving the present  
customers of the Seller's system and the estimated number of water users to be served by the said Purchaser as shown in the plans of the  
system now on file in the office of the Purchaser, and

Whereas, by Resolution No. 77 enacted on the 14 day of Sept, 2000  
by the Seller, the sale of water to the Purchaser in accordance with the provisions of the said agreement  
was approved, and the execution of this contract carrying out the said Conditions by the  
Western Fleming Water, and attested by the Secretary, was duly authorized, and

Whereas, by \_\_\_\_\_ of the \_\_\_\_\_ of the Purchaser,  
enacted on the \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_, the purchase of water from the Seller  
in accordance with the terms set forth in the said \_\_\_\_\_ was approved and the execution of this  
contract by the \_\_\_\_\_, and attested by the Secretary was duly authorized;

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE  
NOV 30 2000

Now, therefore, in consideration of the foregoing and the mutual agreements hereinafter set forth, **NOV 30 2000**

**A. The Seller Agrees:**

PURSUANT TO 807 KAR 5.011,  
SECTION 9 (1)

1. (Quality and Quantity) To furnish the Purchaser at the point of delivery hereinafter specified, during the term of this contract or  
any renewal or extension thereof, potable treated water meeting applicable purity standards of the Ky  
Resources and Environmental Protection Cabinet, Division of Water

BY: Sharon Bell  
SECRETARY OF THE COMMISSION

in such quantity as may be required by the Purchaser not to exceed 3 million gallons per month.

2. (Point of Delivery and Pressure) That water will be furnished at a reasonably constant pressure calculated at

180 PSI

from an existing

6" (six inch)

inch main supply at a point located

Licking River

If a greater pressure than that normally available at the point of delivery is required by the Purchaser, the cost of providing such greater pressure shall be borne by the Purchaser. Emergency failures of pressure or supply due to main supply line breaks, power failure, flood, fire and use of water to fight fire, earthquake or other catastrophe shall excuse the Seller from this provision for such reasonable period of time as may be necessary to restore service.

3. (Metering Equipment) To furnish, install, operate, and maintain at its own expense at point of delivery, the necessary metering equipment, including a meter house or pit, and required devices of standard type for properly measuring the quantity of water delivered to the Purchaser and to calibrate such metering equipment whenever requested by the Purchaser but not more frequently than once every twelve (12) months. A meter registering not more than two percent (2%) above or below the test result shall be deemed to be accurate.

The previous readings of any meter disclosed by test to be inaccurate shall be corrected for the 6 Mo months previous to such test in accordance with the percentage of inaccuracy found by such tests. If any meter fails to register for any period, the amount of water furnished during such period shall be deemed to be the amount of water delivered in the corresponding period immediately prior to the failure, unless Seller and Purchaser shall agree upon a different amount. The metering equipment shall be read on

last day of month

. An appropriate official of the Purchaser at all reasonable times shall have access to the meter for the purpose of verifying its readings.

4. (Billing Procedure) To furnish the Purchaser at the above address not later than the \_\_\_\_\_ day of each month, with an itemized statement of the amount of water furnished the Purchaser during the preceding month.

**B. The Purchaser Agrees:**

1. (Rates and Payment Date) To pay the Seller, not later than the 20<sup>th</sup> day of each month, for water delivered in accordance with the following schedule of rates:

- a. \$ 1.38 for the first 1000 gallons, which amount shall also be the minimum rate per month.
- b. \$ 1.38 cents per 1000 gallons for water in excess of \_\_\_\_\_ gallons but less than \_\_\_\_\_ gallons.
- c. \$ 1.38 cents per 1000 gallons for water in excess of \_\_\_\_\_ gallons.

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

NOV 30 2000

PURSUANT TO 807 KAR 5011,  
SECTION 9 (1)  
BY: Stephan Bee  
SECRETARY OF THE COMMISSION

2. (Connection Fee) To pay as an agreed cost, a connection fee to connect the Seller's system with the system of the Purchaser, the sum of \_\_\_\_\_ dollars which shall cover any and all costs of the Seller for installation of the metering equipment and \_\_\_\_\_

C. It is further mutually agreed between the Seller and the Purchaser as follows:

1. (Term of Contract) That this contract shall extend for a term of 40 years from the date of the initial delivery of any water as shown by the first bill submitted by the Seller to the Purchaser and, thereafter may be renewed or extended for such term, or as, as may be agreed upon by the Seller and Purchaser.

2. (Delivery of Water) That 15 days prior to the estimated date of completion of construction of the Purchaser's water supply distribution system, the Purchaser will notify the Seller in writing the date for the initial delivery of water.

3. (Water for Testing) When requested by the Purchaser the Seller will make available to the contractor at the point of delivery, or other point reasonably close thereto, water sufficient for testing, flushing, and trench filling the system of the Purchaser during construction, irrespective of whether the metering equipment has been installed at that time, at a flat charge of \$ \_\_\_\_\_ which will be paid by the contractor or, on his failure to pay, by the Purchaser.

4. (Failure to Deliver) That the Seller will, at all times, operate and maintain its system in an efficient manner and will take such action as may be necessary to furnish the Purchaser with quantities of water required by the Purchaser. Temporary or partial failures to deliver water shall be remedied with all possible dispatch. In the event of an extended shortage of water, or the supply of water available to the Seller is otherwise diminished over an extended period of time, the supply of water to Purchaser's consumers shall be reduced or diminished in the same ratio or proportion as the supply to Seller's consumers is reduced or diminished.

5. (Modification of Contract) That the provisions of this contract pertaining to the schedule of rates to be paid by the Purchaser for water delivered are subject to modification at the end of every 3 year period. Any increase or decrease in rates shall be based on a demonstrable increase or decrease in the costs of performance hereunder, but such costs shall not include increased capitalization of the Seller's system. Other provisions of this contract may be modified or altered by mutual agreement.

6. (Regulatory Agencies) That this contract is subject to such rules, regulations, or laws as may be applicable to similar agreements in this State and the Seller and Purchaser will collaborate in obtaining such permits, certificates, or the like, as may be required to comply therewith.

7. (Miscellaneous) That the construction of the water supply distribution system by the Purchaser is being financed by a loan made or insured by, and/or a grant from, the United States of America, acting through Rural Development of the United States Department of Agriculture, and the provisions hereof pertaining to the undertakings of the Purchaser are conditioned upon the approval, in writing, of the State Director of Rural Development.

8. (Successor to the Purchaser) That in the event of any occurrence rendering the Purchaser incapable of performing under this contract, any successor of the Purchaser, whether the result of legal process, assignment, or otherwise, shall succeed to the rights of the Purchaser hereunder.

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

NOV 30 2000

PURSUANT TO 807 KAR 601.1,  
SECTION 9(1)  
BY: Stephan D. Bell  
SECRETARY OF THE COMMISSION

In witness whereof, the parties hereto, acting under authority of their respective governing bodies, have caused this contract to be duly executed in 3 (three) counterparts, each of which shall constitute an original.

Seller:

West Fleming Water Dist

By Jerry Neal

Title Chairman

Attest:

Vernon Barton  
Secretary

Purchaser:

Nicholas Co Water Dist

By Sue Kirby

Title Chairman

Attest:

Januel C. Reynolds  
Secretary

This contract is approved on behalf of Rural Development this \_\_\_\_\_ day of \_\_\_\_\_

19 \_\_\_\_\_

By \_\_\_\_\_

Title \_\_\_\_\_

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

NOV 30 2000

PURSUANT TO 807 KAR 5011,  
SECTION 9 (1)

BY: Stephan D. Bell  
SECRETARY OF THE COMMISSION

**EXHIBIT 1**

**BUFFALO TRAIL WATER PURCHASE CONTRACT**

Form RD 442-30  
(Rev. 10-96)

UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL DEVELOPMENT

FORM APPROVED  
OMB NO. 0575-0015

Position 5

WATER PURCHASE CONTRACT

This contract for the sale and purchase of water is entered into as of the 1st day of July 19 97, between the Buffalo Trail Water Association, Inc.

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

P.O. Box 6026 Maysville, Kentucky 41056

(Address)

FEB 19 1998

hereinafter referred to as the "Seller" and the Nicholas County Water District

346 East Main Street, P.O. Box 304 Carlisle, Kentucky 40311

(Address)

PURSUANT TO 807 KAR 5:011,  
SECTION 9 (1)

hereinafter referred to as the "Purchaser",

BY: Stephan Bue  
SECRETARY OF THE COMMISSION

WITNESSETH:

Whereas, the Purchaser is organized and established under the provisions of Chapter 76 of the

Code of Kentucky Revised Statutes, for the purpose of constructing and operating a water supply distribution system serving water users within the area described in plans now on file in the office of the Purchaser and to accomplish this purpose, the Purchaser will require a supply of treated water, and

Whereas, the Seller owns and operates a water supply distribution system with a capacity currently capable of serving the present customers of the Seller's system and the estimated number of water users to be served by the said Purchaser as shown in the plans of the system now on file in the office of the Purchaser, and

Whereas, by Resolution No.            enacted on the First day of July, 1997,

by the Seller, the sale of water to the Purchaser in accordance with the provisions of the said Agreement

was approved, and the execution of this contract carrying out the said Conditions by the

Buffalo Trail Water Assoc., and attested by the Secretary, was duly authorized, and

Whereas, by Resolution of the Nicholas County Water District - Board of the Purchaser,

enacted on the 18th day of June, 1997, the purchase of water from the Seller

in accordance with the terms set forth in the said Agreement was approved, and the execution of this

contract by the Nicholas County Water District, and attested by the Secretary was duly authorized;

Now, therefore, in consideration of the foregoing and the mutual agreements hereinafter set forth,

A. The Seller Agrees:

1. (Quality and Quantity) To furnish the Purchaser at the point of delivery hereinafter specified, during the term of this contract or any renewal or extension thereof, potable treated water meeting applicable purity standards of the Kentucky Natural

Resources and Environmental Protection Cabinet, Division of Water

in such quantity as may be required by the Purchaser not to exceed 800,000 gallons per month.

Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to U.S. Department of Agriculture, Clearance Officer, STOP 7402, 1400 Independence Avenue, S.W., Washington, D.C. 20250-7602. Please DO NOT RETURN this form to this address. Forward to the local USDA office only. You are not required to respond to this collection of information unless it displays a currently valid OMB control number.

2. (Point of Delivery and Pressure) That water will be furnished at a reasonably constant pressure calculated at 180 PSI from an existing 6" (six inch) inch main supply at a point located at PRV Vault East of SR 165

If a greater pressure than that normally available at the point of delivery is required by the Purchaser, the cost of providing such greater pressure shall be borne by the Purchaser. Emergency failures of pressure or supply due to main supply line breaks, power failure, flood, fire and use of water to fight fire, earthquake or other catastrophe shall excuse the Seller from this provision for such reasonable period of time as may be necessary to restore service.

3. The "Purchaser"; To furnish, install at its own expense at point of delivery, the necessary metering equipment, including a meter house or pit, and required devices of standard type for properly measuring the quantity of water delivered to the Purchaser. The "Seller" to operate and maintain at its own expense the metering equipment and to calibrate such metering equipment whenever requested by the "Purchaser" but not more frequently than once every twelve (12) months. A meter registering not more than two percent (2%) above or below the test result shall be deemed to be accurate.

The previous readings of any meter disclosed by test to be inaccurate shall be corrected for the 6 (six) months previous to such test in accordance with the percentage of inaccuracy found by such tests. If any meter fails to register for any period, the amount of water furnished during such period shall be deemed to be the amount of water delivered in the corresponding period immediately prior to the failure, unless Seller and Purchaser shall agree upon a different amount. The metering equipment shall be read on

last day of month. An appropriate official of the Purchaser at all reasonable times shall have access to the meter for the purpose of verifying its readings.

4. (Billing Procedure) To furnish the Purchaser at the above address not later than the 10th day of each month, with an itemized statement of the amount of water furnished the Purchaser during the preceding month.

**B. The Purchaser Agrees:**

1. (Rates and Payment Date) To pay the Seller, not later than the 20th day of each month, for water delivered in accordance with the following schedule of rates:

a. \$ 1.35 cents per 1000 gallons

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2. The Purchaser will pay all costs of installations necessary to connect to Seller System.

PURSUANT TO 807 KAR 5:011,  
SECTION 9 (1)  
BY: Stephan Bue  
SECRETARY OF THE COMMISSION

C. It is further mutually agreed between the Seller and the Purchaser as follows:

1. (Term of Contract) That this contract shall extend for a term of 40 (forty) years from the date of the initial delivery of any water as shown by the first bill submitted by the Seller to the Purchaser and, thereafter may be renewed or extended for such term, or terms, as may be agreed upon by the Seller and Purchaser.

2. (Delivery of Water) That 15 days prior to the estimated date of completion of construction of the Purchaser's water supply distribution system, the Purchaser will notify the Seller in writing the date for the initial delivery of water.

3. (Water for Testing) When requested by the Purchaser the Seller will make available to the contractor at the point of delivery, or other point reasonably close thereto, water sufficient for testing, flushing, and trench filling the system of the Purchaser during construction,

irrespective of whether the metering equipment has been installed at that time, at a flat charge of \$ 1.35/1,000 gallons which will be paid by the contractor or, on his failure to pay, by the Purchaser.

4. (Failure to Deliver) That the Seller will, at all times, operate and maintain its system in an efficient manner and will take such action as may be necessary to furnish the Purchaser with quantities of water required by the Purchaser. Temporary or partial failures to deliver water shall be remedied with all possible dispatch. In the event of an extended shortage of water, or the supply of water available to the Seller is otherwise diminished over an extended period of time, the supply of water to Purchaser's consumers shall be reduced or diminished in the same ratio or proportion as the supply to Seller's consumers is reduced or diminished.

5. (Modification of Contract) That the provisions of this contract pertaining to the schedule of rates to be paid by the Purchaser for water delivered are subject to modification at the end of every 3 (three) year period. Any increase or decrease in rates shall be based on a demonstrable increase or decrease in the costs of performance hereunder, but such costs shall not include increased capitalization of the Seller's system. Other provisions of this contract may be modified or altered by mutual agreement.

6. (Regulatory Agencies) That this contract is subject to such rules, regulations, or laws as may be applicable to similar agreements in this State and the Seller and Purchaser will collaborate in obtaining such permits, certificates, or the like, as may be required to comply therewith.

7. (Miscellaneous) That the construction of the water supply distribution system by the Purchaser is being financed by a loan made or insured by, and/or a grant from, the United States of America, acting through Rural Development of the United States Department of Agriculture, and the provisions hereof pertaining to the undertakings of the Purchaser are conditioned upon the approval, in writing, of the State Director of Rural Development.

8. (Successor to the Purchaser) That in the event of any occurrence rendering the Purchaser incapable of performing under this contract, any successor of the Purchaser, whether the result of legal process, assignment, or otherwise, shall succeed to the rights of the Purchaser hereunder.

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PURSUANT TO 807 KAR 5.011.  
SECTION 9 (1)

BY: Stephan D. Bell  
SECRETARY OF THE COMMISSION



In witness whereof, the parties hereto, acting under authority of their respective governing bodies, have caused this contract to be duly executed in 3 (three) counterparts, each of which shall constitute an original.

Seller: Buffalo Trail Water Association, Inc.

William L. Clary

By William L. Clary

Title President

Attest:

Rae Ann  
Secretary

Purchaser:

Jim Simons

By Jim Simons

Title Chairman

Attest:

Sue Kirby  
Secretary

This contract is approved on behalf of Rural Development this \_\_\_\_\_ day of \_\_\_\_\_

19 \_\_\_\_\_

By \_\_\_\_\_

Title \_\_\_\_\_ PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

FEB 19 1998

PURSUANT TO 807 KAR 5.011,  
SECTION 9(1)

BY: Stephan D. Bee  
SECRETARY OF THE COMMISSION

**RESOLUTION**

In order to provide public water supply service to Nicholas County Water District, and to comply with FmHA (RD) guidelines, it is hereby resolved that the Buffalo Trail Water Association enter into a Water Purchase Contract with the Nicholas County Water District. The Water Purchase Contract is attached to this resolution and adopted/approved this 1st day of July, 1997.

By: William L. Clary  
William L. Clary, President

Attest: Ralph Sims  
Ralph Sims, Secretary

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OF KENTUCKY  
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PURSUANT TO 807 KAR 5:011,  
SECTION 9 (1)

BY: Stephan D. Bell  
SECRETARY OF THE COMMISSION

**EXHIBIT 2**

**2020 AUDIT FOR NICHOLAS COUNTY WATER DISTRICT**

**NICHOLAS COUNTY WATER DISTRICT**  
**Carlisle, Kentucky**

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**FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

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## INDEPENDENT AUDITORS' REPORT

The Board of Commissioners  
Nicholas County Water District  
Carlisle, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Nicholas County Water District (the District), as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Nicholas County Water District, as of December 31, 2020 and 2019, 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.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the pension and OPEB schedules on pages 19-22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, 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. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2021, 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 Nicholas County Water 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  
March 25, 2021

**NICHOLAS COUNTY WATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**December 31,**

<b>ASSETS</b>	<b>2020</b>	<b>2019</b>
Current assets		
Cash and cash equivalents	\$ 99,879	\$ 164,934
Customer accounts receivable, net	50,992	54,060
Inventory	6,921	17,543
Prepaid expense	<u>2,174</u>	<u>2,152</u>
Total current assets	<u>159,966</u>	<u>238,689</u>
Restricted assets		
Cash and cash equivalents	<u>84,876</u>	<u>62,371</u>
Capital assets		
Property, plant and equipment	8,943,391	8,937,731
Less: accumulated depreciation	<u>(4,369,032)</u>	<u>(4,166,539)</u>
Total capital assets	<u>4,574,359</u>	<u>4,771,192</u>
Total assets	<u>4,819,201</u>	<u>5,072,252</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows - pension	48,253	61,110
Deferred outflows - OPEB	<u>50,106</u>	<u>30,703</u>
Total deferred outflows of resources	<u>98,359</u>	<u>91,813</u>
Total assets and deferred outflows of resources	<u>\$ 4,917,560</u>	<u>\$ 5,164,065</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 59,345	\$ 29,760
Accrued liabilities	8,493	7,033
Customer deposits	38,670	37,150
Accrued interest payable	10,543	10,239
Current portion of long-term debt	<u>103,500</u>	<u>98,000</u>
Total current liabilities	<u>220,551</u>	<u>182,182</u>
Noncurrent liabilities		
Net pension liability	364,321	345,463
Net OPEB liability	114,674	82,601
Bonds and notes payable, net of current portion	<u>2,160,500</u>	<u>2,264,000</u>
Total noncurrent liabilities	<u>2,639,495</u>	<u>2,692,064</u>
Total liabilities	<u>2,860,046</u>	<u>2,874,246</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows - pension	7,696	12,700
Deferred inflows - OPEB	<u>24,039</u>	<u>31,610</u>
Total deferred inflows of resources	<u>31,735</u>	<u>44,310</u>
<b>NET POSITION</b>		
Net investment in capital assets	2,310,359	2,409,192
Restricted	84,876	62,371
Unrestricted	<u>(369,456)</u>	<u>(226,054)</u>
Total net position	<u>2,025,779</u>	<u>2,245,509</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 4,917,560</u>	<u>\$ 5,164,065</u>

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



**NICHOLAS COUNTY WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
for the years ended December 31,

	<b>2020</b>	<b>2019</b>
<b>OPERATING INCOME</b>		
Water sales	\$ 715,847	\$ 678,820
Other revenue	<u>-</u>	<u>1,556</u>
Total operating income	<u>715,847</u>	<u>680,376</u>
<b>OPERATING EXPENSES</b>		
Water purchases	257,522	238,078
Wages and benefits	250,248	255,191
Professional fees	8,500	29,995
Insurance	15,344	17,835
Contract labor	22,355	22,791
Computer services	5,309	14,401
Utilities	31,184	27,728
General and administrative	<u>61,429</u>	<u>52,534</u>
Total operating expense	<u>651,891</u>	<u>658,553</u>
Operating income before depreciation	63,956	21,823
Depreciation expense	<u>(202,493)</u>	<u>(203,854)</u>
<b>OPERATING (LOSS)</b>	(138,537)	(182,031)
Non-operating income (expense)		
Interest income	825	1,634
Interest expense	<u>(82,018)</u>	<u>(82,517)</u>
Total non-operating income (expense)	<u>(81,193)</u>	<u>(80,883)</u>
<b>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	(219,730)	(262,914)
Capital contributions		
Grants	<u>-</u>	<u>7,620</u>
Change in net position	(219,730)	(255,294)
Net position, beginning of year	<u>2,245,509</u>	<u>2,500,803</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 2,025,779</u>	<u>\$ 2,245,509</u>

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

**NICHOLAS COUNTY WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
for the years ended December 31,**

	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 718,915	\$ 680,939
Payments to suppliers	(358,478)	(407,970)
Payments for employee services and benefits	<u>(218,438)</u>	<u>(202,504)</u>
Net cash provided by operating activities	<u>141,999</u>	<u>70,465</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Retirement of debt principal	(98,000)	(97,500)
Interest paid	(81,714)	(81,821)
Purchase of capital assets	(5,660)	(19,822)
Grants	<u>-</u>	<u>7,620</u>
Net cash (used in) capital and related financing activities	<u>(185,374)</u>	<u>(191,523)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	<u>825</u>	<u>1,634</u>
Net cash provided by investing activities	<u>825</u>	<u>1,634</u>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(42,550)	(119,424)
Cash and cash equivalents, beginning of year	<u>227,305</u>	<u>346,729</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 184,755</u>	<u>\$ 227,305</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$ (138,537)	\$ (182,031)
Noncash items included in operating income:		
Depreciation	202,493	203,854
Net changes in pension liability	26,711	34,886
Net changes in OPEB liability	5,099	688
Changes in assets and liabilities:		
(Increase) decrease in accounts receivables	3,068	3,636
(Increase) decrease in inventory	10,622	(144)
(Increase) decrease in prepaid expense	(22)	(755)
Increase (decrease) in accounts payable	29,585	7,303
Increase (decrease) in accrued liabilities	1,460	(2,727)
Increase (decrease) in customer deposits	<u>1,520</u>	<u>5,755</u>
Net cash provided by operating activities	<u>\$ 141,999</u>	<u>\$ 70,465</u>
Components of cash on the Statement of Net Position		
Cash and cash equivalents	\$ 99,879	\$ 164,934
Restricted cash and cash equivalents	<u>84,876</u>	<u>62,371</u>
	<u>\$ 184,755</u>	<u>\$ 227,305</u>

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

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019**

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**1. ORGANIZATION AND ACCOUNTING POLICIES**

The Nicholas County Water District (the District) was created and organized as a public body incorporated in Nicholas County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes. The District began operations in 1966.

**Reporting Entity**

The Nicholas County 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.

There are no other entities that are subject to the District's oversight responsibility as indicated above.

**Basis of Accounting**

The accrual basis of accounting is utilized by the District. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

The District reports all revenues and expenses as operating, except interest income, interest expense, amortization, gains and losses on disposal of assets, and capital contributions.

The net position of the District is classified into three categories; net investment in capital assets, restricted and unrestricted. The restricted net assets consist of reserves for bond retirement and depreciation costs relating to the construction, replacement, extension, additions and/or improvements to the system in addition to customer deposits.

When both restricted and unrestricted resources are available for use, the District's Board of Commissioners makes a determination as to which resource should be used first.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District defines cash as cash on hand, cash in bank, money market funds in both unrestricted and restricted accounts, and certificates of deposit with an initial maturity of less than 90 days.

**Accounts Receivable**

The District's accounts receivable reserve represents its estimate of all uncollectible accounts. The reserve at December 31, 2020 and 2019, totaled \$15,000 and \$0, respectively.

**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 the lower of cost (first-in, first-out method) or market.

**Capital Assets**

Capital assets are recorded at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the asset, which ranges from 7 - 62.5 years. Land and land rights are not subject to depreciation.

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019**

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**1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)**

**Pensions**

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

**Postemployment Benefits Other Than Pensions (OPEB)**

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

**Estimates**

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

**Management's Review of Subsequent Events**

The District has evaluated and considered the need to recognize or disclose subsequent events through March 25, 2021, 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, 2020, have not been evaluated by the District.

**2. CASH AND CASH EQUIVALENTS**

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.

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 District's deposits at December 31, 2020 and 2019, were entirely covered by Federal Depository Insurance.

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019**

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**3. CAPITAL ASSETS**

The following is a summary of capital asset activity during the year ended December 31, 2020:

	<b>Balance 12/31/2019</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 12/31/2020</b>
Capital assets not depreciated:				
Land	\$ 20,997	\$ -	\$ -	\$ 20,997
Totals	<u>20,997</u>	<u>-</u>	<u>-</u>	<u>20,997</u>
Capital assets being depreciated:				
Distribution lines	8,554,101	-	-	8,554,101
Building and improvements	185,553	5,660	-	191,213
Equipment	<u>177,080</u>	<u>-</u>	<u>-</u>	<u>177,080</u>
Totals	8,916,734	5,660	-	8,922,394
Less: accumulated depreciation	<u>4,166,539</u>	<u>202,493</u>	<u>-</u>	<u>4,369,032</u>
Depreciable assets, net	<u>4,750,195</u>	<u>(196,833)</u>	<u>-</u>	<u>4,553,362</u>
Total capital assets, net	<u>\$ 4,771,192</u>	<u>\$ (196,833)</u>	<u>\$ -</u>	<u>\$ 4,574,359</u>

The following is a summary of capital asset activity during the year ended December 31, 2019:

	<b>Balance 12/31/2018</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 12/31/2019</b>
Capital assets not depreciated:				
Land	\$ 20,997	\$ -	\$ -	\$ 20,997
Totals	<u>20,997</u>	<u>-</u>	<u>-</u>	<u>20,997</u>
Capital assets being depreciated:				
Distribution lines	8,534,219	19,882	-	8,554,101
Building and improvements	185,553	-	-	185,553
Equipment	<u>177,080</u>	<u>-</u>	<u>-</u>	<u>177,080</u>
Totals	8,896,852	19,882	-	8,916,734
Less: accumulated depreciation	<u>3,962,685</u>	<u>203,854</u>	<u>-</u>	<u>4,166,539</u>
Depreciable assets, net	<u>4,934,167</u>	<u>(183,972)</u>	<u>-</u>	<u>4,750,195</u>
Total capital assets, net	<u>\$ 4,955,164</u>	<u>\$ (183,972)</u>	<u>\$ -</u>	<u>\$ 4,771,192</u>

Depreciation expense totaled \$202,493 and \$203,854 for the years ended December 31, 2020 and 2019, respectively.

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019**

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**4. LONG-TERM DEBT**

The following is a summary of the bonds and notes outstanding for the District for the year ended December 31:

<b>Bonds and Notes</b>	<b>2020</b>	<b>2019</b>
Kentucky Rural Water Finance Corp. Bond - \$1,775,000, dated 5/12/15 with payments through 2040, bearing interest at 2.10 - 4.10%	\$ 1,480,000	\$ 1,545,000
Kentucky Infrastructure Authority Loan - \$185,000 dated 5/12/15 with payments through 2025, bearing interest at 2.10 - 4.10%.	100,000	120,000
USDA, Rural Development Bond - \$203,000, with payments through 2044, bearing interest at 4.125%	164,000	168,000
USDA, Rural Development Bond - \$555,000, with payments through 2054, bearing interest at a rate of 2.75%.	<u>520,000</u>	<u>529,000</u>
Totals	2,264,000	2,362,000
Less: current portion of debt	<u>(103,500)</u>	<u>(98,000)</u>
Long-term debt	<u>\$ 2,160,500</u>	<u>\$ 2,264,000</u>

The annual requirements to amortize bonds outstanding as of December 31, 2020 are as follows:

<b>Year Ending December 31,</b>	<b>Principle</b>	<b>Interest</b>	<b>Payment</b>
2021	\$ 90,000	\$ 57,910	\$ 147,910
2022	90,000	54,220	144,220
2023	95,000	50,428	145,428
2024	95,000	46,533	141,533
2025	100,000	43,035	143,035
2026-2030	435,000	172,982	607,982
2031-2035	450,000	87,783	537,783
2036-2040	<u>225,000</u>	<u>24,493</u>	<u>249,493</u>
Total	<u>\$ 1,580,000</u>	<u>\$ 537,384</u>	<u>\$ 2,117,384</u>

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019**

**4. LONG-TERM DEBT (CONTINUED)**

The annual requirements to amortize direct borrowing loan outstanding as of December 31, 2020 are as follows:

Year Ending December 31,	Principle	Interest	Payment
2021	\$ 13,500	\$ 25,621	\$ 39,121
2022	13,500	25,456	38,956
2023	14,500	26,291	40,791
2024	14,500	26,105	40,605
2025	15,500	29,502	45,002
2026-2030	84,000	144,286	228,286
2031-2035	98,500	138,342	236,842
2036-2040	115,000	130,847	245,847
2041-2045	127,000	120,876	247,876
2046-2050	97,500	116,786	214,286
2051-2054	<u>90,500</u>	<u>95,650</u>	<u>186,150</u>
Total	<u>\$ 684,000</u>	<u>\$ 879,762</u>	<u>\$ 1,563,762</u>

The following is a summary of changes in long-term debt and net pension liability for the year ended December 31, 2020:

	December 31, 2019	Additions	Retirements	December 31, 2020	Due Within One Year
Net pension liability	\$ 345,463	\$ 18,858	\$ -	\$ 364,321	\$ -
Net OPEB liability	82,601	32,073	-	114,674	-
Bonds payable	1,665,000	-	(85,000)	1,580,000	90,000
Notes payable	<u>697,000</u>	<u>-</u>	<u>(13,000)</u>	<u>684,000</u>	<u>13,500</u>
Total	<u>\$ 2,790,064</u>	<u>\$ 50,931</u>	<u>\$ (98,000)</u>	<u>\$ 2,742,995</u>	<u>\$ 103,500</u>

The following is a summary of changes in long-term debt and net pension liability for the year ended December 31, 2019:

	December 31, 2018	Additions	Retirements	December 31, 2019	Due Within One Year
Net pension liability	\$ 291,604	\$ 53,859	\$ -	\$ 345,463	\$ -
Net OPEB liability	85,010	-	(2,409)	82,601	-
Bonds payable	1,750,000	-	(85,000)	1,665,000	85,000
Notes payable	<u>709,500</u>	<u>-</u>	<u>(12,500)</u>	<u>697,000</u>	<u>13,000</u>
Total	<u>\$ 2,836,114</u>	<u>\$ 53,859</u>	<u>\$ (99,909)</u>	<u>\$ 2,790,064</u>	<u>\$ 98,000</u>

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019**

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**5. RETIREMENT PLAN**

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

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

*Contributions* – For the year ended December 31, 2020, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2020, participating employers contributed 24.06% 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, 2020, plan members contributed 19.30% to the pension for non-hazardous job classifications. For the year ended December 31, 2019, plan members contributed 16.22% through June 30th and 19.30% thereafter, to the pension for non-hazardous job classifications. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% 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.

The District contributed \$24,201 for the year ended December 31, 2020, or 100% of the required contribution. The District contributed \$21,835 for the year ended December 31, 2019, or 100% of the required contribution

*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.



**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019**

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**5. RETIREMENT PLAN (CONTINUED)**

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

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old and 4 years service
	Reduced retirement	At least 5 years service and 55 years old or 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+
	Reduced retirement	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* – At December 31, 2020, the District reported a net pension liability of \$364,321 for its proportionate share of the total net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 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, 2020, the District's proportion was 0.004750 percent, which was an increase of 0.000162 percent from its proportion measured as of June 30, 2019.

For the year ended December 31, 2020, the District recognized pension expense of \$50,914. At December 31, 2020, 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	\$ 9,086	\$ -
Changes of assumptions	14,227	-
Net difference between projected and actual earnings on Plan investments	9,117	-
Changes in proportion and differences between District contributions and proportionate share of contributions	3,105	7,696
District contributions subsequent to the measurement date	<u>12,718</u>	<u>-</u>
Total	<u>\$ 48,253</u>	<u>\$ 7,696</u>

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019**

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**5. RETIREMENT PLAN (CONTINUED)**

The \$12,718 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources as of December 31, 2020 will be recognized in pension expense as follows:

<b>Year ending December 31,</b>		
2021	\$	12,581
2022	\$	7,598
2023	\$	3,997
2024	\$	3,663

*Actuarial Assumptions* – The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumption used in the June 30, 2020 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. As of December 31, 2020, the target allocation and best estimates of nominal real rates 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>Growth</b>	<b>62.50%</b>	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	3.90%
<b>Liquidity</b>	<b>14.50%</b>	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
<b>Diversifying Strategies</b>	<b>23.00%</b>	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
<b>Total</b>	<b>100.00%</b>	<b>3.96%</b>
<b>Long term inflation assumption</b>		<b>2.30%</b>
<b>Expected nominal return for portfolio</b>		<b>6.25%</b>

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019**

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**5. RETIREMENT PLAN (CONTINUED)**

*Discount Rate* – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the closed 24-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate

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

	<u>Discount rate</u>	<u>District’s proportionate share of net pension liability</u>
1% decrease	5.25%	\$ 449,287
Current discount rate	6.25%	\$ 364,321
1% increase	7.25%	\$ 293,966

*Payable to the Pension Plan* – At December 31, 2020 and 2019, the District reported a payable of \$4,135 and \$3,407 for the outstanding amount of contributions to the pension plan required for the years ended, respectively. 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, 2020, the employer’s contribution was 4.76% to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended December 31, 2020, the District contributed \$5,969, or 100% of the required contribution for non-hazardous job classifications. For the year ended December 31, 2019, the District contributed \$6,149, or 100% of the required contribution for non-hazardous job classifications.

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019**

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

*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, 2020, the District reported a liability for its proportionate share of the net OPEB liability of \$114,674. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share at June 30, 2020 was .004749 percent, which was an increase of 0.000162 percent from its proportion measured as of June 30, 2019.

For the year ended December 31, 2020, the District recognized OPEB expense of \$14,496. At December 31, 2020, 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	\$ 19,160	\$ 19,175
Changes of assumptions	19,947	121
Net difference between projected and actual earnings on Plan investments	3,811	-
Changes in proportion and differences between District contributions and proportionate share of contributions	1,237	4,743
District contributions subsequent to the measurement date	<u>5,951</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 50,106</u></b>	<b><u>\$ 24,039</u></b>

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019**

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

The \$5,951 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, 2021. This includes an adjustment of \$2,814 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:

<b>Year ending December 31,</b>		
2021	\$	5,252
2022	\$	6,380
2023	\$	4,221
2024	\$	4,462
2025	\$	(199)

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

**Non-hazardous**

Inflation	2.30%
Salary increases	3.30 to 10.30%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Post – 65	Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

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

The actuarial assumption used in the June 30, 2020 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020.

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.

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019**

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

The target allocation and best estimates of arithmetic nominal real rates 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>Growth</b>	<b>62.50%</b>	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	3.90%
<b>Liquidity</b>	<b>14.50%</b>	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
<b>Diversifying Strategies</b>	<b>23.00%</b>	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
<b>Total</b>	<b>100.00%</b>	<b>3.96%</b>
<b>Long term inflation assumption</b>		<b>2.30%</b>
<b>Expected nominal return for portfolio</b>		<b>6.25%</b>

*Discount Rate* – The discount rate used to measure the total OPEB liability as of June 30, 2020 was 5.34% for non-hazardous classifications. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. As of June 30, 2020, the discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index”. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

	<b>Discount rate</b>	<b>Proportionate share of net OPEB liability</b>
1% decrease	4.34%	\$ 147,322
Current discount rate	5.34%	\$ 114,674
1% increase	6.34%	\$ 87,859

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019**

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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:

		<b>Proportionate share of net OPEB liability</b>
1% decrease	\$	88,786
Current trend rate	\$	114,674
1% increase	\$	146,089

*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 four fiscal years.

**8. COVID-19 PANDEMIC**

During 2020 and 2021, various restrictions were placed on utilities in the state of Kentucky in response to the COVID-19 pandemic. These restrictions included the cessation of utility shutoffs and the charging of penalties due to nonpayment of bills. As a result of these orders and the impact of COVID-19 on the District's customers, there has been an increase in delinquent billings as of December 31, 2020. The District is working to establish payment plans with customers who have delinquent bills in an attempt to ensure continuous service and the collection of past due balances. The District has increased the allowance for doubtful accounts to \$15,000 as of December 31, 2020, as an estimate of the total amount of accounts receivable that will not be collectible.

**REQUIRED SUPPLEMENTARY INFORMATION**



**NICHOLAS COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTARY SCHEDULE  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
Last Three Calendar 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>
District's proportion of the net pension liability	0.004788%	0.004912%	0.004750%
District's proportionate share of the net pension liability (asset)	\$ 291,604	\$ 345,463	\$ 364,321
District's covered employee payroll	\$ 125,394	\$ 123,914	\$ 121,680
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	232.55%	278.79%	299.41%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	50.45%	47.81%

Notes:

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

**NICHOLAS COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTARY SCHEDULE  
CONTRIBUTIONS - PENSION  
Last Three Calendar Years**

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	<b>2018</b>	<b>2019</b>	<b>2020</b>
Contractually required employer contribution	\$ 19,088	\$ 21,835	\$ 24,201
Contributions relative to contractually required employer contribution	<u>19,088</u>	<u>21,835</u>	<u>24,201</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
 District's covered employee payroll	 \$ 124,221	 \$ 122,809	 \$ 125,394
Employer contributions as a percentage of covered-employee payroll	15.37%	17.78%	19.30%

**Notes:**

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

**NICHOLAS COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTARY SCHEDULE  
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
Last Three Calendar 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>
District's proportion of the net OPEB liability	0.004788%	0.004911%	0.004749%
District's proportionate share of the net OPEB liability (asset)	\$ 85,010	\$ 82,601	\$ 114,674
District's covered employee payroll	\$ 125,394	\$ 123,914	\$ 121,680
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	67.79%	66.66%	94.24%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	60.44%	51.67%

Notes:

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

**NICHOLAS COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTARY SCHEDULE  
CONTRIBUTIONS - OPEB  
Last Three Calendar Years**

	<b>2018</b>	<b>2019</b>	<b>2020</b>
Contractually required employer contribution	\$ 6,193	\$ 6,149	\$ 5,969
Contributions relative to contractually required employer contribution	<u>6,193</u>	<u>6,149</u>	<u>5,969</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 124,221	\$ 122,809	\$ 125,394
Employer contributions as a percentage of covered-employee payroll	4.99%	5.01%	4.76%

**Notes:**

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



**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**

The Board of Commissioners  
Nicholas County Water District  
Carlisle, 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 Nicholas County Water District (the District), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 25, 2021.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (2020-001, 2020-002, and 2020-003).

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Nicholas County Water District's Response to Findings**

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

### **Purpose of this Report**

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  
March 25, 2021

**NICHOLAS COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
December 31, 2020**

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***2020-001 - The District should have internal controls in place that enable it to prepare complete financial statements (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 draft financial statements, including the related notes to the financial statements.

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

Effect: The auditor prepared draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

Recommendation: We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements.

Response: Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes. Management has reviewed and accepts responsibility for the financial statements.

***2020-002 - All bank accounts should be reconciled monthly to the District's financial records (recurring)***

Criteria: All bank accounts should be reconciled to the District's financial records monthly.

Condition: Multiple bank accounts were not reconciled for several months and transactions were not recorded accurately.

Cause: The office staff has not been properly trained to utilize the accounting system used by the District.

Effect: Auditors identified several bank accounts that were not reconciled timely. Numerous material audit adjustments were needed in order for the District's year end financial statements to be fairly presented.

Recommendation: We recommend that the District take steps to ensure that all bank accounts are reconciled monthly and that all financial activity is recorded accurately. We recommend the District obtain outside bookkeeping assistance until the office staff is properly trained to perform these functions.

Response: The office personnel will no longer use previous employee's reconciliation procedures. Current personnel have made arrangements for online training from accounting software provider to begin immediately.

**NICHOLAS COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
December 31, 2020**

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**2020-003 - Lack of segregation of duties (recurring)**

Criteria: The basic premise of segregation of duties is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. In addition, proper segregation of duties should include oversight of the finance personnel activity by individuals with knowledge of internal controls and accounting regulations, who were not involved in the original transaction.

Condition: During the audit, we noted that the Organization lacks segregation of duties in multiple accounting functions.

Cause: The Organization has only two dedicated employees to finance and accounting.

Effect: There is a lack of oversight over the office employees and the transactions being recorded.

Recommendation: We recommend that the District appoint a commissioner to perform increased oversight and monitoring of the financial reporting functions. A common method for achieving this goal is for a commissioner to review the District's bank statements, payroll registers, credit card statements and other financial information such as water adjustments on a monthly basis. While not a preventative control, this increased oversight can detect irregularities in the financial reporting function that are caused by a lack of segregation of duties within a relatively short period of time.

Response: A commissioner will be appointed to review the monthly financial packet and will work in close contact with office employees.



**EXHIBIT 2**

**2019 AUDIT REPORT FOR NICHOLAS COUNTY WATER DISTRICT**

**NICHOLAS COUNTY WATER DISTRICT**  
**Carlisle, Kentucky**

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**FINANCIAL STATEMENTS**  
**December 31, 2019**

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## INDEPENDENT AUDITORS' REPORT

The Board of Commissioners  
Nicholas County Water District  
Carlisle, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Nicholas County Water District (the District), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

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

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the pension and OPEB schedules on pages 18-21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Nicholas County Water 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  
August 20, 2020

**NICHOLAS COUNTY WATER DISTRICT**  
**STATEMENT OF NET POSITION**  
**December 31, 2019**

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**ASSETS**

Current assets

Cash and cash equivalents	\$ 164,934
Customer accounts receivable, net	54,060
Inventory	17,543
Prepaid expense	<u>2,152</u>
Total current assets	<u>238,689</u>

Restricted assets

Cash and cash equivalents	<u>62,371</u>
---------------------------	---------------

Capital assets

Property, plant and equipment	8,937,731
Less: accumulated depreciation	<u>(4,166,539)</u>
Total capital assets	<u>4,771,192</u>

Total assets	<u>5,072,252</u>
--------------	------------------

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows - pension	61,110
Deferred outflows - OPEB	<u>30,703</u>
Total deferred outflows of resources	<u>91,813</u>

Total assets and deferred outflows of resources	<u>\$ 5,164,065</u>
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**LIABILITIES**

Current liabilities

Accounts payable	\$ 29,760
Accrued liabilities	7,033
Customer deposits	37,150
Accrued interest payable	10,239
Current portion of long-term debt	<u>98,000</u>
Total current liabilities	<u>182,182</u>

Noncurrent liabilities

Net pension liability	345,463
Net OPEB liability	82,601
Bonds and notes payable, net	<u>2,264,000</u>
Total noncurrent liabilities	<u>2,692,064</u>

Total liabilities	<u>2,874,246</u>
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**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows - pension	12,700
Deferred inflows - OPEB	<u>31,610</u>
Total deferred inflows of resources	<u>44,310</u>

**NET POSITION**

Net investment in capital assets	2,409,192
Restricted	62,371
Unrestricted	<u>(226,054)</u>

Total net position	<u>2,245,509</u>
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Total liabilities, deferred inflows of resources and net position	<u>\$ 5,164,065</u>
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The accompanying notes are an integral  
part of the financial statements.

**NICHOLAS COUNTY WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
for the year ended December 31, 2019

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<b>OPERATING INCOME</b>	
Water sales	\$ 678,820
Other revenue	<u>1,556</u>
Total operating income	<u>680,376</u>
<b>OPERATING EXPENSES</b>	
Water purchases	238,078
Wages and benefits	255,191
Professional fees	29,995
Insurance	17,835
Contract labor	22,791
Computer services	14,401
Utilities	27,728
General and administrative	<u>52,534</u>
Total operating expense	<u>658,553</u>
Operating income before depreciation	21,823
Depreciation expense	<u>(203,854)</u>
<b>OPERATING INCOME (LOSS)</b>	<b>(182,031)</b>
Non-operating income (expense)	
Interest income	1,634
Interest expense	<u>(82,517)</u>
Total non-operating income (expense)	<u>(80,883)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	<b>(262,914)</b>
Capital contributions	
Grants	<u>7,620</u>
Change in net position	(255,294)
Net position, beginning of year as restated	<u>2,500,803</u>
<b>NET POSITION, END OF YEAR</b>	<b>\$ <u>2,245,509</u></b>

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

**NICHOLAS COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS  
for the year ended December 31, 2019**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 680,939
Payments to suppliers	(407,970)
Payments for employee services and benefits	<u>(202,504)</u>
Net cash provided by operating activities	<u>70,465</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Retirement of debt principal	(97,500)
Interest paid	(81,821)
Purchase of capital assets	(19,822)
Grants	<u>7,620</u>
Net cash (used in) capital and related financing activities	<u>(191,523)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income	<u>1,634</u>
Net cash provided by investing activities	<u>1,634</u>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(119,424)
Cash and cash equivalents, beginning of year	<u>346,729</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 227,305</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>	
Operating income (loss)	\$ (182,031)
Noncash items included in operating income:	
Depreciation	203,854
Net changes in pension liability	34,886
Net changes in OPEB liability	688
Changes in assets and liabilities:	
(Increase) decrease in accounts receivables	3,636
(Increase) decrease in inventory	(144)
(Increase) decrease in prepaid expense	(755)
Increase (decrease) in accounts payable	7,303
Increase (decrease) in accrued liabilities	(2,727)
Increase (decrease) in customer deposits	<u>5,755</u>
Net cash provided by operating activities	<u>\$ 70,465</u>
Components of cash on the Statement of Net Position	
Cash and cash equivalents	\$ 164,934
Restricted cash and cash equivalents	<u>62,371</u>
	<u>\$ 227,305</u>

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



**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

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**1. ORGANIZATION AND ACCOUNTING POLICIES**

The Nicholas County Water District (the District) was created and organized as a public body incorporated in Nicholas County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes. The District began operations in 1966.

**Reporting Entity**

The Nicholas County 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.

There are no other entities that are subject to the District's oversight responsibility as indicated above.

**Basis of Accounting**

The accrual basis of accounting is utilized by the District. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

The District reports all revenues and expenses as operating, except interest income, interest expense, amortization, gains and losses on disposal of assets, and capital contributions.

The net position of the District is classified into three categories; net investment in capital assets, restricted and unrestricted. The restricted net assets consist of reserves for bond retirement and depreciation costs relating to the construction, replacement, extension, additions and/or improvements to the system in addition to customer deposits.

When both restricted and unrestricted resources are available for use, the District's Board of Commissioners makes a determination as to which resource should be used first.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District defines cash as cash on hand, cash in bank, money market funds in both unrestricted and restricted accounts, and certificates of deposit with an initial maturity of less than 90 days.

**Accounts Receivable**

The District's accounts receivable reserve represents its estimate of all uncollectible accounts. There was no reserve as of December 31, 2019, as the District believes all accounts are fully collectible.

**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 the lower of cost (first-in, first-out method) or market.

**Capital Assets**

Capital assets are recorded at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the asset, which ranges from 7 - 62.5 years. Land and land rights are not subject to depreciation.

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

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**1. ORGANIZATION AND ACCOUNTING POLICIES (CONTINUED)**

**Pensions**

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

**Postemployment Benefits Other Than Pensions (OPEB)**

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

**Estimates**

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

**Management's Review of Subsequent Events**

The District has evaluated and considered the need to recognize or disclose subsequent events through August 20, 2020, 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, 2019, have not been evaluated by the District.

**2. CASH AND CASH EQUIVALENTS**

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.

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.

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

**2. CASH AND CASH EQUIVALENTS (CONTINUED)**

The District's deposits at December 31, 2019, were entirely covered by Federal Depository Insurance.

**3. CAPITAL ASSETS**

The following is a summary of capital asset activity during the year ended December 31, 2019:

	<b>Balance 12/31/2018</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 12/31/2019</b>
Capital assets not depreciated:				
Land	\$ 20,997	\$ -	\$ -	\$ 20,997
Totals	<u>20,997</u>	<u>-</u>	<u>-</u>	<u>20,997</u>
Capital assets being depreciated:				
Distribution lines	8,534,219	19,882	-	8,554,101
Building and improvements	185,553	-	-	185,553
Equipment	<u>177,080</u>	<u>-</u>	<u>-</u>	<u>177,080</u>
Totals	8,896,852	19,882	-	8,916,734
Less: accumulated depreciation	<u>3,962,685</u>	<u>203,854</u>	<u>-</u>	<u>4,166,539</u>
Depreciable assets, net	<u>4,934,167</u>	<u>(183,972)</u>	<u>-</u>	<u>4,750,195</u>
Total capital assets, net	<u>\$ 4,955,164</u>	<u>\$ (183,972)</u>	<u>\$ -</u>	<u>\$ 4,771,192</u>

Depreciation expense totaled \$203,854 for the year ended December 31, 2019.

**4. LONG-TERM DEBT**

The following is a summary of the bonds and notes outstanding for the District for the year ended December 31, 2019:

Kentucky Rural Water Finance Corp. Bond - \$1,775,000, dated 5/12/15 with payments through 2040, bearing interest at 2.10 - 4.10%.	\$ 1,545,000
Kentucky Infrastructure Authority Loan - \$185,000 dated 5/12/15 with payments through 2025, bearing interest at 2.10 - 4.10%.	120,000
USDA, Rural Development Bond - \$203,000, with payments through 2044, bearing interest at 4.125%.	168,000
USDA, Rural Development Bond - \$555,000, with payments through 2054, bearing interest at a rate of 2.75%.	<u>529,000</u>
Totals	2,362,000
Less: current portion of debt	<u>(98,000)</u>
Long-term debt	<u>\$ 2,264,000</u>

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

**4. LONG-TERM DEBT (CONTINUED)**

The annual requirements to amortize all bonds and notes outstanding as of December 31, 2019 are as follows:

Year Ending December 31,	Principle	Interest	Payment
2020	\$ 98,000	\$ 85,434	\$ 183,434
2021	103,500	83,531	187,031
2022	103,500	79,676	183,176
2023	109,500	76,719	186,219
2024	109,500	72,638	182,138
2025-2029	521,500	332,956	854,456
2030-2034	595,500	245,143	840,643
2035-2039	336,500	166,131	502,631
2040-2044	178,500	124,498	302,998
2045-2049	95,000	116,933	211,933
2050-2054	<u>111,000</u>	<u>118,921</u>	<u>229,921</u>
Total	<u>\$ 2,362,000</u>	<u>\$ 1,502,580</u>	<u>\$ 3,864,580</u>

The following is a summary of changes in long-term debt, net pension liability, and net OPEB liability for the year ended December 31, 2019:

	Balance 12/31/2018	Additions	Disposals	Balance 12/31/2019
Net pension liability	\$ 291,604	\$ 53,859	\$ -	\$ 345,463
Net OPEB liability	85,010	-	(2,409)	82,601
Long-term debt	<u>2,459,500</u>	<u>-</u>	<u>(97,500)</u>	<u>2,362,000</u>
Total	<u>\$ 2,836,114</u>	<u>\$ 53,859</u>	<u>\$ (99,909)</u>	<u>\$ 2,790,064</u>

**5. RETIREMENT PLAN**

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

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

*Contributions* – For the year ended December 31, 2019, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium.

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

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**5. RETIREMENT PLAN (CONTINUED)**

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, 2019, participating employers contributed 21.48% through June 30 and 24.06% 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, 2019, plan members contributed 16.22% to the pension trust through June 30th and 19.30%, thereafter for non-hazardous job classifications. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

The District contributed \$21,835 for the year ended December 31, 2019, or 100% of the required contribution.

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

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

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

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.

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

**5. RETIREMENT PLAN (CONTINUED)**

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At December 31, 2019, the District reported a net pension liability of \$345,463 for its proportionate share of the total net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 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, 2019, the District's proportion was 0.004912 percent, which was an increase of 0.000124 percent from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the District recognized pension expense of \$56,721. At December 31, 2019, 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	\$ 8,821	\$ 1,460
Changes of assumptions	34,965	-
Net difference between projected and actual earnings on Plan investments	-	5,569
Changes in proportion and differences between District contributions and proportionate share of contributions	5,323	5,671
District contributions subsequent to the measurement date	12,001	-
Total	<b>\$ 61,110</b>	<b>\$ 12,700</b>

The \$12,001 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources as of December 31, 2019 will be recognized in pension expense as follows:

<b>Year ending December 31,</b>		
2020	\$	22,090
2021	\$	9,539
2022	\$	4,385
2023	\$	395

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

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

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

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

**5. RETIREMENT PLAN (CONTINUED)**

The actuarial assumption used in the June 30, 2018 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. As of December 31, 2019, the target allocation and best estimates of nominal real rates 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>Growth</b>	<b>62.50%</b>	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	2.60%
<b>Liquidity</b>	<b>14.50%</b>	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
<b>Diversifying Strategies</b>	<b>23.00%</b>	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
<b>Total</b>	<b>100.00%</b>	<b>6.25%</b>

*Discount Rate* – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute funds as required by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate.

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

	<b>Discount rate</b>	<b>District's proportionate share of net pension liability</b>
1% decrease	5.25%	\$ 432,076
Current discount rate	6.25%	\$ 345,463
1% increase	7.25%	\$ 273,272

*Payable to the Pension Plan* – At December 31, 2019, the District reported a payable of \$3,407 for the outstanding amount of contributions to the pension plan required for the year ended. The payable includes both the pension and insurance contribution allocation.

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

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

*Plan Description* – As more fully described in Note 7, 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 7, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2019, the employer’s contribution was 5.26% through June 30th and 4.76% thereafter to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended December 31, 2019, the District contributed \$6,149, 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



**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

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

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At December 31, 2019, the District reported a liability for its proportionate share of the net OPEB liability of \$82,601. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018 and was rolled forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share at June 30, 2019 was .004911 percent, which was an increase of 0.000123 percent from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the District recognized OPEB expense of \$8,675. At December 31, 2019, 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	\$ -	\$ 24,923
Changes of assumptions	24,442	163
Net difference between projected and actual earnings on Plan investments	-	3,669
Changes in proportion and differences between District contributions and proportionate share of contributions	1,527	2,855
District contributions subsequent to the measurement date	<u>4,734</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 30,703</u></b>	<b><u>\$ 31,610</u></b>

The \$4,734 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, 2020. This includes an adjustment of \$1,774 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,**

2020	\$	(1,000)
2021	\$	(1,000)
2022	\$	167
2023	\$	(2,067)
2024	\$	(1,534)
2025	\$	(207)

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

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

*Actuarial Assumptions* – The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Non-hazardous**

Inflation	2.30%
Salary increases	3.30 to 10.30%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 7.00% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post – 65	Initial trend starting at 4.05% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

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

The actuarial assumption used in the June 30, 2019 valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2018) to the plan’s fiscal year ending June 30, 2019.

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 nominal real rates 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>Growth</b>	<b>62.50%</b>	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	2.60%
<b>Liquidity</b>	<b>14.50%</b>	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
<b>Diversifying Strategies</b>	<b>23.00%</b>	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
<b>Total</b>	<b>100.00%</b>	<b>6.25%</b>

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

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

*Discount Rate* – The discount rate used to measure the total OPEB liability as of June 30, 2019, was 5.68%, for non-hazardous classifications. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. As of June 30, 2019, the discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.13%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index”. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

	<b>Discount rate</b>	<b>Proportionate share of net OPEB liability</b>
1% decrease	4.68%	\$ 110,651
Current discount rate	5.68%	\$ 82,601
1% increase	6.68%	\$ 59,489

*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:

	<b>Proportionate share of net OPEB liability</b>
1% decrease	\$ 61,431
Current trend rate	\$ 82,601
1% increase	\$ 108,272

*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 four fiscal years.

**8. RESTATEMENT OF NET POSITION**

During 2019, errors were identified in the prior year report, and beginning net position was restated as follow:

Net position, at beginning of year	\$ 2,609,513
Adjustment to opening cash balance	(37,154)
Adjustment to reflect accrued interest	(10,935)
Adjustment to correct prepaid expense	(11,271)
Adjustment to remove bond issue cost	<u>(49,350)</u>
Net position, at beginning of year, as restated	<u>\$ 2,500,803</u>

**NICHOLAS COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2019**

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**8. SUBSEQUENT EVENT**

In early 2020, various restrictions have been placed on business and travel across the United States in response to the COVID-19 pandemic. The duration and impact of these restrictions are uncertain as of the date of these financial statements. In addition, the Kentucky Public Service Commission issued an order that halts all disconnections for non-payment and fees for late payment. Management of the District is evaluating the impact of COVID-19 and related responses on the operations and finances of the District. The District is evaluating any potential impact, however a specific estimate of the impact could not reasonably be determined due to a number of unknown factors regarding the severity and duration of the event.

**REQUIRED SUPPLEMENTARY INFORMATION**

**NICHOLAS COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTARY SCHEDULE  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
Last Two Calendar Years**

---

	<b>2018</b>	<b>2019</b>
District's proportion of the net pension liability	0.004788%	0.004912%
District's proportionate share of the net pension liability (asset)	\$ 291,604	\$ 345,463
District's covered employee payroll	\$ 125,394	\$ 123,914
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	232.55%	278.79%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	50.45%

**Notes:**

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2019 valuation:

The assumed rate of salary increases were increased from 3.05%, to 3.3% to 10.3%, on average.

The District's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the District's calendar year payroll, reported on the Schedule of Contributions.

The measurement date of the net pension liability is 6 months preceding the calendar year of the District.

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

**NICHOLAS COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTARY  
SCHEDULE OF CONTRIBUTIONS - PENSION  
Last Two Calendar Years**

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	<b>2018</b>	<b>2019</b>
Contractually required employer contribution	\$ 19,088	\$ 21,835
Contributions relative to contractually required employer contribution	<u>19,088</u>	<u>21,835</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 124,221	\$ 122,809
Employer contributions as a percentage of covered-employee payroll	15.37%	17.78%

**Notes:**

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2019 valuation:

The assumed rate of salary increases were increased from 3.05%, to 3.3% to 10.3%, on average.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

The District's covered payroll reported above is payroll for the District's corresponding calendar year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

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

**NICHOLAS COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTARY SCHEDULE  
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
Last Two Calendar Years**

---

	<b>2018</b>	<b>2019</b>
District's proportion of the net OPEB liability	0.004788%	0.004911%
District's proportionate share of the net OPEB liability (asset)	\$ 85,010	\$ 82,601
District's covered employee payroll	\$ 125,394	\$ 123,914
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	67.79%	66.66%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	60.44%

**Notes:**

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2019 valuation:

The assumed rate of salary increases were increased from 3.05%, to 3.3% to 10.3%, on average.

The District's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the District's calendar year payroll, reported on the Schedule of Contributions.

The measurement date of the net OPEB liability is 6 months preceding the calendar year of the District.

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



**NICHOLAS COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTARY  
SCHEDULE OF CONTRIBUTIONS - OPEB  
Last Two Calendar Years**

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	<b>2018</b>	<b>2019</b>
Contractually required employer contribution	\$ 6,193	\$ 6,149
Contributions relative to contractually required employer contribution	<u>6,193</u>	<u>6,149</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 124,221	\$ 122,809
Employer contributions as a percentage of covered-employee payroll	4.99%	5.01%

**Notes:**

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2019 valuation:

The assumed rate of salary increases were increased from 3.05%, to 3.3% to 10.3%, on average.

The District's covered payroll reported above is payroll for the District's corresponding calendar year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

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



**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**

The Board of Commissioners  
Nicholas County Water District  
Carlisle, 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 Nicholas County Water District (the District), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 20, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 have not been identified. We did identify a certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (2019-001, 2019-002, and 2019-003).

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Nicholas County Water District's Response to Findings**

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

#### **Purpose of this Report**

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  
August 20, 2020

**NICHOLAS COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
December 31, 2019**

---

***2019-001 - The District should have internal controls in place that enable it to prepare complete financial statements.***

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 draft financial statements, including the related notes to the financial statements.

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

Effect: The auditor prepared draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

Recommendation: We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements.

Response: Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes. Management has reviewed and accepts responsibility for the financial statements.

***2019-002 - All bank accounts should be reconciled monthly to the District's financial records.***

Criteria: All bank accounts should be reconciled to the District's financial records monthly.

Condition: Multiple bank accounts were not reconciled for several months and transactions were not recorded accurately.

Cause: The office staff has not been properly trained to utilize the accounting system used by the District.

Effect: Auditors identified several bank accounts that were not reconciled timely. Numerous material audit adjustments were needed in order for the District's year end financial statements to be fairly presented.

Recommendation: We recommend that the District take steps to ensure that all bank accounts are reconciled monthly and that all financial activity is recorded accurately. We recommend the District obtain outside bookkeeping assistance until the office staff is properly trained to perform these functions.

Response: The office personnel will no longer use previous employee's reconciliation procedures. Current personnel have made arrangements for online training from accounting software provider to begin immediately.

**NICHOLAS COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
December 31, 2019**

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**2019-003 - Lack of segregation of duties**

Criteria: The basic premise of segregation of duties is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. In addition, proper segregation of duties should include oversight of the finance personnel activity by individuals with knowledge of internal controls and accounting regulations, who were not involved in the original transaction.

Condition: During the audit, we noted that the Organization lacks segregation of duties in multiple accounting functions.

Cause: The Organization has only two dedicated employees to finance and accounting.

Effect: There is a lack of oversight over the office employees and the transactions being recorded.

Recommendation: We recommend that the District appoint a commissioner to perform increased oversight and monitoring of the financial reporting functions. A common method for achieving this goal is for a commissioner to review the District's bank statements, payroll registers, credit card statements and other financial information such as water adjustments on a monthly basis. While not a preventative control, this increased oversight can detect irregularities in the financial reporting function that are caused by a lack of segregation of duties within a relatively short period of time.

Response: A commissioner will be appointed to review the monthly financial packet and will work in close contact with office employees.

**EXHIBIT 2**

**2018 AUDIT REPORT FOR NICHOLAS COUNTY WATER DISTRICT**

NICHOLAS COUNTY WATER DISTRICT  
Carlisle, Kentucky

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
for the year ended December 31, 2018

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# John T. Lane and Associates, LLC

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## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Nicholas County Water District  
Carlisle, Kentucky

We have audited the accompanying financial statements of the business-type activities of the Nicholas County Water District as of and for the year ended December 31, 2018, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Nicholas County Water District's management. Our responsibility is to an express opinion on these financial statements based on our audit.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Nicholas County Water District, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic and historical context. Our opinion on the basic financial statements is not affected by this missing information.

The Schedule of the Proportionate Share of Net Pension Liability, the Schedule of Employer's Contributions – Net Pension Liability, Schedule of the Proportionate Share of Net OPEB Liability and the Schedule of Employer's Contributions – Net OPEB Liability are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2019, on our consideration of the Nicholas County Water 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nicholas County Water District's internal control over financial reporting and compliance.

*John T. Lane & Associates LLC*

Mount Sterling, Kentucky

September 13, 2019

This report contains 25 pages.

**Nicholas County Water District  
Statement of Net Position  
Proprietary Fund  
December 31, 2018**

ASSETS and DEFERRED OUTFLOWS OF RESOURCES

Current Assets	
Cash and cash equivalents - unrestricted	\$ 282,279
Cash and cash equivalents - restricted	101,604
Accounts receivable - net of allowance for doubtful accounts	57,696
Inventory	17,399
Prepaid expenses	12,668
Total Current Assets	<u>471,646</u>
Noncurrent Assets	
Capital assets:	
Land	20,997
Plant, equipment and lines	8,896,852
Accumulated depreciation	<u>(3,962,685)</u>
Total Noncurrent Assets	<u>4,955,164</u>
Other Assets	
Bond issue costs	59,929
Accumulated amortization	<u>(10,579)</u>
Total Other Assets	49,350
Deferred Outflows of Resources	
Deferred Outflows of Resources - NPL	62,047
Deferred Outflows of Resources - OPEB	<u>21,678</u>
Total Deferred Outflows of Resources	<u>83,725</u>
Total Assets & Deferred Outflows of Resources	<u><u>\$ 5,559,885</u></u>

LIABILITIES and DEFERRED INFLOWS OF RESOURCES

Current Liabilities	
Accrued expenses	\$ 30,765
Bonds/loans payable	97,500
Customer deposits	31,395
Total Current Liabilities	<u>159,660</u>
Noncurrent Liabilities	
Bonds/loans payable	2,362,000
Net pension liability	291,604
Net OPEB liability	<u>85,010</u>
Total Noncurrent Liabilities	<u>2,738,614</u>
Deferred Inflows of Resources	
Deferred Inflows of Resources - NPL	32,610
Deferred Inflows of Resources - OPEB	<u>19,488</u>
Total Deferred Inflows of Resources	<u>52,098</u>
Total Liabilities & Deferred Inflows of Resources	<u>2,950,372</u>

NET POSITION

Net investment in capital assets	2,545,014
Restricted	70,209
Unrestricted	<u>(5,710)</u>
Total Net Position	<u><u>\$ 2,609,513</u></u>

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

**Nicholas County Water District**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Fund**  
**For the year ended December 31, 2018**

<hr/>	
Revenues	
User fees	\$ 765,513
Other revenue	<u>36,316</u>
Total Revenues	<u>801,829</u>
Expenses	
Salaries	87,738
Employee benefits	21,544
Retirement	51,551
Water purchased	292,285
Power purchased	19,800
Materials and supplies	45,753
Water testing	4,348
Contractual services	42,587
Transportation expenses	5,557
Insurance	23,683
Miscellaneous expenses	32,200
Utilities	570
Phone	6,564
Taxes	31,683
Depreciation and amortization	<u>197,469</u>
Total Operating Expenses	<u>863,332</u>
Operating Income (Loss)	<u>(61,503)</u>
Nonoperating Revenues (Expenses)	
Capital grants	633,915
Interest income	1,780
Interest expense	<u>(88,100)</u>
Net Nonoperating Revenues (Expenses)	<u>547,595</u>
Change in Net Position	486,092
Total Net Position - beginning	2,223,978
Prior period adjustment	<u>(100,557)</u>
Total Net Position - ending	<u><u>\$ 2,609,513</u></u>

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

**Nicholas County Water District  
Statement of Cash Flows  
Proprietary Fund  
December 31, 2018**

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CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	\$ 792,693
Cash paid to employees	(87,738)
Cash paid for general and administrative expenses	<u>(573,911)</u>
Net Cash provided / (used) by operating activities	<u>131,044</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	1,780
Customer deposits	<u>1,540</u>
Net Cash provided / (used) by investing activities	<u>3,320</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Capital grants	633,915
Bond/note payments - principal	(86,500)
Purchase of capital assets	(533,915)
Bond/note payments - interest	<u>(88,100)</u>
Net Cash provided / (used) by capital and financing activities	<u>(74,600)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	59,764
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>324,119</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u><u>\$ 383,883</u></u>
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Operating Income	\$ (61,503)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
depreciation and amortization	197,469
GASB 68/75 pension expense adjustment	5,532
(increase) / decrease in accounts receivable	(9,136)
increase / (decrease) in accounts payable	<u>(1,318)</u>
Net cash provided / (used) by operating activities	<u><u>\$ 131,044</u></u>

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

NICHOLAS COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018

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The Nicholas County Water District is a water utility which services areas of Nicholas County. Its sales are primarily to residential customers. The District is a corporate body set forth in Kentucky Revised Statutes (KRS) 74.070 which was created in 1966. The District began operations in 1966. The District is subject to the regulatory authority of the Kentucky Public Service Commission pursuant to KRS 278.040.

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Nicholas County Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing District, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria there are no other organizations included in these financial statements.

Enterprise Funds

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are operating grants and tenant rental revenue. Operating expenses of the District include the cost of producing the revenue and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) is segmented into net investment in capital assets, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use unrestricted resources first, and then restricted resources as they are needed.

Basis of Accounting

The records of the District are maintained, and the budgetary process is based on the accrual method of accounting.

Inventory

The cost of inventory is recorded as a disbursement at the time of payment for the purchase.

Deposits

The District considers all highly liquid investments with a maturity date of twelve months or less from the date of purchase to be cash equivalents. Certificates of deposit that are redeemable immediately with little or no penalty are considered cash equivalents. At December 31, 2018, the carrying amount of the District's deposits was \$383,883 and the bank balance was \$326,228. Of the bank balance, 100% was covered by federal deposit insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

<b>Summary of Cash &amp; Cash Equivalents</b>			
<b>Description</b>	<b>Total</b>	<b>Restricted</b>	<b>Unrestricted</b>
Certificates of deposit	\$ 198,381	\$ -	\$ 198,381
NCWD City Bank	13,841	-	13,841
NCWD escrow	37,555	37,555	-
NCWD operations & maintenance	43,813	-	43,813
NCWD Revenue	1,232	-	1,232
NCWD Sinking Fund Whitaker	11,947	11,947	-
NCWD Savings	25,012	-	25,012
NCWD Phase 10 Water Project	-	-	-
NCWD Phase 11 Water Project	9	9	-
NCWD Depreciation Reserve Fund	52,093	52,093	-
<b>Totals</b>	<b>\$ 383,883</b>	<b>\$ 101,604</b>	<b>\$ 282,279</b>

**Capital Assets**

Capital assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Donated assets are recorded at fair market value at the date of donation.

Depreciation of property and equipment is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

<u>Class</u>	<u>Useful Life</u>
Water lines, tanks	40-50 years
Equipment	5-10 years

The District's capitalization policy is as follows: expenditures costing more than \$1,000 with an estimated useful life greater than one year are capitalized; all others are expensed.

**Amortization**

Bond issue costs are being amortized and charged to expense over the life of the outstanding revenue bonds by use of the straight-line method.

**Net Position**

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position is recorded as restricted when there are limitations imposed on their use by external restrictions.

**Accounts Receivable**

The receivable reflected in the statements in the amount of \$57,696 is net of allowance for uncollectible accounts in the amount of \$43,641.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Pensions**

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

**Note 2 - Notes Payable**

The amount shown in the accompanying financial statements as notes payable represents the District's future obligation to make loan payments from future revenues. At December 31, 2018, four separate loans had outstanding balances. Details of each of these issues are summarized as follows:

(A)  
 Lender – Kentucky Rural Water Finance Corporation (KRWFC)  
 Original loan amount - \$1,775,000  
 Balance of loan - \$1,610,000  
 Rate – 2.10-4.10%  
 Principle due January 1  
 Interest due January 1 and July 1  
 Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days' notice.

Schedule of future payments:

	Principal	Interest	Trustee Fees	Total Payment
2019	\$ 65,000	\$ 58,103	\$ 450	\$ 123,553
2020	65,000	56,088	450	121,538
2021	70,000	53,971	450	124,421
2022	70,000	48,128	450	118,578
2023	75,000	48,128	450	123,578
2024-2028	405,000	198,697	2,250	605,947
2029-2033	485,000	121,826	2,250	609,076
2034-2038	290,000	41,725	2,250	333,975
2039-2041	85,000	3,588	900	89,488
Total	\$ 1,610,000	\$ 630,254	\$ 9,900	\$ 2,250,154

(B)  
 Lender – Kentucky Rural Water Finance Corporation (KRWFC)  
 Original balance of loan - \$185,000  
 Balance of loan - \$140,000  
 Rate – 2.10-4.10%  
 Principle due January 1  
 Interest due January 1 and July 1  
 Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days' notice.

Schedule of future payments:

	Principal	Interest	Total Payment
2019	\$ 20,000	\$ 4,730	\$ 24,730
2020	20,000	4,110	24,110
2021	20,000	3,490	23,490
2022	20,000	5,860	25,860
2023	20,000	1,850	21,850
2024-2025	40,000	1,340	41,340
Total	\$ 140,000	\$ 21,380	\$ 161,380

(C)  
 Lender – United States Department of Agriculture (USDA) – Rural Development  
 Original balance of loan - \$555,000  
 Balance of loan - \$538,000  
 Rate – 2.75%  
 Principle due January 1  
 Interest due January 1 and July 1  
 Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days' notice.

Continued on next page



Schedule of future payments:

	Principal	Interest	Total Payment
2019	\$ 9,000	\$ 14,671	\$ 23,671
2020	9,000	14,424	23,424
2021	9,500	14,169	23,669
2022	9,500	13,908	23,408
2023	10,000	13,640	23,640
2024-2028	54,000	63,897	117,897
2029-2033	61,500	55,955	117,455
2034-2038	71,000	46,848	117,848
2039-2043	81,000	36,398	117,398
2044-2048	92,500	24,511	117,011
2049-2053	106,000	10,905	116,905
2054	25,000	344	25,344
Total	\$ 538,000	\$ 309,670	\$ 847,670

(D)  
 Lender – United States Department of Agriculture (USDA) – Rural Development  
 Original balance of loan - \$203,000  
 Balance of loan - \$171,500  
 Rate – 4.125%  
 Principle due January 1  
 Interest due January 1 and July 1  
 Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days' notice.

Schedule of future payments:

	Principal	Interest	Total Payment
2019	\$ 3,500	\$ 6,930	\$ 10,430
2020	4,000	6,786	10,786
2021	4,000	6,621	10,621
2022	4,000	6,456	10,456
2023	4,500	6,291	10,791
2024-2028	25,000	28,545	53,545
2029-2033	30,500	22,956	53,456
2034-2038	37,000	16,219	53,219
2039-2043	45,500	7,858	53,358
2044	13,500	413	13,913
Total	\$ 171,500	\$ 109,075	\$ 280,575

The following is a summary of changes in long-term obligations for the year:

	Outstanding 1/1/2018	Issued	Retired	Outstanding 12/31/2018	Due Within One Year
Rural Development	\$ 721,000	\$ -	\$ 11,500	\$ 709,500	\$ 12,500
KRWFC	1,825,000		75,000	1,750,000	85,000
Total	\$ 2,546,000	\$ -	\$ 86,500	\$ 2,459,500	\$ 97,500

Note 3 – Defined Benefit Pension Plan

**General Information About the Pension Plan**

*Plan description* - Regular, full-time, employees of the Water District are provided with pensions through the County Employees' Retirement System (CERS)—a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. The assets of CERS are pooled with two other retirement systems Kentucky Retirement System administers, KERS & SPRS. Although invested each system's assets are used only for the members of that plan. Kentucky Revised Statute (KRS) chapter 61 grants the authority to establish and amend the benefit terms to the Kentucky Retirement System's Board of Trustees (Board). Kentucky Retirement System issues a publicly available financial report that can be obtained on their website.

*Benefits provided* - CERS provides retirement, insurance, disability, and death benefits. Retirement benefits are determined from an average of the five highest years of compensation for those whose participation began before September 01, 2008. For those who began participation on or after September 01, 2008 retirement benefits are determined as an average of the last complete five years. A percentage is then taken from those averages based on the employee's months of service. Employees are eligible for service-related disability benefits with at least 60 months of service. If the member is receiving monthly benefits based on at least four years of service, then a \$5,000 death benefit is payable to the member's designated beneficiary. For those employees whose participation began prior to July 01, 2003, CERS will pay a portion of the monthly premium for single coverage based upon service credit accrued at retirement. For those employees whose participation began on or after July 01, 2003 and before September 01, 2008, employees are required to earn at least 10 years of service credit to be eligible for insurance benefits. Employees whose participation began on or after September 01, 2008 must earn at least 15 years of service credit to be eligible for insurance benefits.

Membership in the CERS Non-hazardous Pension Fund consisted of the following at June 30, 2018, the date of the latest actuarial valuation:

**Membership Status**

Inactive plan members currently receiving benefits	56,629
Inactive plan members entitled to but not yet receiving benefits	81,608
Active plan members	<u>84,435</u>
Total plan members	222,672

Cost of living adjustments to monthly retirement allowance must be approved by the Kentucky State Legislature (Legislature) and requires the system to be either 100% funded or appropriations are made to cover the increase are by the Legislature.

*Contributions* - Employees are required to contribute 5% of their annual pay. Employees whose participation began on or after September 01, 2008 are required to contribute an additional 1%. This additional 1% is credited to the insurance fund and is non-refundable. The Water District's contractually required contribution rate for the year ended December 31, 2018 was 19.18%/21.48 (14.48%/16.22% pension; 4.70%/5.26% insurance) of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Water District were \$25,281 for the year ended December 31, 2018. The contribution was allocated \$19,088 to the pension fund and \$6,193 to the insurance fund.

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

At December 31, 2018, the reported a liability of \$291,604 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Water District's portion of the net pension liability was based on the Water District's proportionate share of retirement contributions for the fiscal year ended June 30, 2018. At June 30, 2018 the Water District's proportionate share was 0.004788%.

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled deferred inflows. If they will increase pension expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period. For the year ended December 31, 2018, the Water District recognized pension expense of \$41,380. At December 31, 2018, the Water District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual Liability Experience	\$ 9,511	4,268
Changes in assumptions	28,498	-0-
Differences between expected and actual Investment Experience	13,560	17,056

Changes in proportion and differences between employer contributions and proportionate share of contributions	213	11,286
Contributions subsequent to the measurement date	<u>10,265</u>	<u>-0-</u>
Total	\$ 62,047	\$ 32,610

\$10,265 reported as deferred outflows of resources related to pensions resulting from the Water District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. The remaining amount of \$19,172 reported as the net effect of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Amount</u>
December 31, 2019	\$ 18,090
December 31, 2020	7,404
December 31, 2021	(4,757)
December 31, 2022	(1,565)
December 31, 2023	-0-
Thereafter	<u>-0-</u>
Total	\$ 71,293

*Actuarial methods & assumptions:* For financial reporting, the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

There have been no changes in actuarial assumptions since June 30, 2017. The actuarial assumptions are:

Inflation	2.30%
Salary Increases	3.05%
Investment Rate of Return	6.25% for CERS Non-hazardous, and hazardous, and KERS Hazardous, 5.25% for KERS Non-hazardous

However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

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

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	27 years, Closed
Payroll Growth Rate	4.00%
	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00% average

Investment Rate of Return 7.50% for CERS Non-hazardous, CERS Hazardous, and KERS Hazardous, 6.75% for KERS Non-hazardous

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

The 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 tables below.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
<b>US Equity</b>	<b>17.50%</b>	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
<b>Non US Equity</b>	<b>17.50%</b>	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
<b>Credit Fixed</b>	<b>24.00%</b>	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	<u>2.00%</u>	1.50%
<b>Total</b>	<b>100.00%</b>	<b>6.09%</b>

*Discount rate* - The projection of cash flows used to determine the discount rate of 5.25% for the KERS Non-hazardous, and 6.25% for KERS Hazardous, CERS Non-hazardous, and CERS Hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

*Sensitivity of the Water District's proportionate share of the net pension liability to changes in the discount rate* - The following presents the net pension liability of the System, calculated using the discount rate of percent, as well as what the System's 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 for non-hazardous:

	1% Decrease <u>5.25%</u>	Current Discount Rate <u>6.25%</u>	1% Increase <u>7.25%</u>
Proportionate share of the net pension liability	\$ 367,099	\$ 291,604	\$ 228,352

*Pension plan fiduciary net position* - Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

Note 4 - Other Postemployment Benefits Plan (OPEB)

Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS) is a participating employer of the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description - The Kentucky Retirement Systems' (KRS) Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS and SPRS. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan and the administrative costs incurred by those receiving an insurance benefit.

The CERS Non-hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit Other Postemployment Benefits (OPEB) 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 health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

*Actuarial Methods & Assumptions* - For financial reporting the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

There have been no changes in actuarial assumptions since June 30, 2017. The actuarial assumptions are:

Inflation	2.30%
Payroll Growth Rate	0.0% for KERS non-hazardous and hazardous, and 2.0% for CERS non-hazardous and hazardous
Salary Increases	3.05%, average
Investment Rate of Return	6.25% Healthcare
Trend Rates	
Pre - 65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post - 65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

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

*Long-Term Expected Rate of Return* - 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 tables below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>US Equity</b>	<b>17.50%</b>	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
<b>Non US Equity</b>	<b>17.50%</b>	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
<b>Credit Fixed</b>	<b>24.00%</b>	

Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	<u>2.00%</u>	1.50%
<b>Total</b>	<b>100.00%</b>	<b>6.09%</b>

*Discount Rate* - The projection of cash flows used to determine the discount rate of 5.86% for KERS Non-hazardous, 5.88% for KERS Hazardous, 5.85% for CERS Non-hazardous, and 5.97% for CERS Hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

*Use of Estimates in the Preparation of the Schedules* - The preparation of the schedules in conformity with U.S. generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

The following actuarial methods and assumptions, for actuarially determined contributions effective for the fiscal year ending June 30, 2018:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal Amortization
Method	Level Percent of Pay Remaining
Amortization Period	27 Years, Closed Payroll Growth
Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increases	4.00%, average
Investment Rate of Return	7.50% Healthcare Trend Rates
Pre - 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Post - 65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

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

*Implicit Subsidy* - The fully-insured premiums KRS pays for the KERS, CERS and SPRS Health Insurance Plans are blended rates based on the combined experience of active and retired members. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for non-Medicare eligible retirees. Participating employers should adjust their contributions by the implicit subsidy in order to determine the total employer contribution for GASB Statement No. 75 purposes. This adjustment is needed for contributions made during the measurement period and for the purpose of deferred outflows related to contributions made after the measurement date. The Water District's implicit subsidy for the year ended December 31, 2018 was \$1,238.

*Contributions* - 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 preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

For the fiscal year ended December 31, 2018, participating employers contributed 4.70%/5.26% of each employee's covered payroll to the Kentucky Retirement Systems' Insurance Fund, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

Employees hired after September 1, 2008 are required to contribute an additional 1% of their covered payroll to the insurance fund. Contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h). These members are classified in the Tier 2/Tier 3 structure of benefits, and the 1% contribution to the 401(h) account is non-refundable.

The Water District contributed \$6,193 for the year ended December 31, 2018 of the required contribution to the insurance fund. Total contributions to the insurance fund, including the implicit subsidy for the year ended June 30, 2017 were \$6,592. For additional information regarding contributions, please refer to the Defined Benefit Pension Plan footnote.

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* - At December 31, 2018, the Water District reported a liability of \$85,010 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016, rolled-forward to June 30, 2018 using generally accepted actuarial principles. The Water District's proportion of the net OPEB liability was determined using the Water District's actual contributions for the year ended June 30, 2018. This method is expected to be reflective of the Water District's long-term contribution effort. For the year ended December 31, 2018, the Water District's proportion was 0.004788% which is equal to its proportion measured as of June 30, 2018.

For the year ended December 31, 2018, the Water District recognized OPEB expense of \$10,171. At December 31, 2018, the Water District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual liability experience	\$ -0-	\$ 9,907
Effects of changes in assumptions	16,978	196
Differences between projected and actual earnings on plan investments	-0-	5,856
Changes in proportion and differences between employer contributions and proportionate share of contributions	-0-	3,529
Contributions subsequent to the measurement date + implicit subsidy	<u>4,700</u>	<u>-0-</u>
Total	\$ 21,678	\$ 19,488

\$4,700 reported of deferred outflows of resources resulting from the Water 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, 2019. Other amounts reported as the net effect of deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

<u>Year Ended</u>	<u>Amount</u>
December 31, 2019	\$ (371)
December 31, 2020	(371)
December 31, 2021	(371)
December 31, 2022	766
December 31, 2023	(1,414)
Thereafter	<u>(749)</u>
Total	\$ (2,510)

*Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate* – The following presents the proportionate share of the net OPEB liability calculated using the single discount rate of 5.84%, as well as what the Water District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1% lower (4.84 percent) or 1% higher (6.84 percent) than the current rate:

	<u>Discount Rate</u>	<u>Proportionate Share of Net OPEB Liability</u>
1% decrease	4.84%	\$ 110,414
Current discount rate	5.84%	\$ 85,010
1% increase	6.84%	\$ 63,370

*Sensitivity of the Water District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate* - The following presents the proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates (see details in Actuarial Assumptions above), as well as what the proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1% lower or 1% higher than the current rates:

	<u>Proportionate Share of Net OPEB Liability</u>
1% decrease	\$ 63,291
Current healthcare cost trend rate	\$ 85,010
1% increase	\$ 110,611

**Note 4 - Leave Policies**

The Nicholas County Water District's vacation policy entitles an employee to two weeks of vacation time after one full year of employment., three with fifteen years of service and four weeks with twenty years of service. At the end of each year, employees are paid for any unused vacation time.

The District's personal/sick leave policy allows for six personal days and six sick days after one year of full-time employment. Employees may carry over no more than fifteen personal and sick days from one year to the next. Any unused personal days will be transferred to vacation days in December to replace any vacation days used and employees are compensated accordingly. Any unused sick days over the fifteen are lost at the end of each year.

**Note 5 - Changes in Capital Assets**

The following is a summary of changes in capital assets for the year:

	<u>Balance 1/1/2018</u>	<u>Transfers/ Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2018</u>
Land, non-depreciable	\$ 20,997	\$ -	\$ -	\$ 20,997
Utility plant and equipment	8,012,095	884,757	-	8,896,852
Construction in process, non-depreciable	<u>350,842</u>	<u>533,915</u>	<u>884,757</u>	<u>-</u>
	<u>\$ 8,383,934</u>	<u>\$ 1,418,672</u>	<u>\$ 884,757</u>	<u>\$ 8,917,849</u>
Accumulated depreciation	<u>\$ 3,766,724</u>	<u>\$ 195,961</u>	<u>\$ -</u>	<u>\$ 3,962,685</u>
Capital assets, net of accumulated depreciation	<u>\$ 4,617,210</u>	<u>\$ 1,222,711</u>	<u>\$ -</u>	<u>\$ 4,955,164</u>



**Note 6 - Revenue Bonds**

Water and Revenue Bonds constitute special obligations of the District solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions, which require the District to maintain pledged revenues. The District must transfer monthly 1/6 of the next succeeding interest payment and 1/12 of the next succeeding principal payment from the operations and maintenance account into the bond and interest sinking account

**Note 7 – Contingencies**

The District is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the District in the current and prior years. There were no examinations for the year ended December 31, 2018. Areas of noncompliance, if any, as a result of examinations would be included as a part of the “Findings and Questioned Costs” section of this report.

**Note 8 – Risk Management**

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District management.

**Note 9 – Compliance with Bond Ordinance**

On or before the 20<sup>th</sup> day of each month and after the required payment to the Operation and Maintenance account, the District is required to set aside an amount into a special account known as the Nicholas County Water District, Bond and Interest Sinking Fund. The amount to be set aside and paid into the Sinking Fund each month shall be sums equal to the following amounts:

1. A sum equal to one-sixty (1/6) of the interest coming due on the next succeeding interest due date, with respect to all outstanding bond issues.
2. A sum equal to one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding January 1<sup>st</sup>.

The District had set aside \$11,947 into the restricted account as of December 31, 2018. All deposits required above were made by the District during the year.

**Note 10 – Subsequent Events**

The District has evaluated subsequent events through September 13, 2019, and that is the date that the financial statements were available to be issued.

**Note 11 – Prior Period Adjustment**

Adjustments were made in accordance with GASB 75. One prior period adjustment was made in the amount of \$100,557:

Debit   (Credit)	
<u>Account</u>	<u>Amount</u>
Net OPEB liability	\$ 100,557

REQUIRED SUPPLEMENTARY INFORMATION

**Nicholas County Water District**  
**Schedule of Employer's Proportionate Share of Net Pension Liability**  
**December 31, 2018**

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	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018
Proportion of the net pension liability (asset)	0.005218%	0.005180%	0.005230%	0.005002%	0.004788%
Proportionate share of the net pension liability (asset)	\$ 169,000	\$ 222,842	\$ 257,493	\$ 292,782	\$ 291,604
Covered employee payroll	\$ 190,000	\$ 123,000	\$ 113,000	\$ 121,781	\$ 125,394
Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	88.95%	181.17%	227.87%	240.42%	232.55%
Plan fiduciary net position as a percentage of the total pension liability (asset)	66.80%	59.97%	55.50%	53.32%	53.30%

**Nicholas County Water District**  
**Schedule of Employer's Contributions - Net Pension Liability**  
**December 31, 2018**

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	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>
Contractually required contribution	\$ 22,615	\$ 15,474	\$ 14,858	\$ 18,424	\$ 19,088
Contributions in relation to the contractually required contribution	<u>22,615</u>	<u>15,474</u>	<u>14,858</u>	<u>18,424</u>	<u>19,088</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 190,000</u>	<u>\$ 123,000</u>	<u>\$ 113,000</u>	<u>\$ 129,625</u>	<u>\$ 124,221</u>
Contributions as a percentage of covered employee payroll	11.90%	12.58%	13.15%	14.21%	15.37%

**Nicholas County Water District**  
**Schedule of Employer's Proportionate Share of Net OPEB Liability**  
**December 31, 2018**

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	12/31/2016	12/31/2017
Proportion of net OPEB liability (asset)	0.005002%	0.004788%
Proportionate share of net OPEB liability (asset)	\$ 100,557	\$ 85,010
Covered employee payroll	\$ 125,000	\$ 125,394
Proportionate share of net OPEB liability (asset) as a percentage of covered employee payroll	80.45%	67.79%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%	52.40%

**Nicholas County Water District**  
**Schedule of Employer's Contributions - Net OPEB Liability**  
**December 31, 2018**

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	<u>12/31/2017</u>	<u>12/31/2018</u>
Statutorily required contribution	\$ 5,760	\$ 6,193
Contributions in relation to the statutorily required contribution	<u>5,760</u>	<u>6,193</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 122,293</u>	<u>\$ 124,221</u>
Contributions as a percentage of covered-employee payroll	4.71%	4.99%

Nicholas County Water District  
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
 For the year ended December 31, 2018

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**Net Pension Liability**

*Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal year ending 2018, determined as of June 30, 2017. Based on the June 30, 2017 actuarial valuation report, the actuarial methods and assumptions used to calculate these contributions are below:*

- Determined by the actuarial valuation as of: June 30, 2016
- Actuarial cost method: Entry age
- Asset valuation method: 20% of the difference between market value of assets and the expected actuarial value of assets is recognized
  
- Amortization method: Level percent of pay
- Amortization period: 27 years, closed
- Investment return: 7.50%
- Inflation: 3.25%
- Salary increase: 4.00%, average
- Mortality: RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

**Net OPEB Liability**

The actuarially determined contributions rates effective for fiscal year ending 2018 that are documented in the schedule, Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Trend Rate, are calculated as of June 30, 2017. Based on the June 30, 2017 actuarial valuation report, the actuarial methods and assumptions used to calculate these contributions are below:

- Determined by the actuarial valuation as of: June 30, 2016
- Actuarial cost method: Entry Age Normal
- Asset valuation method: 20% of the difference between market value of assets and the expected actuarial value of assets is recognized
  
- Amortization method: Level Percent of Pay
- Amortization period: 27 Years, Closed
- Payroll Growth Rate: 4.00%
- Investment return: 7.50%
- Inflation: 3.25%
- Salary Increase: 4.00%, average
- Mortality: RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)7.50%
  
- Healthcare Trend Rates
  - Pre-65: Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
  - Post-65: Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

SUPPLEMENTARY INFORMATION



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

Board of Commissioners  
Nicholas County Water District  
Carlisle, 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 business-type activities of the Nicholas County Water District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Nicholas County Water District's basic financial statements, and have issued our report thereon dated September 13, 2019.

## **Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

*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. We consider the deficiency described in the accompany schedule of findings and questioned costs to be a significant deficiency. [2018-001]

## **Nicholas County Water District's Response to Findings**

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

## **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*John T. Lane & Associates LLC*

Mount Sterling, Kentucky

September 13, 2019

NICHOLAS COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
December 31, 2018

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PRIOR FINDINGS

2017-001 Lack of Segregation of Duties – Repeated as 2018-001

2017-002 Previous Manager Was Allegedly Stealing Money – Cleared

2017-003 \$47,635 in Uncategorized Expenses - Cleared

CURRENT FINDINGS

2018-001 Lack of Segregation of Duties

Condition: The District has an inadequate segregation of duties within its internal control process.

Criteria: All governmental entities should design their internal control to provide an adequate segregation of duties.

Cause: The District does not have sufficient employees to adequately design its internal control.

Recommendation: The District should continue to design and implement its internal control policies to provide the maximum segregation of duties possible.

Response: We will do as recommended.

**EXHIBIT 3**  
**PRELIMINARY ENGINEERING REPORT**

# PRELIMINARY ENGINEERING REPORT

## PHASE 12 WATER SYSTEM IMPROVEMENTS

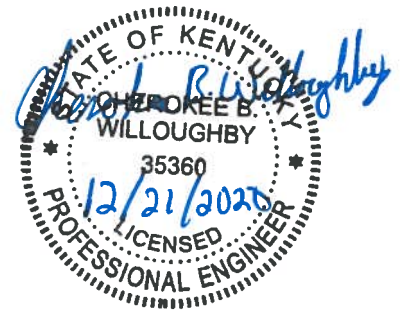
FOR THE

### NICHOLAS COUNTY WATER DISTRICT

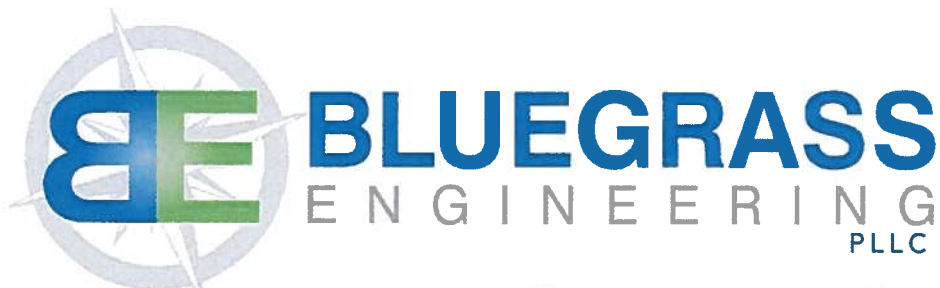
1639 Old Paris Road  
Carlisle, Kentucky 40311

BE Project No. 20016

December, 2020



PREPARED BY:



222 East Main Street, Ste. 1 • Georgetown, KY 40324

## SECTION 1 PROJECT PLANNING

### 1.01 LOCATION

The Nicholas County Water District (NCWD) was organized in 1964 after being privately maintained for approximately four years. The existing system consists of approximately fifty (50) miles of water mains with three (3) water storage tanks and four (4) booster pump stations that serve approximately 1600 customers in Nicholas and Bourbon counties.

NCWD's service area is located in Northeastern Kentucky, approximately thirty miles northeast of Lexington. NCWD covers approximately 204 square miles with the water office a few miles north of the City of Carlisle. NCWD serves all of Nicholas County that is not served by the City of Carlisle, and a few customers in northern Bourbon County, close to the City of Millersburg. Included in these areas are the communities of Barbersville, Hooktown, Miranda, Moorefield, and Pleasant Valley.

The topography of Nicholas County and its service area is an agriculture area with slightly rolling hills in most areas of the county with a more diverse, more highly elevated regions in the western portion of the county. The differences in elevations range from 575 feet in elevation in the northern part of the county in the bottoms of the Licking River basin to over 1000 feet on the hilltops in the northwest. These divergent elevations are reflective in the three (3) pressure zones using three (3) tanks to provide service to its customers. Elevations of communities within the NCWD service area include Myers at 640 feet, Headquarters at 950 feet, East Union at 840 feet and Moorefield at 960 feet. The NCWD service area is rural with scattered residences and agriculture that is primarily used for pasture.

### 1.02 ENVIRONMENTAL RESOURCES PRESENT

The major environmental features within the proposed area feature a minimum number of landforms and topographic changes are slight from rolling hills to moderately steep inclines. The steeper terrain changes require four (4) booster pump stations, and elevated and ground storage tanks. Water pressures range from 30 psi to over 220 psi in sections of the system. Several of the hollows are in floodplains due to the numerous creeks located in the valleys. Rock walls are evident along the US 68 corridor of the county, but known historic sites are not expected in the planning area.

### 1.03 POPULATION TRENDS

The calculated population based on the 2010 Census and the number of customers in Nicholas County was 7,135. The Kentucky State Data Center currently projects that both counties will lose population over the next 35 years. The table below shows the

total number of customers by county, medium household incomes, and the estimate of county population served by the Nicholas County Water District.

County	Serviceable Population	No. Customers	MHI
Nicholas	3,413	1,597	\$40,259
Bourbon	15	3	\$47,367
TOTALS:	3,428	1,600	\$40,259

#### 1.04 COMMUNITY ENGAGEMENT

The NCWD will be holding a public meeting inviting all individuals affected by this project. This meeting will communicate the need for the project and the resulting system improvements that will be accomplished through the project.



## SECTION 2 EXISTING FACILITIES

### 2.01 LOCATION

The NCWD is located in northeastern Kentucky near the City of Carlisle in Nicholas County. The NCWD serves all of Nicholas County that is not served by the City of Carlisle and small part of Bourbon County, including the communities of Hooktown, Moorefield, East Union, and Myers. The District does not produce their own water, but instead purchases their water from Western Fleming Water District and the City of Carlisle. They also have master meters for emergency connections to Kentucky American Water in Millersburg and the Buffalo Trail Water Association located in Sardis. Maps of the project showing the extent of the water system improvements is located at the end of this report (Appendix A).

### 2.02 HISTORY

The NCWD system was privately organized in 1960 but did not begin service until about 1964. Besides being a customer of the City of Carlisle and Western Fleming Water District, the District can also purchase water from Buffalo Trail Water Association and Kentucky American Water located in Millersburg in case of emergency situations. The District purchases water from Carlisle at three different locations within the system. The District also sells a limited supply of water to the Harrison County Water Association. Several water line extension projects have been developed over the past fifty (50) years to establish the current NCWD customer base which serves approximately 97% of potential customers in the service area of NCWD. Those without service are located in very remote areas of the system that are not financially feasible to serve at this time.

### 2.03 CONDITION OF EXISTING FACILITIES

The 50-mile distribution system consists of 8", 6", 4", 3" and 2" PVC water mains and a limited amount of ductile iron in the extremely high-pressure areas. The existing water mains are generally located on private easements and road right of ways due to the semi-challenging topography the District has to navigate. This area is difficult in that it has a rock sub-surface in areas that can be detrimental to PVC pipe if not installed correctly. Due to the age of parts of the system, and the rocky subsurface the District has been able to maintain a 29% water loss. Recently completed tank inspections, reveal the need for all three tanks to have interior work completed as well as some minor exterior improvements. The District has four existing pump stations that are all aged and in poor condition, and are in need of replacement.



## 2.04 FINANCIAL STATUS OF ANY EXISTING FACILITIES

The financial condition of the District is dire and unsustainable if action is not taken in a timely manner to rectify with a new rate increase as part of this project. For whatever reasons, past rate increases were developed to cover the cost of the capital improvement loans, but has not addressed the increases in regular operating costs. Annual audits will be submitted to Rural Development as required by the RD bond issue. A customer breakdown will be provided in the Summary Addendum.

As with the majority of utilities across the country, the NCWD has seen its operating expenses rise over the past several years. Electric costs, material costs, state retirement and health insurance are the expenses that have seen the largest increase.

Currently, NCWD has limited staff and field personnel to conduct daily tasks as well as any unexpected repairs or maintenance activities. NCWD has discussed the possibility of upgrading their meters to a radio read system, reducing the days to read meters from three weeks to 1.5 days. This upgrade will allow the District to save the monthly payments to a subcontractor that currently reads the meters.

## SECTION 3 NEED FOR PROJECT

### 3.01 HEALTH, SANITATION, AND SECURITY

The proposed project will address several conditions that can cause unsatisfactory health, sanitary and security of the distribution system: replace problematic water lines, replacement of existing booster stations and recoating of storage tanks.

The problematic water lines on Myers Road (North) and Stoney Creek/Scott Road have created problems for the District and its customers both financially and with regard to public relations. These line breaks require boil water advisories, flushing and water quality sampling.

The booster station replacement portion of the project would replace three booster pump stations that have severed beyond their useful life. The new booster stations will include new highly efficient motors and controls allowing for a more financial efficient pumping source. The existing pump stations on US 68 (office), US 68 (Blue Licks), and East Union Road will all be replaced. The Concord pump station will be decommissioned and the service area of the booster station will be supplied by the East Union Road booster station. The Blue Licks station will be moved out of the flood plain to protect from flood events, easier access and better security.

After tank inspections were conducted at all of the storage tanks it was determined that all of the coating systems were in disrepair and needed to be recoated to protect water quality and ultimately the structural integrity of the tanks. The interior of the twenty-three-year-old Barbersville standpipe tank, the twenty-year-old Concord standpipe tank, and the twelve-year-old, Hickory Ridge elevated tank will have a full SP10 interior blast and repaint. This will allow for a better quality of water and will also provide for a longer life of each tank. As stated above the tank inspection reports stated that rusting and moderate pitting of the interior steel were evident. These issues must be addressed as they can also cause a premature breakdown of the chlorine.

The proposed project will help to improve the overall service from a water quality and reliability standpoint to the Nicholas County Water District customers.

### 3.02 AGING INFRASTRUCTURE

The existing water mains (Stoney Creek, KY 32, and Myers Roads) to be replaced with this project are about thirty (30) years old and have been problematic for an extended period of time. Due to the age of these water mains the District has experienced continued operational issues that have only increased over time. These issues include breaks and leaks of the PVC water mains which create financial strains on the District through the allocation of its limited resources. All of the four pump stations that require

replacement are approximately thirty years old, and are beyond the state of rehabilitation. The fourth pump station will be removed from service as it will not be required with larger pumps going into the third pump station. The three existing tanks are between eleven and twenty-two years old and each tank is in need of an interior blast and repaint to improve the life and serviceability of each.

### **3.03 REASONABLE GROWTH**

The Kentucky State Data Center currently projects very little to no growth in the next thirty-five years. However, the existing customers will pay a heavy price financially in the cost of water if some of these problems are not rectified in the short term.

## SECTION 4 ALTERNATIVES CONSIDERED

### 4.01 Description

Several alternatives were considered for all aspects of the project: water mains, booster station, tanks and meters.

The alternatives for the water mains were limited as the only recourse to remedy the current reliability of the existing water mains was to replace the lines with the only alternative being the material of the pipe. After looking at the budget impact of the different materials it was determined that the best option for NCWD was to replace the existing water mains with PVC due to costs of ductile iron pipe.

The booster station alternatives included, rehabilitation of the existing booster stations and replacement. Due to existing conditions of the booster stations, it was determined that replacement was the most cost-effective alternative. The existing booster stations were also determined to have limited access during maintenance and were located in close proximity to the flood plain.

The storage tank alternatives considered were rehabilitation or replacement of the tank. The tanks are not close to the point of replacement, as the exterior of the tanks are in good condition with limited spotting, but the interior of the tanks have problems with rusting and pitting of the steel surfaces, therefore the most cost-effective alternative was to rehabilitate the interior of the existing tanks by a blasting the existing steel and the application of a new interior paint system..

NCWD considered a traditional meter system and a drive by radio read system as the alternatives for meter replacement. However, it was determined the District could pay for the radio read meters in several years for what the District was paying an outside sub-contractor to read each month. This will provide flexibility to the District with their limited manpower and financial means, as it is expected the radio read meter readings would only take 1.5 days to read by one employee and provide a consistency to the readings.

### 4.02 Design Criteria

The design criteria that will be used on the project include hydraulic analysis of the existing system to determine that adequate pressures are available throughout the distribution system along with examining flushing velocities. By properly sizing the distribution mains to be installed the District will provide improved service to its customer base while also maintaining potable water of high quality.

#### 4.03 Map

Maps of the project, showing the water main replacement, water main extension, location of the new booster pump stations, and water storage tanks are located at the end of this report (Appendix A). The meter replacements are system wide.

#### 4.04 Environmental Impacts

An environmental report detailing the potential impacts of the project may be undertaken with this project. Once the report is finalized any potential impacts will be taken into consideration and any necessary remediation measures will be taken to avoid any negative impact to the environment.

#### 4.05 Land Requirements

Land requirements associated with this project will include the need for easements and encroachment permits, both public and private, for the installation of the extension and replacement water mains. In some areas the existing easements may be utilized. Those easements and permits will be obtained prior to any construction beginning. The new pump stations will either be installed on new purchased property or new easements will be obtained from the impacted property owners.

#### 4.06 Potential Construction Problems

Potential problems can occur anytime an existing tank is removed from service for rehabilitation purposes. No tank will be removed from service until the pump station replacements are completed with the installation of the VFD's. With the booster station having VFD controls it will allow the District to operate as constant pressure. This will prevent any possibility of the system over pressurizing, or the need to exhaust water onto the ground needlessly. Also, the replacement of existing water mains can be problematic, when installing the new water main on the existing easement. Working too closely to the existing line could cause some unexpected outages if the District does not have command of where the existing line is located. These problems are considered during the design of the project and all precautions are taken to limit this potential risk.

#### 4.07 Cost Estimates

A preliminary project cost estimate is included at the end of this report (Appendix B).

## **SECTION 5 SELECTION OF AN ALTERNATIVE**

### **5.01 Life Cycle Cost Analysis**

In the selection of the preferred alternative for this project the life cycle cost of the materials to be utilized has been considered. The main material to be utilized is the water main. The water main will be of PVC material and the reconnected service line will be HDPE material. Recent studies estimate a service life of both the HDPE and the PVC up to one hundred years. In addition, the new pump stations will all utilize Variable Frequency Drives which should reduce electrical costs as much as thirty percent and also provide flexibility to the system if the storage tanks need to be removed from service for any reason. This length of service life and VFD's provides for lower operating and maintenance costs to be realized by the District.

### **5.02 Non-Monetary Factors**

The non-monetary factors considered are the ability to provide reliable service to the existing customer base. With new water mains the existing customer base will have improved service and a higher quality product due to the elimination of problematic water lines and the increased reliability of accurate meter readings. The new pump stations are desperately needed in this project to provide consistency and reliability to the entirety of the water distribution system.

## SECTION 6 PROPOSED PROJECT (RECOMMENDED ALTERNATIVE)

### 6.01 Preliminary Project Design

The proposed project consists of a wide variety of capital improvements that will enhance the operation of the NCWD in the years ahead. Approximately 9000 LF of new water main will be installed to replace existing problematic PVC water main in two different areas of the county, while another 1600 LF of new water main will be installed to provide service to the prospective customers on the west side of the newly realigned US 68 highway. The District will also replace three existing pump stations (US 68, Blue Licks, and East Union) that are in distress, and demo a fourth pump station (Concord). The new East Union pump station is located in an area of the system that can be designed to replace the existing Concord and East Union pump stations. A new RTU will also be installed in order to allow the system to operate in an automatic mode which currently requires daily attention from the District personnel. Another proposed update will be to touch up the exterior of the Bartersville, and Concord tanks, and full blast and repaint of the interiors of Hickory Ridge, Bartersville and Concord tanks. Three (3), 2020 tank inspections (Appendix C) revealed degradation of the interior surface steel on each tank and the recommendation was a full SP10 blast and three coat epoxy repaint. This work will provide years of additional service to these tanks and reliability to the District. The proposed project will also include 1600 new radio read meters and the labor to install each. These new meters will replace old outdated meters and should improve water loss with more accurate readings, and will also allow the District to save money by not paying outside contractors for this monthly service.

Various other items included in this project are the purchase of a portable generator for emergency situations; removing an existing secondary AC water main from service by a simple cutting and plugging of the main. Five (5) new meter setters in one area on Headquarters Road that never received setters when they were originally installed; and payment for three (3) tank inspections;

Additionally, should project funds be available the project may include the purchase of general day to day equipment such as a new truck(s); water pumps; trailer; backup lap top; computers and software updates; improvements to their storage facilities. and other miscellaneous tools to maintain the water distribution system in a professional and efficient manner.

## 6.02 Project Schedule

The proposed project schedule is:

1. Secure Letter of Conditions from USDA RD – May, 2021
2. Secure Land/Easement/Encroachment Permits – February, 2021
3. Division of Water Submittal – March, 2021
4. Advertise for Bids – June, 2021
5. Contract Award/Initiate Construction – September, 2021
6. Substantial Completion – March, 2022
7. Final Completion/Initiation of Operation – April, 2022

## 6.03 Permit Requirements

The project will include the need for Division of Water Approval and other potential permits to be identified within the environmental report.

## 6.04 Total Project Cost Estimate (Engineer's Opinion of Probable Cost)

A preliminary project cost estimate is included at the end of this report (Appendix B).

## 6.05 Annual Operating Budget

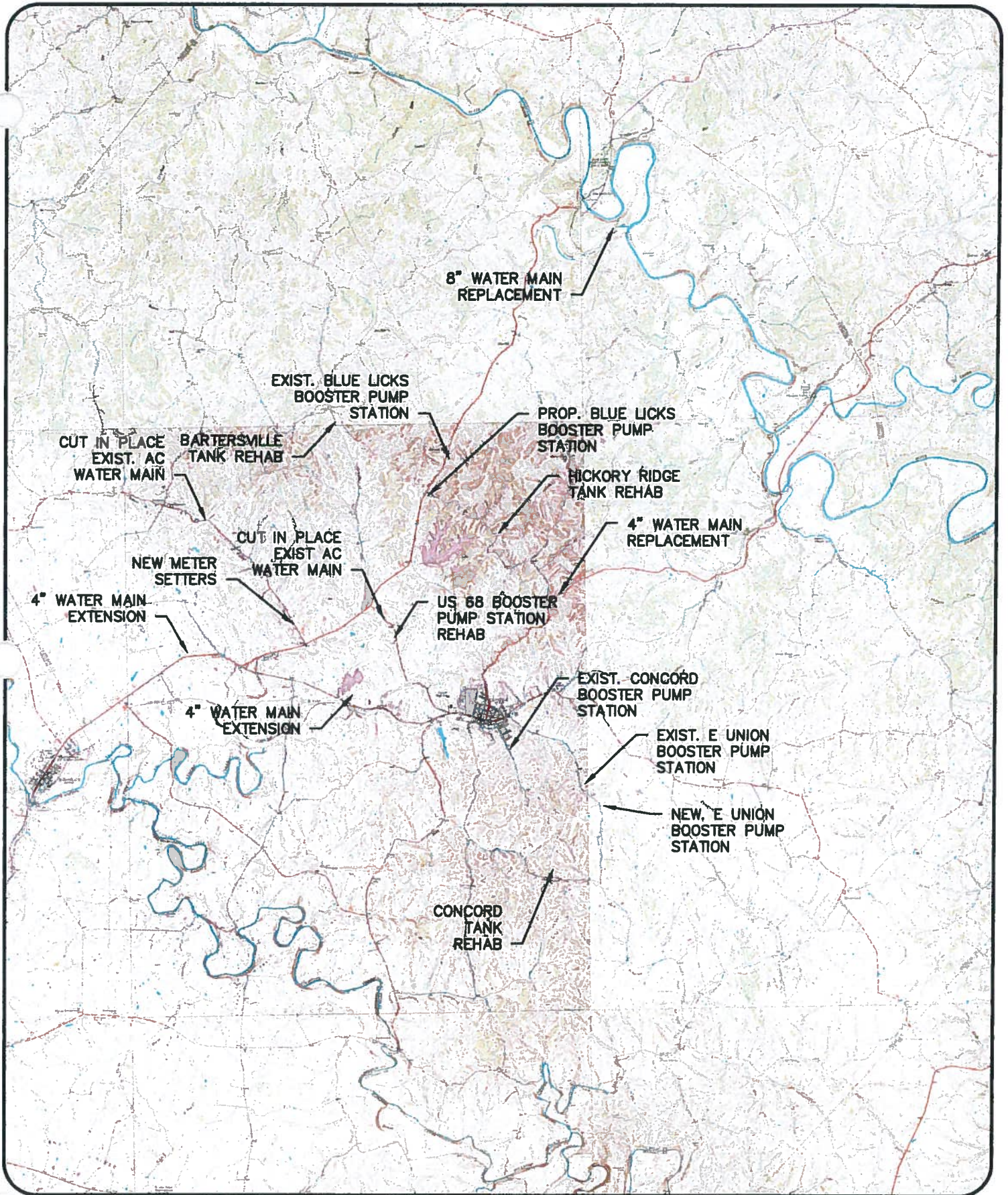
A Summary Addendum will be prepared for the project which will examine the District's current and future financial position. Included within the Summary Addendum will be an analysis of the District's current income, annual O & M costs, current and future debt repayments and current reserves. This Summary Addendum will propose a suggested rate for the District in order to meet its current and future debt obligations.



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**APPENDIX A**      **PROJECT MAPS**

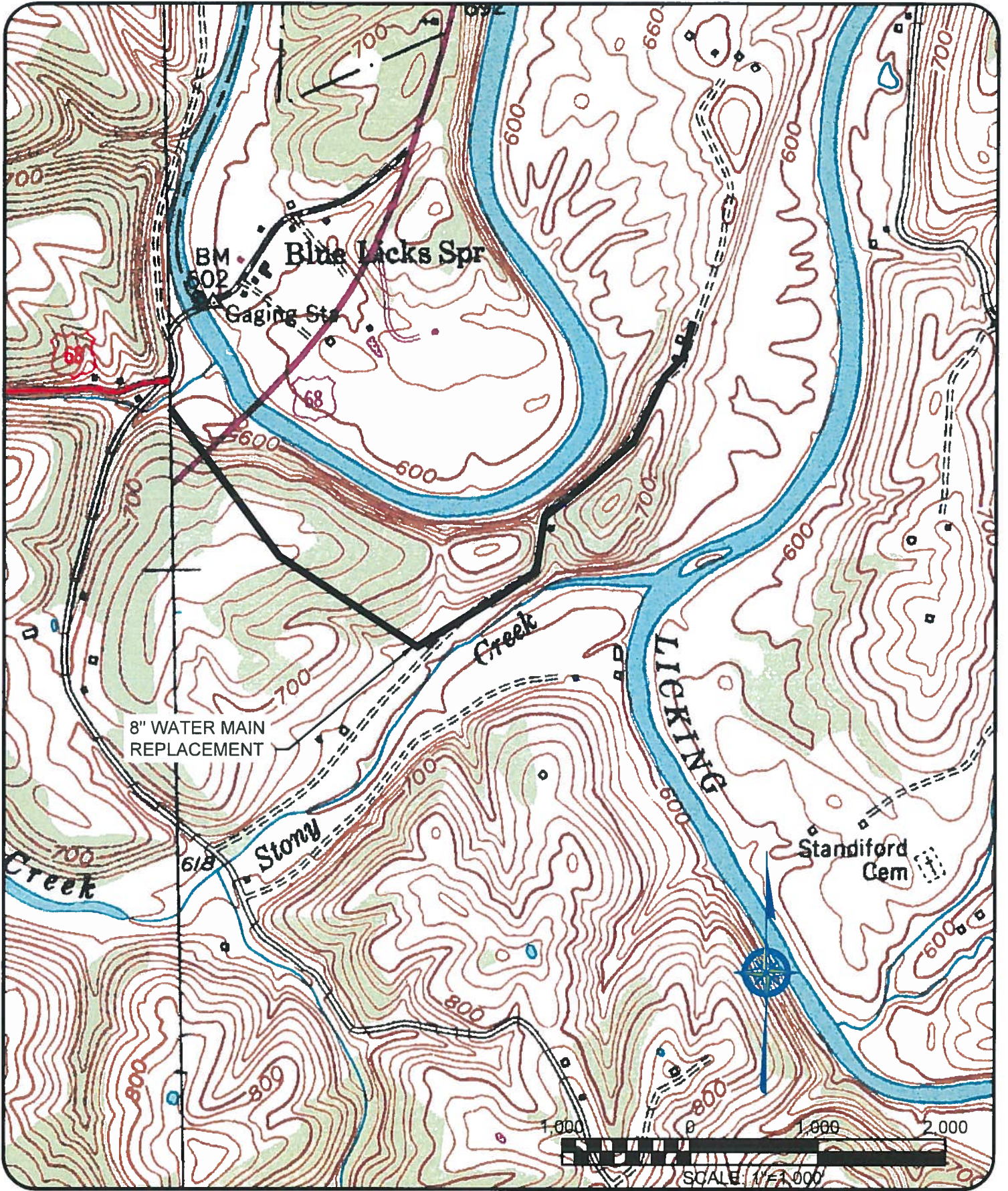





  
 232 East Main Street, Ste. 1 • Georgetown, KY 40324

PHASE 12 WATER SYSTEM IMPROVEMENTS  
 NICHOLAS COUNTY

Project No. 20016
Date DEC. 2020
Dwg. No. 1

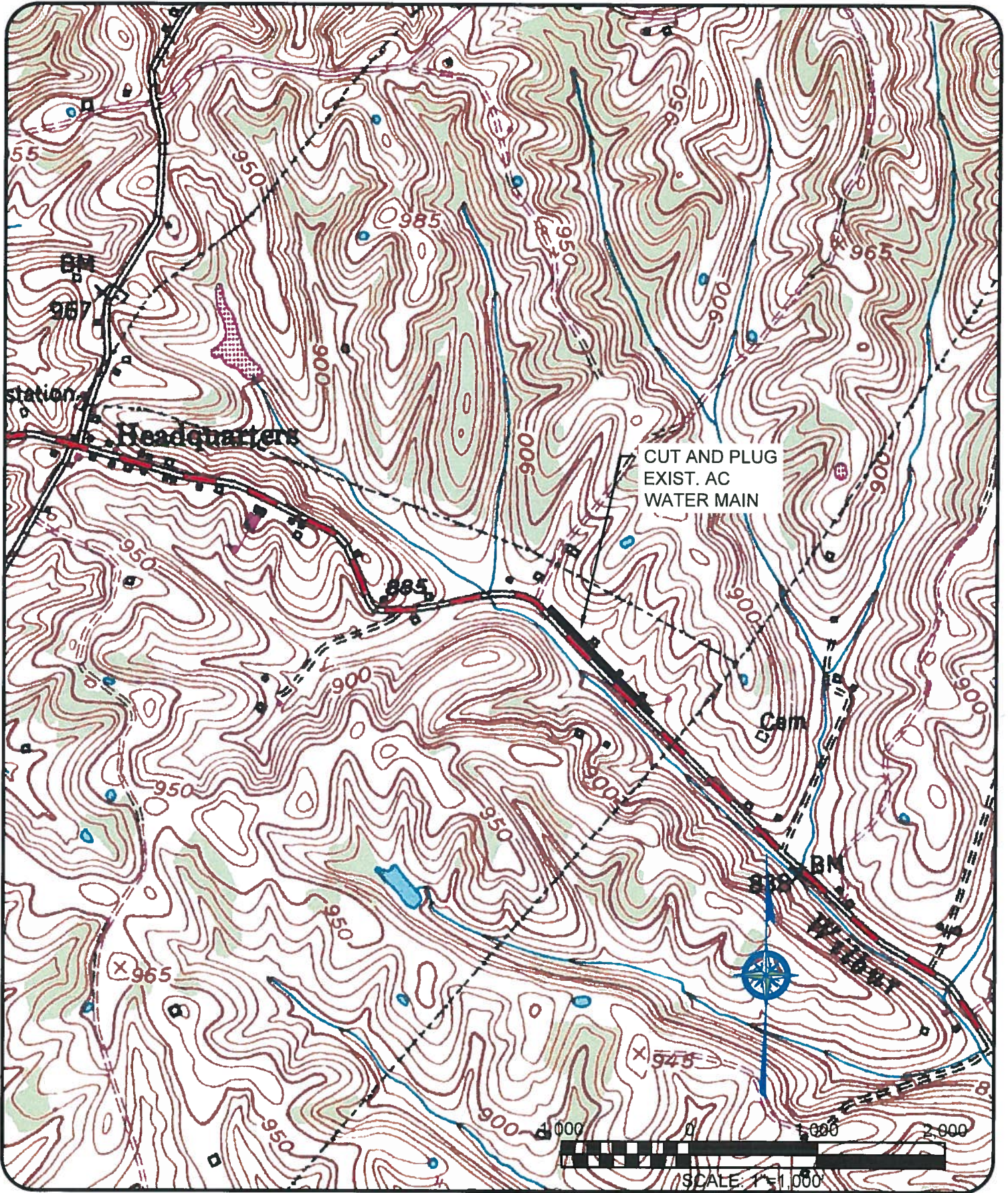


**BLUEGRASS**  
ENGINEERING  
PLLC

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PHASE 12 WATER SYSTEM IMPROVEMENTS  
NICHOLAS COUNTY

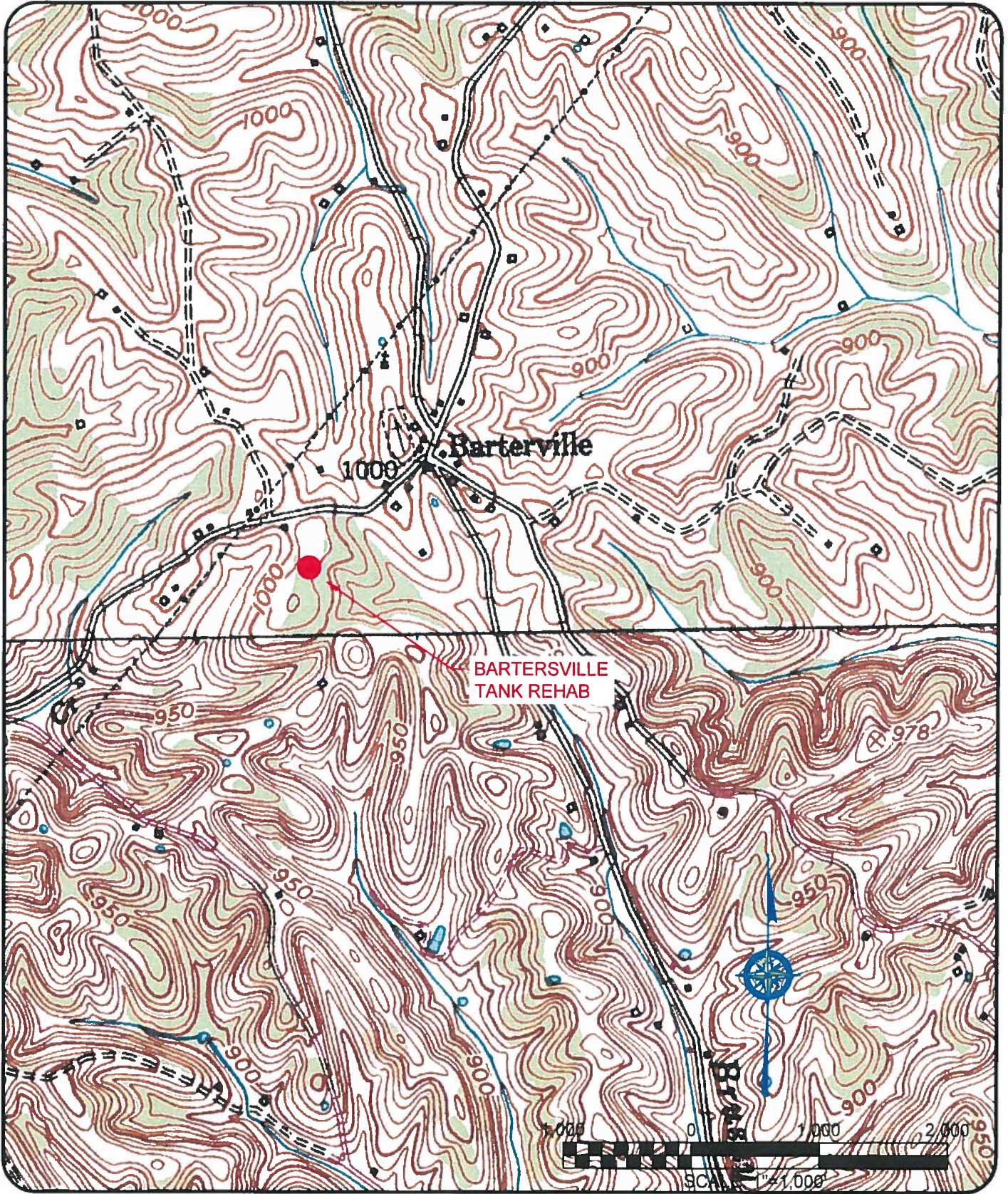
Project No.20016
Date DEC. 2020
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NICHOLAS COUNTY

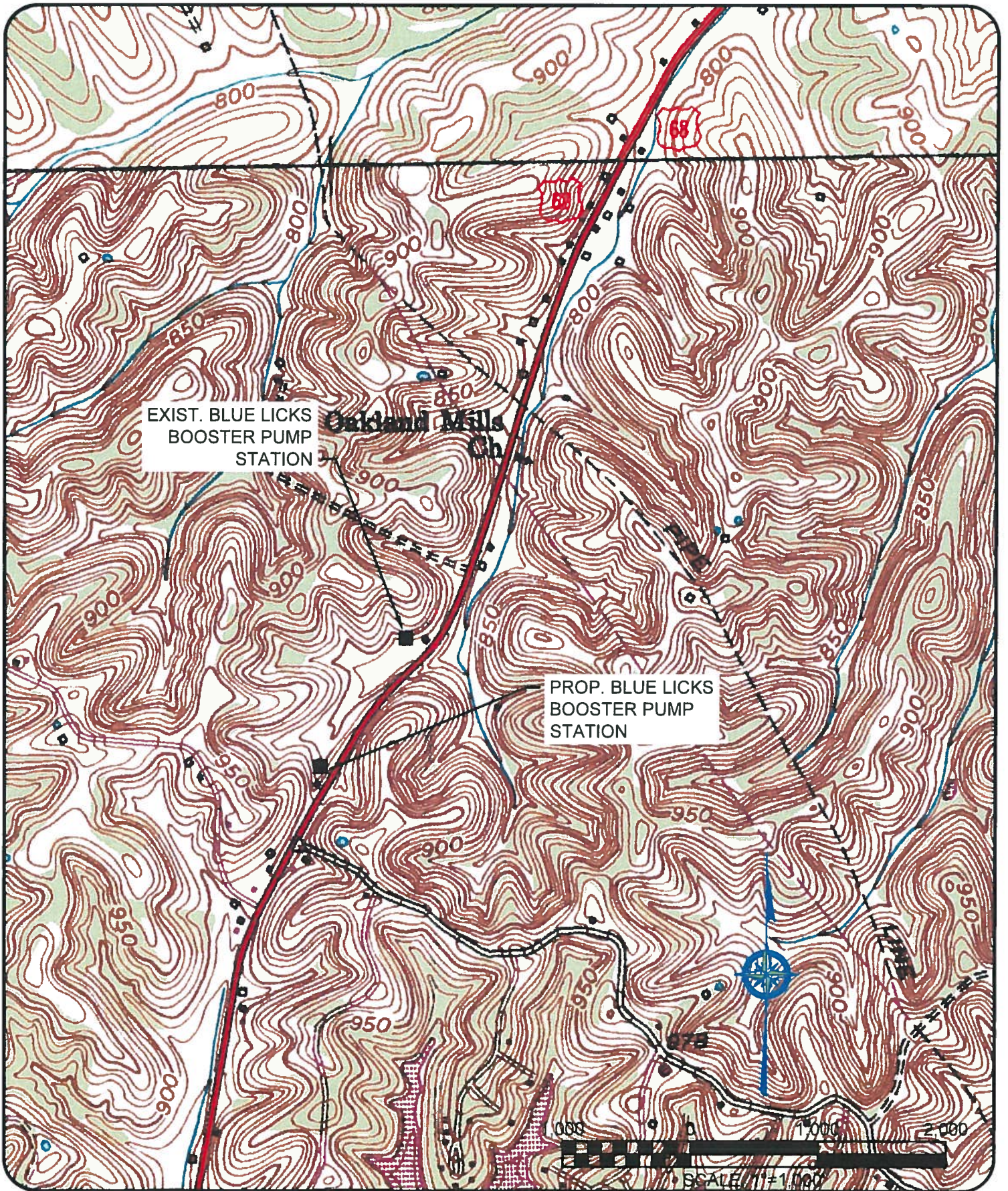
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NICHOLAS COUNTY

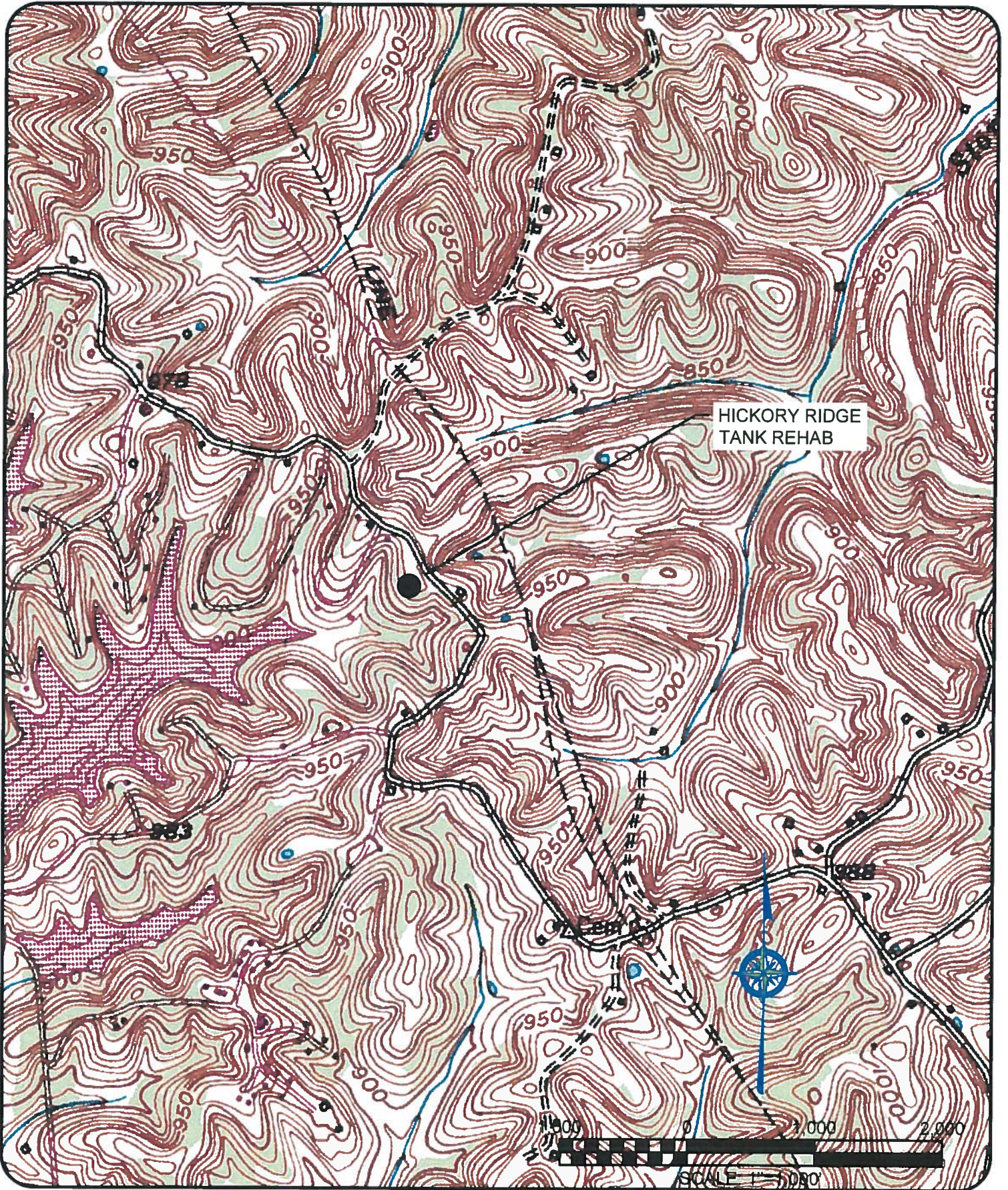
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NICHOLAS COUNTY

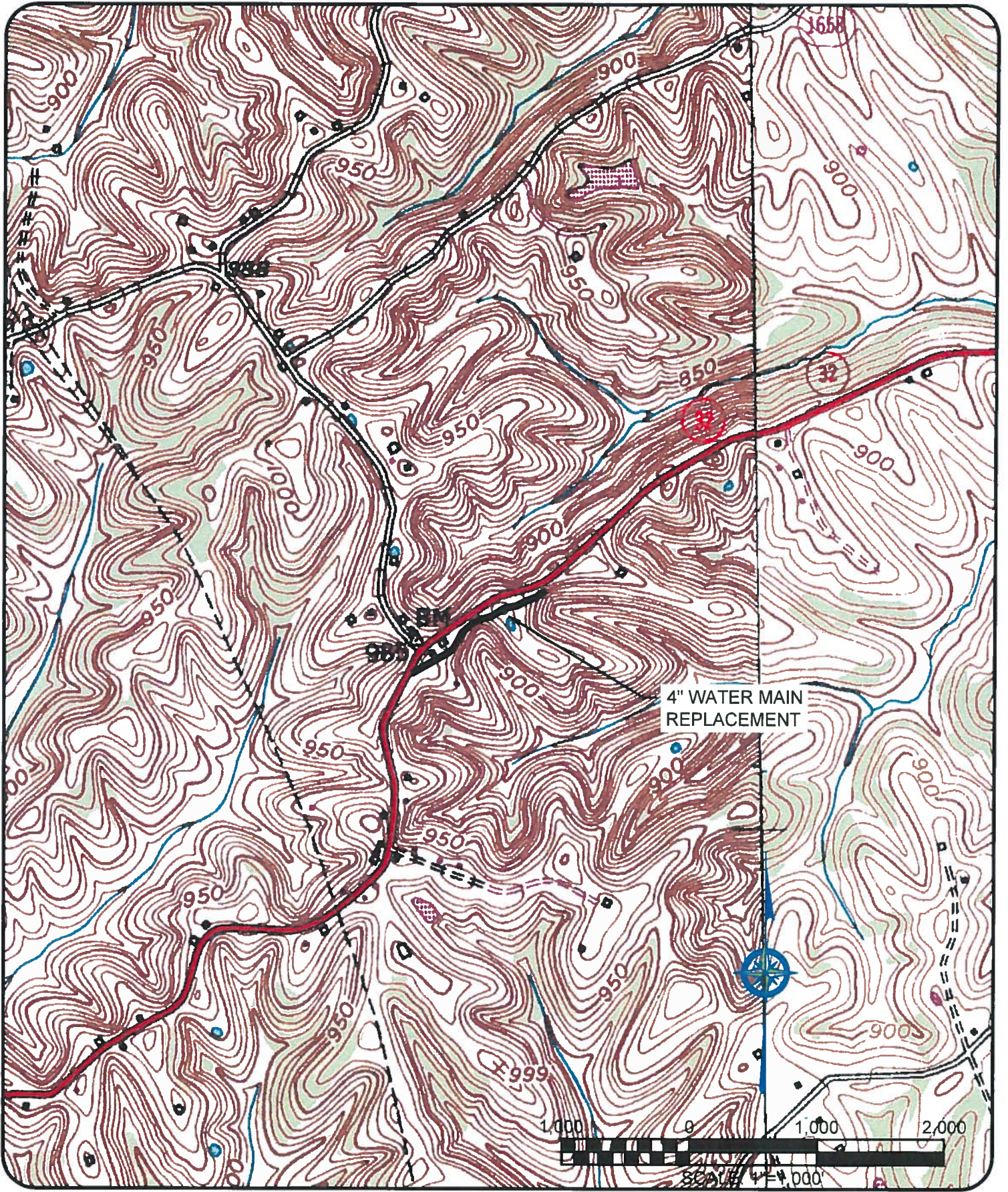
Project No.20016
Date DEC. 2020
Dwg. No. 4



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NICHOLAS COUNTY

Project  
No. 20016  
Date  
DEC. 2020  
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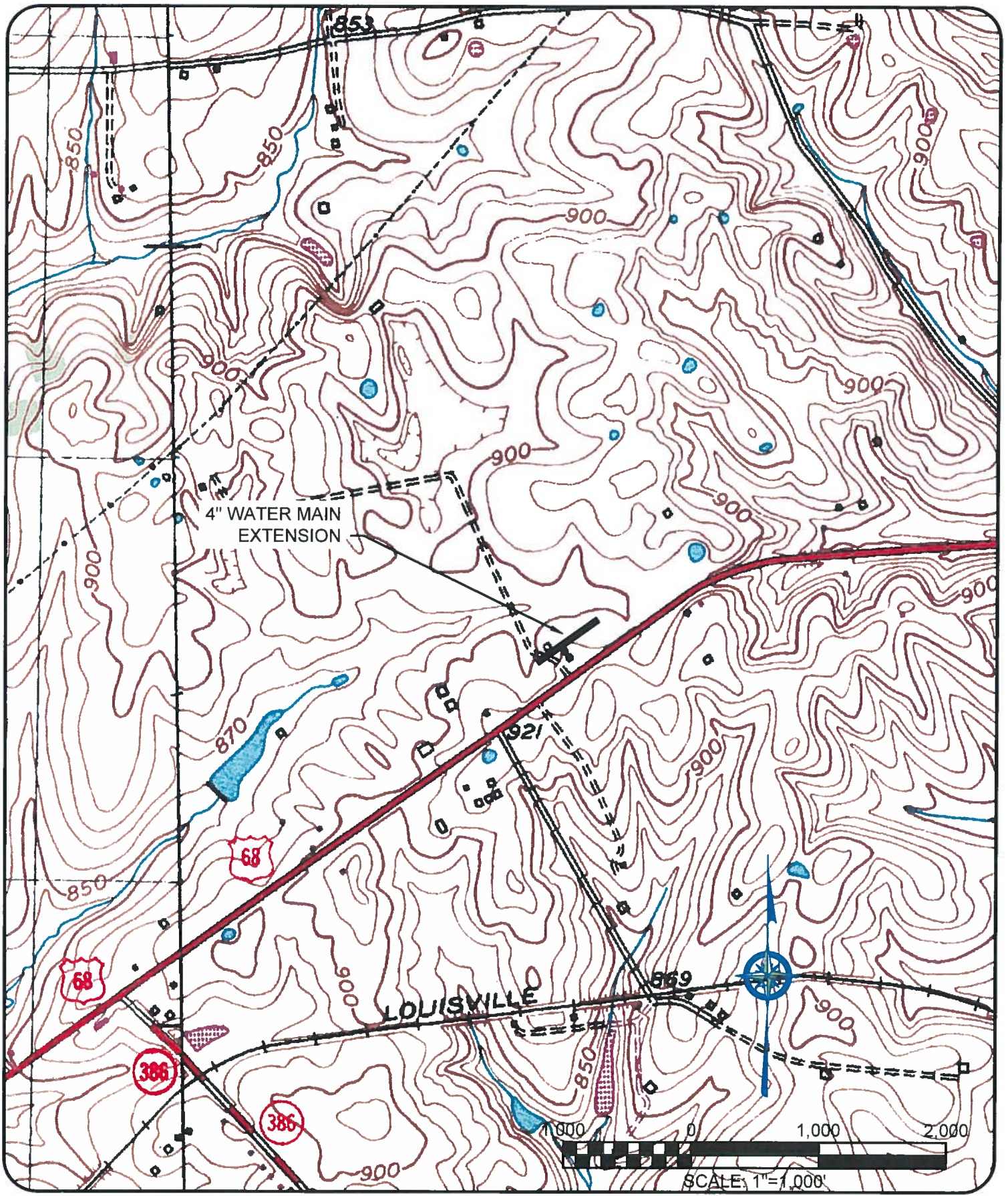

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PHASE 12 WATER SYSTEM IMPROVEMENTS  
NICHOLAS COUNTY

Project No. 20016
Date DEC. 2020
Dwg. No. 6



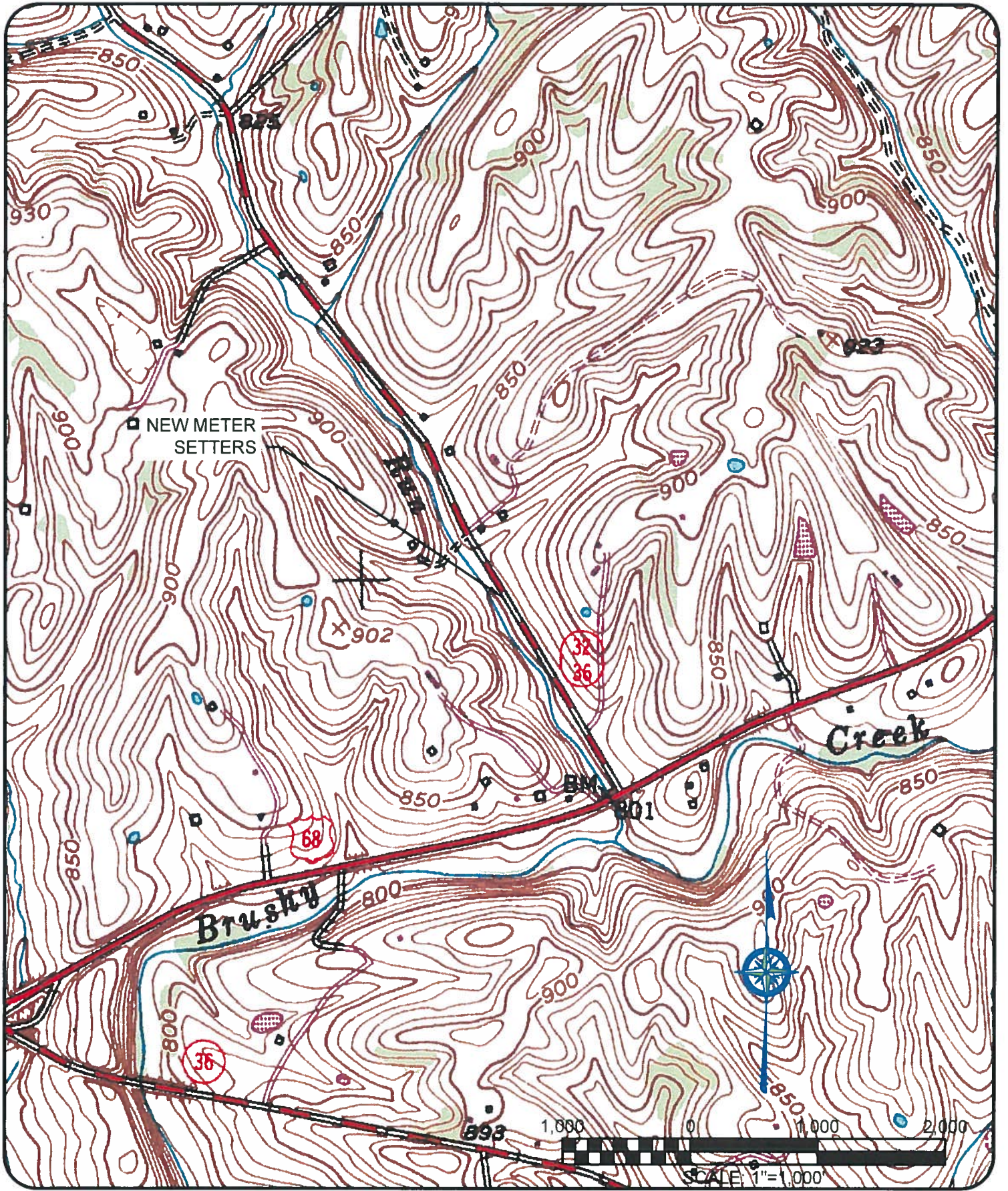


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PHASE 12 WATER SYSTEM IMPROVEMENTS  
NICHOLAS COUNTY

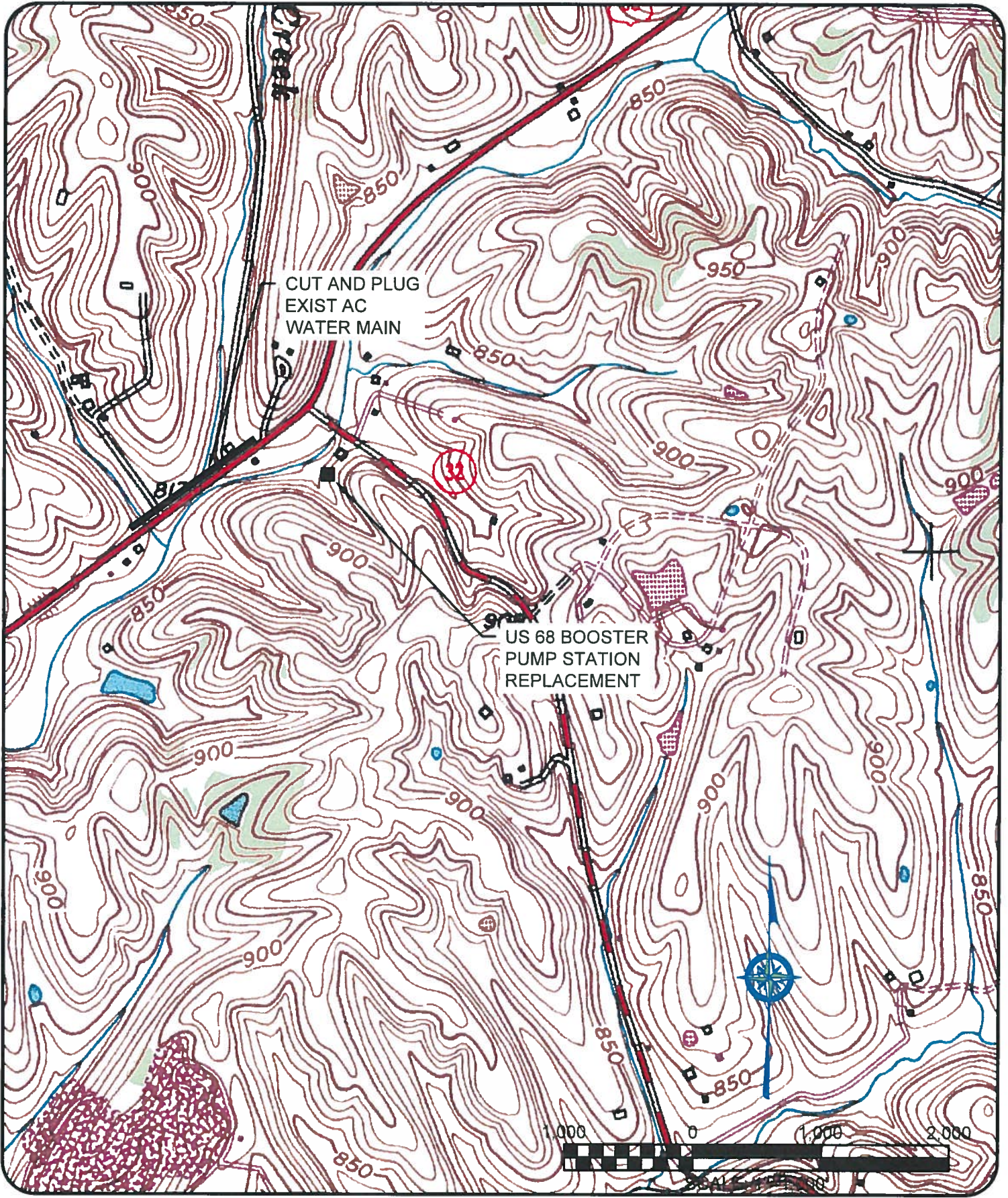
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Date DEC. 2020
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PHASE 12 WATER SYSTEM IMPROVEMENTS  
NICHOLAS COUNTY

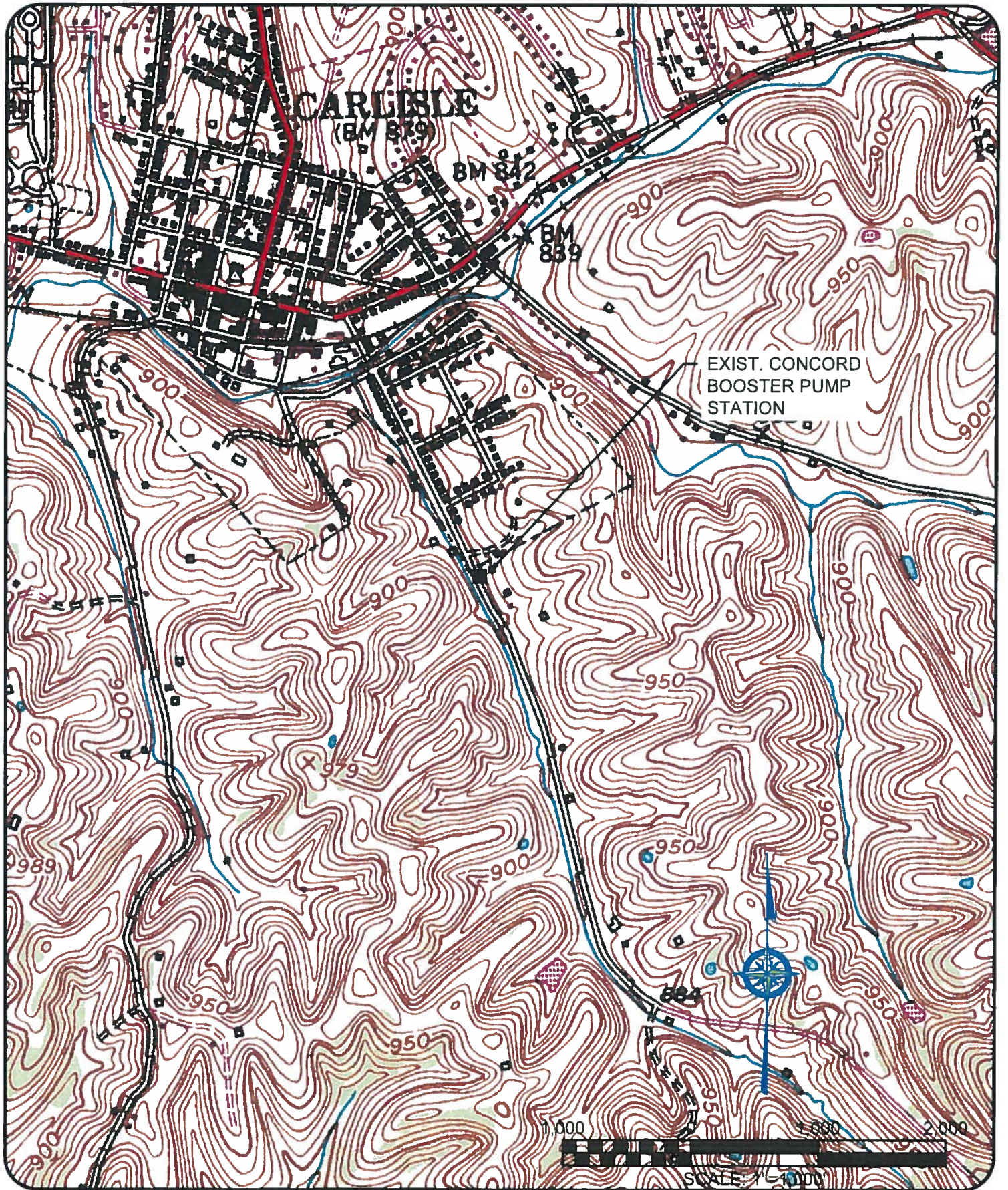
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PHASE 12 WATER SYSTEM IMPROVEMENTS  
NICHOLAS COUNTY

Project No. 20016
Date DEC. 2020
Dwg. No. 9

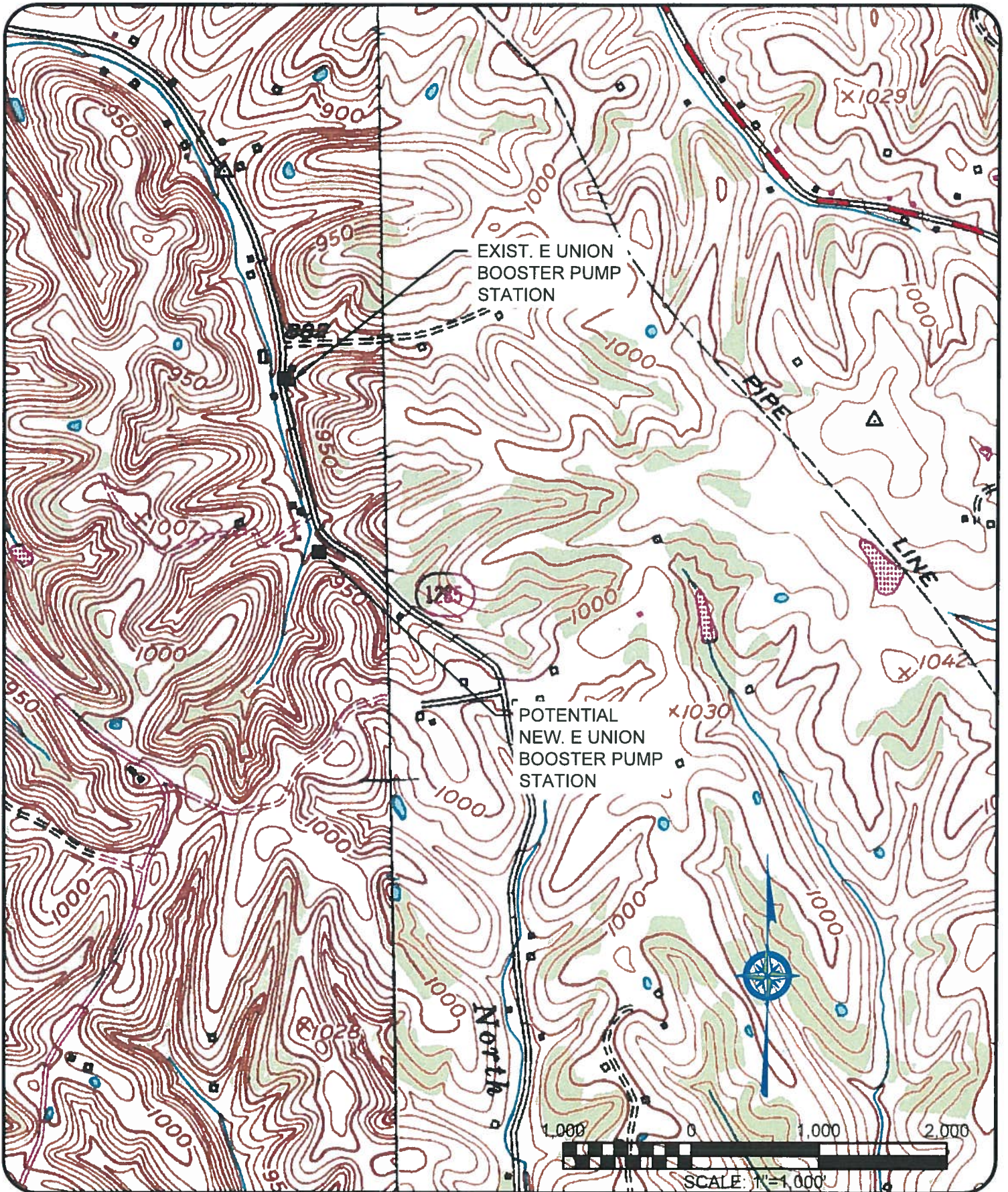


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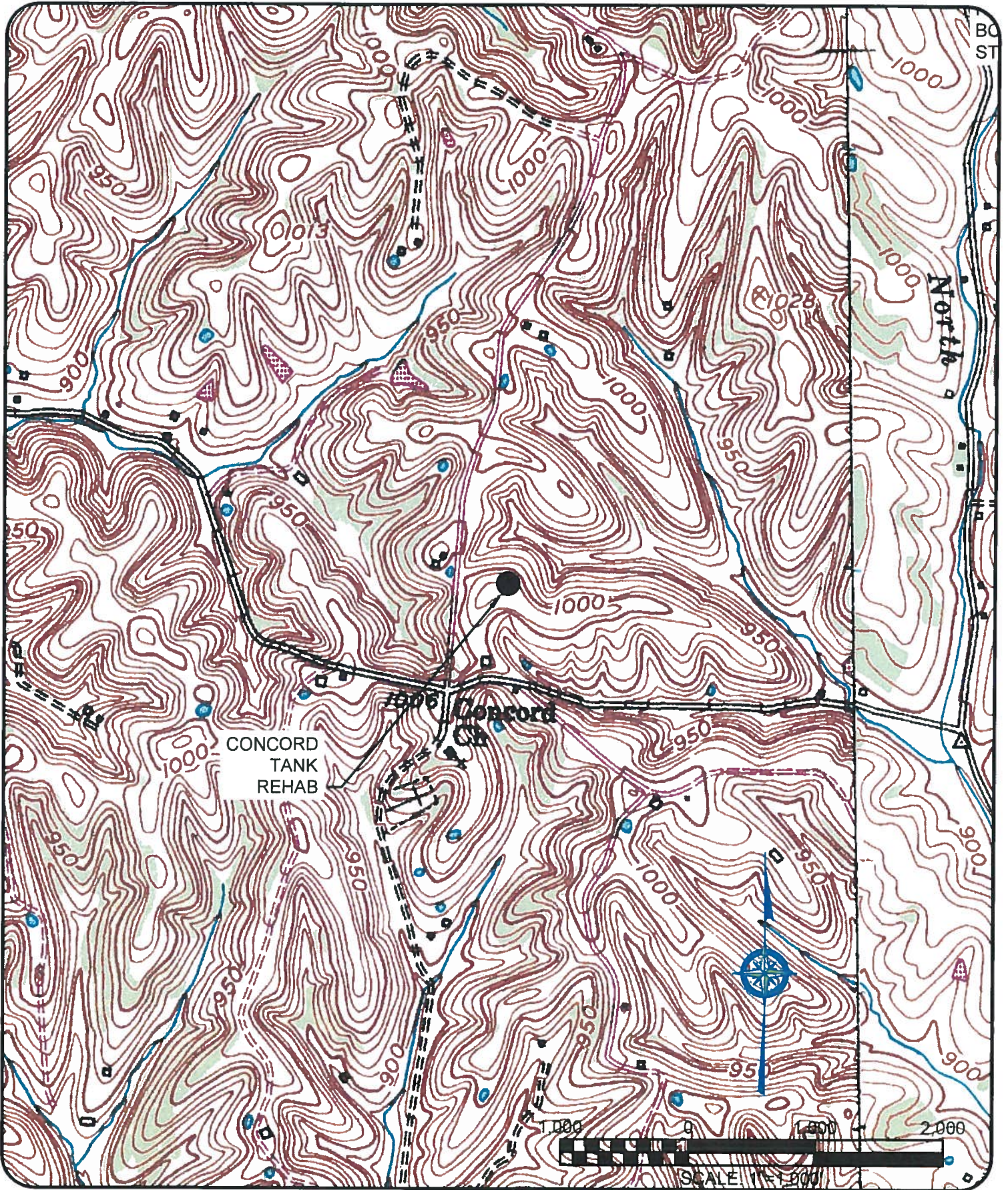
PHASE 12 WATER SYSTEM IMPROVEMENTS  
NICHOLAS COUNTY

Project No. 20016
Date DEC. 2020
Dwg. No. 11



PHASE 12 WATER SYSTEM IMPROVEMENTS  
NICHOLAS COUNTY

Project No. 20016
Date DEC. 2020
Dwg. No. 12



**BE BLUEGRASS**  
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PHASE 12 WATER SYSTEM IMPROVEMENTS  
NICHOLAS COUNTY

Project  
No.20016  
Date  
DEC. 2020  
Dwg.  
No. 13

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**APPENDIX B**      PRELIMINARY PROJECT COST ESTIMATE





222 East Main Street, Ste. 1 • Georgetown, KY 40324

Client: Nicholas County Water District  
 Project: Phase 12 Water System Improvments  
 Date: 12/21/2020

**Construction Costs**

Item #	Description	Quantity	Unit	Unit Cost	Item Cost
1	8" Water Main Replacement (Old 68 to River)	7,000	LF	\$ 30	\$ 210,000
2	4" Water Main Replacement (Myers Road)	1,400	LF	\$ 20	\$ 28,000
3	Portable Generator for Pump Stations	1	LS	\$ 45,000	\$ 45,000
4	Telemetry Installation @ Pump Stations	2	EA	\$ 25,000	\$ 50,000
5	New Customer Radio Read Meters, lap top, transceiver, train	1,600	EA	\$ 221	\$ 354,096
6	Replace Exist. East Union BPS with New Skid Mounted BPS with New 7.5 HP Pumps, VFD's, 1-Phase, Various Piping and New 8' x 8' Metal Building	1	LS	\$ 100,000	\$ 100,000
7	Replace Exist. Blue Lick BPS with New Skid Mounted BPS with New 30 HP Pumps, VFD's, 3-Phase, Various Piping and New 10' x 10' Metal Building	1	LS	\$ 175,000	\$ 175,000
8	Replace Exist. US 68 (Office) BPS with New Skid Mounted BPS with New 20 HP Pumps, VFD's, 3-Phase, Various Piping and New 10' x 10' Metal Building	1	LS	\$ 150,000	\$ 150,000
9	Demolition of Existing Concord BPS and Cap Exist. Line	1	LS	\$ 2,500	\$ 2,500
10	Cut and Plug Existing AC Water Main on US 68	2	EA	\$ 1,500	\$ 3,000
11	New 5/8" x 3/4" Standard Copper setters in Existing Services	5	EA	\$ 600	\$ 3,000
12	Barterville Tank - Exterior power wash, power tool spot repair, 1 coat spot prime epoxy and one final epoxy coat	1	LS	\$ 30,000	\$ 30,000
13	Barterville Tank - Interior SP 10 Commercial Blast and repaint with three coat epoxy system	1	LS	\$ 65,000	\$ 65,000
14	Concord Tank - Exterior power wash, power tool spot repair 1 coat spot prime epoxy, and final epoxy coat	1	LS	\$ 30,000	\$ 30,000
15	Concord Tank - Interior SP 10 Commercial Blast and repaint with three coat epoxy system	1	LS	\$ 65,000	\$ 65,000
16	Old Hickory Tank - Interior SP 10 Commercial Blast and repaint with three coat epoxy system	1	LS	\$ 65,000	\$ 65,000
17	Labor to install new radio read meters	1600	EA	\$ 40	\$ 64,000
18	US 68 - 4" Water Main Extension	480	LF	\$ 20	\$ 9,600
19	New Flushing Hydrant and 4" Tapping Sleeve and Valve	1	LS	\$ 6,000	\$ 6,000
20	10" Steel Casing Bore on KY 36	80	LF	\$ 100	\$ 8,000
21	New 4" Water Main @ Miller Station Road for New Service	1200	LF	\$ 20	\$ 24,000
<b>Total - Construction Cost</b>					<b>\$ 1,487,196</b>
<b>Non-Construction Costs</b>					
Contingencies @ 10.0%					\$ 148,719.6
Administrative & Legal Expenses					\$ 15,000
Interest Expenses					\$ 40,000
Land, Appraisals, Easements					\$ 5,000
Planning - PER, Environmental, SA					\$ 25,000
Engineering Fees - Design					\$ 98,000



Engineering Fees - Construction Administration	\$ 25,000
Engineering Fees - Inspection	\$ 76,000
Tank Inspections - 3 x \$1700	\$ 5,100
<b>Total - Non-Construction Costs</b>	<b>\$ 437,820</b>
<b>Total - Project Costs</b>	<b>\$ 1,925,016</b>

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**APPENDIX C**      TANK INSPECTION REPORTS



2020



# Bartersville Tank

Nicholas Co. Water District



502.727.2828



Nicholas County Water District  
Bartersville Tank  
139K Welded Steel (Standpipe) Storage Tank

To: NCWD  
Bluegrass Engineering

Copies: Horizon QC File

From: Mike Topp Horizon QC

Date: October 2020

On October 26, 2020, Horizon QC inspected the 139,000-gallon steel (Standpipe) storage tank. The purpose of the inspection was to evaluate the exterior and interior coatings, tank structure, sanitary conditions, and safety related issues. The tank's interior was inspected while in service.

This report summarizes Horizon QC's (Horizon's) observations and recommendations of the ground water storage tank (139K Gal. Standpipe Tank). Photographs from this evaluation are provided in Attachment A.

## **BACKGROUND**

The Bartersville Tank was constructed in 1998. Tank dimensions are 17' in diameter and 80' tall.

The tank is located in Nicholas Co, Kentucky. The tank site is situated off of gravel road and adjacent to a residential home. The tank site is boarded on three sides with fields and is fenced. The site is accessible by vehicles and has adequate parking.

## **OBSERVATIONS**

Horizon QC (Horizon) visually inspected the water tank for coating related issues, obvious structural problems, and safety related problems. The inspection covered the interior and exterior portions of the tank. The interior of the tank was inspected while in service. The following observations were noted: Condition Scale: Excellent-Good-Fair-Poor.

## **Interior**

- Overall condition of the interior should be considered fair to poor. Moderate corrosion found throughout the interior.
- Interior floor is in fair condition with approximately 2" or less of sediment.
- Interior sidewalls is in fair to poor condition with widespread pinhole corrosion found in the middle section. Pinhole depth is shallow in appearance. The upper and lower sidewalls have a few random spots.
- Ceiling portions of the tank should be considered good with a few pinhole corrosion spots.
- Overflow inlet attached to the sidewall is in good condition with minor corrosion spots.
- Interior roof vent has moderate corrosion.
- No interior ladder was found.
- Outlet pipe is in fair condition with minor corrosion on edges.
- Interior man-way has moderate corrosion along the edges and collar portion.

## **Coatings test Interior**

- Dry Film Thickness ranged from 8.7 – 14.0 mils.
- ASTM 3359 Adhesion testing (good adhesion) of protective coatings.

## **Exterior**

- Over all condition of the exterior should be considered good with several small random areas of spot corrosion.
- Base plates are in fair condition. The flexible sealant has deteriorated in some areas due to the growth of vegetation between the base plate and the foundation.
- Foundation is in good condition. A section of the foundation is covered with grass.
- Anchor bolts are in good condition with some small corrosion spots.

- Sidewalls are in good condition with some random areas of corrosion to the substrate and heavy mildew on the bottom sheets.
- Sidewall man way hatch (2) 24" is in good condition with light corrosion on nuts, bolts.
- Roof portion of the tank is in good condition some small random areas of corrosion and coating deterioration from UV attack.
- Roof Vent is in good condition with minor corrosion found along the entire surface. The screen is in place. (24" diameter).
- Overflow pipe is in good condition with delamination and corrosion on its bottom angle.
- Exterior ladder is in good condition.
- Site perimeter is in good condition with light vegetation on all four sides.
- Site is fenced and locked.
- Tank site was properly maintained.

#### **Coatings Test Exterior**

- Average DFT (dry film thickness) range was 8.4 to 12.4 mils.
- ASTM 3359 Adhesion testing (good adhesion) of protective coatings.
- Solvent Sensitivity Test-ASTM D5402 found exterior finish coat with a moderate/good resistance to MEK solvent.

## Recommendations

### Interior

At present the interior coating system is in fair to poor condition without adequate protection to the steel substrate. The corrosion spots throughout the interior will only increase and deepen if repairs are not taken within the next 1-3 years. Due to the widespread corrosion, System Officials should consider a full abrasive blast on the interior and new three-part coating system. A new system should last 20-25 years.

The following remediation is recommended: (1-3years)

1. Surface Preparation **SP-10 Near White Blast to 100% of the interior.**
2. Apply three coats of immersion grade **epoxy 15-20** mils DFT.

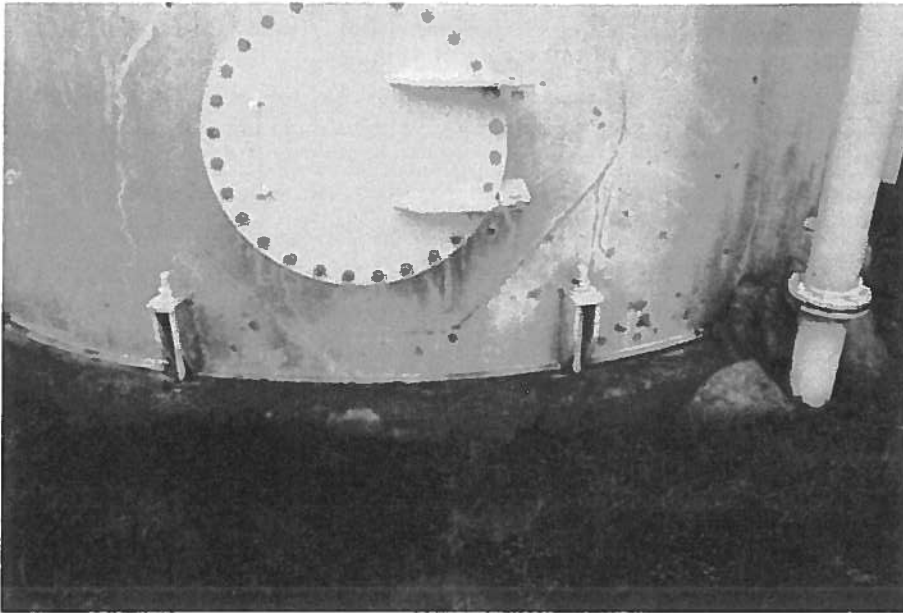
### Exterior

At present the exterior coating system is in good condition with adequate protection to the underlying substrate. The few minor corrosion spots are random and very small. System Officials should monitor these spots and repair if corrosion becomes more significant in the next 1-3 years.

The following remediation is recommended: (1-3 years)

3. Power Wash Exterior 3000psi min. to remove all loose material and debris.
4. Spot Repair cleaning **SP 3 Power Tool Cleaning** on all corrosion areas.
5. Apply one coat of Rustoleum 9800 3-4 mils.
6. Clean off all debris from the foundation.
7. Caulk or Grout baseplate to concrete.

Foundation and Manway

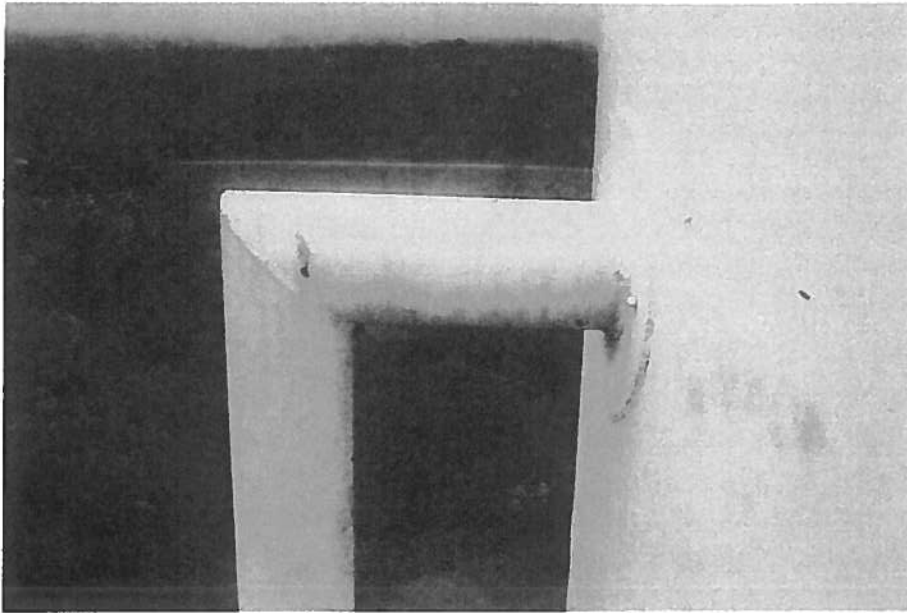


Sidewall and ladder

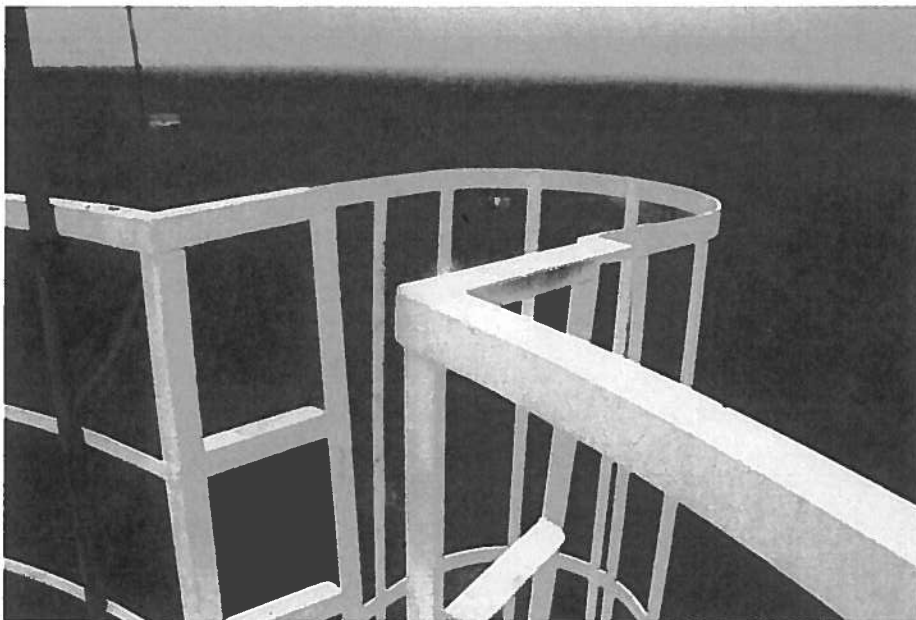




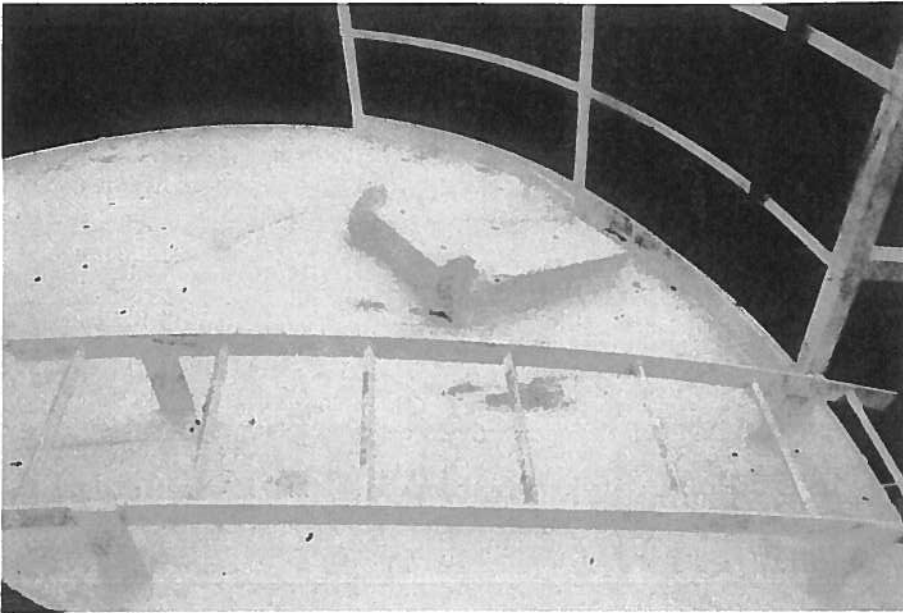
Overflow



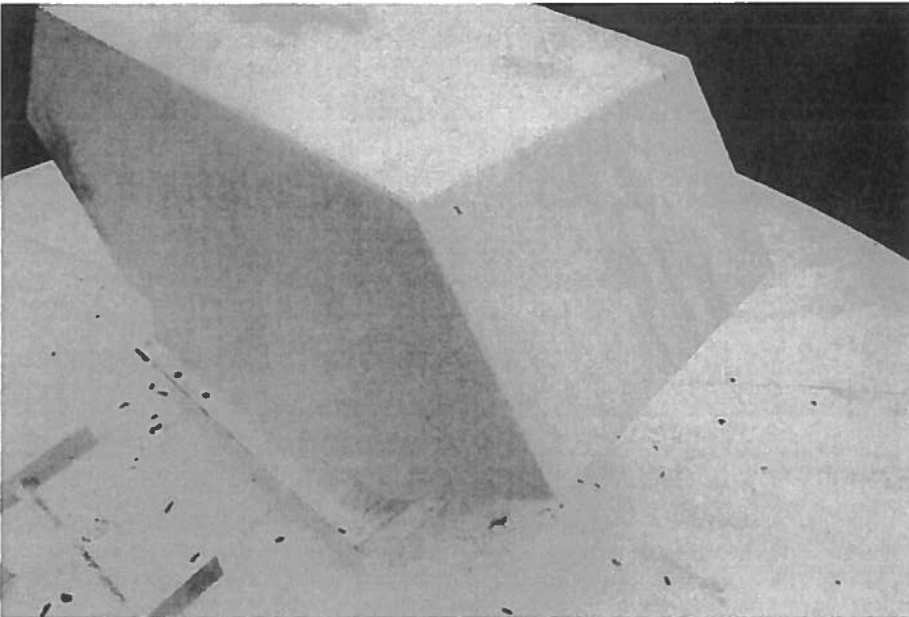
Handrail



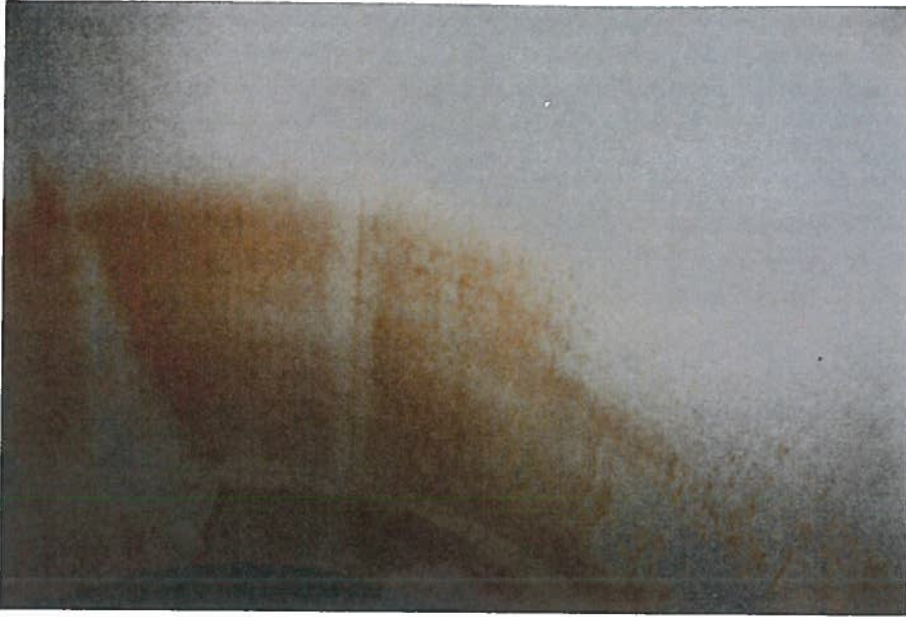
Roof



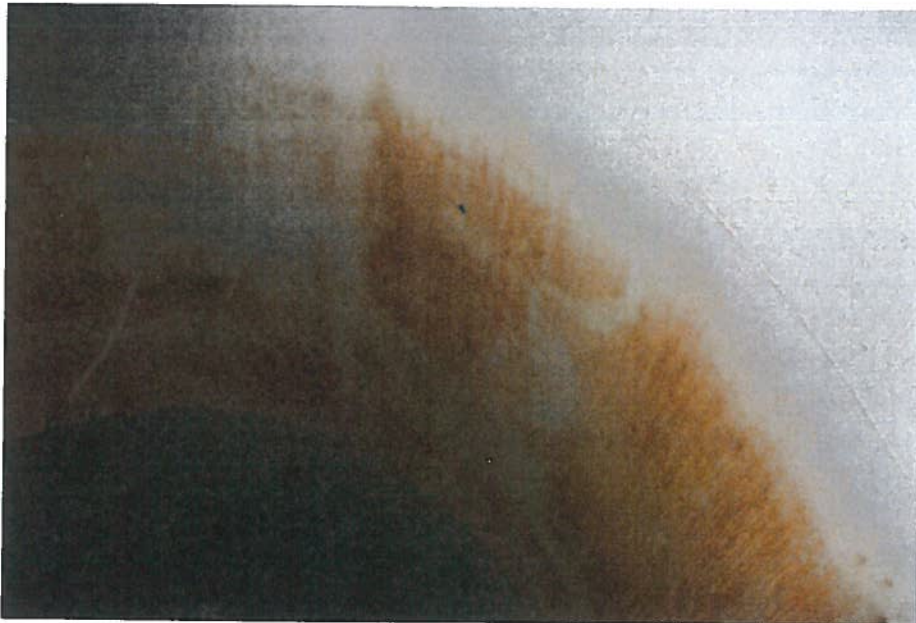
Vent



Sidewall



Sidewall



Ceiling and Overflow Pipe



Sidewall - Lower



2020



# Concord Tank

Nicholas Co. Water District



502.727.2828

Manway and Foundation



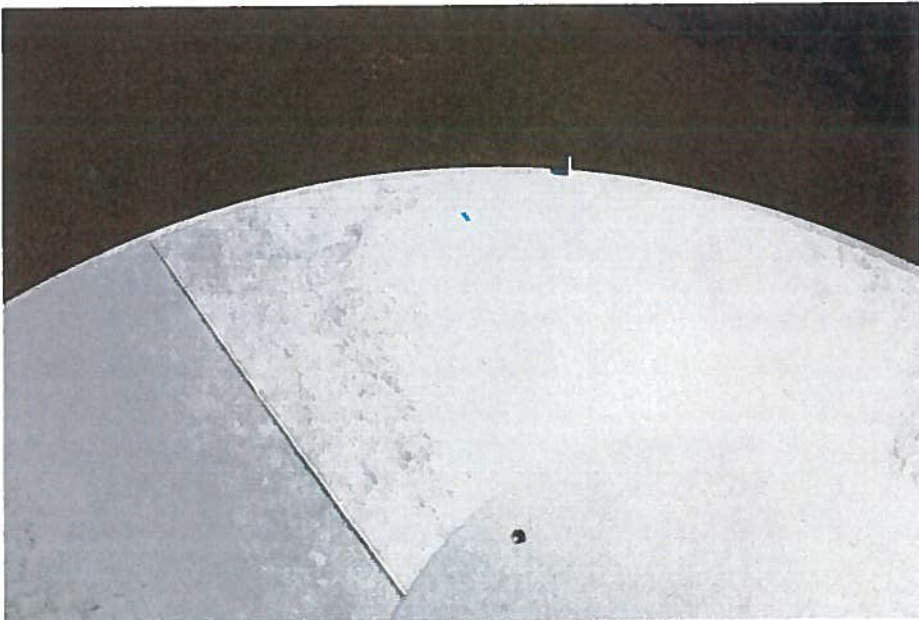
Sidewall and Overflow



Roof Section and Handrail



Roof



Roof Access Hatch

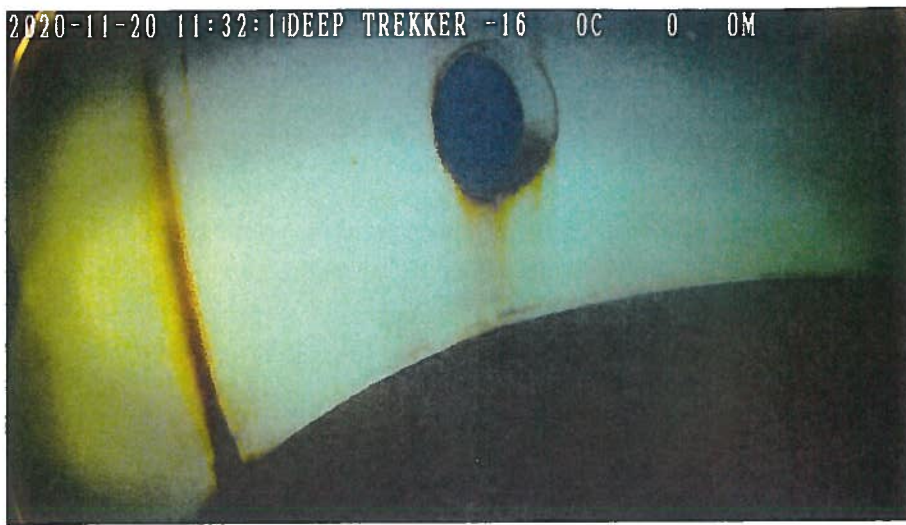


Vent





Interior Floor and Manway



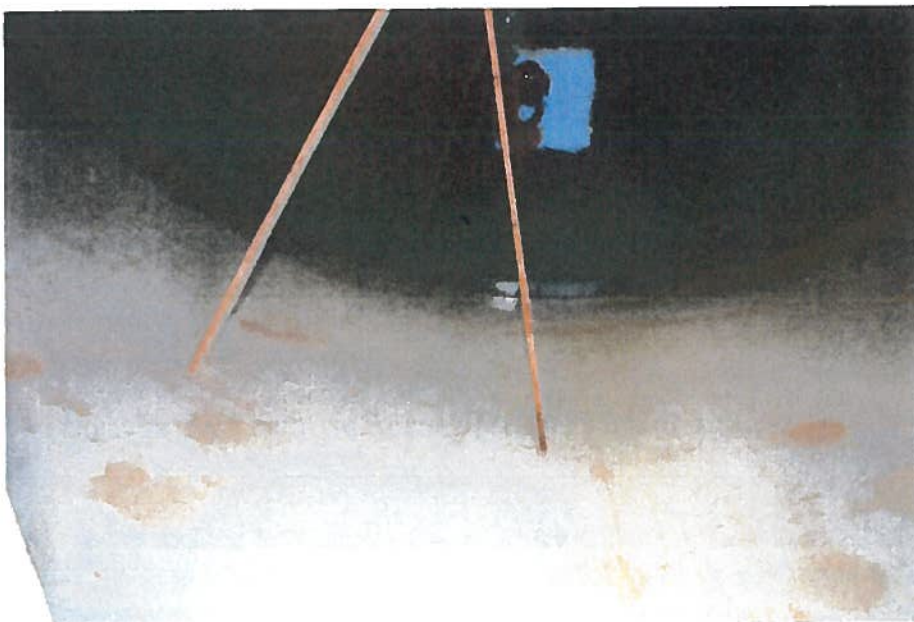
Sidewall



Interior Sidewall, Ceiling and Overflow



Sidewall





Nicholas County Water District  
Concord Tank  
100K Welded Steel (Standpipe) Storage Tank

To: NCWD  
Bluegrass Engineering

Copies: Horizon QC File

From: Mike Topp Horizon QC

Date: November 2020

On November 20, 2020, Horizon QC inspected the 100,000-gallon steel (Standpipe) storage tank. The purpose of the inspection was to evaluate the exterior and interior coatings, tank structure, sanitary conditions, and safety related issues. The tank's interior was inspected while in service.

This report summarizes Horizon QC's (Horizon's) observations and recommendations of the ground water storage tank (100K Gal. Standpipe Tank). Photographs from this evaluation are provided in Attachment A.

## **BACKGROUND**

The Concord Tank was constructed in 2001. Tank dimensions are 14' in diameter and 93' tall.

The tank is located in Nicholas Co, Kentucky. The tank site is situated off of gravel road and adjacent to a barn. The tank site is boarded on three sides with fields and is fenced. The site is accessible by vehicles and has adequate parking.

## **OBSERVATIONS**

Horizon QC (Horizon) visually inspected the water tank for coating related issues, obvious structural problems, and safety related problems. The inspection covered the interior and exterior portions of the tank. The interior of the tank was inspected while in service. The following observations were noted: Condition Scale: Excellent-Good-Fair-Poor.

## **Interior**

- Overall condition of the interior should be considered fair. Moderate corrosion found throughout the interior.
- Interior floor is in fair condition with approximately 1" or less of sediment.
- Interior sidewalls are in fair condition with widespread pinhole corrosion found in the middle section. Pinhole depth is shallow in appearance. The upper and lower sidewalls have a few random spots.
- Ceiling portions of the tank should be considered fair with random pinhole corrosion spots.
- Inlet pipe is attached to the sidewall is in fair condition with random corrosion spots.
- Interior roof vent has moderate corrosion.
- No interior ladder was found.
- Float is not operational.
- Outlet pipe on the floor is in poor condition with heavy corrosion.
- Overflow Pipe is in good condition with minor corrosion.
- Interior man-way has moderate corrosion along the edges and collar portion.

## **Coatings test Interior**

- Dry Film Thickness ranged from 8.2 – 13.5 mils.
- ASTM 3359 Adhesion testing (good adhesion) of protective coatings.

## **Exterior**

- Over all condition of the exterior should be considered good with several small random areas of spot corrosion.
- Base plates are in fair condition. The flexible sealant has deteriorated in some areas due to the growth of vegetation between the base plate and the foundation.
- Foundation is in good condition. A section of the foundation is covered with grass.
- Anchor bolts are in good condition with some small corrosion spots.
- Sidewalls are in good condition with some random areas of corrosion to the substrate and heavy mildew on the bottom sheets.
- Sidewall man way hatch (2) 24" is in good condition with light corrosion on nuts, bolts.
- Roof portion of the tank is in good condition some small random areas of corrosion and coating deterioration from UV attack. Antennas are attached.
- Roof Vent is in good condition with minor corrosion found along the entire surface. The screen is in place. (24" diameter).
- Overflow pipe is in good condition with some random spots of corrosion.
- Exterior ladder is in good condition.
- Site perimeter is in good condition with light vegetation on all four sides.
- Site is fenced and locked.
- Tank site was properly maintained.

## **Coatings Test Exterior**

- Average DFT (dry film thickness) range was 7.0 to 10.3 mils.
- ASTM 3359 Adhesion testing (good adhesion) of protective coatings.
- Solvent Sensitivity Test-ASTM D5402 found exterior finish coat with a moderate/good resistance to MEK solvent.

## Recommendations

### Interior

At present the interior coating system is in fair to poor condition without adequate protection to the steel substrate. The corrosion spots throughout the interior will only increase and deepen if repairs are not taken within the next 1-3 years. Due to the widespread corrosion, System Officials should consider a full abrasive blast on the interior and new three-part coating system. A new system should last 20-25 years.

The following remediation is recommended: (1-3years)

1. Surface Preparation **SP-10 Near White Blast to 100% of the interior.**
2. Apply three coats of immersion grade **epoxy 15-20** mils DFT.
3. Repair float assembly.

### Exterior

At present the exterior coating system is in good condition with adequate protection to the underlying substrate. The few minor corrosion spots are random and very small. System Officials should monitor these spots and repair if corrosion becomes more significant in the next 1-3 years.

The following remediation is recommended: (1-3 years)

4. Power Wash Exterior 3000psi min. to remove all loose material and debris.
5. Spot Repair cleaning **SP 3 Power Tool Cleaning** on all corrosion areas.
6. Apply one coat of Rustoleum 9800 3-4 mils.
7. Clean off all debris from the foundation.
8. Caulk or Grout baseplate to concrete.

2020



# Hickory Ridge Tank

Nicholas Co. Water District



502.727.2828



Nicholas County Water District  
Hickory Ridge Tank  
150K Welded Steel (Elevated) Storage Tank

To: NCWD  
Bluegrass Engineering

Copies: Horizon QC File

From: Mike Topp Horizon QC

Date: November 2020

On November 20, 2020, Horizon QC inspected the 150,000-gallon steel (Elevated) storage tank. The purpose of the inspection was to evaluate the exterior and interior coatings, tank structure, sanitary conditions, and safety related issues. The tank's interior was inspected while in service.

This report summarizes Horizon QC's (Horizon's) observations and recommendations of the ground water storage tank (150K Gal. Elevated Tank). Photographs from this evaluation are provided in Attachment A.

## **BACKGROUND**

The Hickory Ridge Tank was constructed in 2009 by Caldwell Tanks. Tank is 117' to the overflow. No. E-6658

The tank is located in Nicholas Co, Kentucky. The tank site is situated off of gravel road and adjacent to a county road. The tank site is boarded on three sides with fields and is fenced. The site is accessible by vehicles and has adequate parking.

## **OBSERVATIONS**

Horizon QC (Horizon) visually inspected the water tank for coating related issues, obvious structural problems, and safety related problems. The inspection covered the interior and exterior portions of the tank. The interior of the tank was inspected while in service. The following observations were noted: Condition Scale: Excellent-Good-Fair-Poor.



## **Interior**

- Overall condition of the interior should be considered fair. Moderate corrosion found throughout the interior.
- Interior floor is in fair condition with approximately 1" or less of sediment. A few random corrosion spots.
- Interior Riser Pipe is in good condition with a few random pinhole corrosion spots. The safety cable support has heavy corrosion.
- Interior sidewalls are in fair condition with widespread pinhole corrosion found in the middle section. Pinhole depth is shallow in appearance. The upper and lower sidewalls have a few random spots. Heavy mineral staining.
- Interior for ladder is in fair to poor condition with heavy corrosion.
- Ceiling portions of the tank should be considered fair with random pinhole corrosion spots. Corrosion is centered primarily around the roof vent.
- Interior roof vent has moderate corrosion.
- Float is not operational.
- Overflow Pipe is in good condition with minor corrosion.
- Interior man-way has moderate corrosion along the edges and collar portion.

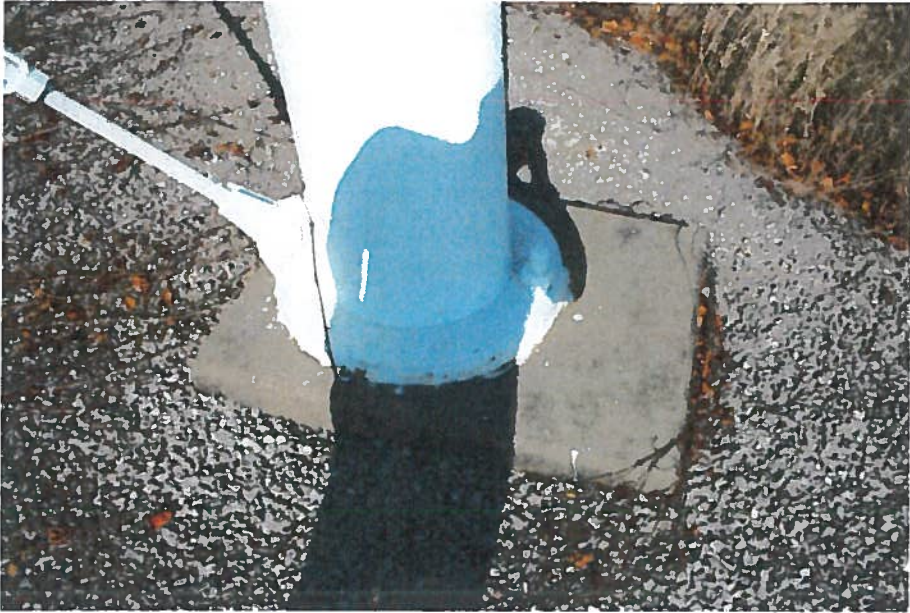
## **Coatings test Interior**

- Dry Film Thickness ranged from 9.5 – 16.2 mils.
- ASTM 3359 Adhesion testing (good adhesion) of protective coatings.

## Exterior

- Over all condition of the exterior should be considered good with several small random areas of spot corrosion.
- Base plates are in fair condition. The flexible sealant has deteriorated in some areas due to the growth of vegetation between the base plate and the foundation.
- Foundation is in good condition.
- Anchor bolts are in good condition with some small corrosion spots.
- Columns are in good condition, some mildew staining.
- Lower Container is in good condition with some mildew staining.
- Balcony is in good condition, some spots of corrosion. Antennas attached.
- Sidewalls are in good condition.
- Sidewall man way hatch (1) 24" is in good condition with light corrosion on nuts, bolts.
- Roof portion of the tank is in good condition some small random areas of corrosion and coating deterioration from UV attack. Antennas are attached.
- Roof Vent is in good condition with minor corrosion found along the entire surface. The screen is in place. (24" diameter).
- Overflow pipe is in good condition with some random spots of corrosion.
- Exterior ladder is in good condition.
- Site perimeter is in good condition with light vegetation on all four sides.
- Site is fenced and locked.
- Tank site was maintained..

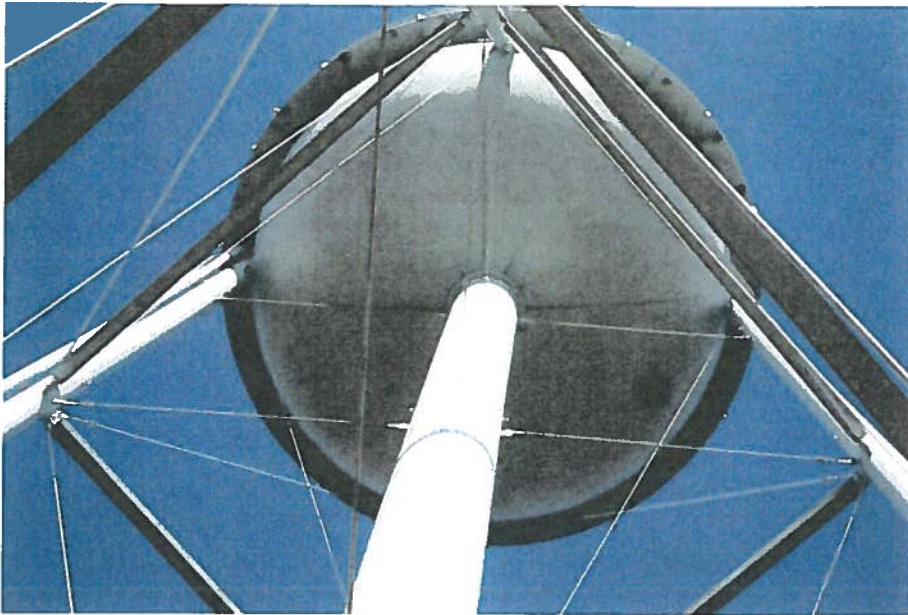
Foundation



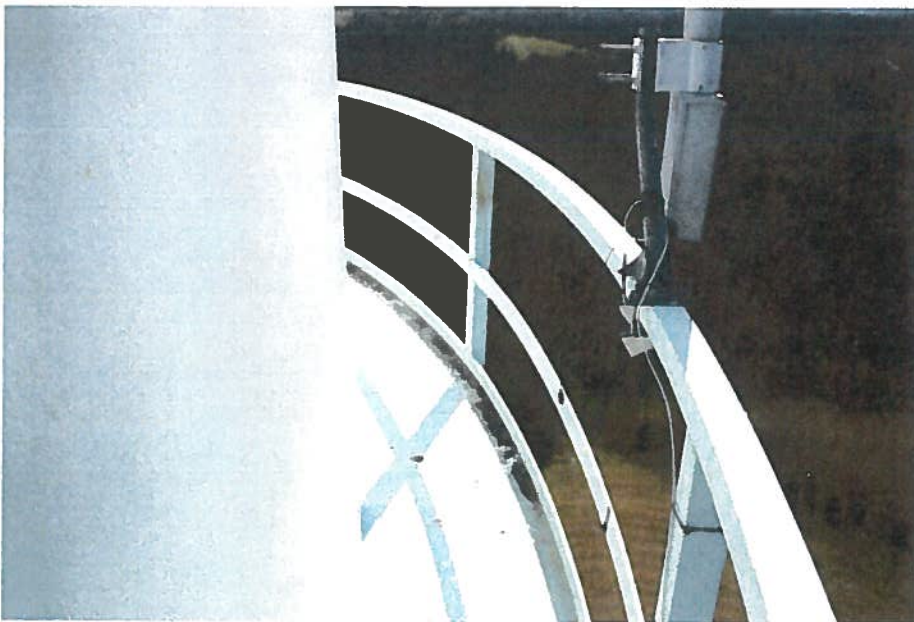
Riser Manway



Lower Container



Balcony



Vent



Roof antennas



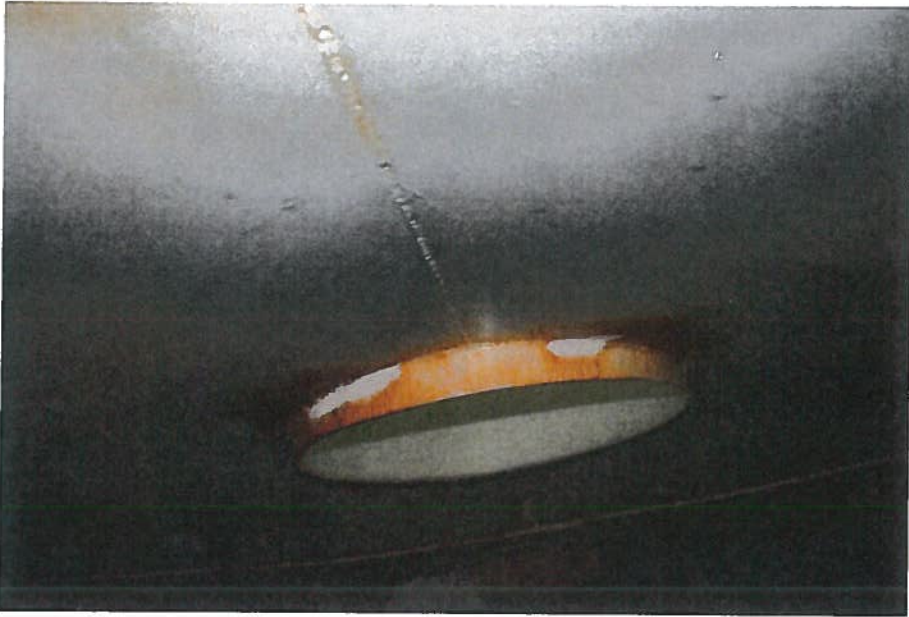
Interior Floor



Interior Ladder



Ceiling Vent



Upper Sidewall

