

NORTHERN KENTUCKY WATER DISTRICT

December 31, 2017

*FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'
REPORT INCLUDING SUPPLEMENTARY INFORMATION*

**NORTHERN KENTUCKY WATER DISTRICT
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Northern Kentucky Water District
Erlanger, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Northern Kentucky Water District (the District) as of and for the years ended December 31, 2017 and 2016 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 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 auditors' 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 opinions.

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 Northern Kentucky Water District as of December 31, 2017 and 2016 and the respective changes in financial position and cash flows 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 management's discussion and analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability, and schedule of the District's contributions on pages 1 - 5, and 38 - 40, respectively be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Northern Kentucky Water District's basic financial statements. The other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The other supplementary information and the schedule of expenditures of federal awards 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 28, 2018, on our consideration of the Northern Kentucky Water District 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Northern Kentucky Water District's internal control over financial reporting and compliance.

VonLehman & Company Inc.

NORTHERN KENTUCKY WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of Northern Kentucky Water District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2017. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows at the close of the most recent year by \$193,276,189 (net position). This was an increase of \$10,464,609 in comparison to the prior year.

- Operating revenues increased \$1,471,332 or 2.8% from 2016.
- The debt coverage ratio increased from 1.71 in 2016 to 1.78 in 2017.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the District as prescribed by Governmental Accounting Standards. The District's basic financial statements include the statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows and the notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

Basis of Accounting

The District's financial statements are prepared using the accrual basis of accounting.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position

In the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position, we report the District's activities:

- The District charges rates on water consumption to customers to help it cover all or most of the cost of certain services it provides.

**NORTHERN KENTUCKY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)**

Overview of Annual Financial Report

Table 1 provides a summary of the District's net position for 2017 compared to 2016.

**Table 1
Net Position**

	December 31,	
	2017	2016
Assets		
Current Assets	\$ 43,951,684	\$ 35,487,870
Restricted Assets Noncurrent	59,963,164	39,904,057
Miscellaneous Deferred Charges	4,310,958	4,069,868
Capital Assets	<u>347,347,973</u>	<u>346,668,468</u>
Total Assets	<u>455,573,779</u>	<u>426,130,263</u>
Deferred Outflows of Resources	<u>10,368,265</u>	<u>8,389,842</u>
Liabilities		
Current Liabilities	19,896,761	18,680,239
Restricted Liabilities Noncurrent	1,380,528	1,360,070
Other Noncurrent Liabilities	<u>249,096,094</u>	<u>231,429,172</u>
Total Liabilities	<u>270,373,383</u>	<u>251,469,481</u>
Deferred Inflows of Resources	<u>2,292,472</u>	<u>239,044</u>
Net Position		
Net Investment in Capital Assets	108,980,897	124,928,967
Restricted	58,582,636	38,543,987
Unrestricted	<u>25,712,656</u>	<u>19,338,626</u>
Total Net Position	<u>\$ 193,276,189</u>	<u>\$ 182,811,580</u>

The District's net position for 2017 increased 5.7% to \$193,276,189 compared to \$182,811,580 for 2016. The increase was mainly attributable to additional capital assets acquired from new construction as well as an increase in operating revenues.

A portion of the District's net position (30.3%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

An additional portion of the District's net position (56.4%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment); less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**NORTHERN KENTUCKY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)**

The unrestricted net position (13.3%) may be used to meet the District's ongoing obligations to customers and creditors.

Table 2 shows the changes in net assets for 2017, as well as revenue and expense comparisons to 2016.

**Table 2
Changes in Net Position**

	Years Ended December 31,	
	2017	2016
Operating Revenues		
Water Sales	\$ 52,459,216	\$ 50,977,140
Forfeited Discounts	814,193	851,525
Rents From Property	448,465	480,041
Other Water Revenues	363,340	305,176
Total Operating Revenues	<u>54,085,214</u>	<u>52,613,882</u>
Operating Expenses		
Operating and Maintenance Expense	24,467,676	24,250,515
Depreciation Expense	11,846,075	11,490,107
Total Operating Expenses	<u>36,313,751</u>	<u>35,740,622</u>
Net Operating Income	<u>17,771,463</u>	<u>16,873,260</u>
Non-Operating Income (Expense)		
Investment Income	944,480	803,196
Miscellaneous Non-Operating Income	354,118	138,082
Loss on Abandonment of Mains	(514,633)	(708,452)
Interest on Long-Term Debt	(8,135,812)	(7,896,934)
Amortization of Debt Discount and Bond Issuance Costs	895,431	496,128
Pension Expense	(1,948,542)	(1,046,797)
Arbitrage Expense	(111,934)	(318,638)
Gain on Sale of Capital Assets	24,224	842,199
Total Non-Operating Expenses	<u>(8,492,668)</u>	<u>(7,691,216)</u>
Change in Net Position Before Capital Contributions	9,278,795	9,182,044
Capital Contributions	<u>1,185,814</u>	<u>1,671,668</u>
Change in Net Position	<u>\$ 10,464,609</u>	<u>\$ 10,853,712</u>

The basic financial statements of the District are included in this report. Operations are accounted for in such a manner as to show change in net assets and the District is intended to be entirely or predominantly self-supported from water user charges.

**NORTHERN KENTUCKY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)**

In reviewing income before capital contributions, the financial statements showed net income for the year of \$9,278,795. Operating revenues increased 2.8% due to the second step of the 2015 rate increase phase-in. Operating expenses (including depreciation) increased 1.6% due mainly to an increase in materials and services needed for the efficient operation of the District, including personnel related expenses. Capital contributions decreased by \$485,854 (29.1%) primarily due to the decrease of mains constructed by other entities and contributed to the District.

The District budgeted for \$54,633,118 in operating revenues. Actual revenue were \$54,085,214, a difference of \$547,904. The largest difference was due to water sales being under budget by \$518,537. Operation, maintenance, and administration expenses were budgeted at \$28,241,195. Actual expenses were \$24,467,676, a difference of \$3,773,519. The largest difference was in contractual services being budgeted at \$4,403,140 and actual expenses were only \$3,233,211.

Debt and Capital Asset Administration

Table 3 summarizes the District's outstanding debt at the end of 2017 as compared to 2016.

**Table 3
Outstanding Debt at Year End**

	December 31,	
	2017	2016
Bond Indebtedness	\$ 178,004,127	\$ 187,680,358
Bond Anticipation Notes	26,357,067	-
Notes Payable	38,787,813	39,228,501
	\$ 243,149,007	\$ 226,908,859

At year-end, the District had \$243,149,007 in outstanding notes and bonds compared to \$226,908,859 last year. That is an increase of 7.2% as shown in Table 3. The largest portion of this increase was the issuance of the Revenue Bond Anticipation Notes, Series 2017 in the amount of \$26,000,000 in April, 2017.

Capital Assets

At December 31, 2017, the capital assets reported were \$347,347,973 including land, buildings, water systems, equipment, and vehicles. This represents a net increase of \$679,505, or 0.2%, over last year due to the District's investment in distribution and treatment projects, vehicles and equipment during the fiscal year.

**NORTHERN KENTUCKY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)**

**Table 4
Capital Assets, Net of Depreciation**

	December 31,	
	2017	2016
Not Being Depreciated		
Land	\$ 3,291,127	\$ 3,291,127
Construction in Progress	19,220,094	21,175,056
Plant Acquisition Adjustment	5,516,136	5,516,136
Other Capital Assets		
Utility Plants		
Transmission and Distribution, Source of Supply, Pumping System, Power Generation, Water Treatment, and General Plant and Equipment	470,734,994	457,323,671
Subtotal	498,762,351	487,305,990
Less Accumulated Depreciation	151,414,378	140,637,522
Totals	\$ 347,347,973	\$ 346,668,468

Economic Factors and Next Year's Budget

The District's budget for 2018 projects a nominal decrease in water revenue due to the deferment of a rate adjustment filing. A modest increase is anticipated for operating expenses as a result of rising cost of direct and indirect expenses.

Contacting the District's Financial Management

This report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administrative Office at 2835 Crescent Springs Road, Erlanger, KY, 41018

**NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF NET POSITION**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31,	
	2017	2016
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and Cash Equivalents	\$ 24,740,059	\$ 17,233,895
Investments	667,273	922,031
Accounts Receivable		
Customers, Net	5,451,334	5,214,775
Unbilled Customers	6,100,000	6,100,000
Others	473,208	174,044
Assessments Receivable	138,842	131,088
Inventory Supplies for New Installation and Maintenance, at Cost	1,553,609	1,646,072
Prepaid Items	621,220	631,652
Restricted Assets - Cash and Cash Equivalents		
Bond Proceeds Fund	720,497	-
Debt Service Account	3,336,574	2,806,894
Improvement, Repair & Replacement	149,068	627,419
	43,951,684	35,487,870
Noncurrent Assets		
Restricted Assets - Cash and Cash Equivalents		
Bond Proceeds Fund	20,333,425	2,337,355
Debt Service Account	15,187,484	14,863,262
Improvement, Repair and Replacement	4,841,083	2,751,340
Customer Deposits Fund	1,038,190	1,017,158
Restricted Assets - Investments		
Debt Service Reserve Account	18,562,982	18,934,942
Miscellaneous Deferred Charges	4,310,958	4,069,868
Capital Assets		
Land, System, Buildings and Equipment	479,542,257	466,130,934
Construction in Progress	19,220,094	21,175,056
	498,762,351	487,305,990
Less Accumulated Depreciation	151,414,378	140,637,522
	347,347,973	346,668,468
	411,622,095	390,642,393
	455,573,779	426,130,263
Deferred Outflows of Resources		
Deferred Outflows Related to Pension	5,586,334	3,220,484
Deferred Loss on Refundings	4,781,931	5,169,358
	10,368,265	8,389,842
	\$ 465,942,044	\$ 434,520,105

See accompanying notes.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	December 31,	
	2017	2016
Liabilities and Deferred Inflows of Resources		
Current Liabilities		
Bonded Indebtedness	\$ 11,321,232	\$ 11,409,228
Bond Anticipation Note	267,800	-
Notes Payable	2,162,038	2,239,062
Accounts Payable	1,120,443	858,610
Accrued Payroll and Taxes	399,145	329,723
Compensated Absences	156,527	153,062
Other Accrued Liabilities	263,437	256,241
Liabilities Payable-Restricted Assets		
Accrued Interest Payable	3,336,574	2,806,894
Accounts Payable	869,565	627,419
Total Current Liabilities	19,896,761	18,680,239
Long-Term Liabilities (Net of Current Portion)		
Liabilities Payable-Restricted Assets		
Accounts Payable	342,338	342,912
Customer Deposits	1,038,190	1,017,158
Compensated Absences	447,910	489,820
Arbitrage Liability	485,129	1,174,629
Bond Indebtedness	166,682,895	176,271,130
Bond Anticipation Note	26,089,267	-
Notes Payable	36,625,775	36,989,439
Net Pension Liability	18,765,118	16,504,154
Total Long-Term Liabilities	250,476,622	232,789,242
Total Liabilities	270,373,383	251,469,481
Deferred Inflows of Resources		
Deferred Inflows Related to Pension	2,292,472	239,044
Total Liabilities and Deferred Inflows of Resources	272,665,855	251,708,525
Net Position		
Net Investment in Capital Assets	108,980,897	124,928,967
Restricted For		
Debt Service Funds	33,750,466	33,798,204
Capital Improvement Projects	24,832,170	4,745,783
Unrestricted	25,712,656	19,338,626
Total Net Position	193,276,189	182,811,580
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 465,942,044	\$ 434,520,105

NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended December 31,	
	2017	2016
Operating Revenues		
Water Sales	\$ 52,459,216	\$ 50,977,140
Forfeited Discounts	814,193	851,525
Rents From Property	448,465	480,041
Other Water Revenues	363,340	305,176
Total Operating Revenues	54,085,214	52,613,882
Operating Expenses		
Operating and Maintenance Expense	24,467,676	24,250,515
Depreciation Expense	11,846,075	11,490,107
Total Operating Expenses	36,313,751	35,740,622
Net Operating Income	17,771,463	16,873,260
Non-Operating Income (Expense)		
Investment Income	944,480	803,196
Miscellaneous Non-Operating Income	354,118	138,082
Loss on Abandonment of Mains	(514,633)	(708,452)
Interest on Long-Term Debt	(8,135,812)	(7,896,934)
Amortization of Debt Premiums and Bond Issuance Costs	895,431	496,128
Pension Expense	(1,948,542)	(1,046,797)
Arbitrage Expense	(111,934)	(318,638)
Gain on Sale of Capital Assets	24,224	842,199
Total Non-Operating Expenses	(8,492,668)	(7,691,216)
Change in Net Position Before Capital Contributions	9,278,795	9,182,044
Capital Contributions	1,185,814	1,671,668
Change in Net Position	10,464,609	10,853,712
Net Position - Beginning of Year	182,811,580	171,957,868
Net Position - End of Year	\$ 193,276,189	\$ 182,811,580

See accompanying notes.

**NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2017	2016
Cash Flows From Operating Activities		
Received from Customers	\$ 53,562,769	\$ 52,053,778
Paid to Suppliers for Goods and Services	(11,800,562)	(12,907,534)
Paid to or on Behalf of Employees for Services	(12,263,731)	(12,942,462)
	<u>29,498,476</u>	<u>26,203,782</u>
Cash Flows From Investing Activities		
Purchase of Investments	(32,831,611)	(2,773,444)
Proceeds from Sale of Investments	33,041,347	1,675,979
Investment Income	1,029,722	803,196
	<u>1,239,458</u>	<u>(294,269)</u>
Cash Flows From Capital and Related Financing Activities		
Principal Paid on Debt	(12,478,062)	(11,434,256)
Debt Proceeds	29,531,374	5,796,297
Interest Paid on Bonds and Notes, Net of Capitalized Interest	(7,606,132)	(8,438,994)
Acquisition and Construction of Capital Assets	(11,854,399)	(14,001,146)
Gain on Sale of Capital Assets	24,224	842,199
Miscellaneous Non-Operating Income	354,118	138,080
	<u>(2,028,877)</u>	<u>(27,097,820)</u>
Net Cash Used by Capital and Related Financing Activities		
	<u>28,709,057</u>	<u>(1,188,307)</u>
Cash and Cash Equivalents Beginning of Year	<u>41,637,323</u>	<u>42,825,630</u>
Cash and Cash Equivalents End of Year	<u>\$ 70,346,380</u>	<u>\$ 41,637,323</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Net Operating Income	\$ 17,771,463	\$ 16,873,260
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Depreciation	11,846,075	11,490,107
Change in Assets and Liabilities		
Accounts Receivable, Net	(535,723)	(615,691)
Assessments Receivable	(7,754)	(7,303)
Inventory Supplies	92,463	(62,038)
Prepaid Expenses	10,432	52,269
Miscellaneous Deferred Charges	(241,090)	(687,040)
Accounts Payable	503,405	(230,496)
Accrued Payroll and Taxes	69,422	(637,079)
Accrued Compensated Absences	(38,445)	(40,085)
Other Accrued Liabilities	7,196	4,988
Customer Deposits	21,032	62,890
	<u>29,498,476</u>	<u>26,203,782</u>
Net Cash Provided by Operating Activities	<u>\$ 29,498,476</u>	<u>\$ 26,203,782</u>

See accompanying notes.

**NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF CASH FLOWS
(Continued)**

	<u>Years Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Supplemental Schedule of Noncash Capital and Related Financing Activities		
Change in Fair Value of Investments	\$ <u>(40,312)</u>	\$ <u>803,196</u>
Contributions of Capital Assets	\$ <u>1,185,814</u>	\$ <u>1,671,668</u>
Capitalized Interest and Labor	\$ <u>166,593</u>	\$ <u>250,834</u>
Pension Expense	\$ <u>(1,948,542)</u>	\$ <u>(1,046,797)</u>
Amortization Expense	\$ <u>(961,337)</u>	\$ <u>(609,960)</u>
Current Refunding of Series 2006A Revenue Bonds	\$ <u>-</u>	\$ <u>21,021,252</u>
Advance Refunding of Series 2009 Revenue Bonds	\$ <u>-</u>	\$ <u>22,994,198</u>
Accrued Interest on Refunding	\$ <u>-</u>	\$ <u>307,254</u>
Bond Issuance Costs on Refunding	\$ <u>-</u>	\$ <u>113,827</u>
Deferred Loss on Refunding	\$ <u>-</u>	\$ <u>2,629,474</u>
Reconciliations of Cash and Cash Equivalents to the Statement of Net Position		
Cash and Cash Equivalents - Current	\$ 24,740,059	\$ 17,233,895
Cash and Cash Equivalents - Restricted	<u>45,606,321</u>	<u>24,403,428</u>
Cash and Cash Equivalents December 31, 2017	\$ <u>70,346,380</u>	\$ <u>41,637,323</u>

See accompanying notes.

NORTHERN KENTUCKY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of certain significant accounting policies followed in the preparation of these financial statements.

Reporting Entity

The Northern Kentucky Water District (the District) was established August 28, 1996 and became operational January 1, 1997 as a result of a merger agreement executed by the Kenton County Water District No. 1 and the Campbell County Kentucky Water District. The District was organized and operates under the provisions of Kentucky Revised Statutes (Chapter 74). The District owns and operates water production and distribution facilities which are used to furnish water supplies within their service area as approved by the Commonwealth of Kentucky Public Service Commission.

Basis of Accounting and Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) for state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles for state and local governments in the United States of America.

The District's operations are presented as a single enterprise fund. All assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires the use of estimates and assumptions regarding certain types of assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses. Certain estimates relate to unsettled transactions and events as of the date of the financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Expenses

Enterprise funds distinguish operating revenues and expenses from non-operating items in accordance with the flow of economic resources measurement focus and the accrual basis of accounting. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues from water sales, forfeited discounts, rents from property, and other water revenues are reported as operating revenues. Operating expenses for enterprise funds includes the costs of sales 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.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers all highly liquid unrestricted debt instruments purchased with a maturity of three months or less to be cash equivalents.

The District is authorized by bond resolution to invest in direct obligations of the United States, or obligations guaranteed by the United States, obligations of certain federal agencies and instrumentalities, including U.S. dollar-denominated deposits in commercial banks which are insured by the Federal Deposit Insurance Corporation or fully collateralized by the foregoing, and public housing bonds or project notes issued by public housing authorities annual contribution contracts with the United States or by requisition or payment agreement with the United States.

Investments

Investments are reported at fair value based on quoted market prices.

Accounts Receivable - Customers

The District follows a quarterly cycle billing procedure with approximately one-third of the meter readings billed each month. When meter readings are delayed, bills are rendered based on estimated meter readings to promote consistency of water revenue. In order to accomplish a proper matching of revenues with expenses and to fairly state assets, an analysis is prepared of the final quarterly billings in the year to determine the estimated amount of water delivered but unbilled at year end.

Accounts receivable are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of an account has not been paid in full within the contractual terms of the account. The District begins to assess its ability to collect receivables that are over 90 days past due and provides for an adequate allowance for doubtful accounts based on the District's collection history, the financial stability and recent payment history of the customer, and other pertinent factors. Receivables are written off as uncollectible after the District has used reasonable collection efforts and deems them uncollectible. Based on these criteria, the District has estimated an allowance for doubtful accounts of \$35,000 and \$-0- at December 31, 2017 and 2016, respectively.

Assessments Receivable

Direct assessments from property owners are recorded as a receivable by the District at the time the improvement project is completed.

Inventory

Inventory is valued at the lower of cost, using the moving average method, or market. Inventories consist of expendable supplies held for new water line installations and maintenance and are charged to expenditures on an "as used" basis.

Deferred Inflows and Outflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period, and is therefore deferred until that time. A deferred gain on refunding results from the difference in the carrying value of the refunded debt and the reacquisition price. The District also recognizes deferred inflows of resources related to pensions.

Deferred outflows of resources represent a consumption of net positions that applies to a future period, and therefore deferred until that time. A deferred loss on refunding results from the difference in the carrying value of the refunded debt and the reacquisition price. The District also recognizes deferred outflows of resources related to pensions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Prior to 1978, capital assets were recorded as expenditures at the time of purchase and capitalized to the Plant Fund. No depreciation was provided on capital assets and continuing property records were not maintained.

The District obtained an independent appraisal which includes a detailed listing of District buildings, structures and contents. The appraisal serves as the basis for detailed property records that is updated on a continuous basis.

Capital assets are stated at cost or appraised value and depreciated over the estimated useful lives of the related assets. Interest related to the financing of projects under construction is capitalized as part of the projects' basis in connection with the various construction projects in progress. The cost of current repairs and maintenance is charged to expense, while the cost of replacements or betterments is capitalized.

Depreciation of the capital assets is computed on the straight-line method over the estimated the following useful lives of the assets:

Structures and Improvements	35 - 40 Years
Supply Mains	35 - 45 Years
Pumping and Water Treatment Equipment	20 - 40 Years
Distribution Reservoirs and Mains	30 - 75 Years
Services, Meters, Hydrants	35 - 75 Years
Office Furniture and Equipment	5 - 25 Years
Other Equipment	7 - 20 Years

Construction in Progress

Capitalizable costs incurred on projects which are not in use or ready for use are held in construction in progress. When the asset is ready for use, related costs are transferred to the appropriate capital asset account.

Capital Contributions

These contributions represent assessments/reimbursements to recover the costs of new services and extensions of the distribution system. The District does not include the amount of costs incurred and contributed by outside contractors for installation of distribution systems which the District absorbs and provides for their operations and maintenance.

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.

Compensated Absences

Employees of the District are entitled to paid vacation and sick depending on length of service and other factors. The amounts recorded for accumulated vacation and sick for the years ended December 31, 2017 and 2016 were \$604,437 and \$642,882, respectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is classified as net investment in capital assets, restricted, and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances on any borrowings used for the acquisition, construction or improvement of those assets. Outstanding debt which has not been spent is included in the same net position component as the unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use through enabling legislation or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. All other net position that does not meet the definition of “restricted” or “net investment in capital assets” is considered unrestricted.

Bond Premiums, Discounts, and Issue Costs

Bonds payable are reported net of any premium and discounts, which are amortized over the life of the applicable bonds using the straight-line method, which approximates the effective interest method. Issuance costs are recognized as an expense in the year incurred.

Reclassifications

Certain amounts in the prior period financial statements have been reclassified for comparative purposes to conform with the presentation in current year financial statements.

NOTE 2 – DEPOSITS AND INVESTMENTS

Investment Policy

General Policy

It is the policy of the District to invest public funds in a manner that will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demands of the District and conforming to all state statutes and District regulations governing the investments of public funds.

Authorized Investment Instruments

1. Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian.
2. Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency.
3. Obligations of any corporation of the United States government.
4. Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by Section 41.240(4) of the Kentucky Revised Statutes.

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Limitations of Investment Transactions

With regard to the investments authorized, the following limitations shall apply:

No investment shall be purchased for the District on a margin basis or through the use of any similar leveraging technique.

Deposits and Investments

The District had investments in certificates of deposit as of December 31, 2017 and 2016 in the amounts of \$667,273 and \$922,031, respectively.

Custodial Credit Risk – Deposits. For deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned. The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of December 31, 2017 and 2016, the District’s deposits are entirely insured and/or collateralized with securities held by the financial institutions on the District’s behalf and the FDIC insurance.

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District had no custodial credit risk at December 31, 2017 and 2016.

Credit Risk – Investments. The District’s investments are subject to minimal credit risk because they are invested in Federal Agency securities which are generally considered free of default risk due to the perceived stability of the U.S. Government.

NOTE 3 – RESTRICTED ASSETS

Restricted assets consist of monies and other resources which are restricted legally as described below:

Bond Proceeds Fund – These assets contain the bond proceeds plus investment interest earned that are available for paying the cost of construction and acquisition contracts relating to the water system as provided in the various bond ordinances.

Debt Service Reserve Account – These assets hold an amount that will equal the aggregate debt service reserve requirement (defined as the maximum annual debt service requirement in any succeeding bond fiscal year). The account assets are:

	December 31	
	2017	2016
Cash and Cash Equivalents	\$ 11,791,611	\$ 7,137,909
Purchase and Resale Agreements	2,569,827	4,339,546
FAMC and FHLB Discount Notes	4,129,628	7,337,047
Accrued Interest Receivable and CD Market Change	71,916	120,440
	<u>\$ 18,562,982</u>	<u>\$ 18,934,942</u>

NOTE 3 – RESTRICTED ASSETS (Continued)

Debt Service Account – These assets accumulate monies for the purpose of paying interest on the bonds when due and payable and paying the principal of the bonds when due and payable. The account assets are:

	December 31	
	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents	\$ <u>18,524,058</u>	\$ <u>17,670,156</u>

Improvement, Repair, and Replacement – These assets are available to make major repairs and replacements and to pay the cost of construction of additions, extensions and improvements to the water system. The account assets are:

Cash and Cash Equivalents	\$ <u>4,990,151</u>	\$ <u>3,378,759</u>
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Customer Deposits – These assets are available to security deposits paid by customers to receive water services. When services are terminated, the deposit is applied to any unpaid bills or refunded to the customer if all billings have been paid. The account assets are:

Cash and Cash Equivalents	\$ <u>1,038,190</u>	\$ <u>1,017,158</u>
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NOTE 4 – ACCOUNTS RECEIVABLE

	December 31	
	<u>2017</u>	<u>2016</u>
Accounts Receivable Arising From Billings of Metered Water Sales	\$ 5,451,334	\$ 5,214,774
Accrual for Estimated Unbilled Water Revenue	6,100,000	6,100,000
Other	<u>473,208</u>	<u>174,044</u>
Total	<u>\$ 12,024,542</u>	<u>\$ 11,488,818</u>

NOTE 5 – FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on information available about the assumptions market participants would use in pricing the asset. The classification of securities within the fair value hierarchy is based upon the activity level in the markets for the security type and the inputs used to determine their fair value, as follows:

LEVEL 1 – Unadjusted price quotations in active markets/exchanges for identical assets or liabilities that the District has the ability to access.

LEVEL 2 – Other observable inputs (included but no limited to, quotes process for similar assets or liabilities in the markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets and liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks, and default rates) or other market- corroborated inputs)..

LEVEL 3 – Unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Restricted assets are classified in Level 2 and are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value at December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<i>Restricted Assets</i>				
Purchase and Resale Agreements	\$ -	\$ 2,569,827	\$ -	\$ 2,569,827
FAMC and FHLB Discount Notes	-	4,129,628	-	4,129,628
Total Restricted Assets at Fair Value	<u>\$ -</u>	<u>\$ 6,699,455</u>	<u>\$ -</u>	<u>\$ 6,699,455</u>

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value at December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<i>Restricted Assets</i>				
Purchase and Resale Agreements	\$ -	\$ 4,339,546	\$ -	\$ 4,339,546
FAMC and FHLB Discount Notes	-	7,337,047	-	7,337,047
Total Restricted Assets at Fair Value	<u>\$ -</u>	<u>\$ 11,676,593</u>	<u>\$ -</u>	<u>\$ 11,676,593</u>

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the District for the year ended December 31, 2017, was as follows:

	Balance December 31, 2016	Additions	Deductions	Balance December 31, 2017
Land, System, Buildings and Equipment				
Land and Land Rights	\$ 3,291,127	\$ -	\$ -	\$ 3,291,127
Structures and Improvements	122,845,728	289,272	-	123,135,000
Lake River and Other Intakes	1,463,171	-	-	1,463,171
Supply Mains	2,865,693	-	-	2,865,693
Power Generation Plant	3,491,523	-	-	3,491,523
Pumping Equipment	11,693,537	120,475	-	11,814,012
Water Treatment Equipment	29,972,697	66,227	-	30,038,924
Distribution Reservoirs and Standpipes	9,567,871	-	-	9,567,871
Transmissions and Distribution Mains	197,458,360	10,635,939	(925,594)	207,168,705
Services	29,758,213	1,556,907	(279,747)	31,035,373
Meters and Meter Installations Hydrants	18,820,689 9,398,103	758,070 752,755	(222,912) (42,128)	19,355,847 10,108,730
Other Plant and Miscellaneous Equipment	3,419,128	-	-	3,419,128
Office Furniture and Equipment	3,789,387	127,930	-	3,917,317
Transportation Equipment	3,413,023	570,036	(109,671)	3,873,388
Tools, Shop, and Garage Equipment	709,216	33,928	(3,800)	739,344
Laboratory Equipment	558,274	68,714	-	626,988
Power Operated Equipment	1,236,503	9,079	-	1,245,582
Communication Equipment	6,281,431	5,843	-	6,287,274
Miscellaneous Equipment	581,124	-	-	581,124
Utility Plant Acquisition Adjustment	545,925	-	-	545,925
Acquisition Adjustment - Newport	4,970,211	-	-	4,970,211
 Total Land, System, Buildings and Equipment	 466,130,934	 14,995,175	 (1,583,852)	 479,542,257
Construction in Progress	21,175,056	10,028,401	(11,983,363)	19,220,094
 Total Capital Assets	 487,305,990	 25,023,576	 (13,567,215)	 498,762,351
 Less Accumulated Depreciation	 140,637,522	 11,846,075	 (1,069,219)	 151,414,378
 Capital Assets - Net	 \$ 346,668,468	 \$ 13,177,501	 \$ (12,497,996)	 \$ 347,347,973

NOTE 7 – ARBITRAGE

The Tax Reform Act of 1986 (Act) substantially revised the treatment to be afforded to earnings on the proceeds of tax-exempt debt, and requires the District to calculate and remit rebatable arbitrage earnings to the Internal Revenue Service. Certain of the District’s debt and interest earned on the proceeds thereof are subject to the requirements of the Act. The District has accrued a liability for estimated rebatable arbitrage earnings and has set aside such earnings as restricted cash. At December 31, 2017 and 2016, the arbitrage rebate liability was \$485,129 and \$1,174,629, respectively.

Rebate calculations are prepared annually. However, any liability due is only required to be paid every 5 years from the original date of the bond. In the upcoming year, only the rebate for the Water District Refunding Revenue Bonds, Series 2013 B will become due of which \$74,877 is accrued.

NOTE 8 – LONG-TERM DEBT

Revenue Bonds

Water District Revenue Bonds, Series 2011

In May 2011, the District sold \$30,830,000 of its Revenue Bonds in order to fund various construction projects. The bonds maturing on or after February 1, 2021 are subject to redemption, in whole or in part, beginning February 1, 2021.

The Water District Revenue Bonds, Series 2011 are scheduled to mature as follows:

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2018	3.00%	\$ 985,000	\$ 1,088,987	\$ 2,073,987
2019	3.00%	1,015,000	1,058,987	2,073,987
2020	4.00%	1,055,000	1,022,662	2,077,662
2021	4.00%	1,095,000	979,662	2,074,662
2022	4.00%	1,140,000	934,962	2,074,962
2023-2027	4.00-4.25%	6,440,000	3,933,555	10,373,555
2028-2032	4.25-5.00%	7,975,000	2,407,125	10,382,125
2033-2035	5.00%	5,785,000	443,375	6,228,375
Total		\$ <u>25,490,000</u>	\$ <u>11,869,315</u>	\$ <u>37,359,315</u>

NOTE 8 – LONG-TERM DEBT (Continued)

Water District Refunding Revenue Bonds, Series 2012

In June 2012, the District issued \$54,840,000 of Refunding Revenue Bonds, Series 2012 for the purpose of refunding in advance of maturity the District's outstanding Revenue Bonds Series 1997, 1998, 2001A and 2002A-REF in the principal amount of \$63,350,000. The bonds were sold at a premium of \$9,620,827, for total source of funds of \$64,460,827. The 2012 bonds maturing on or after February 2022 are subject to redemption after 2022 at a redemption price of 100%.

The Water District Refunding Revenue Bonds, Series 2012 are scheduled to mature as follows:

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2018	5.00%	\$ 3,475,000	\$ 2,160,625	\$ 5,635,625
2019	5.00%	3,650,000	1,982,500	5,632,500
2020	5.00%	4,150,000	1,787,500	5,937,500
2021	5.00%	4,365,000	1,574,625	5,939,625
2022	5.00%	4,590,000	1,350,750	5,940,750
2023-2027	5.00%	<u>24,720,000</u>	<u>3,075,750</u>	<u>27,795,750</u>
Total		<u>\$ 44,950,000</u>	<u>\$ 11,931,750</u>	<u>\$ 56,881,750</u>

Water District Revenue Bonds, Series 2013A

In June 2013, the District sold \$26,400,000 of its Revenue Bonds in order to fund various construction projects. The 2013 bonds maturing on or after February 2023 are subject to redemption after 2023 at a redemption price of 100%.

The Water District Revenue Bonds, Series 2013A are scheduled to mature as follows:

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2018	4.00%	\$ 685,000	\$ 1,039,726	\$ 1,724,726
2019	5.00%	720,000	1,008,026	1,728,026
2020	5.00%	755,000	971,151	1,726,151
2021	5.00%	795,000	932,401	1,727,401
2022	5.00%	835,000	891,651	1,726,651
2023-2027	4.00-5.00%	4,865,000	3,774,855	8,639,855
2028-2032	4.00-4.13%	6,035,000	2,602,000	8,637,000
2033-2037	4.13-4.50%	7,465,000	1,169,098	8,634,098
2038	4.25%	<u>1,690,000</u>	<u>35,913</u>	<u>1,725,913</u>
Total		<u>\$ 23,845,000</u>	<u>\$ 12,424,821</u>	<u>\$ 36,269,821</u>

NOTE 8 – LONG-TERM DEBT (Continued)

Water District Refunding Revenue Bonds, Series 2013B

In September 2013, the District issued \$24,120,000 of Refunding Revenue Bonds, Series 2013B for the purpose of refunding advance of maturity the District's outstanding Revenue Bonds Series 2002B, 2003A, and 2003B in the principal amount \$25,685,000. The bonds were sold at a premium of \$1,789,625, for a total source of funds of \$25,909,625. The 2013 bonds maturing on or after February 2023 are subject to redemption after 2023 at a redemption price of 100%.

The reacquisition price exceeded the net carrying amount of the refunded debt by \$364,880. This amount is netted against the new debt and amortized over the remaining life of the new debt. The refunding reduces its total debt service over 18 years by \$1,302,804 and obtains an economic gain (difference between the present values of the old and new debt service) of \$1,081,327.

The Water District Refunding Revenue Bonds, Series 2013B are scheduled to mature as follows:

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2018	5.00%	\$ 1,170,000	\$ 748,450	\$ 1,918,450
2019	5.00%	1,230,000	688,450	1,918,450
2020	5.00%	1,295,000	625,325	1,920,325
2021	5.00%	1,355,000	559,075	1,914,075
2022	5.00%	1,430,000	489,450	1,919,450
2023-2027	4.00-5.00%	8,185,000	1,401,200	9,586,200
2028	5.00%	<u>1,870,000</u>	<u>46,750</u>	<u>1,916,750</u>
Total		\$ <u>16,535,000</u>	\$ <u>4,558,700</u>	\$ <u>21,093,700</u>

Water District Refunding Revenue Bonds, Series 2014B

In December 2014, the District issued \$15,805,000 of Refunding Revenue Bonds, Series 2014B for the purpose of refunding advance of maturity the District's outstanding Revenue Bonds Series 2003C and 2004 in the principal amount \$16,715,000. The bonds were sold at a premium of \$1,263,374, for a total source of funds of \$17,068,374. The 2014 bonds maturing on or after August 2023 are subject to redemption after 2023 at a redemption price of 100%.

The reacquisition price exceeded the net carrying amount of the refunded debt by \$290,040. This amount is netted against the new debt and amortized over the remaining life of the new debt. The refunding reduces its total debt service over 15 years by \$1,678,190 and obtains an economic gain (difference between the present values of the old and new debt service) of \$1,469,689.

NOTE 8 – LONG-TERM DEBT (Continued)

The Water District Refunding Revenue Bonds, Series 2014B are scheduled to mature as follows:

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2018	5.00%	\$ 1,880,000	\$ 390,138	\$ 2,270,138
2019	5.00%	1,980,000	293,638	2,273,638
2020	5.00%	1,505,000	206,513	1,711,513
2021	5.00%	440,000	157,888	597,888
2022	5.00%	465,000	135,263	600,263
2023-2027	3.00-5.00%	2,585,000	408,590	2,993,590
2028-2029	3.00-3.13%	1,160,000	36,207	1,196,207
Total		\$ <u>10,015,000</u>	\$ <u>1,628,237</u>	\$ <u>11,643,237</u>

Water District Refunding Revenue Bonds, Series 2016A

In November 2016, the District issued \$41,905,000 of Refunding Revenue Bonds, Series 2016A for the purpose of refunding advance of maturity the District's outstanding Revenue Bonds Series 2009 and for the current refunding of the outstanding Revenue Bond Series 2006 in the principal amount \$44,340,000. The bonds were sold at a premium of \$5,161,005, for a total source of funds of \$47,066,005. The 2016 bonds maturing on or after August 2026 are subject to redemption after 2026 at a redemption price of 100%.

The reacquisition price exceeded the net carrying amount of the refunded debt by \$2,629,474. This amount is netted against the new debt and amortized over the remaining life of the new debt. The refunding reduces its total debt service over 15 years by \$1,678,190 and obtains an economic gain (difference between the present values of the old and new debt service) of \$7,844,962.

The Water District Refunding Revenue Bonds, Series 2016A are scheduled to mature as follows:

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2018	5.00%	\$ 1,910,000	\$ 1,680,400	\$ 3,590,400
2019	5.00%	2,005,000	1,582,525	3,587,525
2020	5.00%	2,380,000	1,472,900	3,852,900
2021	5.00%	2,325,000	1,355,275	3,680,275
2022	5.00%	2,450,000	1,235,900	3,685,900
2023-2027	5.00%	14,450,000	4,130,500	18,580,500
2028-2031	3.00-4.00%	13,930,000	905,175	14,835,175
Total		\$ <u>39,450,000</u>	\$ <u>12,362,675</u>	\$ <u>51,812,675</u>

NOTE 8 – LONG-TERM DEBT (Continued)

Rural Development Loan 91-02

In August 2000, the District closed on a loan agreement with the Department of Agriculture for the Sub District C Construction project. The amount of the loan was \$2,287,000 with an annual interest rate of 5.00%. The repayment of the loan is on a 40 year amortization schedule.

The following is a schedule of future debt service requirements to maturity:

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2018	\$ 46,000	\$ 88,200	\$ 134,200
2019	49,000	85,825	134,825
2020	51,000	83,325	134,325
2021	54,000	80,700	134,700
2022	56,000	77,950	133,950
2023-2027	326,000	343,600	669,600
2028-2032	416,000	251,350	667,350
2033-2037	535,000	133,075	668,075
2038-2039	254,000	12,850	266,850
Total	\$ <u>1,787,000</u>	\$ <u>1,156,875</u>	\$ <u>2,943,875</u>

Rural Development Loan 91-03

In December, 2017, the District closed on a loan agreement with the Department of Agriculture for the purpose of making certain improvements to the Water System. The amount of the loan was \$1,733,000 with an annual interest rate of 2.75%. The repayment of the loan is on a 40 year amortization schedule.

The following is a schedule of future debt service requirements to maturity:

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2018	\$ -	\$ 30,619	\$ 30,619
2019	-	47,658	47,658
2020	26,500	47,293	73,793
2021	27,000	46,558	73,558
2022	28,000	45,801	73,801
2023-2027	151,500	216,899	368,399
2028-2032	173,000	194,603	367,603
2033-2037	198,500	169,132	367,632
2038-2042	227,000	139,907	366,907
2043-2047	260,500	106,433	366,933
2048-2052	298,000	68,091	366,091
2053-2057	343,000	24,173	367,173
Total	\$ <u>1,733,000</u>	\$ <u>1,137,167</u>	\$ <u>2,870,167</u>

NOTE 8 – LONG-TERM DEBT (Continued)

The District is in compliance with Section 726-subsection (iii) of the 1985 General Bond Resolution (as amended November 17, 1987) which requires that the net annual income and revenues, as adjusted, be equal to at least one and twenty hundredths (1.20) times the maximum annual debt service requirement coming due in any future twelve (12) month period beginning February 1, and ending January 31, on all Bonds outstanding payable from pledged receipts.

Revenue Bond Anticipation Note

In April 2017, the District issued \$26,000,000 of Revenue Bond Anticipation Notes, Series 2017 in order to fund various construction projects. The bonds were sold at a premium of \$535,600, for a total source of funds of \$26,535,600.

The following is a schedule of future debt service requirements to maturity:

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2018	3.00%	\$ -	\$ 741,000	\$ 741,000
2019	3.00%	<u>26,000,000</u>	<u>780,000</u>	<u>26,780,000</u>
Total		<u>\$ 26,000,000</u>	<u>\$ 1,521,000</u>	<u>\$ 27,521,000</u>

Fiscal Court of Kenton County, Kentucky

The Kenton County Water District received a \$100,000 deferred payment loan at 3.0%. This loan was required as a local match to qualify for a \$750,000 Community Development Block Grant for Phase 1 of a water project in southern Kenton County. This loan will become due and payable only after sufficient customers in southern Kenton County are obtained in order to reduce the user rates, including surcharges, to approximately \$26 per month.

Taylor Mill Purchase Financing

In March 2004, the Water District purchased the assets of the Taylor Mill Water System for \$3,000,000. The purchase price will be paid over 14 years without interest. Payment is due as follows:

<u>Year</u>	<u>Principal Amount</u>
2018	<u>\$ 50,000</u>

NOTE 8 – LONG-TERM DEBT (Continued)

Kentucky Infrastructure Authority Loan F06-03

In January, 2007, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds is \$4,000,000 at an interest rate of 3.0%, maturing in June, 2028. As of December 31, 2010, all funds have been received.

The Kentucky Infrastructure Authority Loan F06-03 is scheduled to mature as follows:

Years	Principal Amount	Interest Amount	Total Debt Service
2018	\$ 197,627	\$ 76,406	\$ 274,033
2019	203,600	69,956	273,556
2020	209,754	63,268	273,022
2021	216,094	56,401	272,495
2022	222,625	49,325	271,950
2023-2027	1,218,219	132,776	1,350,995
2028	132,097	2,146	134,243
Total	<u>\$ 2,400,016</u>	<u>\$ 450,278</u>	<u>\$ 2,850,294</u>

Kentucky Infrastructure Authority Loan C08-01

In January, 2009, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds is \$6,000,000 at an interest rate of 3.0%. As of December 31, 2010, all funds have been received.

The Kentucky Infrastructure Authority Loan C08-01 is scheduled to mature as follows:

Years	Principal Amount	Interest Amount	Total Debt Service
2018	\$ 644,281	\$ 54,323	\$ 698,604
2019	663,879	33,450	697,329
2020	684,070	11,912	695,982
Total	<u>\$ 1,992,230</u>	<u>\$ 99,685</u>	<u>\$ 2,091,915</u>

NOTE 8 – LONG-TERM DEBT (Continued)

Kentucky Infrastructure Authority Loan F08-07

In November, 2008, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds is \$4,000,000 at an interest rate of 1.0%. As of December 31, 2013, all funds have been received.

The Kentucky Infrastructure Authority Loan F08-07 is scheduled to mature as follows:

Years	Principal Amount	Interest Amount	Total Debt Service
2018	\$ 190,905	\$ 37,825	\$ 228,730
2019	192,819	35,431	228,250
2020	194,752	33,015	227,767
2021	196,704	30,575	227,279
2022	198,676	28,110	226,786
2023-2027	1,023,660	102,702	1,126,362
2028-2032	1,076,008	37,265	1,113,273
Total	<u>\$ 3,073,524</u>	<u>\$ 304,923</u>	<u>\$ 3,378,447</u>

Kentucky Infrastructure Authority Loan F09-02

In October, 2010, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds is \$8,000,000 at an interest rate of 2.0%. As of December 31, 2013, all funds have been received.

The Kentucky Infrastructure Authority Loan F09-02 is scheduled to mature as follows:

Years	Principal Amount	Interest Amount	Total Debt Service
2018	\$ 1,079,225	\$ 430,475	\$ 1,509,700
2019	1,100,917	406,071	1,506,988
2020	1,123,045	381,176	1,504,221
2021	1,145,619	355,782	1,501,401
2022	1,168,646	329,876	1,498,522
2023-2027	6,205,162	1,242,206	7,447,368
2028-2032	6,854,359	511,859	7,366,218
2033	723,695	8,141	731,836
Total	<u>\$ 19,400,668</u>	<u>\$ 3,665,586</u>	<u>\$ 23,066,254</u>

NOTE 8 – LONG-TERM DEBT (Continued)

Kentucky Infrastructure Authority Loan F13-012

In May, 2013, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds is \$8,000,000 at an interest rate of 2.0%. As of December 31, 2017, \$4,523,000 has been received. Payments will not begin until one year after the initiation of operation of the project, and therefore a maturity date has not been determined.

Kentucky Infrastructure Authority Loan F14-015

In December, 2013, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds is \$4,000,000 at an interest rate of 2.0%. As of December 31, 2017, \$3,287,143 has been received. Payments will not begin until one year after the initiation of operation of the project, and therefore a maturity date has not been determined.

Kentucky Infrastructure Authority Loan F15-011

In November, 2014, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds is \$4,000,000 at an interest rate of 2.0%. As of December 31, 2017, \$2,633,963 has been received. Payments will not begin until one year after the initiation of operation of the project, and therefore a maturity date has not been determined.

Kentucky Infrastructure Authority Loan B15-003

In July, 2016, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds is \$1,500,000 at an interest rate of 0.75%. As of December 31, 2017, \$1,327,269 has been received. Payments will not begin until one year after the initiation of operation of the project, and therefore a maturity date has not been determined.

NORTHERN KENTUCKY WATER DISTRICT

NOTE 8 – LONG-TERM DEBT (Continued)

Changes in long-term debt are as follows:

<u>Governmental Activities</u>	<u>Debt Outstanding December 31, 2016</u>	<u>Additions of New Debt</u>	<u>Retirements and Repayments</u>	<u>Debt Outstanding December 31, 2017</u>	<u>Amounts Due Within 1 Year</u>
Bond Indebtedness					
Rural Development Loan 91-02	\$ 1,831,000	\$ -	\$ 44,000	\$ 1,787,000	\$ 46,000
Rural Development Loan 91-03	-	1,733,000	-	1,733,000	-
Series 2011	26,450,000	-	960,000	25,490,000	985,000
Series 2011 Bond Premium	190,361	-	9,804	180,557	9,804
Series 2012	47,480,000	-	2,530,000	44,950,000	3,475,000
Series 2012 Bond Premium	6,469,807	-	562,591	5,907,216	562,592
Series 2013 A	24,510,000	-	665,000	23,845,000	685,000
Series 2013 A Bond Premium	1,080,061	-	50,235	1,029,826	50,235
Series 2013 B	18,180,000	-	1,645,000	16,535,000	1,170,000
Series 2013 B Bond Premium	1,401,873	-	119,309	1,282,564	119,309
Series 2014 B	11,955,000	-	1,940,000	10,015,000	1,880,000
Series 2014 B Bond Premium	1,094,924	-	84,225	1,010,699	84,225
Series 2016	41,905,000	-	2,455,000	39,450,000	1,910,000
Series 2016 Bond Premium	5,132,332	-	344,067	4,788,265	344,067
Total Bond Indebtedness	187,680,358	1,733,000	11,409,231	178,004,127	11,321,232
Bond Anticipation Notes					
Series 2017	-	26,000,000	-	26,000,000	-
Series 2017 BAN Premium	-	535,600	178,533	357,067	267,800
Total Bond Anticipation Notes	-	26,535,600	178,533	26,357,067	267,800
Notes Payable					
KIA SRF Loan F06-03	2,591,845	-	191,829	2,400,016	197,627
KIA Loan C08-01	2,617,493	-	625,263	1,992,230	644,281
KIA Loan F08-07	3,262,534	-	189,010	3,073,524	190,905
KIA Loan F09-02	20,458,628	-	1,057,960	19,400,668	1,079,225
KIA Loan F13-012	4,523,000	-	-	4,523,000	-
KIA Loan F14-015	3,287,143	-	-	3,287,143	-
KIA Loan F15-011	2,162,858	471,105	-	2,633,963	-
KIA Loan B15-003	-	1,327,269	-	1,327,269	-
City of Taylor Mill, KY	225,000	-	175,000	50,000	50,000
Kenton County Fiscal Court	100,000	-	-	100,000	-
Total Notes Payable	39,228,501	1,798,374	2,239,062	38,787,813	2,162,038
Compensated Absences	642,882	125,011	163,456	604,437	156,527
Total Long-Term Debt	\$ 227,551,741	\$ 30,191,985	\$ 13,990,282	\$ 243,753,444	\$ 13,907,597

NOTE 9 – PENSION PLAN

General Information about the Pension Plan

Plan description: County Employees Retirement System consists of two plans, Non-hazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement Systems (KRS) under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS. The District participates in the non-hazardous plan.

Benefits provided: The non-hazardous system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

Tier 1: Retirement Eligibility for Members Whose Participation Began Before 09/01/2008

Age	Years of Service	Allowance Reduction
65	4	None
Any	27	None
55	5	6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service.
Any	25	6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service.

Tier 2: Retirement Eligibility for Members Whose Participation Began On or After 09/01/2008 but before 01/01/2014

Age	Years of Service	Allowance Reduction
65	5	None
57	Rule of 87	None
60	10	6.5% per year for first five years, and 4.5% for next five years before age 65 or Rule of 87 (age plus years of service).

Tier 3: Retirement Eligibility for Members Whose Participation Began On or After 01/01/2014

Age	Years of Service	Allowance Reduction
65	5	None
57	Rule of 87	None

NOTE 9 – PENSION PLAN (Continued)

Benefit Formula for Tiers 1

Final Compensation	X	Benefit Factor	X	Years of Service
Average of the five highest if participation began before 09/01/2008.		2.20% if: Member begins participating prior to 08/01/2004.		Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).

Benefit Formula for Tiers 2

Final Compensation	X	Benefit Factor	X	Years of Service
Average of the last complete five if participation began on or after 09/01/2008 but before 01/01/2014.		2.00% if: Member begins participating on or after 08/01/2004 and before 09/01/2008.		Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).
		Increasing percent based on service at retirement* plus 2.00% for each year of service over 30 if: Member begins participating on or after 09/01/2008.		

* **Service (and Benefit Factor): 10 years or less (1.10%); 10 - 20 years (1.30%); 20 - 26 years (1.50%); 26 - 30 years (1.75%)**

Benefit Formula for Tiers 3

(A-B) = C X 75% = D then B+D = Interest					
A	B	C	D	Interest Rate Earned (4% + Upside)	Total Interest Credited to Members' Accounts
5 Year Geometric Average Return	Less Guarantee Rate	Upside Sharing Interest	Interest Rate Earned		
7.85%	4.00%	3.85%	2.89%	6.89%	\$ 2,565,000

For post-retirement death benefits, if the member is receiving a monthly benefit based on at least four (4) years of creditable service, the retirement system will pay a \$5,000 death benefit payment to the beneficiary named by the member specifically for this benefit.

For disability benefits, members participating before August 1, 2004 may retire on account of disability provided the member has at least 60 months of service credit and is not eligible for an unreduced benefit. Additional service credit may be added for computation of benefits under the benefit formula. Members participating on or after August 1, 2004 but before January 1, 2014 may retire on account of disability provided the member has at least 60 months of service credit. Benefits are computed as the higher of 20% for non-hazardous of Final Rate of Pay or the amount calculated under the Benefit Formula based upon actual service. Members participating on or after January 1, 2014 may retire on account of disability provided the member has at least 60 months of service credit. The account which includes member contributions, employer contributions, and interest credits can be withdrawn from the System as a lump sum or an annuity equal to the larger of 20% of the member's monthly final rate of pay or the annuitized hypothetical account into a single life annuity option. Members disabled as a result of a single duty-related injury or act of violence related to their job may be eligible for special benefits.

NOTE 9 – PENSION PLAN (Continued)

For pre-retirement death benefits, the beneficiary of a deceased active member will be eligible for a monthly benefit if the member was: (1) eligible for retirement at the time of death or, (2) under the age of 55 with at least 60 months of service credit and currently working for a participating agency at the time of death or (3) no longer working for a participating agency but at the time of death had at least 144 months of service credit. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump sum payment of the member's contributions and any accumulated interest.

The Kentucky General Assembly has the authority to increase, suspend, or reduce Cost of Living Adjustments. Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100.00% funded or (2) the Legislature appropriates sufficient funds to pay the increased liability for the COLA.

Contributions:

For the fiscal years ended June 30, 2017 and 2016, plan members who began participating prior to September 1, 2008, were required to contribute 5% non-hazardous of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits.

Tier 2 members were required to contribute a total of 6% for non-hazardous of their annual creditable compensation while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund. These members were classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.50%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

Tier 3 members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% non-hazardous of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% non-hazardous employer pay credit. The employer pay credit represents a portion of the employer contribution.

Participating employers were required to contribute at an actuarially determined rate for CERS pensions. Per Kentucky Revised Statute Section CERS 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal year ended June 30, 2018 and 2017, participating employers contributed 19.18% (14.48% pension fund and 4.70% insurance fund) and 18.68% (13.95% pension fund and 4.73% insurance fund), respectively, for the non-hazardous system of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years was a percentage of each employee's creditable compensation. Contributions to the pension fund (excluding the insurance portion) from the District were \$1,099,103 and \$1,045,628 for the years ended December 31, 2017 and 2016, respectively.

NOTE 9 – PENSION PLAN (Continued)

Plan Information for December 31, 2017 Financial Statements

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

At December 31, 2017, the District reported a liability of \$18,765,118 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 and was rolled-forward from the valuation date to June 30, 2017, using generally accepted actuarial principles. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2017, the District's proportion for the nonhazardous system was 0.320590%.

For the year ended December 31, 2017, the District recognized pension expense of \$1,948,542. At December 31, 2017, the 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>
Net difference between projected and actual earnings on pension plan investments	\$ 1,486,175	\$ 1,254,072
Difference between expected and actual experience	23,275	476,339
Changes of assumptions	3,462,673	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	55,160	562,061
Contributions after measurement date	<u>559,051</u>	<u>-</u>
Total	<u>\$ 5,586,334</u>	<u>\$ 2,292,472</u>

The \$559,051 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending December 31,</u>	
2018	\$ 1,221,393
2019	1,209,314
2020	545,058
2021	<u>(240,954)</u>
Total	<u>\$ 2,734,811</u>

NOTE 9 – PENSION PLAN (Continued)

Actuarial assumptions: The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	28 years
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 Increase	4.00%, Average
Investment Rate of Return	7.50% Net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

The long-term expected return on plan assets 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 rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Nominal Return
US Equity	17.50 %	5.97 %
International Equity	17.50	7.85
Global Bonds	4.00	2.63
Global Credit	2.00	3.63
High Yield	7.00	5.75
Emerging Market Debt	5.00	5.50
Private Equity	10.00	8.75
Real Estate	5.00	7.63
Absolute Return	10.00	5.63
Real Return	10.00	6.13
Private Equity	10.00	8.25
Cash	2.00	1.88
Total	100.00 %	

NOTE 9 – PENSION PLAN (Continued)

Discount rate: The discount rate used to measure the total pension liability was 6.25%. The single discount rate was based on the expected rate of return on pension plan investments for the system. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan member. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability for the system. The projection of cash flows used to determine the single discount rate assumes that the participating employers in the system contributes the actuarially determined contribution rate in all future years.

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 using the discount rate of 6.25%, 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%) or 1-percentage-point higher (7.25%) than the current rate:

	<u>1% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
Nonhazardous	\$ 23,666,870	\$ 18,765,118	\$ 14,664,840

Plan Information for December 31, 2016 Financial Statements

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

At December 31, 2016, the District reported a liability of \$16,504,154 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2016, the District's proportion for the nonhazardous system was 0.335204%.

Change of Benefit Terms: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 are listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

- 1) Tiered structure for benefit accrual rates
- 2) New retirement eligibility requirements
- 3) Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

NOTE 9 – PENSION PLAN (Continued)

For the year ended December 31, 2016, the District recognized pension expense of \$1,046,797. At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 1,551,559	\$ -
Difference between expected and actual experience	72,053	-
Changes of assumptions	874,302	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	163,318	239,044
Contributions after measurement date	559,252	-
Total	\$ 3,220,484	\$ 239,044

The \$559,252 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending December 31,		
2018	\$	749,147
2019		749,147
2020		536,005
2021		387,889
Total	\$	2,422,188

Actuarial assumptions: The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year Smoothed market
Inflation	3.25%
Salary Increase	4.00%, Average, including inflation
Investment Rate of Return	7.50% Net of pension plan investment expense, including inflation

NOTE 9 – PENSION PLAN (Continued)

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 health retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, at a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Nominal Return</u>
Combined Equity	44.00 %	5.40 %
Combined Fixed Income Real Return (Diversified Inflation Strategies)	19.00	1.50
Real Estate	10.00	3.50
Absolute Return (Diversified Hedge Funds)	5.00	4.50
Private Equity	10.00	4.25
Cash Equivalent	10.00	8.50
	<u>2.00</u>	(0.25)
Total	<u>100.00 %</u>	

Discount rate: The discount rate used to measure the total pension liability was 7.50%. 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 27 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. The periods of projected benefit payments for all current plan members were projected through 2117.

NOTE 9 – PENSION PLAN (Continued)

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate: The following presents the District's proportionate share of the net pension liability using the discount rate of 7.50%, 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Nonhazardous	\$ 20,566,862	\$ 16,504,154	\$ 13,021,625

Payable to the Pension Plan

At December 31, 2017 and 2016, the District reported a payable of \$143,731 and \$133,273 for the outstanding amount of contributions to the pension plan required for the years ended December 31, 2017 and 2016, respectively.

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

401(k) Plan and 457 Plan

The District also permits employees to participate in a voluntary 401(k) or 457 plan. There is no employer match.

NOTE 10 – OPERATING LEASES

The District is obligated under certain non-cancelable leases for equipment. The leases expire at various dates through April, 2019. Lease expense for the years ended December 31, 2017 and 2016 were \$16,835 and \$15,981, respectively.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year are:

<u>Years Ending December 31,</u>	
2018	\$ 35,718
2019	<u>9,210</u>
	<u>\$ 44,928</u>

NOTE 11 – ECONOMIC DEPENDENCY

The District receives the majority of its operating revenues from customers in Kenton, Campbell, Boone, and Pendleton counties of Kentucky.

NOTE 12 – CONTINGENT LIABILITIES

The District is a defendant in various lawsuits. Although the outcome of certain of these lawsuits is not presently determinable, in the opinion of the District's Management the resolution of these matters will not result in a material uninsured liability to the District.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHERN KENTUCKY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET TO ACTUAL
YEAR ENDED DECEMBER 31, 2017

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance (Unfavorable) Favorable</u>
Operating Revenues			
Water Sales	\$ 52,977,753	\$ 52,459,216	\$ (518,537)
Forfeited Discounts	836,625	814,193	(22,432)
Rents From Property	515,000	448,465	(66,535)
Other Water Revenues	<u>303,740</u>	<u>363,340</u>	<u>59,600</u>
Total Operating Revenues	<u>54,633,118</u>	<u>54,085,214</u>	<u>(547,904)</u>
Operating Expenses			
Operation and Maintenance Expense	28,241,195	24,467,676	3,773,519
Depreciation Expense	<u>-</u>	<u>11,846,075</u>	<u>(11,846,075)</u>
Total Operating Expenses	<u>28,241,195</u>	<u>36,313,751</u>	<u>(8,072,556)</u>
Net Operating Income	<u>26,391,923</u>	<u>17,771,463</u>	<u>(8,620,460)</u>
Non-Operating Income (Expense)			
Investment Income	386,500	944,480	557,980
Miscellaneous Non-Operating Income	129,800	354,118	224,318
Loss on Abandonment of Mains	-	(514,633)	(514,633)
Interest on Long-Term Debt	(8,071,975)	(8,135,812)	(63,837)
Amortization of Debt Discount and Expense	-	895,431	895,431
Pension Expense	-	(1,948,542)	(1,948,542)
Arbitrage Expense	-	(111,934)	(111,934)
Gain on Sale of Capital Assets	<u>-</u>	<u>24,224</u>	<u>24,224</u>
Total Non-Operating Expense	<u>(7,555,675)</u>	<u>(8,492,668)</u>	<u>(936,993)</u>
Change in Net Position Before Capital Contributions	18,836,248	9,278,795	(9,557,453)
Capital Contributions	<u>-</u>	<u>1,185,814</u>	<u>1,185,814</u>
Change in Net Position	<u>\$ 18,836,248</u>	<u>\$ 10,464,609</u>	<u>\$ (8,371,639)</u>

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
DECEMBER 31, 2017**

County Employees Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's Proportion of the Net Pension Liability (Asset) - Non Hazardous	0.32059%	0.33520%	0.34412%	0.33360%
Total District's Proportionate Share of the Net Pension Liability (Asset)	<u>\$ 18,765,118</u>	<u>\$ 16,504,154</u>	<u>\$ 14,819,690</u>	<u>\$ 11,002,199</u>
District's Covered - Employee Payroll	<u>\$ 7,880,340</u>	<u>\$ 7,925,067</u>	<u>\$ 7,972,340</u>	<u>\$ 7,931,952</u>
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	238.13%	208.25%	185.89%	138.71%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability - Non Hazardous	53.30%	55.50%	59.97%	66.80%

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
DECEMBER 31, 2017**

**County Employees Retirement System
Last 3 Fiscal Years**

<u>Nonhazardous</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 1,099,103	\$ 1,045,628	\$ 1,429,517	\$ 1,483,609
Contributions in Relation to the Contractually Required Contribution	<u>(1,099,103)</u>	<u>(1,045,628)</u>	<u>(1,429,517)</u>	<u>(1,483,609)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 7,732,260	\$ 7,925,067	\$ 7,972,340	\$ 7,931,952
Contributions as a Percentage of Covered-Employee Payroll	14.21%	13.19%	17.93%	18.70%

OTHER SUPPLEMENTARY INFORMATION

**NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF WATER OPERATING REVENUE**

	<u>Years Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Operating Revenues		
Metered Sales		
Sales to Residential Customers	\$ 32,144,608	\$ 31,146,733
Sales to Commercial Customers	7,468,981	7,246,450
Sales to Industrial Customers	4,013,168	3,966,911
Sales to Public Authorities	2,347,033	2,461,814
Sales to Multiple Family Dwellings	4,718,024	4,413,247
Sales Through Bulk Loading Stations	<u>62,273</u>	<u>73,067</u>
Total Metered Sales	50,754,087	49,308,222
Fire Protection Revenue	52,125	64,879
Sales For Resale	<u>1,653,004</u>	<u>1,604,039</u>
Total Sales of Water	52,459,216	50,977,140
Other Revenue	<u>1,625,998</u>	<u>1,636,742</u>
Total Operating Revenues	<u><u>\$ 54,085,214</u></u>	<u><u>\$ 52,613,882</u></u>

**NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF COMBINED OPERATION AND MAINTENANCE EXPENSES**

	Years Ended December 31,	
	2017	2016
Operating and Maintenance Expenses		
Salaries and Wages	\$ 7,710,935	\$ 7,837,625
Employee Pensions and Benefits	4,583,773	4,427,673
Taxes Other Than Income Taxes	580,024	556,931
Purchased Power	2,384,132	2,499,258
Chemicals	2,361,135	2,308,355
Materials and Supplies	1,866,605	1,854,457
Contractual Services	3,233,211	2,969,792
Transportation Expenses	478,853	502,261
Insurance	553,326	540,144
Bad Debt Expense	341,682	354,106
Miscellaneous Expense	249,337	279,829
Regulatory Commission Assessment	124,663	120,084
	<u>24,467,676</u>	<u>24,250,515</u>
Total Operating and Maintenance Expenses	\$ <u>24,467,676</u>	\$ <u>24,250,515</u>

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF INSURANCE COVERAGES
December 31, 2017**

Company	Policy Number	Description of Coverage	Amount of Coverage	Effective Period	
				From	To
Travelers Insurance	ZLP14T8065317	General Liability	\$ 1,000,000	1/1/2017	1/1/2018
	ZUP14T8066517	Umbrella	19,000,000		
	ZLP14T8065317	Public Officials	1,000,000		
	H8102721X112COF17	Automobile Liability	1,000,000		
	H6302721X112TIL17	Property - Including Equipment Equipment Breakdown	259,331,338		
	H6302721X112TIL17	Employee Dishonesty	500,000		
	ZPL14P0759917	Cyber Liability	2,000,000		
Kentucky Employers Mutual Insurance	WC 338786	Worker's Compensation	1,000,000	7/1/2016	7/1/2017
	WC 338786	Worker's Compensation	1,000,000	7/1/2017	7/1/2018
Cincinnati Insurance	8877071	Fidelity Bond	Per Application	8/20/2016	12/31/2017
Great American Insurance	PEL1093742	Pollution Liability	15,000,000	1/1/2016	1/1/2019

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF RATES, RULES AND REGULATIONS
DECEMBER 31, 2017**

RETAIL WATER RATES

1. Monthly Service Rate

First	1,500 Cubic Feet	\$4.53 per 100 Cubic Feet
Next	163,500 Cubic Feet	\$3.94 per 100 Cubic Feet
Over	165,000 Cubic Feet	\$2.88 per 100 Cubic Feet

Sub District A shall be assessed a monthly surcharge in the amount of \$0.00
 Sub District B shall be assessed a monthly surcharge in the amount of \$13.12
 Sub District C shall be assessed a monthly surcharge in the amount of \$11.85
 Sub District D shall be assessed a monthly surcharge in the amount of \$30.00
 Sub District E shall be assessed a monthly surcharge in the amount of \$30.00
 Sub District F shall be assessed a monthly surcharge in the amount of \$19.22
 Sub District G shall be assessed a monthly surcharge in the amount of \$23.47
 Sub District H shall be assessed a monthly surcharge in the amount of \$30.00
 Sub District I shall be assessed a monthly surcharge in the amount of \$30.00
 Sub District K shall be assessed a monthly surcharge in the amount of \$7.41
 Sub District M shall be assessed a monthly surcharge in the amount of \$30.00
 Sub District R shall be assessed a monthly surcharge in the amount of \$19.62
 Sub District RF shall be assessed a monthly surcharge in the amount of \$23.77
 Sub District RL shall be assessed a monthly surcharge in the amount of \$24.84

2. Quarterly Rates

First	4,500 Cubic Feet	\$4.53 per 100 Cubic Feet
Next	490,500 Cubic Feet	\$3.94 per 100 Cubic Feet
Next	495,000 Cubic Feet	\$2.88 per 100 Cubic Feet

3. Fixed Service Charge

<u>Meter Size</u>	<u>Monthly</u>	<u>Quarterly</u>
5/8"	\$ 16.40	\$ 32.80
3/4"	16.85	34.40
1"	18.45	39.50
1½"	20.75	46.70
2"	26.20	65.50
3"	63.20	203.90
4"	79.30	255.50
6"	117.40	377.60
8"	158.50	516.00
10" and Larger	210.80	673.70

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF RATES, RULES AND REGULATIONS
DECEMBER 31, 2017
(CONTINUED)**

WHOLESALE WATER RATES

Bullock Pen Water District	\$3.57 per 1,000 Gallons (or) \$2.67 per 100 Cubic Feet
City of Walton	\$3.57 per 1,000 Gallons (or) \$2.67 per 100 Cubic Feet
Pendleton County	\$3.57 per 1,000 Gallons (or) \$2.67 per 100 Cubic Feet

MISCELLANEOUS SERVICE FEES

Service Area Non-Recurring Charges

Returned Check Charge	\$20.00
Water Hauling Station	\$ 6.06 per 1,000 Gallons
Reconnection Fee	\$25.00
Overtime Charge	\$60.00

**NORTHERN KENTUCKY WATER DISTRICT
MEMBERS OF THE COMMISSION AND ADMINISTRATIVE STAFF
DECEMBER 31, 2017**

COMMISSIONERS

TERM EXPIRES

Clyde Cunningham, Chair	August 28, 2019
Douglas C Wagner, CDT, Vice-Chair	August 26, 2021
Joseph J. Koester, Treasurer	July 31, 2020
Dr. Patricia Sommercamp, Secretary	August 28, 2021
David M. Spaulding, Esq.	August 28, 2019
Fred A. Macke, Jr.	August 26, 2020

ADMINISTRATIVE STAFF

C. Ronald Lovan, PE, President/CEO

Lindsey Rehtin, CPA, Vice President of Finance and Support Services

Amy Kramer, PE, Vice President of Engineering, Production, and Distribution

REQUIRED REGULATORY INFORMATION

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Environmental Protection Agency				
<i>Passed Through Kentucky Infrastructure Authority Kenton and Campbell County Water Main Projects</i>				
Capitalization Grants for Drinking Water State Revolving Funds (ARRA)	66.468	F15-001	\$ -	\$ 719,856
Department of Agriculture				
U.S. Department of Agriculture, Rural Utilities Service	10.760		-	716,394
Total Expenditures of Federal Awards			\$ -	\$ 1,436,250

See accompanying notes to the schedule of federal awards.

**NORTHERN KENTUCKY WATER DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal awards (the Schedule) include the federal award activity of the Northern Kentucky Water District under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Northern Kentucky Water District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Northern Kentucky Water District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Northern Kentucky Water District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 – LOANS

The Water and Waste Disposal System for Rural Communities (CFDA 10.760) includes a loan administered by the District. Balances and transactions relating to these programs are included in the District's basic financial statements. Current year expenditures are included in the Federal expenditures presented in the schedule as the loan was awarded prior to the Uniform Guidance. The balance of the loan outstanding as of December 31, 2017 is \$1,733,000.

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

Board of Commissioners
Northern Kentucky Water District
Erlanger, 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 Northern Kentucky Water District (the District) as of and for the year ended December 31, 2017 and the related notes to the financial statements, which collectively comprise the Northern Kentucky Water District's basic financial statements, and have issued our report thereon dated June 28, 2018.

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 in financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

VonLehman & Company Inc.

Fort Wright, Kentucky
June 28, 2018

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

Board of Commissioners
Northern Kentucky Water District
Erlanger, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Northern Kentucky Water District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of the District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

VonLehman & Company Inc.

Fort Wright, Kentucky
June 28, 2018

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2017**

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs: CFDA Number(s)	Water and Waste Disposal Systems for Rural Communities [CFDA 10.760]
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters to be reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters to be reported.

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016**

PRIOR YEAR – FINANCIAL STATEMENT FINDINGS

No matters were reported.

PRIOR YEAR – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.