

**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**

|                                       | <b>December 31,</b>          |                              |
|---------------------------------------|------------------------------|------------------------------|
|                                       | <b>2017</b>                  | <b>2016</b>                  |
| <b>Assets</b>                         |                              |                              |
| 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>           |
| <b>Deferred Outflows of Resources</b> | <u>10,368,265</u>            | <u>8,389,842</u>             |
| <b>Liabilities</b>                    |                              |                              |
| 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>           |
| <b>Deferred Inflows of Resources</b>  | <u>2,292,472</u>             | <u>239,044</u>               |
| <b>Net Position</b>                   |                              |                              |
| 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>            |
| <b>Total Net Position</b>             | <u><b>\$ 193,276,189</b></u> | <u><b>\$ 182,811,580</b></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**

|   | <b>Years Ended December 31,</b> |                             |
|---|---------------------------------|-----------------------------|
|   | <b>2017</b>                     | <b>2016</b>                 |
| <b>Operating Revenues</b>                             |                                 |                             |
| 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>           |
| <b>Operating Expenses</b>                             |                                 |                             |
| 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>           |
| <b>Non-Operating Income (Expense)</b>                 |                                 |                             |
| 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>            |
| <b>Change in Net Position</b>                         | <b><u>\$ 10,464,609</u></b>     | <b><u>\$ 10,853,712</u></b> |

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,<br>Pumping System, Power Generation, Water<br>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                  |
| <b>Assets and Deferred Outflows of Resources</b>                    |                       |                       |
| <b>Current Assets</b>   |                       |                       |
| 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<br>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            |
| <b>Noncurrent Assets</b>  |                       |                       |
| 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           |
| Total Capital Assets, Net of Accumulated Depreciation               | 347,347,973           | 346,668,468           |
| Total Noncurrent Assets   | 411,622,095           | 390,642,393           |
| Total Assets  | 455,573,779           | 426,130,263           |
| <b>Deferred Outflows of Resources</b>                               |                       |                       |
| 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             |
| Total Deferred Outflows of Resources                                | 10,368,265            | 8,389,842             |
| <b>Total Assets and Deferred Outflows of Resources</b>              | <b>\$ 465,942,044</b> | <b>\$ 434,520,105</b> |

See accompanying notes.

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION**

|   | December 31,   |                |
|---|----------------|----------------|
|   | 2017           | 2016           |
| <b>Liabilities and Deferred Inflows of Resources</b>                          |                |                |
| <b>Current Liabilities</b>  |                |                |
| 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     |
| <b>Long-Term Liabilities (Net of Current Portion)</b>                         |                |                |
| 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    |
| <b>Deferred Inflows of Resources</b>  |                |                |
| Deferred Inflows Related to Pension   | 2,292,472      | 239,044        |
| Total Liabilities and Deferred Inflows of Resources                           | 272,665,855    | 251,708,525    |
| <b>Net Position</b>   |                |                |
| 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    |
| <b>Total Liabilities, Deferred Inflows of Resources,<br/>and Net Position</b> | \$ 465,942,044 | \$ 434,520,105 |

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

|  | <b>Years Ended December 31,</b> |                |
|--|---------------------------------|----------------|
|  | <b>2017</b>                     | <b>2016</b>    |
| <b>Operating Revenues</b>                              |                                 |                |
| 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     |
| <b>Operating Expenses</b>                              |                                 |                |
| 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     |
| <b>Non-Operating Income (Expense)</b>                  |                                 |                |
| 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<br>Capital Contributions | 9,278,795                       | 9,182,044      |
| <b>Capital Contributions</b>                           | 1,185,814                       | 1,671,668      |
| Change in Net Position                                 | 10,464,609                      | 10,853,712     |
| <b>Net Position - Beginning of Year</b>                | 182,811,580                     | 171,957,868    |
| <b>Net Position - End of Year</b>                      | \$ 193,276,189                  | \$ 182,811,580 |

See accompanying notes.

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

|   | <b>Years Ended December 31,</b> |                      |
|---|---------------------------------|----------------------|
|   | <b>2017</b>                     | <b>2016</b>          |
| <b>Cash Flows From Operating Activities</b>   |                                 |                      |
| 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>    |
| <b>Cash Flows From Investing Activities</b>   |                                 |                      |
| 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>     |
| <b>Cash Flows From Capital and Related Financing Activities</b>                                   |                                 |                      |
| 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>   |
| <b>Cash and Cash Equivalents Beginning of Year</b>  | <u>41,637,323</u>               | <u>42,825,630</u>    |
| <b>Cash and Cash Equivalents End of Year</b>  | <u>\$ 70,346,380</u>            | <u>\$ 41,637,323</u> |
| <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>            |                                 |                      |
| Net Operating Income  | \$ 17,771,463                   | \$ 16,873,260        |
| <b>Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities</b> |                                 |                      |
| 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>    |
| <b>Net Cash Provided by Operating Activities</b>  | <u>\$ 29,498,476</u>            | <u>\$ 26,203,782</u> |

See accompanying notes.

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

|  | <b>Years Ended December 31,</b> |                             |
|--|---------------------------------|-----------------------------|
|  | <b>2017</b>                     | <b>2016</b>                 |
| <b>Supplemental Schedule of Noncash Capital and Related Financing Activities</b>     |                                 |                             |
| 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>         |
| <b>Reconciliations of Cash and Cash Equivalents to the Statement of Net Position</b> |                                 |                             |
| 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>           |
| <b>Cash and Cash Equivalents December 31, 2017</b>                                   | <b>\$ <u>70,346,380</u></b>     | <b>\$ <u>41,637,323</u></b> |

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> |
|---------------------------|---------------------|---------------------|

*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> |
|---------------------------|---------------------|---------------------|

**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>        |
|---------------------------------------|----------------|---------------------|----------------|---------------------|
| <b><i>Restricted Assets</i></b>       |                |                     |                |                     |
| 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>         |
|---------------------------------------|----------------|----------------------|----------------|----------------------|
| <b><i>Restricted Assets</i></b>       |                |                      |                |                      |
| 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<br>December 31,<br>2016 | Additions          | Deductions            | Balance<br>December 31,<br>2017 |
|--|---------------------------------|--------------------|-----------------------|---------------------------------|
| Land, System, Buildings<br>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<br>Standpipes          | 9,567,871                       | -                  | -                     | 9,567,871                       |
| Transmissions and<br>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<br>Installations Hydrants         | 18,820,689<br>9,398,103         | 758,070<br>752,755 | (222,912)<br>(42,128) | 19,355,847<br>10,108,730        |
| Other Plant and<br>Miscellaneous Equipment         | 3,419,128                       | -                  | -                     | 3,419,128                       |
| Office Furniture and<br>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<br>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<br>Adjustment            | 545,925                         | -                  | -                     | 545,925                         |
| Acquisition Adjustment<br>- Newport                | 4,970,211                       | -                  | -                     | 4,970,211                       |
| <br>Total Land, System,<br>Buildings and Equipment | <br>466,130,934                 | <br>14,995,175     | <br>(1,583,852)       | <br>479,542,257                 |
| Construction in Progress                           | 21,175,056                      | 10,028,401         | (11,983,363)          | 19,220,094                      |
| <br>Total Capital Assets                           | <br>487,305,990                 | <br>25,023,576     | <br>(13,567,215)      | <br>498,762,351                 |
| <br>Less Accumulated Depreciation                  | <br>140,637,522                 | <br>11,846,075     | <br>(1,069,219)       | <br>151,414,378                 |
| <br>Capital Assets - Net                           | <br>\$ 346,668,468              | <br>\$ 13,177,501  | <br>\$ (12,497,996)   | <br>\$ 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%                 | <u>5,785,000</u>        | <u>443,375</u>         | <u>6,228,375</u>          |
| 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<br/>Amount</u> | <u>Interest<br/>Amount</u> | <u>Total Debt<br/>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<br/>Amount</u> | <u>Interest<br/>Amount</u> | <u>Total Debt<br/>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<br>Amount | Interest<br>Amount | Total Debt<br>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<br>Amount | Interest<br>Amount | Total Debt<br>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<br>Amount | Interest<br>Amount | Total Debt<br>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<br>Amount  | Interest<br>Amount  | Total Debt<br>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<br/>Outstanding<br/>December 31,<br/>2016</u> | <u>Additions<br/>of<br/>New Debt</u> | <u>Retirements<br/>and<br/>Repayments</u> | <u>Debt<br/>Outstanding<br/>December 31,<br/>2017</u> | <u>Amounts<br/>Due<br/>Within<br/>1 Year</u> |
|--------------------------------------|---|--------------------------------------|---|---|--|
| <b>Bond Indebtedness</b>             |   |                                      |   |   |  |
| 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                                      |
| <b>Total Bond Indebtedness</b>       | <u>187,680,358</u>                                    | <u>1,733,000</u>                     | <u>11,409,231</u>                         | <u>178,004,127</u>                                    | <u>11,321,232</u>                            |
| <b>Bond Anticipation Notes</b>       |   |                                      |   |   |  |
| Series 2017                          | -   | 26,000,000                           | -   | 26,000,000  | -  |
| Series 2017 BAN Premium              | -   | 535,600                              | 178,533                                   | 357,067   | 267,800                                      |
| <b>Total Bond Anticipation Notes</b> | <u>-</u>  | <u>26,535,600</u>                    | <u>178,533</u>                            | <u>26,357,067</u>                                     | <u>267,800</u>                               |
| <b>Notes Payable</b>                 |   |                                      |   |   |  |
| 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   | -  |
| <b>Total Notes Payable</b>           | <u>39,228,501</u>                                     | <u>1,798,374</u>                     | <u>2,239,062</u>                          | <u>38,787,813</u>                                     | <u>2,162,038</u>                             |
| <b>Compensated Absences</b>          | <u>642,882</u>  | <u>125,011</u>                       | <u>163,456</u>                            | <u>604,437</u>  | <u>156,527</u>                               |
| <b>Total Long-Term Debt</b>          | <u>\$ 227,551,741</u>                                 | <u>\$ 30,191,985</u>                 | <u>\$ 13,990,282</u>                      | <u>\$ 243,753,444</u>                                 | <u>\$ 13,907,597</u>                         |

**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**

| <b>Age</b> | <b>Years of Service</b> | <b>Allowance Reduction</b>   |
|------------|-------------------------|--|
| 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**

| <b>Age</b> | <b>Years of Service</b> | <b>Allowance Reduction</b>  |
|------------|-------------------------|---|
| 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**

| <b>Age</b> | <b>Years of Service</b> | <b>Allowance Reduction</b> |
|------------|-------------------------|----------------------------|
| 65         | 5                       | None                       |
| 57         | Rule of 87              | None                       |

NOTE 9 – PENSION PLAN (Continued)

**Benefit Formula for Tiers 1**

| <u>Final Compensation</u>   | <u>X</u> | <u>Benefit Factor</u>                                      | <u>X</u> | <u>Years of Service</u>  |
|---|----------|--|----------|--|
| 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**

| <u>Final Compensation</u>  | <u>X</u> | <u>Benefit Factor</u>  | <u>X</u> | <u>Years of Service</u>  |
|--|----------|--|----------|--|
| 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**

| <b>(A-B) = C X 75% = D then B+D = Interest</b> |                            |                                |                             |   |   |
|--|----------------------------|--------------------------------|-----------------------------|---|---|
| <b>A</b>                                       | <b>B</b>                   | <b>C</b>                       | <b>D</b>                    | <b>Interest Rate Earned (4% + Upside)</b> | <b>Total Interest Credited to Members' Accounts</b> |
| <b>5 Year Geometric Average Return</b>         | <b>Less Guarantee Rate</b> | <b>Upside Sharing Interest</b> | <b>Interest Rate Earned</b> |   |   |
| 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<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>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<br/>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<br/>(5.25%)</u> | <u>Current Discount<br/>Rate (6.25%)</u> | <u>1% Increase<br/>(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<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>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<br>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<br/>Allocation</u> | <u>Long Term<br/>Expected<br/>Nominal Return</u> |
|---|------------------------------|--|
| Combined Equity   | 44.00 %                      | 5.40 %   |
| Combined Fixed Income<br>Real Return (Diversified<br>Inflation Strategies | 19.00                        | 1.50   |
| Real Estate   | 10.00                        | 3.50   |
| Absolute Return (Diversified<br>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<br/>(6.50%)</u> | <u>Current Discount<br/>Rate (7.50%)</u> | <u>1% Increase<br/>(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](http://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<br/>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<br/>Final<br/>Budget</u> | <u>Actual</u>        | <u>Variance<br/>(Unfavorable)<br/>Favorable</u> |
|--|--|----------------------|---|
| <b>Operating Revenues</b>                              |  |                      |   |
| 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>                                |
| <b>Operating Expenses</b>                              |  |                      |   |
| 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>                              |
| <b>Non-Operating Income (Expense)</b>                  |  |                      |   |
| 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<br>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>                                |
| <b>Change in Net Position</b>                          | <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<br>(Asset) - Non Hazardous  | 0.32059%             | 0.33520%             | 0.34412%             | 0.33360%             |
| Total District's Proportionate Share of the Net<br>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<br>(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<br>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<br>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<br>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>                 |
| <b>Operating Revenues</b>           |                                 |                             |
| 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>            |
| <b>Total Operating Revenues</b>     | <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                        |
| <b>Operating and Maintenance Expenses</b>           |                             |                             |
| 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>           |
| <b>Total Operating and<br/>Maintenance Expenses</b> | <b>\$ <u>24,467,676</u></b> | <b>\$ <u>24,250,515</u></b> |

**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<br>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 |

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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**

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

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**

| <b>FINANCIAL STATEMENTS</b>  |  |
|--|--|
| 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   |
| <b>FEDERAL AWARDS</b>  |  |
| 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.