

NORTHERN KENTUCKY WATER DISTRICT

December 31, 2019

*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, 2019 and 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Northern Kentucky Water District as of December 31, 2019 and 2018 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, schedule of the District's proportionate share of the net pension liability, schedule of the District's pension contributions, schedule of the District's proportionate share of the net OPEB liability, and schedule of the District's OPEB contributions on pages 1 – 5 and 47 – 50, 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 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 18, 2020, on our consideration of the Northern Kentucky Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Northern Kentucky Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 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, 2019. 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 \$210,590,259 (net position). This was an increase of \$11,049,203 in comparison to the prior year.

- Operating revenues increased \$2,150,270 or 3.9% from 2018.
- The debt coverage ratio decreased from 1.79 in 2018 to 1.70 in 2019.

Overview of the Financial Statements

The discussion and analysis serves as an introduction to the District's basic financial statements. The basic financial statements are comprised of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows and the Notes to the Financial Statements. The report also contains additional required supplementary information and other supplementary information in addition to the basic financial statements themselves.

The financial statements of the District are designed to provide the readers with a broad overview of the District's finances in a manner similar to a private sector business.

The Statement of Net Position presents information on all the District's assets, liabilities, deferred inflows and deferred outflows with the differences between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the District's net position changed during the years presented. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

The Statement of Cash Flows presents information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Basis of Accounting

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

**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 2019 compared to 2018.

**Table 1
Net Position**

	December 31,	
	2019	2018
Assets		
Current Assets	\$ 53,909,267	\$ 45,915,129
Restricted Assets Noncurrent	44,662,876	47,560,997
Miscellaneous Deferred Charges	4,480,782	4,898,364
Capital Assets	343,654,137	344,987,843
Total Assets	446,707,062	443,362,333
Deferred Outflows of Resources	10,676,186	9,744,133
Liabilities		
Current Liabilities	20,614,679	36,263,459
Restricted Liabilities Noncurrent	1,220,428	1,193,712
Other Noncurrent Liabilities	222,172,952	212,947,721
Total Liabilities	244,008,059	250,404,892
Deferred Inflows of Resources	2,784,930	3,160,518
Net Position		
Net Investment in Capital Assets	140,884,382	131,196,839
Restricted	43,442,448	46,734,744
Unrestricted	26,263,429	21,609,473
Total Net Position	\$ 210,590,259	\$ 199,541,056

The District's net position for 2019 increased 5.5% to \$210,590,259 compared to \$199,541,056 for 2018. The increase was mainly attributable to the Phase I rate adjustment that was approved by the Kentucky Public Service Commission in Case No. 2018-00291.

A portion of the District's net position (20.6%) 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 (67.0%) 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.

The remaining balance of unrestricted net position (12.4%) may be used to meet the District's ongoing obligations to customers and creditors.

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

Table 2 shows the changes in net assets for 2019, as well as revenue and expense comparisons to 2018.

**Table 2
Changes in Net Position**

	Years Ended December 31,	
	2019	2018
Operating Revenues		
Water Sales	\$ 55,764,229	\$ 53,605,092
Forfeited Discounts	830,599	856,519
Rents From Property	385,845	389,526
Other Water Revenues	587,221	566,487
	<u>57,567,894</u>	<u>55,417,624</u>
Operating Expenses		
Operating and Maintenance Expense	28,738,889	26,129,086
Depreciation Expense	12,179,078	12,089,960
	<u>40,917,967</u>	<u>38,219,046</u>
Total Operating Expenses	40,917,967	38,219,046
	<u>16,649,927</u>	<u>17,198,578</u>
Net Operating Income		
	16,649,927	17,198,578
Non-Operating Income (Expense)		
Investment Income	1,881,532	1,664,146
Miscellaneous Non-Operating Income	494,748	366,664
Loss on Abandonment of Mains	(532,386)	(454,332)
Interest on Long-Term Debt and Customer Deposits	(7,075,292)	(7,997,633)
Amortization of Debt Premiums and Defeasance Costs	887,155	1,050,606
Bond Issuance Costs	(103,192)	-
Pension Expense	(2,476,972)	(1,489,278)
Other Post Employment Benefit Revenue	(97,596)	(214,646)
Arbitrage Expense	(178,770)	(133,418)
Gain on Sale of Capital Assets	48,374	800
	<u>(7,152,399)</u>	<u>(7,207,091)</u>
Total Non-Operating Expenses	(7,152,399)	(7,207,091)
	9,497,528	9,991,487
Change in Net Position Before Capital Contributions	9,497,528	9,991,487
Capital Contributions	1,551,675	1,471,935
	<u>1,551,675</u>	<u>1,471,935</u>
Change in Net Position	\$ 11,049,203	\$ 11,463,422

In reviewing income before capital contributions, the financial statements showed net income for the year of \$9,497,528. Operating revenues increased 3.9% mainly as a result of the Phase I rate adjustment that was implemented March 26, 2019. Operating expenses (including depreciation) increased 7.1% due mainly to an increase in materials and services needed for the efficient operation of the District, including personnel related expenses. Capital contributions increased by \$79,740 (5.4%) primarily due to the increase of mains constructed by other entities and contributed to the District.

The District budgeted for \$55,631,752 in operating revenues. Actual revenues were \$57,567,894, a difference of \$1,936,142. The largest difference was due to water sales being over budget by \$1,688,777. Operation, maintenance, and administration expenses were budgeted at \$30,205,444. Actual expenses were \$28,738,889, a difference of \$1,466,555. The largest portion of this difference was related to salaries and wages, and employee pension and benefits having a total combined budget of \$15,368,926, while actual expenses totaled \$14,581,815. The District budgeted for all full-time positions to be filled for the entire year, but experienced some vacancies that resulted in various positions being filled for less than the entire year.

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

Capital Assets

At December 31, 2019, the capital assets reported were \$343,654,137 including land, buildings, water systems, equipment, and vehicles. This represents a net decrease of \$1,333,706, or (0.4%), over last year due. Additional information on the District's capital assets can be found in Note 6 of this report.

**Table 3
Capital Assets, Net of Depreciation**

	December 31,	
	2019	2018
Not Being Depreciated		
Land	\$ 3,267,226	\$ 3,267,226
Construction in Progress	13,054,992	7,333,224
Plant Acquisition Adjustment	5,516,136	5,516,136
Other Capital Assets		
Utility Plants		
Transmission and Distribution, Source of Supply, Pumping System, Power Generation, Water Treatment, and General Plant and Equipment	495,430,358	491,531,835
Subtotal	517,268,712	507,648,421
Less Accumulated Depreciation	173,614,575	162,660,578
Totals	\$ 343,654,137	\$ 344,987,843

Major capital additions during the year included adding mains for approximately \$3,271,000 and services for approximately \$776,000.

Long-Term Liabilities

Table 4 summarizes the District's long-term liabilities at the end of 2019 as compared to 2018.

**Table 4
Outstanding Long-Term Liabilities at Year End**

Compensated Absences	\$ 1,005,126	\$ 662,920
Arbitrage Liability	734,477	555,707
Bond Indebtedness	173,779,113	166,682,895
Bond Anticipation Notes	-	17,414,267
Notes Payable	32,997,722	34,088,348
	\$ 208,516,438	\$ 219,404,137

At year-end, the District had \$206,776,835 in outstanding notes and bonds compared to \$218,185,510 last year. That is a decrease of 5.2% as shown in Table 4.

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

Economic Factors and Next Year's Budget

The District's budget for 2020 projects a modest increase in water revenue due to the rate recovery of the second step of the approved rate adjustment from KY PSC Case No. 2018-00291. A modest increase is anticipated for operating expenses as a result of the modest increase in employee related expenses along with projected increases in materials and supplies coupled with the increase in cost for competitively bid chemicals.

The District is not legally required to adopt and adhere to a budget or to present budgetary comparison information. However, the Board chooses to approve an annual budget as a management tool, which serves as the foundation for the District's financial planning and control. Additionally, the Board also chooses to present the budgetary comparison as part of the supplementary information to the financial statements. The Board does not formally amend the budget after approval.

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,	
	2019	2018
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and Cash Equivalents	\$ 31,557,833	\$ 27,545,107
Investments	2,341,386	905,611
Accounts Receivable		
Customers, Net	6,756,320	5,291,901
Unbilled Customers	6,500,000	6,100,000
Others	425,504	230,799
Assessments Receivable	155,813	147,073
Inventory Supplies for New Installation and Maintenance, at Cost	1,667,269	1,570,034
Prepaid Items	813,405	473,114
Restricted Assets - Cash and Cash Equivalents		
Bond Proceeds Fund	339,698	367,457
Debt Service Account	2,898,212	3,084,127
Improvement, Repair & Replacement	453,827	199,906
Total Current Assets	53,909,267	45,915,129
Noncurrent Assets		
Restricted Assets - Cash and Cash Equivalents		
Bond Proceeds Fund	2,960,095	6,025,577
Debt Service Account	20,021,398	17,120,875
Improvement, Repair and Replacement	689,509	4,356,847
Customer Deposits Fund	942,820	1,032,152
Restricted Assets - Investments		
Debt Service Reserve Account	20,049,054	19,025,546
Miscellaneous Deferred Charges	4,480,782	4,898,364
Capital Assets		
Land, System, Buildings and Equipment	504,213,720	500,315,197
Construction in Progress	13,054,992	7,333,224
Total Capital Assets	517,268,712	507,648,421
Less Accumulated Depreciation	173,614,575	162,660,578
Total Capital Assets, Net of Accumulated Depreciation	343,654,137	344,987,843
Total Noncurrent Assets	392,797,795	397,447,204
Total Assets	446,707,062	443,362,333
Deferred Outflows of Resources		
Deferred Outflows Related to Pension	4,558,221	4,027,097
Deferred Outflows Related to Other Postemployment Benefits	2,110,885	1,322,530
Deferred Loss on Refundings	4,007,080	4,394,506
Total Deferred Outflows of Resources	10,676,186	9,744,133
Total Assets and Deferred Outflows of Resources	\$ 457,383,248	\$ 453,106,466

See accompanying notes.

**NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF NET POSITION
(Continued)**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	December 31,	
	2019	2018
Liabilities and Deferred Inflows of Resources		
Current Liabilities		
Bonded Indebtedness	\$ 12,966,128	\$ 11,813,753
Bond Anticipation Note	-	17,414,267
Notes Payable	1,690,053	1,660,208
Accounts Payable	1,011,597	950,976
Accrued Payroll and Taxes	457,014	389,448
Compensated Absences	107,575	131,032
Arbitrage Liability	412,209	-
Other Accrued Liabilities	278,366	252,285
Liabilities Payable - Restricted Assets		
Accrued Interest Payable	2,898,212	3,084,127
Accounts Payable	793,525	567,363
	<u>20,614,679</u>	<u>36,263,459</u>
Long-Term Liabilities (Net of Current Portion)		
Liabilities Payable - Restricted Assets		
Accounts Payable	277,608	161,560
Customer Deposits	942,820	1,032,152
Compensated Absences	897,551	531,888
Arbitrage Liability	322,268	555,707
Bond Indebtedness	160,812,985	154,869,142
Notes Payable	31,307,669	32,428,140
Net Pension Liability	23,269,110	19,018,499
Net Other Postemployment Benefits Liability	5,563,369	5,544,345
	<u>223,393,380</u>	<u>214,141,433</u>
Total Long-Term Liabilities	<u>223,393,380</u>	<u>214,141,433</u>
Total Liabilities	<u>244,008,059</u>	<u>250,404,892</u>
Deferred Inflows of Resources		
Deferred Inflows Related to Pension	726,617	1,969,132
Deferred Inflows Related to Other Postemployment Benefits	2,058,313	1,191,386
	<u>2,784,930</u>	<u>3,160,518</u>
Total Deferred Inflows of Resources	<u>2,784,930</u>	<u>3,160,518</u>
Total Liabilities and Deferred Inflows of Resources	<u>246,792,989</u>	<u>253,565,410</u>
Net Position		
Net Investment in Capital Assets	140,884,382	131,196,839
Restricted For Debt Service Funds	40,070,452	36,146,421
Restricted For Capital Improvement Projects	3,371,996	10,588,323
Unrestricted	26,263,429	21,609,473
	<u>210,590,259</u>	<u>199,541,056</u>
Total Net Position	<u>210,590,259</u>	<u>199,541,056</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 457,383,248</u>	<u>\$ 453,106,466</u>

See accompanying notes.

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

	Years Ended December 31,	
	2019	2018
Operating Revenues		
Water Sales	\$ 55,764,229	\$ 53,605,092
Forfeited Discounts	830,599	856,519
Rents From Property	385,845	389,526
Other Water Revenues	587,221	566,487
	57,567,894	55,417,624
Operating Expenses		
Operating and Maintenance Expense	28,738,889	26,129,086
Depreciation Expense	12,179,078	12,089,960
	40,917,967	38,219,046
Net Operating Income	16,649,927	17,198,578
Non-Operating Income (Expense)		
Investment Income	1,881,532	1,664,146
Miscellaneous Non-Operating Income	494,748	366,664
Loss on Abandonment of Mains	(532,386)	(454,332)
Interest on Long-Term Debt and Customer Deposits	(7,075,292)	(7,997,633)
Amortization of Debt Premiums and Defeasance Costs	887,155	1,050,606
Bond Issuance Costs	(103,192)	-
Pension Expense	(2,476,972)	(1,489,278)
Other Post Employment Benefit Expense	(97,596)	(214,646)
Arbitrage Expense	(178,770)	(133,418)
Gain on Sale of Capital Assets	48,374	800
	(7,152,399)	(7,207,091)
Change in Net Position Before Capital Contributions	9,497,528	9,991,487
Capital Contributions	1,551,675	1,471,935
Change in Net Position	11,049,203	11,463,422
Net Position - Beginning of Year	199,541,056	188,077,634
Net Position - End of Year	\$ 210,590,259	\$ 199,541,056

See accompanying notes.

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

	Years Ended December 31,	
	2019	2018
Cash Flows From Operating Activities		
Received From Customers	\$ 55,410,698	\$ 55,805,197
Paid to Suppliers for Goods and Services	(13,748,106)	(14,345,583)
Paid to or on Behalf of Employees for Services	(14,172,043)	(12,854,041)
	<u>27,490,549</u>	<u>28,605,573</u>
Cash Flows From Investing Activities		
Purchase of Investments	(65,223,668)	(39,802,641)
Proceeds From Sale of Investments	64,516,409	39,487,736
Investment Income	132,255	1,278,149
	<u>(575,004)</u>	<u>963,244</u>
Cash Flows From Capital and Related Financing Activities		
Principal Paid on Debt	(12,309,207)	(24,750,290)
Debt Proceeds	2,174,496	1,224,824
Interest Paid on Bonds and Notes	(7,261,207)	(8,250,080)
Acquisition and Construction of Capital Assets	(9,857,174)	(8,736,128)
Proceeds on Sale of Capital Assets	(52,661)	24,701
Payment on Arbitrage Liability	-	(62,840)
Miscellaneous Non-Operating Income	521,552	366,664
	<u>(26,784,201)</u>	<u>(40,183,149)</u>
Net Change in Cash	131,344	(10,614,332)
Cash and Cash Equivalents Beginning of Year	<u>59,732,048</u>	<u>70,346,380</u>
Cash and Cash Equivalents End of Year	<u>\$ 59,863,392</u>	<u>\$ 59,732,048</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Net Operating Income	\$ 16,649,927	\$ 17,198,578
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Depreciation	12,179,078	12,089,960
Change in Assets and Liabilities		
Accounts Receivable, Net	(2,059,124)	401,842
Assessments Receivable	(8,740)	(8,231)
Inventory Supplies	(97,235)	(16,425)
Prepaid Expenses	(340,291)	148,106
Miscellaneous Deferred Charges	417,582	(587,406)
Accounts Payable	402,831	(652,447)
Accrued Payroll and Taxes	67,566	(9,697)
Accrued Compensated Absences	342,206	58,483
Other Accrued Liabilities	26,081	(11,152)
Customer Deposits	(89,332)	(6,038)
	<u>27,490,549</u>	<u>28,605,573</u>
Net Cash Provided by Operating Activities	<u>\$ 27,490,549</u>	<u>\$ 28,605,573</u>

See accompanying notes.

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

	Years Ended December 31,	
	2019	2018
Supplemental Schedule of Noncash Capital and Related Financing Activities		
Change in Fair Value of Investments	\$ <u>(1,139,986)</u>	\$ <u>(152,523)</u>
Contributions of Capital Assets	\$ <u>1,551,675</u>	\$ <u>1,471,935</u>
Bond Anticipation Note Retired through Bond Issuance	\$ <u>17,325,000</u>	\$ <u>-</u>
Pension Expense	\$ <u>(2,476,972)</u>	\$ <u>(1,489,278)</u>
Other Post Employment Benefit Expense	\$ <u>(97,596)</u>	\$ <u>(214,646)</u>
Amortization Expense	\$ <u>(886,538)</u>	\$ <u>(1,050,606)</u>
Reconciliations of Cash and Cash Equivalents to the Statement of Net Position		
Cash and Cash Equivalents - Current	\$ 31,557,833	\$ 27,545,107
Cash and Cash Equivalents - Restricted	<u>28,305,559</u>	<u>32,186,941</u>
Total Cash and Cash Equivalents	\$ <u>59,863,392</u>	\$ <u>59,732,048</u>

See accompanying notes.

**NORTHERN KENTUCKY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 District Water District No. 1 and the Campbell District 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.

Presentation, Basis of Accounting, and Measurement Focus

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, in a proprietary, as a single enterprise fund. Proprietary funds report operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charged; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise fund is accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses when they are incurred. Claims incurred but not reported are included in payables and expenses.

The enterprise fund is reported using an economic resources measurement focus. This measurement focus includes all assets and liabilities (whether current or noncurrent) associated with the activity in the fund's statement of net position.

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 at December 31, 2019 and 2018.

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 and other postemployment benefits.

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 and other postemployment benefits.

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. 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

Prior to the year ended December 31, 2018, the interest cost of borrowed funds used to finance construction projects was capitalized when material. Interest earned on the proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets was offset against interest costs in determining the amount to be capitalized. For the year ended December 31, 2018, the District adopted Governmental Accounting Standards Board Statement No. 89, *Accounting for Interest Cost Incurred before the End of Construction Period*. This guidance requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest costs incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are applied prospectively.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments 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, 2019 and 2018 were \$1,005,126 and \$662,920, respectively.

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 and Issue Costs

Bonds payable are reported, net of any premium, 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 year financial statements have been reclassified for comparative purpose to confirm with the presentation in the current year financial statements.

Adoption of New Accounting Standards*Certain Asset Retirement Obligations*

GASB Statement No. 83, *Certain Asset Retirement Obligations* was issued to address accounting and financial reporting for certain retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government has a legal obligation to perform future asset retirement activities related to its tangible capital assets and should recognize a liability based on the guidance in this statement. The requirements of GASB Statement No. 83 are effective for fiscal years beginning after June 15, 2018. The District implemented the applicable requirements of GASB Statement No. 83 in fiscal year 2019 with no significant impact to the financial statements.

Fiduciary Activities

GASB Statement No. 84, *Fiduciary Activities* was issued to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The requirements of GASB Statement No. 84 are effective for fiscal years beginning after December 15, 2019. The District implemented the applicable requirements of GASB Statement No. 84 in fiscal year 2019 with no significant impact to the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Majority Equity Interests

GASB Statement No. 90, *Majority Equity Interests—an Amendment of GASB Statement No. 14 and No.61*, was issued to improve the consistency and comparability of reporting a government's majority interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of GASB Statement No. 90 are effective for fiscal years beginning after December 15, 2018. The District implemented the applicable requirements of GASB Statement No.90 in fiscal year 2019 with no significant impact to the financial statements.

Recently Issued Significant Accounting Standards

Lease Accounting Standard

GASB Statement No. 87, *Leases*, was issued to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of GASB Statement No. 87 are effective for fiscal year beginning after December 15, 2019. The District is currently evaluating the impact GASB Statement No. 87 may have on its financial statements.

Certain Disclosures Related to Debt

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, was issued to improve the information that is disclosed in notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of GASB Statement No. 88 are effective for fiscal years beginning after June 15, 2019. The District is currently evaluating the impact GASB Statement No. 88 may have on its 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, 2019 and 2018 in the amounts of \$2,341,386 and \$905,611, 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, 2019 and 2018, 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, 2019 and 2018.

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.

	December 31	
	2019	2018
Cash and Cash Equivalents	\$ 3,299,793	\$ 6,393,034

NOTE 3 – RESTRICTED ASSETS (Continued)

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	
	2019	2018
Cash and Cash Equivalents	\$ 10,199,049	\$ 10,018,475
Purchase and Resale Agreements	2,003,619	2,569,827
FAMC and FHLB Discount Notes	4,118,452	4,101,219
FHLB Bonds	-	2,229,383
United States Treasuries	3,093,614	-
FNMA	499,645	-
Accrued Interest Receivable and CD Market Change	134,675	106,642
	\$ 20,049,054	\$ 19,025,546

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:

Cash and Cash Equivalents	\$ 22,919,610	\$ 20,205,002
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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	\$ 1,143,336	\$ 4,556,753
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Customer Deposits – These assets are available to secure deposits paid by customers that have been collected in accordance with the District’s tariff. When services are terminated, the deposit, plus interest, 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	\$ 942,820	\$ 1,032,152
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NOTE 4 – ACCOUNTS RECEIVABLE

Accounts Receivable Arising From Billings of Metered Water Sales, Net of Allowance	\$ 6,756,320	\$ 5,291,901
Accrual for Estimated Unbilled Water Revenue	6,500,000	6,100,000
Other	425,504	230,799
Total	\$ 13,681,824	\$ 11,622,700

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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Restricted Assets				
Purchase and Resale Agreements	\$ -	\$ 2,003,619	\$ -	\$ 2,003,619
FAMC and FHLB Discount Notes	-	4,118,452	-	4,118,452
United States Treasuries	-	3,093,614	-	3,093,614
FNMA	-	499,645	-	499,645
	<u>-</u>	<u>9,715,330</u>	<u>-</u>	<u>9,715,330</u>
Total Restricted Assets at Fair Value	\$ <u>-</u>	\$ <u>9,715,330</u>	\$ <u>-</u>	\$ <u>9,715,330</u>

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value at December 31, 2018:

Restricted Assets				
Purchase and Resale Agreements	\$ -	\$ 2,569,827	\$ -	\$ 2,569,827
FAMC and FHLB Discount Notes	-	4,101,219	-	4,101,219
FHLB Bonds	-	2,229,383	-	2,229,383
	<u>-</u>	<u>8,900,429</u>	<u>-</u>	<u>8,900,429</u>
Total Restricted Assets at Fair Value	\$ <u>-</u>	\$ <u>8,900,429</u>	\$ <u>-</u>	\$ <u>8,900,429</u>

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the District for the year ended December 31, 2019, was as follows:

	Balance December 31, 2018	Additions	Deductions	Balance December 31, 2019
Land, System, Buildings and Equipment				
Land and Land Rights	\$ 3,267,226	\$ -	\$ -	\$ 3,267,226
Structures and Improvements	127,487,622	162,873	-	127,650,495
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	11,852,274	68,132	-	11,920,406
Water Treatment Equipment	30,149,040	57,453	(11,429)	30,195,064
Distribution Reservoirs and Standpipes	11,414,093	-	-	11,414,093
Transmissions and Distribution Mains	218,938,595	3,271,377	(873,646)	221,336,326
Services	32,193,133	776,330	(68,952)	32,900,511
Meters and Meter Installations Hydrants	19,708,705	546,059	(95,888)	20,158,876
10,743,513	118,161	(482,617)	10,379,057	
Other Plant and Miscellaneous Equipment	3,419,128	-	-	3,419,128
Office Furniture and Equipment	4,034,707	56,388	(4,760)	4,086,335
Transportation Equipment	4,048,093	497,755	(218,462)	4,327,386
Tools, Shop, and Garage Equipment	802,344	63,914	(6,000)	860,258
Laboratory Equipment	801,805	19,443	-	821,248
Power Operated Equipment	1,249,998	22,392	-	1,272,390
Communication Equipment	6,287,274	-	-	6,287,274
Miscellaneous Equipment	581,124	-	-	581,124
Utility Plant Acquisition Adjustment	545,925	-	-	545,925
Acquisition Adjrtment - Newport	4,970,211	-	-	4,970,211
Total Land, System, Buildings and Equipment	500,315,197	5,660,277	(1,761,754)	504,213,720
Construction in Progress	7,333,224	8,426,673	(2,704,905)	13,054,992
Total Capital Assets	507,648,421	14,086,950	(4,466,659)	517,268,712
Less Accumulated Depreciation	162,660,578	12,179,078	(1,225,081)	173,614,575
Capital Assets - Net	\$ 344,987,843	\$ 1,907,872	\$ (3,241,578)	\$ 343,654,137

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, 2019 and 2018, the arbitrage rebate liability was \$734,477 and \$555,707, 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, a payment of \$412,209 is due and accrued as a current portion for the year ending December 31, 2019.

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>
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	4.00%	1,185,000	888,462	2,073,462
2024	4.00%	1,235,000	840,062	2,075,062
2025-2029	4.00-4.25%	7,000,000	3,378,456	10,378,456
2030-2034	4.50-5.00%	8,755,000	1,626,450	10,381,450
2035	5.00%	2,025,000	50,625	2,075,625
Total		<u>\$ 23,490,000</u>	<u>\$ 9,721,341</u>	<u>\$ 33,211,341</u>

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%.

NOTE 8 – LONG-TERM DEBT (Continued)

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

Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
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	5.00%	4,720,000	1,118,000	5,838,000
2024	5.00%	4,970,000	875,750	5,845,750
2025-2027	5.00%	<u>15,030,000</u>	<u>1,082,000</u>	<u>16,112,000</u>
Total		<u>\$ 37,825,000</u>	<u>\$ 7,788,625</u>	<u>\$ 45,613,625</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:

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	5.00%	880,000	848,776	1,728,776
2024	5.00%	925,000	803,651	1,728,651
2025-2029	4.00-5.00%	5,325,000	3,309,180	8,634,180
2030-2034	4.00-4.50%	6,570,000	2,069,798	8,639,798
2035-2038	4.13-4.25%	<u>6,355,000</u>	<u>550,461</u>	<u>6,905,461</u>
Total		<u>\$ 22,440,000</u>	<u>\$ 10,377,069</u>	<u>\$ 32,817,069</u>

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 in 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.

NOTE 8 – LONG-TERM DEBT (Continued)

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>
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	5.00%	1,500,000	416,200	1,916,200
2024	4.00%	1,570,000	347,300	1,917,300
2025-2028	4.00-5.00%	<u>6,985,000</u>	<u>684,450</u>	<u>7,669,450</u>
Total		<u>\$ 14,135,000</u>	<u>\$ 3,121,800</u>	<u>\$ 17,256,800</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 in 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.

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

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	3.00%	485,000	116,363	601,363
2024	3.00%	495,000	101,663	596,663
2025-2029	3.00-4.00%	<u>2,765,000</u>	<u>226,771</u>	<u>2,991,771</u>
Total		<u>\$ 6,155,000</u>	<u>\$ 944,461</u>	<u>\$ 7,099,461</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 in 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.

NOTE 8 – LONG-TERM DEBT (Continued)

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

Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
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	5.00%	2,685,000	1,107,525	3,792,525
2024	5.00%	2,715,000	972,525	3,687,525
2025-2029	3.00-5.00%	15,775,000	2,737,750	18,512,750
2030-2031	3.00%	7,205,000	217,875	7,422,875
Total		<u>\$ 35,535,000</u>	<u>\$ 9,099,750</u>	<u>\$ 44,634,750</u>

Water District Refunding Revenue Bonds, Series 2019

In September 2019, the District issued \$17,845,000 of Revenue Bonds, Series 2019 for the purpose of refunding Revenue Bond Anticipation Notes, Series 2017. The bonds were sold at a premium of \$1,804,915, for a total source of funds of \$18,929,915. The Series 2019 bonds maturing on or after February 2028 are subject to redemption after August 2027 at a redemption price of 100%.

The Water District Refunding Revenue Bonds, Series 2019 are scheduled to mature as follows:

2020	3.00%	\$ 535,000	\$ 498,190	\$ 1,033,190
2021	3.00%	455,000	574,625	1,029,625
2022	3.00%	470,000	560,750	1,030,750
2023	4.00%	485,000	544,000	1,029,000
2024	4.00%	505,000	524,200	1,029,200
2025-2029	4.00%-5.00%	2,935,000	2,221,100	5,156,100
2030-2034	3.00%	3,550,000	1,609,350	5,159,350
2035-2039	3.00%	4,125,000	1,034,625	5,159,625
2040-2044	3.00%	4,785,000	367,425	5,152,425
Total		<u>\$ 17,845,000</u>	<u>\$ 7,934,265</u>	<u>\$ 25,779,265</u>

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.

NOTE 8 – LONG-TERM DEBT (Continued)

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

Years	Principal Amount	Interest Amount	Total Debt Service
2020	\$ 51,000	\$ 83,325	\$ 134,325
2021	54,000	80,700	134,700
2022	56,000	77,950	133,950
2023	59,000	75,075	134,075
2024	62,000	72,050	134,050
2025-2029	359,000	309,375	668,375
2030-2034	460,000	207,600	667,600
2035-2039	591,000	76,775	667,775
Total	<u>\$ 1,692,000</u>	<u>\$ 982,850</u>	<u>\$ 2,674,850</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:

2020	\$ 26,500	\$ 47,293	\$ 73,793
2021	27,000	46,558	73,558
2022	28,000	45,801	73,801
2023	28,500	45,024	73,524
2024	29,500	44,227	73,727
2025-2029	160,000	208,326	368,326
2030-2034	182,500	184,834	367,334
2035-2039	209,500	157,913	367,413
2040-2044	240,000	127,063	367,063
2045-2049	275,000	91,712	366,712
2050-2054	314,500	51,253	365,753
2055-2057	212,000	8,883	220,883
Total	<u>\$ 1,733,000</u>	<u>\$ 1,058,887</u>	<u>\$ 2,791,887</u>

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.

Fiscal Court of Kenton District, Kentucky

The Kenton District 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 District. This loan will become due and payable only after sufficient customers in southern Kenton District are obtained in order to reduce the user rates, including surcharges, to approximately \$26 per month.

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 was \$4,000,000 at an interest rate of 3.0% and with a scheduled maturity date in June 2028. As of December 31, 2010, all funds have been received. The balance of this loan was paid in full in December 2018.

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 was \$6,000,000 at an interest rate of 3.0%. As of December 31, 2010, all funds have been received. The balance of this loan was paid in full in December 2018.

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:

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2020	\$ 194,752	\$ 33,015	\$ 227,767
2021	196,704	30,575	227,279
2022	198,676	28,110	226,786
2023	200,668	25,620	226,288
2024	203,693	23,106	226,799
2025-2029	1,043,275	74,783	1,118,058
2030-2032	652,032	16,458	668,490
Total	<u>\$ 2,689,800</u>	<u>\$ 231,667</u>	<u>\$ 2,921,467</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.

NOTE 8 – LONG-TERM DEBT (Continued)

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

Years	Principal Amount	Interest Amount	Total Debt Service
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	1,192,135	303,450	1,495,585
2024	1,216,098	276,493	1,492,591
2025-2029	6,457,116	958,757	7,415,873
2030-2033	4,917,868	223,506	5,141,374
Total	<u>\$ 17,220,527</u>	<u>\$ 2,829,040</u>	<u>\$ 20,049,567</u>

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, 2018, all funds have been received.

The Kentucky Infrastructure Authority Loan F14-015 is scheduled to mature as follows:

2020	\$ 153,452	\$ 65,650	\$ 219,102
2021	156,149	62,567	218,716
2022	158,893	59,431	218,324
2023	161,686	56,239	217,925
2024	164,528	52,991	217,519
2025-2029	867,047	197,864	1,064,911
2030-2034	945,972	136,901	1,082,873
2035-2038	712,962	32,210	745,172
Total	<u>\$ 3,320,689</u>	<u>\$ 663,853</u>	<u>\$ 3,984,542</u>

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, 2018, all funds have been received.

NOTE 8 – LONG-TERM DEBT (Continued)

The Kentucky Infrastructure Authority Loan F15-011 is scheduled to mature as follows:

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2020	\$ 152,983	\$ 65,450	\$ 218,433
2021	155,672	62,377	218,049
2022	158,409	59,249	217,658
2023	161,193	56,067	217,260
2024	164,026	52,830	216,856
2025-2029	864,403	213,550	1,077,953
2030-2034	943,086	123,626	1,066,712
2035-2038	710,787	28,679	739,466
Total	\$ 3,310,559	\$ 661,828	\$ 3,972,387

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, 2018, all funds have been received.

The Kentucky Infrastructure Authority Loan B15-003 is scheduled to mature as follows:

2020	\$ 65,821	\$ 11,848	\$ 77,669
2021	66,315	11,221	77,536
2022	66,814	10,590	77,404
2023	67,316	9,954	77,270
2024	67,821	9,313	77,134
2025-2029	346,829	36,788	383,617
2030-2034	360,057	20,608	380,665
2035-2037	222,593	3,137	225,730
Total	\$ 1,263,566	\$ 113,459	\$ 1,377,025

Kentucky Infrastructure Authority Loan F16-027

In July 2017, 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 \$5,385,000 at an interest rate of 1.75%. As of December 31, 2019, \$569,581 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.

NOTE 8 – LONG-TERM DEBT (Continued)

Changes in long-term debt are as follows:

Governmental Activities	Debt Outstanding December 31, 2018	Additions of New Debt	Retirements and Repayments	Debt Outstanding December 31, 2019	Amounts Due Within 1 Year
Bond Indebtedness					
Rural Development Loan 91-02	\$ 1,741,000	\$ -	\$ 49,000	\$ 1,692,000	\$ 51,000
Rural Development Loan 91-03	1,733,000	-	-	1,733,000	26,500
Series 2011	24,505,000	-	1,015,000	23,490,000	1,055,000
Series 2011 Bond Premium	170,753	-	9,804	160,949	9,804
Series 2012	41,475,000	-	3,650,000	37,825,000	4,150,000
Series 2012 Bond Premium	5,344,624	-	562,592	4,782,032	562,592
Series 2013 A	23,160,000	-	720,000	22,440,000	755,000
Series 2013 A Bond Premium	979,590	-	50,235	929,355	50,235
Series 2013 B	15,365,000	-	1,230,000	14,135,000	1,295,000
Series 2013 B Bond Premium	1,163,256	-	119,308	1,043,948	119,308
Series 2014 B	8,135,000	-	1,980,000	6,155,000	1,505,000
Series 2014 B Bond Premium	926,474	-	84,225	842,249	84,225
Series 2016	37,540,000	-	2,005,000	35,535,000	2,380,000
Series 2016 Bond Premium	4,444,198	-	344,067	4,100,131	344,064
Series 2019	-	17,845,000	-	17,845,000	535,000
Series 2019 Bond Premium	-	1,084,915	14,466	1,070,449	43,400
Total Bond Indebtedness	166,682,895	18,929,915	11,833,697	173,779,113	12,966,128
Bond Anticipation Notes					
Series 2017	17,325,000	-	17,325,000	-	-
Series 2017 BAN Premium	89,267	-	89,267	-	-
Total Bond Anticipation Notes	17,414,267	-	17,414,267	-	-
Notes Payable					
KIA Loan F08-07	2,882,619	-	192,819	2,689,800	194,752
KIA Loan F09-02	18,321,443	-	1,100,916	17,220,527	1,123,045
KIA Loan F13-012	4,523,000	-	-	4,523,000	-
KIA Loan F14-015	3,471,489	-	150,800	3,320,689	153,452
KIA Loan F15-011	3,460,901	-	150,342	3,310,559	152,983
KIA Loan B15-003	1,328,896	-	65,330	1,263,566	65,821
KIA Loan F16-027	-	569,581	-	569,581	-
Kenton County Fiscal Court	100,000	-	-	100,000	-
Total Notes Payable	34,088,348	569,581	1,660,207	32,997,722	1,690,053
Arbitrage Liability	555,707	178,770	-	734,477	412,209
Compensated Absences	662,920	431,811	89,605	1,005,126	107,575
Total Long-Term Debt	\$ 219,404,137	\$ 20,110,077	\$ 30,997,776	\$ 208,516,438	\$ 15,175,965

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 only participates in the non-hazardous plan.

Benefits provided: These systems provide 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 09/01/2009**

Age	Years of Service	Allowance Reduction
65	1 month	None
Any	27	None
55	5	6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service.
Any	25	6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service.

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

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

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

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

NOTE 9 – PENSION PLAN (Continued)

Benefit Formula for Tiers 1 & 2			
Final Compensation	X	Benefit Factor	X Years of Service
Average of the five highest years of compensation 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).
		2.00% if: Member begins participating on or after 08/01/2004 and before 09/01/2008.	
Average of the last complete five years of compensation if participation began on or after 09/01/2008 but before 01/01/2014.		Increasing percent based on service at retirement up to 30 years* plus 2.00% for each year of service over 30 if:	

* **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 Tier 3					
(A-B) = C X 75% = D then B+D = Interest					
A	B	C	D		
5 Year Geometric Average Return	Less Guarantee Rate	Upside Sharing Interest	Upside Sharing Interest X 75% = Upside Gain	Interest Rate Earned (4% + Upside)	Total Interest Credited to Members' Accounts
5.51%	4.00%	1.51%	1.13%	5.13%	\$ 6,360,000

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 greater 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 hypothetical 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% for non-hazardous 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.

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.

NOTE 9 – PENSION PLAN (Continued)

The Kentucky General Assembly has the authority to increase, suspend, or reduce Cost of Living Adjustments (COLAs). 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.

During the 2018 legislative session, House Bill 185 was enacted, which provided increased pension benefits for the beneficiaries of active members who die in the line of duty.

Contributions: The employee contribution rate is set by state statute. Non-Hazardous employees contribute 5% of their annual creditable compensation. Employees hired on or after September 1, 2008, contribute an additional 1% to health insurance.

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6.00% for non-hazardous of their annual creditable compensation. The 1.00% 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 1.00% contribution to the 401(h) account is non-refundable and is forfeited.

Plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. These member were classified in the Tier 3 structure of benefits. 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 5.00% non-hazardous of their annual creditable compensation and 1.00% 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 4.00% non-hazardous employer pay credit. The employer pay credit represents a portion of the employer contribution.

The employer contribution rates are set by the KRS Board under Kentucky Revised Statute 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly. For the fiscal years ended June 30, 2020, 2019, and 2018, participating employers contributed 24.06% (19.30% pension fund and 4.76% insurance fund, 21.48% (16.22% pension fund and 5.26% insurance fund), and 19.18% (14.48% pension fund and 4.70% 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 \$1,557,127 and \$1,230,042 for the years ended December 31, 2019 and 2018, respectively.

Plan Information for December 31, 2019 Financial Statements

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

At December 31, 2019, the District reported a liability of \$23,269,110 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2019, 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, 2019, the District's proportion for the non-hazardous system was 0.330854% which was an increase of 0.018579% from its proportion measured as of December 31, 2018.

NOTE 9 – PENSION PLAN (Continued)

For the year ended December 31, 2019, the District recognized pension expense of \$2,476,972. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 375,107
Difference between expected and actual experience	594,130	98,318
Changes of assumptions	2,355,098	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	752,506	253,192
District contributions after measurement date	856,487	-
Total	\$ 4,558,221	\$ 726,617

\$856,487 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending December 31,		
2020	\$	1,741,617
2021		845,880
2022		361,006
2023		26,614
Total	\$	2,975,117

Actuarial assumptions: The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2017
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	26 years, closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service (non-hazardous)
Investment Rate of Return	6.25% net of pension plan investment expense, including inflation

NOTE 9 – PENSION PLAN (Continued)

The mortality for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years). 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 was determined by using a building-block method in which best-estimate ranges of expected future real 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Growth		
US Equity	18.75 %	4.30 %
Non-US Equity	18.75	4.80
Private Equity	10.00	6.65
Specialty Credit/High Yield	15.00	2.60
Liquidity		
Core Bonds	13.50	1.35
Cash	1.00	0.20
Diversifying Strategies		
Real Estate	5.00	4.85
Opportunistic	3.00	2.97
Real Return	<u>15.00</u>	4.10
Total	<u>100.00 %</u>	

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 each fund receives the employer required contributions each future year as determined by the current funding policy established in statute, which includes the phase-in provisions from House Bill 362 (passed in 2018) that applies to CERS.

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 present's 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</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Non-Hazardous	\$ 29,103,056	\$ 23,269,110	\$ 18,406,571

Changes of assumptions: As a result of the 2018 experience study, the salary increase assumptions, retirement rate assumptions, mortality assumptions, withdraw rates, and rates of disablement were updated for the 2019 actuarial valuation.

Plan Information for December 31, 2018 Financial Statements

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

At December 31, 2018, the District reported a liability of \$19,018,499 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 and was rolled-forward from the valuation date to June 30, 2018, 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, 2018, the District's proportion for the non-hazardous system was 0.312275%, which was a decrease of 0.008315% from its proportion measured as of December 31, 2017.

For the year ended December 31, 2018, the District recognized pension expense of \$1,489,278. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 884,374	\$ 1,112,417
Difference between expected and actual experience	620,330	278,391
Changes of assumptions	1,858,661	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	-	578,324
District contributions after measurement date	663,732	-
Total	<u>\$ 4,027,097</u>	<u>\$ 1,969,132</u>

NOTE 9 – PENSION PLAN (Continued)

The \$663,732 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending December 31,</u>	
2019	\$ 1,207,022
2020	563,239
2021	(273,952)
2022	<u>(102,076)</u>
Total	<u>\$ 1,394,233</u>

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

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	25 years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.05%, Average
Investment Rate of Return	6.25% 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 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years). 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 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.

NOTE 9 – PENSION PLAN (Continued)

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

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

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</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Non-Hazardous	\$ 23,942,321	\$ 19,018,499	\$ 14,893,199

NOTE 9 – PENSION PLAN (Continued)

Changes of assumptions: There have been no changes in actuarial assumptions since June 30, 2017.

Payable to the pension plan: At December 31, 2019 and 2018, the District reported a payable of \$130,935 and \$102,843 for the outstanding amount of contributions to the pension plan required for the years ended December 31, 2019 and 2018, respectively.

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

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

NOTE 10 – OPEB PLAN

General Information about the OPEB 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 OPEB 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 only participates in the non-hazardous plan.

Benefits provided: The KRS' Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty.

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5% based upon Kentucky Revised Statutes. This benefit is not protected under the inviolable contract provisions of KRS 61.692. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

NOTE 10 – OPEB PLAN (Continued)

The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Portion Paid by Insurance Fund	
Years of Service	Paid by Insurance Fund (%)
20 + Years	100.00%
15 - 19 Years	75.00%
10 - 14 Years	50.00%
4 - 9 Years	25.00%
Less Than 4 Years	0.00%

Contributions: The employee contribution rate is set by state statute. Non-Hazardous employees contribute 5% of their annual creditable compensation. Employees hired on or after September 1, 2008, contribute an additional 1% to health insurance.

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6.00% for non-hazardous of their annual creditable compensation. The 1.00% 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 1.00% contribution to the 401(h) account is non-refundable and is forfeited.

Plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. These member were classified in the Tier 3 structure of benefits. 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 5.00% non-hazardous of their annual creditable compensation and 1.00% 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 4.00% non-hazardous employer pay credit. The employer pay credit represents a portion of the employer contribution.

The employer contribution rates are set by the KRS Board under Kentucky Revised Statute 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly. For the fiscal years ended June 30, 2020, 2019, and 2018, participating employers contributed 24.06% (19.30% pension fund and 4.76% insurance fund), 21.48% (16.22% pension fund and 5.26% insurance fund), and 19.18% (14.48% pension fund and 4.70% 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 insurance fund from the District were \$438,448 and \$399,058 for the years ended December 31, 2019 and 2018, respectively.

NOTE 10 – OPEB PLAN (Continued)

Plan Information for December 31, 2019 Financial Statements

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2019, the District reported a liability of \$5,563,369 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2019, using generally accepted actuarial principles. The District's proportion of the net OPEB liability was based on the District's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2019, the District's proportion for the non-hazardous system was 0.330768%, which was an increase of 0.018495% from its proportion measured as of December 31, 2018.

For the year ended December 31, 2019, the District recognized OPEB expense of \$97,596. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 247,100
Difference between expected and actual experience	-	1,678,597
Changes of assumptions	1,646,252	11,008
Changes in proportion and difference between employer contributions and proportionate share of contributions	253,396	121,608
District contributions after measurement date	<u>211,237</u>	<u>-</u>
Total	<u>\$ 2,110,885</u>	<u>\$ 2,058,313</u>

\$211,237 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Years Ending December 31,</u>	
2020	\$ (22,267)
2021	(22,267)
2022	56,297
2023	(94,244)
2024	(69,873)
Thereafter	<u>(6,311)</u>
Total	<u>\$ (158,665)</u>

NOTE 10 – OPEB PLAN (Continued)

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

Valuation Date	June 30, 2017
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay
Amortization Period	26 Years, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Payroll Growth Rate	2.00%
Inflation	2.30%
Salary Increases	3.30% to 11.55%, varies by services (non-hazardous)
Investment Rate of Return	7.50%
Healthcare Cost Trend Rates (Pre-65)	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Healthcare Cost Trend Rates (Post-65)	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

The mortality for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years). 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 was determined by using a building-block method in which best-estimate ranges of expected future real 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.

NOTE 10 – OPEB PLAN (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Growth		
US Equity	18.75 %	4.30 %
Non-US Equity	18.75	4.80
Private Equity	10.00	6.65
Specialty Credit/High Yield	15.00	2.60
Liquidity		
Core Bonds	13.50	1.35
Cash	1.00	0.20
Diversifying Strategies		
Real Estate	5.00	4.85
Opportunistic	3.00	2.97
Real Return	15.00	4.10
Total	<u>100.00 %</u>	

Discount rate: The discount rate used to measure the total OPEB liability was 5.68% for non-hazardous and 5.69% for hazardous. The single discount rate was based on the expected rate of return on the OPEB plan investments of 6.25% and a municipal bond rate of 3.13%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2019. Based on the stated assumptions and the projection of cash flows as of each fiscal year ended, the plan’s insurance fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on Insurance Plan investments was applied to all period of the projected benefit payments paid from the retirement plan. However, the cost associated with the implicit subsidy will not be paid out of the Plan’s trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The projection of cash flows used to determine the single discount rate assumes that the fund receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018).

Sensitivity of the District’s proportionate share of the net OPEB liability to changes in the discount rate: The following present’s the District’s proportionate share of the net OPEB liability, as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.68% for non-hazardous) or 1-percentage-point higher (6.68% for non-hazardous) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount</u>	<u>1% Increase</u>
Non-Hazardous \$	7,452,625 \$	5,563,369 \$	4,006,747

NOTE 10 – OPEB PLAN (Continued)

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Non-Hazardous \$	4,137,506	\$ 5,563,369	\$ 7,292,397

Changes of assumptions: As a result of the 2018 experience study, the salary increase assumptions, retirement rate assumptions, mortality assumptions, withdraw rates, and rates of disablement were updated for the 2019 actuarial valuation. The medical trend assumption rate was also updated for the 2019 actuarial valuation as a result of an annual review of this particular assumption.

Plan Information for December 31, 2018 Financial Statements

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2018, the District reported a liability of \$5,544,345 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2018, using generally accepted actuarial principles. The District's proportion of the net OPEB liability was based on the District's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2018, the District's proportion for the non-hazardous system was 0.312275%, which was a decrease of 0.008315% from its proportion measured as of December 31, 2017.

For the year ended December 31, 2018, the District recognized OPEB expense of \$214,646. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 381,897
Difference between expected and actual experience	-	646,120
Changes of assumptions	1,107,288	12,810
Changes in proportion and difference between employer contributions and proportionate share of contributions	-	150,559
District contributions after measurement date	<u>215,242</u>	<u>-</u>
Total	<u>\$ 1,322,530</u>	<u>\$ 1,191,386</u>

NOTE 10 – OPEB PLAN (Continued)

\$215,242 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Years Ending December 31,</u>	
2019	\$ (9,220)
2020	(9,220)
2021	(9,220)
2022	64,951
2023	(77,058)
Thereafter	<u>(44,331)</u>
Total	<u>\$ (84,098)</u>

Actuarial assumptions: The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay
Amortization Period	27 Years, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Payroll Growth Rate	4.00%
Inflation	3.25%
Salary Increase	4.00%, Average
Investment Rate of Return	7.50%
Healthcare Cost Trend Rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Healthcare Cost Trend Rates (Post-65)	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

The mortality for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years). 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.

NOTE 10 – OPEB PLAN (Continued)

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 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:

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

Discount rate: The discount rate used to measure the total OPEB liability was 5.85% for non-hazardous and 5.97% for hazardous. The single discount rate was based on the expected rate of return on the OPEB plan investments of 6.25% and a municipal bond rate of 3.62%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the District’s proportionate share of the net OPEB liability to changes in the discount rate: The following present’s the District’s proportionate share of the net OPEB liability, as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85% for non-hazardous) or 1-percentage-point higher (6.88% for non-hazardous) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount</u>	<u>1% Increase</u>
Non-Hazardous \$	7,201,215 \$	5,544,345 \$	4,132,994

NOTE 10 – OPEB PLAN (Continued)

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Non-Hazardous \$	4,127,820	\$ 5,544,345	\$ 7,214,020

Changes of assumptions: There have been changes in actuarial assumptions since June 30, 2017.

Payable to the OPEB Plan: At December 31, 2019 and 2018, the District reported a payable of \$32,293 and \$33,351 for the outstanding amount of contributions to the OPEB plan required for the years ended December 31, 2019 and 2018, respectively.

Pension plan fiduciary net position: Detailed information about the OPEB 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.

NOTE 11 – OPERATING LEASES

The District is obligated under certain non-cancelable leases for equipment. The leases expire at various dates through June 2024. Lease expense for the years ended December 31, 2019 and 2018 were \$11,312 and \$36,484, respectively.

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

<u>Years Ending December 31,</u>	
2020	\$ 16,041
2021	16,041
2022	16,041
2023	16,041
2024	<u>4,729</u>
	<u>\$ 68,893</u>

NOTE 12 – ECONOMIC DEPENDENCY

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

NOTE 13 – 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.

NOTE 14 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through June 18, 2020, which is the date the financial statements were available to be issued.

Subsequent to the date of these financial statements, the world has been responding to an outbreak of a respiratory disease caused by a novel coronavirus. This coronavirus outbreak has been declared a pandemic by the World Health Organization, and declared a national emergency in the United States of America. The outbreak and response has impacted financial and economic markets across the world and within the United States of America. While the District continues to monitor this emergency and adjust accordingly, the impact to the District is uncertain as of the date of these financial statements, and as such no adjustment has been made to these financial statements as a result.

The District has evaluated events and conditions related to the valuation of its investment portfolio to determine if an impairment exists. In order to determine if an impairment is other-than-temporary, the District considers all available information relevant to the collectability of the security, including past events, current conditions, and reasonable and supportable forecasts. Evidence considered in this assessment includes the reasons for the decline in value, the severity of the impairment, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry in which the investee operates. Based on the above criteria, management has determined that an other-than-temporary impairment does not exist as of December 31, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
DECEMBER 31, 2019**

**County Employees Retirement System
Last 10 Calendar Years***

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's Proportion of the Net Pension Liability (Asset) - Non-Hazardous	0.330854%	0.312275%	0.320590%	0.335200%	0.344120%	0.333600%
Total District's Proportionate Share of the Net Pension Liability (Asset)	\$ <u>23,269,110</u>	\$ <u>19,018,499</u>	\$ <u>18,765,118</u>	\$ <u>16,504,154</u>	\$ <u>14,819,690</u>	\$ <u>11,002,199</u>
District's Covered Payroll	\$ <u>8,040,890</u>	\$ <u>7,779,594</u>	\$ <u>7,880,340</u>	\$ <u>7,925,067</u>	\$ <u>7,972,340</u>	\$ <u>7,931,952</u>
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll	289.38%	244.47%	238.13%	208.25%	185.89%	138.71%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability - Non-Hazardous	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%

** Only six years of information available. Additional years' information will be displayed as it becomes available.*

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS
DECEMBER 31, 2019**

**County Employees Retirement System
Last 10 Calendar Years***

<u>Non-Hazardous</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 1,557,127	\$ 1,230,042	\$ 1,099,103	\$ 1,045,628	\$ 1,429,517	\$ 1,483,609
Contributions in Relation to the Contractually Required Contribution	<u>(1,557,127)</u>	<u>(1,230,042)</u>	<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>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 8,757,359	\$ 8,040,890	\$ 7,732,260	\$ 7,925,067	\$ 7,972,340	\$ 7,931,952
Contributions as a Percentage of Covered Payroll	17.78%	15.30%	14.21%	13.19%	17.93%	18.70%

* Only six years of information available. Additional years' information will be displayed as it becomes available.

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
DECEMBER 31, 2019**

**County Employees Retirement System
Last 10 Calendar Years***

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
District's Proportion of the Net Pension Liability (Asset) - Non-Hazardous	0.330768%	0.312275%	0.320590%	0.335200%
Total District's Proportionate Share of the Net Pension Liability (Asset)	\$ <u>5,563,369</u>	\$ <u>5,544,345</u>	\$ <u>6,444,956</u>	\$ <u>5,055,231</u>
District's Covered Payroll	\$ <u>8,040,890</u>	\$ <u>7,779,594</u>	\$ <u>7,880,340</u>	\$ <u>7,925,067</u>
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll	69.19%	71.27%	81.79%	63.79%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability - Non-Hazardous	60.44%	57.62%	52.39%	55.24%

** Only four years of information available. Additional years' information will be displayed as it becomes available.*

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
DECEMBER 31, 2019**

**County Employees Retirement System
Last 10 Calendar Years***

<u>Non-Hazardous</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contribution	\$ 438,448	\$ 399,058	\$ 364,575	\$ 371,330
Contributions in Relation to the Contractually Required Contribution	<u>(438,448)</u>	<u>(399,058)</u>	<u>(364,575)</u>	<u>(371,330)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 8,757,359	\$ 8,040,890	\$ 7,732,260	\$ 7,925,067
Contributions as a Percentage of Covered Payroll	5.01%	4.96%	4.71%	4.69%

* Only four years of information available. Additional years' information will be displayed as it becomes available.

OTHER SUPPLEMENTARY INFORMATION

**NORTHERN KENTUCKY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET TO ACTUAL
YEAR ENDED DECEMBER 31, 2019**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues			
Water Sales	\$ 54,075,452	\$ 55,764,229	\$ 1,688,777
Forfeited Discounts	826,000	830,599	4,599
Rents From Property	405,000	385,845	(19,155)
Other Water Revenues	<u>325,300</u>	<u>587,221</u>	<u>261,921</u>
Total Operating Revenues	<u>55,631,752</u>	<u>57,567,894</u>	<u>1,936,142</u>
Operating Expenses			
Operation and Maintenance Expense	30,205,444	28,738,889	1,466,555
Depreciation Expense	<u>11,952,000</u>	<u>12,179,078</u>	<u>(227,078)</u>
Total Operating Expenses	<u>42,157,444</u>	<u>40,917,967</u>	<u>1,239,477</u>
Net Operating Income	<u>13,474,308</u>	<u>16,649,927</u>	<u>3,175,619</u>
Non-Operating Income (Expense)			
Investment Income	942,600	1,881,532	938,932
Miscellaneous Non-Operating Income	128,500	494,748	366,248
Loss on Abandonment of Mains	-	(532,386)	(532,386)
Interest on Long-Term Debt and Customer Deposits	(7,499,875)	(7,075,292)	424,583
Amortization of Debt Premiums and Defeasance Costs	-	887,155	887,155
Bond Issuance Costs	-	(103,192)	(103,192)
Other Post Employment Benefit Revenue	-	(97,596)	(97,596)
Arbitrage Expense	-	(178,770)	(178,770)
Gain on Sale of Capital Assets	<u>-</u>	<u>48,374</u>	<u>48,374</u>
Total Non-Operating Expense	<u>(6,428,775)</u>	<u>(4,675,427)</u>	<u>1,753,348</u>
Change in Net Position Before Capital Contributions	7,045,533	11,974,500	4,928,967
Capital Contributions	<u>-</u>	<u>1,551,675</u>	<u>1,551,675</u>
Change in Net Position	<u>\$ 7,045,533</u>	<u>\$ 13,526,175</u>	<u>\$ 6,480,642</u>

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

	Years Ended December 31,	
	2019	2018
Operating Revenues		
Metered Sales		
Sales to Residential Customers	\$ 34,204,142	\$ 32,997,415
Sales to Commercial Customers	7,752,357	7,450,952
Sales to Industrial Customers	4,239,685	4,084,359
Sales to Public Authorities	2,673,446	2,570,607
Sales to Multiple Family Dwellings	5,048,482	4,825,434
Sales Through Bulk Loading Stations	<u>66,697</u>	<u>56,293</u>
Total Metered Sales	53,984,809	51,985,060
Fire Protection Revenue	66,062	57,227
Sales For Resale	<u>1,713,358</u>	<u>1,562,805</u>
Total Sales of Water	55,764,229	53,605,092
Other Revenue	<u>1,803,665</u>	<u>1,812,532</u>
Total Operating Revenues	<u>\$ 57,567,894</u>	<u>\$ 55,417,624</u>

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

	Years Ended December 31,	
	2019	2018
Operating and Maintenance Expenses		
Salaries and Wages	\$ 9,158,236	\$ 8,021,941
Employee Pensions and Benefits	5,423,579	4,880,886
Taxes Other Than Income Taxes	648,930	589,987
Purchased Power	2,718,677	2,565,536
Chemicals	2,664,632	2,237,457
Materials and Supplies	2,375,356	2,131,234
Contractual Services	3,744,244	3,884,861
Transportation Expenses	605,498	570,758
Insurance	614,425	564,492
Bad Debt Expense	424,805	372,140
Miscellaneous Expense	228,075	180,111
Regulatory Commission Assessment	132,432	129,683
	<hr/>	<hr/>
Total Operating and Maintenance Expenses	\$ 28,738,889	\$ 26,129,086
	<hr/> <hr/>	<hr/> <hr/>

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF INSURANCE COVERAGES
December 31, 2019**

Company	Policy Number	Description of Coverage	Amount of Coverage	Effective Period	
				From	To
Travelers Insurance	ZLP14T8065319	General Liability	\$ 1,000,000	1/1/2019	1/1/2020
	ZUP14T8066519	Umbrella	19,000,000		
	ZLP14T8065319	Public Officials	1,000,000		
	H8102721X112COF19	Business Auto	1,000,000		
	H6302721X112TIL19	Property-Incl Equipment Equipment Breakdown	299,407,063		
	H6302721X112TIL19	Employee Dishonesty	500,000		
	ZPL14P0759919	Cyber Liability	2,000,000		
Kentucky Employers Mutual Insurance	WC 338786	Worker's Compensation	1,000,000	7/1/2018	7/1/2019
	WC 338786	Worker's Compensation	1,000,000	7/1/2019	7/1/2020
Cincinnati Insurance	8877070	Fidelity Bond	Per Application	8/20/2018	12/31/2019
Great American Insurance	PEL1093742-02	Pollution Liability	15,000,000	1/1/2019	1/1/2022

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF RATES, RULES AND REGULATIONS
DECEMBER 31, 2019**

RETAIL WATER RATES

1. Monthly Service Rate

First	1,500 Cubic Feet	\$4.56 per 100 Cubic Feet
Next	163,500 Cubic Feet	\$4.19 per 100 Cubic Feet
Over	165,000 Cubic Feet	\$3.07 per 100 Cubic Feet

Sub District B shall be assessed a monthly surcharge in the amount of	\$	12.78
Sub District C shall be assessed a monthly surcharge in the amount of	\$	11.07
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	\$	17.30
Sub District G shall be assessed a monthly surcharge in the amount of	\$	20.93
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	\$	6.82
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	\$	19.09
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	\$4.65 per 100 Cubic Feet
Next	490,500 Cubic Feet	\$4.19 per 100 Cubic Feet
Next	495,000 Cubic Feet	\$3.07 per 100 Cubic Feet

3. Fixed Service Charge

<u>Meter Size</u>	<u>Monthly</u>	<u>Quarterly</u>
5/8"	\$ 17.50	\$ 36.65
3/4"	\$ 17.90	\$ 38.45
1"	\$ 19.60	\$ 44.15
1½"	\$ 22.10	\$ 52.20
2"	\$ 27.90	\$ 73.20
3"	\$ 67.30	\$ 227.85
4"	\$ 84.40	\$ 285.50
6"	\$ 124.90	\$ 421.90
8"	\$ 168.70	\$ 576.55
10" and Larger	\$ 224.30	\$ 752.80

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF RATES, RULES AND REGULATIONS
DECEMBER 31, 2019
(CONTINUED)**

WHOLESALE WATER RATES

Bullock Pen Water District	\$3.78 per 1,000 Gallons (or) \$2.83 per 100 Cubic Feet
City of Walton	\$3.78 per 1,000 Gallons (or) \$2.83 per 100 Cubic Feet
Pendleton District	\$3.78 per 1,000 Gallons (or) \$2.83 per 100 Cubic Feet

MISCELLANEOUS SERVICE FEES

Service Area Non-Recurring Charges

Returned Check Charge	\$	20.00
Water Hauling Station	\$	6.22 / 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, 2019**

<u>COMMISSIONERS</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Clyde Cunningham	Chair	August 28, 2023
Douglas C Wagner, CDT	Vice-Chair	August 26, 2021
Joseph J. Koester	Treasurer	July 31, 2020
Dr. Patricia Sommercamp	Secretary	August 28, 2021
Jody R. Lange, CPA, CGMA		August 28, 2023
Fred A. Macke, Jr.		August 26, 2020

<u>ADMINISTRATIVE STAFF</u>	<u>TITLE</u>
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, 2019**

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
Environmental Protection Agency				
<i>Passed Through Kentucky Infrastructure Authority</i>				
<i>Kenton and Campbell County Water Main Projects</i>				
Capitalization Grants for Drinking Water State				
Revolving Funds	66.468	F16-027	\$ <u> -</u>	\$ <u> 947,240</u>

**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, 2019. 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 Capitalization Grants for Drinking Water State Revolving Funds (CFDA 66.468) includes two loans 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 required by the Compliance Supplement issued by the Office of Management and Budget in August 2019. The balance of the loans outstanding as of December 31, 2019 is \$5,092,581.

**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, 2019 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 18, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 18, 2020

**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, 2019. 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, 2019.



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 18, 2020

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2019**

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs: CFDA Number(s)	Capitalization Grants for Drinking Water State Revolving Funds [CFDA 66.468]
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

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, 2018**

PRIOR YEAR – FINANCIAL STATEMENT FINDINGS

No matters were reported.

PRIOR YEAR – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.