VonLehman
CPA & ADVISORY FIRM

Northern Kentucky Water District

December 31, 2022

Financial Statements and Independent Auditors' Report Including Supplementary Information

810 Wright's Summit Parkway, Suite 300, Fort Wright, KY 41011 859.331.3300 VLCPA.COM
9987 Carver Road, Suite 120, Blue Ash, OH 45242 513.891.5911
5975 Castle Creek Parkway North Drive, Suite 400, Indianapolis, IN 46250 317.469.0169

NORTHERN KENTUCKY WATER DISTRICT
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Northern Kentucky Water District
Erlanger, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of the Northern Kentucky Water District, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Northern Kentucky Water District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Northern Kentucky Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District implemented Governmental Accounting Standard Board's Statement No. 87, *Leases*. Our opinions is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Northern Kentucky Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Northern Kentucky Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Northern Kentucky Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Northern Kentucky Water District's basic financial statements. The statement of revenues, expenses and changes in net position – budget to actual, statement of water operating revenue, statement of combined operation and maintenance expenses, schedule of insurance coverages, schedule of rates, rules and regulations, and the members of the commission and administrative staff are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is 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 April 20, 2023 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 Northern Kentucky Water District's internal control over financial reporting and compliance.

VonLehman & Company Inc.

Fort Wright, Kentucky
April 20, 2023

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, 2022. 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 $255,788,988 (net position). This was an increase of $15,303,901 in comparison to the prior year.

- Operating revenues increased $1,066,333 or 1.8% from 2021.

- The debt coverage ratio decreased from 1.93 in 2021 to 1.84 in 2022.

Overview of the Financial Statements

The discussion and analysis portion 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 additional 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 questions such as where cash came from, what cash was used for, and what the change in cash balance was during the reporting period.

Basis of Accounting

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

Overview of Annual Financial Report

Table 1 provides a summary of the District's net position for 2022 compared to 2021.

Table 1
Net Position

	December 31, 2022	December 31, 2021
Assets		
Current Assets	$ 68,729,645	$ 68,844,595
Lease Receivable	5,074,517	-
Restricted Assets Noncurrent	60,762,266	63,364,426
Miscellaneous Deferred Charges	8,650,814	4,031,730
Capital Assets, Net	341,849,100	342,107,768
Total Assets	485,066,342	478,348,519
Deferred Outflows of Resources	7,026,556	8,712,038
Liabilities		
Current Liabilities	44,657,384	20,109,293
Restricted Liabilities Noncurrent	757,658	294,537
Other Noncurrent Liabilities	180,251,253	217,012,978
Total Liabilities	225,666,295	237,416,808
Deferred Inflows of Resources	10,637,615	9,158,662
Net Position		
Net Investment in Capital Assets	168,676,399	158,184,530
Restricted	46,487,679	45,654,439
Unrestricted	40,624,910	36,646,118
Total Net Position	**$ 255,788,988**	**$ 240,485,087**

The District implemented GASB Statement No. 87, *Leases,* during 2022. Amounts included as of December 31, 2021 have not been restated.

The District's net position for 2022 increased 6.4% to $255,788,988 compared to $240,485,087 for 2021.

A portion of the District's net position (18.2%) 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 (65.9%) 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 (15.9%) may be used to meet the District's ongoing obligations to customers and creditors.

The following points explain the major changes impacting net position as shown on the previous page:

- Cash and cash equivalents decreased $3,428,770 from the previous year due to timing of receipts and payments, as well as continued payment on debt balances and capital asset purchases.
- Investments decreased $110,755 and remained comparable to the prior year.
- Accounts receivable, net increased $348,741 due to timing of payments received.
- Capital assets, net of accumulated depreciation decreased $258,668 from the previous year due to additions of capital assets totaling $12,471,053, depreciation expense incurred on capital assets of $12,487,979, and net disposals totaling $241,742.
- Miscellaneous deferred charges increased $4,619,084 due to the addition of the reservoir residual removal project as a regulatory asset that is required to be amortized.
- Bond indebtedness decreased $12,886,273 and notes payable decreased $1,498,330 from the previous year due to continued payments on outstanding bonds and notes.
- Net pension liability increased $2,243,898 and net OPEB liability increased $2,435 as a result of an overall increase in the net pension and net OPEB liability of the Kentucky Public Pension Authority's CERS non-hazardous plan.
- The District implemented GASB 87, *Leases*, during 2022. The impact to the statement of net position as of December 31, 2022 was recording a lease receivable for $5,191,899 and deferred inflows related to leases for $5,074,275.

Table 2 shows the changes in net assets for 2022, as well as revenue and expense comparisons to 2021.

Table 2
Changes in Net Position

	Years Ended December 31, 2022	2021
Operating Revenues		
Water Sales	$ 59,541,043	$ 58,983,695
Forfeited Discounts	983,494	442,082
Rents From Property	357,499	383,269
Other Water Revenues	259,619	266,276
Total Operating Revenues	61,141,655	60,075,322
Operating Expenses		
Operating and Maintenance Expense	33,683,678	29,965,655
Depreciation Expense	12,487,979	12,436,919
Total Operating Expenses	46,171,657	42,402,574
Net Operating Income	14,969,998	17,672,748
Non-Operating Income (Expense)		
Investment Income	2,007,323	481,326
Miscellaneous Non-Operating Income	240,514	347,304
Loss on Abandonment of Mains	(139,273)	(289,089)
Interest on Long-Term Debt and Customer Deposits	(4,940,084)	(5,826,155)
Amortization of Debt Premiums and Defeasance Costs	1,547,728	989,953
Bond Issuance Costs	-	(181,821)
Pension Expense	(40,243)	(1,029,997)
Other Post Employment Benefit Expense	(560,705)	(267,744)
Arbitrage (Expense) Rebate	(222,923)	53,883
Gain on Sale of Capital Assets	20,899	25,977
Total Non-Operating Expenses	(2,086,764)	(5,696,363)
Change in Net Position Before Capital Contributions	12,883,234	11,976,385
Capital Contributions	2,420,667	2,911,181
Change in Net Position	**$ 15,303,901**	**$ 14,887,566**

In reviewing income before capital contributions, the financial statements showed net income for the year of $12,883,234. Operating revenues increased 1.8% mainly as a result of an increase in water consumption in 2022 compared to 2021. Operating expenses (including depreciation) increased 8.9% from the previous year due to an increase in salary and related expenses. Non-Operating Income (Expense) decreased $3,609,599 due to decreased pension expense, as well as a reduction in interest expense on long-term debts while investment income increased by $1,525,997 from the previous year. Capital contributions decreased by $490,514 (16.9%) primarily due to the decrease of mains constructed by other entities and contributed to the District.

The District budgeted for $58,434,976 in operating revenues. Actual revenues were $61,141,655, a difference of $2,706,679. The largest difference was due to water sales being overbudget by $2,701,831. The water sales were overbudget primarily due to conservative budgeting practices. Operation, maintenance, and administration expenses were budgeted at $34,389,766. Actual expenses were $33,683,678, a difference of $706,088. This difference is due to conservative budgeting practices.

Capital Assets

At December 31, 2022, the capital assets reported were $341,849,100 including land, buildings, water systems, equipment, and vehicles. This represents a net decrease of $258,668, or (0.0%), 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, 2022	December 31, 2021
Not Being Depreciated		
Land	$ 3,358,565	$ 3,348,169
Construction in Progress	11,452,296	12,495,400
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	529,902,606	517,618,547
Subtotal	550,229,603	538,978,252
Less Accumulated Depreciation	208,380,503	196,870,484
Totals	$ 341,849,100	$ 342,107,768

Major capital additions during the year included adding mains for approximately $4,900,000 and services for approximately $1,400,000.

Long-Term Liabilities

Table 4 summarizes the District's long-term liabilities at the end of 2022 as compared to 2021.

Table 4
Outstanding Long-Term Liabilities at Year End

	December 31, 2022	December 31, 2021
Compensated Absences	$ 1,663,890	$ 1,652,359
Arbitrage Liability	244,370	241,201
Bond Anticipation Notes	24,685,000	24,685,000
Bond Indebtedness	133,263,341	146,149,614
Notes Payable	28,824,226	30,322,556
	$ 188,680,827	$ 203,050,730

At year-end, the District had $186,772,567 in outstanding bond anticipation notes, bond indebtedness, and notes payable compared to $201,157,170 last year. That is a decrease of 7.2% as shown in Table 4.

Economic Factors and Next Year's Budget

The District's budget for 2023 is allowing for an increase in water revenue due to the rate recovery of the first phase of approved rate adjustments in 2023. Projections for interest income are also higher for 2023 because of anticipated higher interest rates. A modest increase is anticipated for operating expenses as a result of an increase in employee related expenses along with unprecedented inflation rates impacting the increase in purchased power, increase in cost for competitively bid chemicals, and contractual services. Other factors contributing to the increase in operating expenses are materials & supplies, transportation, and insurance.

The District's operations are presented, in a proprietary, as a single enterprise fund, and as such, the District is not required by GASB to adopt and adhere to a budget or to present budgetary comparison information as required supplementary information (RSI). However, the District's 1985 general bond resolution does require the adoption of an annual budget of current expenses and revenues. The annual budget is further used 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
STATEMENT OF NET POSITION
DECEMBER 31, 2022

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Assets and Deferred Outflows of Resources	
Current Assets	
Cash and Cash Equivalents	$ 42,075,630
Investments	3,956,834
Accounts Receivable	
Customers, Net	6,753,383
Unbilled Customers	9,100,000
Others	174,297
Assessments Receivable	185,400
Lease Receivable	117,382
Inventory Supplies for New Installation and Maintenance, at Cost	2,404,912
Prepaid Items	1,107,944
Restricted Assets - Cash and Cash Equivalents	
Bond Proceeds Fund	1,275
Debt Service Account	2,111,105
Improvement, Repair & Replacement	741,483
Total Current Assets	68,729,645
Non-current Assets	
Lease Receivable	5,074,517
Restricted Assets - Cash and Cash Equivalents	
Bond Proceeds Fund	13,515,654
Debt Service Account	18,715,044
Improvement, Repair and Replacement	10,874,881
Restricted Assets - Investments	
Debt Service Reserve Account	17,656,687
Miscellaneous Deferred Charges	8,650,814
Capital Assets	
Land, System, Buildings and Equipment	538,777,307
Construction in Progress	11,452,296
Total Capital Assets	550,229,603
Less Accumulated Depreciation	208,380,503
Total Capital Assets, Net of Accumulated Depreciation	341,849,100
Total Noncurrent Assets	416,336,697
Total Assets	485,066,342
Deferred Outflows of Resources	
Deferred Outflows Related to Pension	2,207,924
Deferred Outflows Related to Other Postemployment Benefits	2,469,945
Deferred Loss on Refundings	2,348,687
Total Deferred Outflows of Resources	7,026,556
Total Assets and Deferred Outflows of Resources	**$ 492,092,898**

See accompanying notes.

NORTHERN KENTUCKY WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2022
(Continued)

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Liabilities and Deferred Inflows of Resources	
Current Liabilities	
Bonded Indebtedness	$ 12,996,773
Notes Payable	1,782,999
Bond Anticipation Notes	24,685,000
Accounts Payable	1,077,352
Accrued Payroll and Taxes	604,627
Compensated Absences	199,475
Arbitrage Liability	161,602
Other Accrued Liabilities	295,693
Liabilities Payable - Restricted Assets	
Accrued Interest Payable	2,111,105
Accounts Payable	742,758
Total Current Liabilities	44,657,384
Non-current Liabilities	
Liabilities Payable - Restricted Assets	
Accounts Payable	757,658
Compensated Absences	1,464,415
Arbitrage Liability	82,768
Bond Indebtedness	120,266,568
Notes Payable	27,041,227
Net Pension Liability	24,663,515
Net Other Postemployment Benefits Liability	6,732,760
Total Long-Term Liabilities	181,008,911
Total Liabilities	225,666,295
Deferred Inflows of Resources	
Deferred Inflows Related to Pension	656,657
Deferred Inflows Related to Other Postemployment Benefits	2,640,933
Deferred Inflows Related to Leases	5,074,275
Deferred Gain on Refundings	2,265,750
Total Deferred Inflows of Resources	10,637,615
Total Liabilities and Deferred Inflows of Resources	236,303,910
Net Position	
Net Investment in Capital Assets	168,676,399
Restricted For Debt Service Funds	36,371,731
Restricted For Capital Improvement Projects	10,115,948
Unrestricted	40,624,910
Total Net Position	255,788,988
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 492,092,898

NORTHERN KENTUCKY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2022

Operating Revenues	
Water Sales	$ 59,541,043
Forfeited Discounts	983,494
Rents From Property	357,499
Other Water Revenues	259,619
Total Operating Revenues	61,141,655
Operating Expenses	
Operating and Maintenance Expense	33,683,678
Depreciation Expense	12,487,979
Total Operating Expenses	46,171,657
Net Operating Income	14,969,998
Non-Operating Income (Expense)	
Investment Income	2,007,323
Miscellaneous Non-Operating Income	240,514
Loss on Abandonment of Mains	(139,273)
Interest on Long-Term Debt and Customer Deposits	(4,940,084)
Amortization of Debt Premiums and Defeasance Costs	1,547,728
Pension Expense	(40,243)
Other Post Employment Benefit Expense	(560,705)
Arbitrage Expense	(222,923)
Gain on Sale of Capital Assets	20,899
Total Non-Operating Expenses	(2,086,764)
Change in Net Position Before Capital Contributions	12,883,234
Capital Contributions	2,420,667
Change in Net Position	15,303,901
Net Position - Beginning of Year	240,485,087
Net Position - End of Year	$ 255,788,988

See accompanying notes.

NORTHERN KENTUCKY WATER DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2022

Cash Flows From Operating Activities	
Received From Customers	$ 60,782,456
Received for Miscellaneous Non-Operating Income	240,514
Paid to Suppliers for Goods and Services	(17,611,704)
Paid to or on Behalf of Employees for Services	(15,968,839)
Net Cash Provided by Operating Activities	27,442,427
Cash Flows From Investing Activities	
Purchase of Investments	(38,360,958)
Proceeds From Sale of Investments	38,370,503
Investment Income	1,990,910
Net Cash Provided by Investing Activities	2,000,455
Cash Flows From Capital and Related Financing Activities	
Principal Paid on Debt	(13,354,436)
Debt Proceeds	253,106
Interest Paid on Bonds and Notes	(4,751,159)
Acquisition and Construction of Capital Assets and Regulatory Assets	(14,884,910)
Proceeds on Sale of Capital Assets	85,502
Payment on Arbitrage Liability	(219,755)
Net Cash Used by Capital and Related Financing Activities	(32,871,652)
Net Change in Cash	(3,428,770)
Cash and Cash Equivalents Beginning of Year	91,463,842
Cash and Cash Equivalents End of Year	$ 88,035,072
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Net Operating Income	$ 14,969,998
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities	
Depreciation	12,487,979
Miscellaneous Non-Operating Income	240,514
Change in Assets and Liabilities	
Accounts Receivable, Net	(348,741)
Assessments Receivable	(10,458)
Inventory Supplies	(356,360)
Prepaid Items	10,526
Miscellaneous Deferred Charges	253,306
Accounts Payable	215,051
Accrued Payroll and Taxes	128,885
Accrued Compensated Absences	11,531
Other Accrued Liabilities	(159,804)
Net Cash Provided by Operating Activities	$ 27,442,427

See accompanying notes.

NORTHERN KENTUCKY WATER DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2022
(Continued)

Supplemental Schedule of Noncash Capital and Related Financing Activities		
Change in Fair Value of Investments	$	(360,733)
Contributions of Capital Assets	$	2,420,667
Pension Expense	$	(40,243)
Other Post Employment Benefit Expense	$	(560,705)
Amortization Expense	$	(1,547,727)
Reconciliations of Cash and Cash Equivalents to the Statement of Net Position		
Cash and Cash Equivalents - Current	$	42,075,630
Cash and Cash Equivalents - Restricted		45,959,442
Total Cash and Cash Equivalents	$	88,035,072

See accompanying notes.

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 charges; 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 unsettle 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 include 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 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 then uncollectible. Based on these criteria, the District has estimated an allowance for doubtful accounts of $50,000 at December 31, 2022.

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 net realizable value. 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

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.

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 as of December 31, 2022 was $1,663,890.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

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

Bond Premiums and Issue Costs

Bonds payable are reported, net of any premiums, 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.

Adoption of New Accounting Standards

Leases

During 2022, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, which requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows or resources based on the payment provisions of the contract. The Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The impact of this standard had the following effect as of January 1, 2022:

Lease Receivable	$	4,186,882
Deferred Inflows Related to Leases	$	4,186,882

Conduit Debt Obligations

During 2022, the District implemented GASB Statement No. 91*, Conduit Debt Obligations.* The objective of this statement was to provide a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related not disclosures. The adoption of this pronouncement did not have a material impact to the District’s financial statements.

Omnibus 2020

During 2022, the District implemented GASB Statement No. 92, *Omnibus 2020*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The adoption of this pronouncement did not have a material impact to the District’s financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Replacement of Interbank Offered Rates

During 2022, the District implemented GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The objectives of this statement were to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). The adoption of this pronouncement did not have a material impact to the District's financial statements.

Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

During 2022, the District implemented GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The objectives of this statement were to (1) increase consistency and comparability related to the fiduciary reporting of component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans that meet the definition of a pension plan for benefits provided through those plans. The adoption of this pronouncement did not have a material impact to the District's financial statements.

Recently Issued Significant Accounting Standards

Public-Private and Public-Public Partnerships and Availability Payment Arrangements

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, was issued to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements and to provide guidance for accounting and financial reporting for availability payment arrangements. The requirements of GASB Statement No. 94 are effective for fiscal years beginning after June 15, 2022. The District is currently evaluating the impact GASB Statement No. 94 may have on its financial statements.

Subscription-Based Information Technology Arrangements

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, was issued to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The requirements of GASB Statement No. 96 are effective for fiscal years beginning after June 15, 2022. The District is currently evaluating the impact GASB Statement No. 96 may have on its financial statements.

Omnibus 2022

GASB Statement No. 99, *Omnibus 2022*, was issued to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of GASB Statement No. 99 related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023. Other aspects of GASB 99 were effective immediately and implemented during 2021. The District is currently evaluating the impact the remaining aspects of GASB Statement No. 99 may have on its financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Changes and Error Corrections

GASB Statement No. 100, *Accounting Changes and Error Corrections*, was issued to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable. Relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of GASB Statement No. 100 are effective for fiscal years beginning after June 15, 2023. The District is currently evaluating the impact GASB Statement No. 100 may have on its financial statements.

Compensated Absences

GASB Statement No. 101, *Compensated Absences*, was issued to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition under a unified model and by amending certain previously required disclosures. The requirements of GASB Statement No. 101 are effective for fiscal years beginning after December 15, 2023. The District is currently evaluating the impact GASB Statement No. 101 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

In accordance with KRS 66.480, the District is authorized to invest in the following:

A) 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.

B) U.S. Treasury and other U.S. government obligations that carry the full faith and credit guarantee of the United States for the payment of principal and interest.

C) Federal Agency or U.S. government-sponsored enterprises obligations, participations or other instruments.

D) CDs issued by or other interest-bearing accounts of any bank or savings and loan institution having a physical presence in Kentucky and that are insured by the Federal Deposit Insurance Corporation or similar entity or that are collateralized by any obligations, including surety bonds permitted by KRS 41.240. KRS 66.480(1)(d).

E) Uncollateralized CDs issued by any bank or savings and loan having a physical presence in Kentucky rated in one of three highest categories by a competent rating agency.

F) Bankers' acceptances, which must be rated in one of the three highest categories by a competent rating agency.

G) Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a competent rating organization.

H) Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities.

I) Investment-grade obligations of state or local governments or instrumentality thereof rated one of three highest categories by a competent rating agency.

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

J) Shares of mutual funds and exchange traded funds as identified by KRS 66.480(1)(j).

K) Individual equity securities if the funds are managed by a professional investment manager regulated by a federal regulatory agency and are included within the S&P 500 pursuant to KRS 66.480(1)(k).

L) Individual high-quality corporate bonds managed by a professional investment manager pursuant to KRS 66.480(1)(l).

Overall investments in (E), (F), (G), (K), and (L) investment types are restricted to 20% of total local government investments.

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, 2022, 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, 2022.

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. The balance of the bond proceeds fund consisted of the following at December 31, 2022:

Cash and Cash Equivalents	$ 13,516,929

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 balance of the debt service reserve account consisted of the following at December 31, 2022:

Cash and Cash Equivalents	$ 10,779,063
Purchase and Resale Agreements	732,136
Forward Delivery Agreements	2,977,371
FHLB Bonds	3,100,000
Accrued Interest Receivable and CD Market Change	68,117
	$ 17,656,687

NOTE 3 – RESTRICTED ASSETS (Continued)

Debt Service Account – These assets accumulate monies for the purpose of paying interest on the bonds when due and payable and paying the principal of the bonds when due and payable. The balance of the debt service account consisted of the following at December 31, 2022:

Cash and Cash Equivalents	$ 20,826,149

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 balance of the improvement, repair, and replacement account consisted of the following at December 31, 2022:

Cash and Cash Equivalents	$ 11,616,364

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2022:

Accounts Receivable Arising From Billings of Metered Water Sales, Net of Allowance	$ 6,753,383
Accrual for Estimated Unbilled Water Revenue	9,100,000
Other	174,297
Total	$ 16,027,680

NOTE 5 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES

During 2022, the District implemented GASB Statement No. 87, *Leases*. This statement formally establishes a single model for lease accounting (lessee and lessor) based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessor is required to recognize a lease receivable and a deferred inflow of resources. The statement defines a lease as a contract that conveys control for a right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction.

The District, as lessor, has various leases with communication companies for use of the District's towers. Each lease agreement has an initial term of five years, with four, five year renewal options at the end of the lease that are reasonably certain to be exercised. The terms of the renewals expire at various dates through April 2047. The District calculated the present value of future lease revenue based on an incremental borrowing rate of 4.0%.

The present value of the expected minimum lease payments to be received for these leases are as follows:

Years Ending December 31,	Principal	Interest
2023	$ 117,382	$ 205,539
2024	123,006	200,756
2025	132,310	195,652
2026	141,791	190,200
2027	157,102	184,307
2028 - 2032	974,422	813,259
2033 - 2037	1,361,473	581,762
2038 - 2042	1,733,227	265,161
2043 - 2047	451,186	29,785
	$ 5,191,899	$ 2,666,421

The District reported a lease receivable at December 31, 2022 of $5,191,899 and a related deferred inflows of $5,074,275. During the year ended December 31, 2022, the District recognized $221,296 of lease revenue and $188,878 of interest revenue related to these leases.

NOTE 6 – 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.

NOTE 6 – FAIR VALUE MEASUREMENT (Continued)

LEVEL 2 – Other observable inputs (included but not limited to, quoted prices 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.

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value at December 31, 2022:

	Level 1	Level 2	Level 3	Total
Investments				
Commercial Paper	$ -	$ 3,956,834	$ -	$ 3,956,834
Restricted Investments				
Cash and Cash Equivalents	10,847,180	-	-	10,847,180
Purchase and Resale Agreements	-	732,136	-	732,136
Forward Delivery Agreements	-	2,977,371	-	2,977,371
FHLB Bonds	-	3,100,000	-	3,100,000
Total Restricted Investments	10,847,180	6,809,507	-	17,656,687
Total Assets at Fair Value	$ 10,847,180	$ 10,766,341	$ -	$ 21,613,521

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the District for the year ended December 31, 2022, was as follows:

	Balance December 31, 2021	Additions	Deductions	Balance December 31, 2022
Land, System, Buildings and Equipment				
Land and Land Rights	$ 3,348,169	$ 10,396	$ -	$ 3,358,565
Structures and Improvements	129,293,466	4,803,804	-	134,097,270
Lake River and Other Intakes	1,463,171	-	-	1,463,171
Supply Mains	2,865,693	-	-	2,865,693
Power Generation Plant	4,036,027	-	-	4,036,027
Pumping Equipment	12,532,987	319,843	(13,189)	12,839,641
Water Treatment Equipment	30,991,258	39,414	(865)	31,029,807
Distribution Reservoirs and Standpipes	11,354,093	-	-	11,354,093
Transmissions and Distribution Mains	233,732,893	4,945,369	(149,511)	238,528,751
Services	36,034,027	1,357,843	(44,740)	37,347,130
Meters and Meter	20,883,062	632,590	(289,373)	21,226,279
Installations Hydrants	10,962,804	226,870	(10,799)	11,178,875
Other Plant and Miscellaneous Equipment	3,427,428	-	(4,650)	3,422,778
Office Furniture and Equipment	4,232,347	93,148	(300,935)	4,024,560
Transportation Equipment	5,720,602	981,228	(223,343)	6,478,487
Tools, Shop, and Garage Equipment	1,015,434	26,030	(14,474)	1,026,990
Laboratory Equipment	832,978	65,729	-	898,707
Power Operated Equipment	1,282,989	11,893	(167,823)	1,127,059
Communication Equipment	6,364,782	-	-	6,364,782
Miscellaneous Equipment	592,506	-	-	592,506
Utility Plant Acquisition Adjustment	545,925	-	-	545,925
Acquisition Adjustment - Newport	4,970,211	-	-	4,970,211
Total Land, System, Buildings and Equipment	526,482,852	13,514,157	(1,219,702)	538,777,307
Construction in Progress	12,495,400	12,170,833	(13,213,937)	11,452,296
Total Capital Assets	538,978,252	25,684,990	(14,433,639)	550,229,603
Less Accumulated Depreciation	196,870,484	12,487,979	(977,960)	208,380,503
Capital Assets - Net	$ 342,107,768	$ 13,197,011	$ (13,455,679)	$ 341,849,100

NOTE 8 – 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, 2022, the arbitrage rebate liability was $244,370.

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. During the year ended December 31, 2022, the District paid $219,755.

NOTE 9 – LONG-TERM DEBT

Revenue Bonds

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:

Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2023	5.00%	$ 880,000	$ 848,776	$ 1,728,776
2024	5.00%	925,000	803,651	1,728,651
2025	5.00%	970,000	756,276	1,726,276
2026	5.00%	1,020,000	706,526	1,726,526
2027	4.00%	1,070,000	659,626	1,729,626
2028-2032	4.00-4.13%	6,035,000	2,602,000	8,637,000
2033-2037	4.25-4.50%	7,465,000	1,169,098	8,634,098
2038	4.25%	1,690,000	35,913	1,725,913
Total		$ 20,055,000	$ 7,581,866	$ 27,636,866

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 9 – LONG-TERM DEBT (Continued)

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

Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2023	5.00%	$ 1,500,000	$ 416,200	$ 1,916,200
2024	4.00%	1,570,000	347,300	1,917,300
2025	4.00%	1,635,000	283,200	1,918,200
2026	4.00%	1,700,000	216,500	1,916,500
2027	5.00%	1,780,000	138,000	1,918,000
2028	5.00%	1,870,000	46,750	1,916,750
Total		$ 10,055,000	$ 1,447,950	$ 11,502,950

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:

Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2023	3.00%	$ 485,000	$ 116,363	$ 601,363
2024	3.00%	495,000	101,663	596,663
2025	4.00%	515,000	83,938	598,938
2026	4.00%	540,000	62,838	602,838
2027	3.00%	550,000	43,788	593,788
2028-2029	3.00-3.13%	1,160,000	36,207	1,196,207
Total		$ 3,745,000	$ 444,797	$ 4,189,797

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 9 – 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
2023	5.00%	$ 2,685,000	$ 1,107,525	$ 3,792,525
2024	5.00%	2,715,000	972,525	3,687,525
2025	5.00%	2,865,000	833,025	3,698,025
2026	5.00%	3,015,000	686,025	3,701,025
2027	5.00%	3,170,000	531,400	3,701,400
2028-2031	3.00-4.00%	13,930,000	905,175	14,835,175
Total		$ 28,380,000	$ 5,035,675	$ 33,415,675

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:

Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2023	4.00%	$ 485,000	$ 544,000	$ 1,029,000
2024	4.00%	505,000	524,200	1,029,200
2025	5.00%	530,000	500,850	1,030,850
2026	5.00%	560,000	473,600	1,033,600
2027	5.00%	585,000	444,975	1,029,975
2028-2032	3.00-5.00%	3,325,000	1,831,500	5,156,500
2033-2037	3.00%	3,885,000	1,274,925	5,159,925
2038-2042	3.00%	4,510,000	646,200	5,156,200
2043-2044	3.00%	2,000,000	60,450	2,060,450
Total		$ 16,385,000	$ 6,300,700	$ 22,685,700

Water District Refunding Revenue Bonds, Series 2020

In October 2020, the District issued $22,325,000 of Refunding Revenue Bonds, Series 2020 for the purpose of current refunding of the District's outstanding Revenue Bonds Series 2011 in the principal amount of $22,435,000 and for the refunding of the Rural Development Loan 91-02 in the principal amount $1,641,000. The bonds were sold at a premium of $2,481,834, for a total source of funds of $24,656,070. The 2020 bonds maturing on or after February 2035 are subject to redemption after February 2028 at a redemption price of 100%.

The reacquisition price exceeded the net carrying amount of the refunded debt by $76,496. 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 $5,828,770 and obtains an economic gain (difference between the present values of the old and new debt service) of $5,051,126.

NOTE 9 – LONG-TERM DEBT (Continued)

The Water District Refunding Revenue Bonds, Series 2020 are scheduled to mature as follows:

Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2023	5.00%	$ 1,165,000	$ 690,075	$ 1,855,075
2024	5.00%	1,225,000	630,325	1,855,325
2025	5.00%	1,290,000	567,450	1,857,450
2026	5.00%	1,355,000	501,325	1,856,325
2027	5.00%	1,425,000	431,825	1,856,825
2028-2032	3.00-5.00%	8,085,000	1,201,500	9,286,500
2033-2035	2.00%	5,400,000	163,400	5,563,400
Total		$ 19,945,000	$ 4,185,900	$ 24,130,900

Water District Refunding Revenue Bonds, Series 2021B

In December 2021, the District issued $27,730,000 of Refunding Revenue Bonds, Series 2021B for the purpose of current refunding of the District's outstanding Revenue Bonds Series 2012 in the principal amount of $29,310,00. The bonds were sold at a premium of $3,703,731, for a total source of funds of $33,013,731.

The net carrying amount of the refunded debt exceeded the reacquisition price $2,848,371. 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 $3,149,288 and obtains an economic gain (difference between the present values of the old and new debt service) of $3,093,721.

The Water District Refunding Revenue Bonds, Series 2021B are scheduled to mature as follows:

Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2023	4.00%	$ 4,485,000	$ 826,900	$ 5,311,900
2024	4.00%	4,675,000	643,700	5,318,700
2025	4.00%	4,865,000	452,900	5,317,900
2026	4.00%	5,070,000	254,200	5,324,200
2027	4.00%	3,820,000	76,400	3,896,400
Total		$ 22,915,000	$ 2,254,100	$ 25,169,100

NOTE 9 – LONG-TERM DEBT (Continued)

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:

Years		Principal Amount	Interest Amount	Total Debt Service
2023	2.75%	$ 28,500	$ 45,024	$ 73,524
2024	2.75%	29,500	44,227	73,727
2025	2.75%	30,500	43,402	73,902
2026	2.75%	31,000	42,556	73,556
2027	2.75%	32,000	41,690	73,690
2028-2032	2.75%	173,000	194,603	367,603
2033-2037	2.75%	198,500	169,131	367,631
2038-2042	2.75%	227,000	139,909	366,909
2043-2047	2.75%	260,500	106,434	366,934
2048-2052	2.75%	298,000	68,090	366,090
2053-2057	2.75%	343,000	24,172	367,172
Total		$ 1,651,500	$ 919,238	$ 2,570,738

Rate Covenant: 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.

Mortgage Lien: The District's bonds are secured by a statutory mortgage lien on all properties of the District.

Events of Default: Each of the following events in the bond ordinances is defined as and shall constitute an event of default:

a) Default by the District in the payment of any principal installment or premium, if any, on any bond when due;

b) Default by the District in the payment of any installment of interest on the bonds when due;

c) Failure or refusal by the District to comply with the act pursuant to which the District was created, or default in the performance or observance of any other of the covenants, agreements or conditions contained in the Resolution, any series resolution, any supplemental resolution or the bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the holder of not less than five percent in principal amount of the outstanding bonds.

NOTE 9 – LONG-TERM DEBT (Continued)

Enforcement of Remedies: In the event of default, the holders of not less than twenty-five percent in principal amount of the outstanding bonds may proceed, subject to certain provisions in the resolution, to protect and enforce the rights of the bondholders by such of the following remedies as such bondholders shall deem most effectual, including the following:

a) Enforce by mandamus or other suit, action or proceedings at law or in equity all rights of the bondholders, including the right to require the District to enforce, collect and receive water rates, rentals and charges adequate to carry out the covenants and agreements of the District as to production of income, and to require the District to carry out any other covenant or agreement with bondholders and to perform its duties under the Act;

b) Bring suit upon the bonds;

c) Require the District by action or suit to account as if it were the trustee of an express trust for the holders of the bonds;

d) Enjoin by action or suit any act or things which may be unlawful or in violation of the rights of the holders of the bonds;

e) By action or suit in equity, seek the appointment of a receiver who shall take charge of and administer the affairs of the District;

f) Declare all bonds due and payable, and if all default shall be made good (excepting acceleration provisions), then with the written consent of not less than twenty-five percent (25%) in principal amount of the holders of outstanding bonds, to annul such declaration and its consequences; and

g) In the event that all bonds are declared due and payable, and a receiver is appointed, to sell all investments and all other assets of the District (to the extent not theretofore set aside for redemption of bonds for which call has been made), and to cause the receiver to take over the public water system and operate same in the name of the District for the use and benefit of the bondholders.

Revenue Bond Anticipation Note

In March, 2021, the District issued $24,685,000 of Revenue Bond Anticipation Notes, Series 2021A in order to fund various construction projects. The Series 2021A notes mature in February 2023 and are subject to optional redemption, in whole or in part, on any date beginning August 1, 2022. The Series 2021A notes are secured by a pledge of the proceeds of the Series 2023A Bonds to be issued by the District before the maturity date of the Series 2021A notes and any investment obligations purchased with the proceeds of the Series 2021A notes.

Notes from Direct Borrowings

<u>Fiscal Court of Kenton District, Kentucky</u>

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.

<u>Kentucky Infrastructure Authority Loan F08-07</u>

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.

NOTE 9 – LONG-TERM DEBT (Continued)

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

Years	Principal Amount	Interest Amount	Total Debt Service
2023	$ 200,668	$ 25,620	$ 226,288
2024	202,680	23,106	225,786
2025	204,711	20,566	225,277
2026	206,764	18,001	224,765
2027	208,837	15,409	224,246
2028-2032	1,076,009	37,265	1,113,274
Total	$ 2,099,669	$ 139,967	$ 2,239,636

Kentucky Infrastructure Authority Loan F09-02

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

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

Years	Principal Amount	Interest Amount	Total Debt Service
2023	$ 1,192,136	$ 303,450	$ 1,495,586
2024	1,216,098	276,493	1,492,591
2025	1,240,541	248,994	1,489,535
2026	1,265,476	220,942	1,486,418
2027	1,290,912	192,327	1,483,239
2028-2032	6,854,359	511,859	7,366,218
2033	723,696	8,141	731,837
Total	$ 13,783,218	$ 1,762,206	$ 15,545,424

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, 2022, $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.

NOTE 9 – LONG-TERM DEBT (Continued)

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:

Years	Principal Amount	Interest Amount	Total Debt Service
2023	$ 161,686	$ 56,239	$ 217,925
2024	164,529	52,991	217,520
2025	167,420	49,686	217,106
2026	170,362	46,323	216,685
2027	173,357	42,901	216,258
2028-2032	913,575	161,030	1,074,605
2033-2037	996,734	65,990	1,062,724
2038	104,532	1,045	105,577
Total	$ 2,852,195	$ 476,205	$ 3,328,400

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.

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

Years	Principal Amount	Interest Amount	Total Debt Service
2023	$ 161,193	$ 56,067	$ 217,260
2024	164,026	52,829	216,855
2025	166,909	49,535	216,444
2026	169,843	46,182	216,025
2027	172,828	42,770	215,598
2028-2032	910,788	160,539	1,071,327
2033-2037	993,694	65,789	1,059,483
2038	104,214	1,042	105,256
Total	$ 2,843,495	$ 474,753	$ 3,318,248

NOTE 9 – LONG-TERM DEBT (Continued)

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:

Years	Principal Amount	Interest Amount	Total Debt Service
2023	$ 67,316	$ 9,954	$ 77,270
2024	67,822	9,314	77,136
2025	68,331	8,668	76,999
2026	68,845	8,018	76,863
2027	69,362	7,362	76,724
2028-2032	354,706	26,810	381,516
2033-2037	368,234	9,674	377,908
Total	$ 1,064,616	$ 79,800	$ 1,144,416

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, 2022, $1,558,034 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.

Events of Default: The District's outstanding notes from direct borrowings contain an event of default that changes the timing of repayment of outstanding amounts to become immediately due if the District is unable to make a payment at the times specified in the note agreements.

Collateral: The District's outstanding notes from direct borrowings are collateralized by future revenue.

NOTE 9 – LONG-TERM DEBT (Continued)

Changes in long-term debt are as follows:

	Debt Outstanding December 31, 2021	Additions of New Debt	Retirements and Repayments	Debt Outstanding December 31, 2022	Amounts Due Within 1 Year
Bond Indebtedness					
Rural Development Loan 91-03	$ 1,679,500	$ -	$ 28,000	$ 1,651,500	$ 28,500
Series 2013 A	20,890,000	-	835,000	20,055,000	880,000
Series 2013 A Bond Premium	828,884	-	50,236	778,648	50,235
Series 2013 B	11,485,000	-	1,430,000	10,055,000	1,500,000
Series 2013 B Bond Premium	805,331	-	119,308	686,023	119,308
Series 2014 B	4,210,000	-	465,000	3,745,000	485,000
Series 2014 B Bond Premium	673,799	-	84,224	589,575	84,225
Series 2016	30,830,000	-	2,450,000	28,380,000	2,685,000
Series 2016 Bond Premium	3,411,997	-	344,067	3,067,930	344,067
Series 2019	16,855,000	-	470,000	16,385,000	485,000
Series 2019 Bond Premium	983,656	-	43,396	940,260	43,397
Series 2020	21,055,000	-	1,110,000	19,945,000	1,165,000
Series 2020 Bond Premium	2,288,802	-	165,455	2,123,347	165,456
Series 2021	27,730,000	-	4,815,000	22,915,000	4,485,000
Series 2021 Bond Premium	2,422,645	-	476,587	1,946,058	476,585
Total Bond Indebtedness	146,149,614	-	12,886,273	133,263,341	12,996,773
Bond Anticipation Notes					
Series 2021 A	24,685,000	-	-	24,685,000	24,685,000
Notes Payable - Direct Borrowings					
KIA Loan F08-07	2,298,345	-	198,676	2,099,669	200,668
KIA Loan F09-02	14,951,862	-	1,168,645	13,783,217	1,192,136
KIA Loan F13-012	4,523,000	-	-	4,523,000	-
KIA Loan F14-015	3,011,088	-	158,893	2,852,195	161,686
KIA Loan F15-011	3,001,904	-	158,409	2,843,495	161,193
KIA Loan B15-003	1,131,429	-	66,813	1,064,616	67,316
KIA Loan F16-027	1,304,928	253,106	-	1,558,034	-
Kenton County Fiscal Court	100,000	-	-	100,000	-
Total Notes Payable - Direct Borrowings	30,322,556	253,106	1,751,436	28,824,226	1,782,999
Arbitrage Liability	241,201	222,924	219,755	244,370	161,602
Compensated Absences	1,652,359	11,531	-	1,663,890	199,475
Total Long-Term Debt	$ 203,050,730	$ 487,561	$ 14,857,464	$ 188,680,827	$ 39,825,849

NOTE 10 – 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 Public Pensions Authority (KPPA) under the provisions of Kentucky Revised Statute Section 78.782 and 61.645. The plan was formerly administered by the Kentucky Retirement System (KRS). However, during the 2020 Legislative Session, House Bill 484 was passed establishing a new governance structure for the agency that operates the system. Effective April 1, 2021, KRS as an agency of the Commonwealth became known as the KPPA. 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 09/01/2008

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 10 – 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:	Member begins participating on or after 09/01/2008 but before 01/01/2014.		

* ***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

Accumulate Account Balance / Actuarial Factor = Monthly Life Annuity

Accumulate Account Balance				Actuarial Factor
Member Contributions	**Employer Contributions**	**Base Annual Interest**	**Upside Sharing Interest (FY 2022)**	
5.00%	4.00%	4.00%	5.68%	Various*

* See www.kyret.ky.gov for most recent Actuarial Factors

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 (requirement is waived if line of duty disability) 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% of member’s monthly 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 greater of 20% of the member’s monthly final rate of pay or the annuitized hypothetical account into a single life annuity option. Members disabled as a result of a single duty-related injury or act of violence related to their job may be eligible for special benefits.

NOTE 10 – PENSION PLAN (Continued)

For pre-retirement death benefits, the beneficiary of a deceased active member is eligible for a monthly benefit if the member died while in the line of duty with one month of service credit. The beneficiary of a deceased active member who did not die in the line of duty is eligible for a monthly benefit if the member was: (1) eligible for retirement at the time of death or, (2) under the age of 65 with at least 60 months of service credit and currently working for a participating agency at the time of death or (3) no longer working for a participating agency but at the time of death had at least 144 months of service credit. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump sum payment of the member's contributions and any accumulated interest.

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

House Bill (HB) 297 passed during the 2022 legislative session and included language allowing the Systems to provide health insurance coverage through the Kentucky Employees Health Plan (KEHP) for retired reemployed retirees who are Medicare-eligible and affected by the Medicare Secondary Payer Act (MSPA). HB 1 exempts pay raises for public defenders and their staff from pension spiking provisions, while HB 49 adds two pension spiking exemptions on a broader scope: 1. The first one hundred (100) hours of mandated overtime required by an employer during a fiscal year, and 2. Any overtime performed by a local government which the Governor authorizes mobilization of the Kentucky National Guard. HB 76 creates an exception for members "bound by an educational contract prior to December 31, 2003" with the Department of Transportation, to use the start date of the contract to establish the membership date and to purchase service credit after August 1, 2004, allowing the service purchase(s) to apply toward retirement eligibility and health insurance vesting. SB 27 allows part-time adjunct instructors for the Kentucky Fire Commission, meeting specific conditions, to retire from CERS without terminating employment as part-time instructors. Lastly, SB 209 increases the non-Medicare eligible subsidy by $5 for each year worked beyond the defined career threshold for members eligible for the fixed-dollar retiree health subsidy. The annual increase will only occur if the most recent actuarial valuation determines the funding level of the retiree health benefits is at least 90% and will remain at that level for the year. Additionally, the bill allows members eligible for the fixed-dollar health subsidy to be reimbursed for health insurance premiums other than those administered by KPPA.

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.

NOTE 10 – PENSION PLAN (Continued)

Local government participating employers are required to contribute an actuarially determined rate for CERS pension contributions, per the Kentucky Revised Statute Section 78.545(33). The CERS Board of Trustees establishes the employer contribution rate based on Kentucky Revised Statute section 78.454(33) each year following the annual actuarial valuation as of July 1 and prior to July 1 of the succeeding fiscal year for local governments in Kentucky. House Bill 362 passed during the 2018 legislative session, which caps CERS employer contribution rate increases up to 12% per year over the prior fiscal year for the period of July 1, 2018 to June 30, 2028.

For the fiscal years ended June 30, 2023 and 2022, participating employers contributed 26.79% (23.40% pension fund and 3.39% insurance fund) and 26.95% (22.78% pension fund and 4.17% 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 was $2,231,101 for the year ended December 31, 2022.

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

At December 31, 2022, the District reported a liability of $24,663,515 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2022, 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, 2022, the District's proportion for the non-hazardous system was 0.341174% which was a decrease of 0.010463% from its proportion measured as of December 31, 2021.

For the year ended December 31, 2022, the District recognized pension expense of $40,243. At December 31, 2022, 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	$ 632,283	$ -
Difference between expected and actual experience	26,368	219,639
Changes in proportion and difference between employer contributions and proportionate share of contributions	343,586	437,018
District contributions after measurement date	1,205,687	-
Total	$ 2,207,924	$ 656,657

NOTE 10 – PENSION PLAN (Continued)

The $1,205,687 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, 2023. 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,		
2023	$	42,298
2024		(190,096)
2025		(207,258)
2026		700,636
Total	$	345,580

Actuarial assumptions: The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2021
Inflation	2.30%
Payroll Growth Rate	2.00%
Salary Increase	3.30% to 10.30%, Varies by Service
Investment Rate of Return	6.25%

There have been no actuarial assumption or method changes since June 30, 2021.

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

NOTE 10 – PENSION PLAN (Continued)

The long-term (10-year) expected rates of return were determined by using a building block method in which best estimated ranges of expected future real rates of return were developed for each asset class. The ranges were combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Equity		
Public Equity	50.00 %	4.45 %
Private Equity	10.00 %	10.15 %
Fixed Income		
Core Fixed Income	10.00 %	0.28 %
Specialty Credit	10.00 %	2.28 %
Cash	- %	(0.91) %
Inflation Protected		
Real Estate	7.00 %	3.67 %
Real Return	13.00 %	4.07 %
Total	100.00 %	

Discount rate: The single 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 projections of cash flows used to determine the single discount rate must include an assumption regarding actual employer contributions made each future year. Future contributions are projected assuming that each participating employer in CERS contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy, as most recently revised by House Bill 8, passed during the 2021 Legislative Session. The assumed future employer contributions for CERS reflect the provisions of House Bill 362 (passed during the 2018 legislative session) which limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30, 2028.

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:

	1% Decrease	Current Discount Rate	1% Increase
Non-Hazardous	$ 30,826,333	$ 24,663,515	$ 19,566,352

NOTE 10 – PENSION PLAN (Continued)

Other Information about the Pension Plan

Payable to the pension plan: At December 31, 2022, the District reported a payable of $226,124 for the outstanding amount of contributions to the pension plan required for the years ended December 31, 2022.

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Public Pensions Authority Annual Comprehensive Financial Report on the KPPA 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 11 – 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 Public Pensions Authority (KPPA) under the provisions of Kentucky Revised Statute Section 78.782 and 61.645. The plan was formerly administered by the Kentucky Retirement System (KRS). However, during the 2020 Legislative Session, House Bill 484 was passed establishing a new governance structure for the agency that operates the system. Effective April 1, 2021, KRS as an agency of the Commonwealth became known as the KPPA. 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 Kentucky Retirement System Insurance Trust 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 11 – 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.

Local government participating employers are required to contribute an actuarially determined rate for CERS pension contributions, per the Kentucky Revised Statute Section 78.545(33). The CERS Board of Trustees establishes the employer contribution rate based on Kentucky Revised Statute section 78.454(33) each year following the annual actuarial valuation as of July 1 and prior to July 1 of the succeeding fiscal year for local governments in Kentucky. House Bill 362 passed during the 2018 legislative session, which caps CERS employer contribution rate increases up to 12% per year over the prior fiscal year for the period of July 1, 2018 to June 30, 2028.

NOTE 11 – OPEB PLAN (Continued)

For the fiscal years ended June 30, 2023 and 2022, participating employers contributed 26.79% (23.40% pension fund and 3.39% insurance fund) and 26.95% (22.78% pension fund and 4.17% 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 (excluding the pension portion) from the District was $363,290 for the years ended December 31, 2022.

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

At December 31, 2022, the District reported a liability of $6,732,760 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2022, 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, 2022, the District's proportion for the non-hazardous system was 0.341156%, which was a decrease of 0.010398% from its proportion measured as of December 31, 2021.

For the year ended December 31, 2022, the District recognized OPEB expense of $560,705. At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ 273,266	$ -
Difference between expected and actual experience	677,708	1,543,978
Changes of assumptions	1,064,833	877,416
Changes in proportion and difference between employer contributions and proportionate share of contributions	279,468	219,539
District contributions after measurement date	174,670	-
Total	$ 2,469,945	$ 2,640,933

NOTE 11 – OPEB PLAN (Continued)

The $174,670 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending December 31,		
2023	$	30,785
2024		30,268
2025		(399,273)
2026		(7,438)
Total	$	(345,658)

Actuarial assumptions: The total OPEB liability in the June 30, 2022 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Payroll Growth Rate	2.00%
Salary Increase	3.30% to 10.30%, Varies by Services
Investment Rate of Return	6.25%
Healthcare Cost Trend Rates (Pre-65)	Initial Trend Starting at 6.20% at January 1, 2024 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 9.00% in 2024, then Gradually Decreasing to an Ultimate Trend Rate of 4.05% Over a period of 13 Years.
Mortality	
Pre-retirement	PUB-2010 General Mortality Table, for the Non-Hazardous Systems, Projected with the Ultimate Rates from the MP-2014 Mortality Improvement Scale Using a Base Year of 2010
Post Retirement (non-disabled)	System-Specific Mortality Table Based on Mortality Experience from 2013-2018, Projected with the Ultimate Rates from MP-2014 Mortality Improvement Scale Using a Base Year of 2019.
Post Retirement (disabled)	PUB-2010 Disabled Mortality Table, with a 4-yeat Set-forward for both Male and Female Rates, Projected With the Ultimate Rates from the MP-2014 Mortality Improvement Scale Using a Base Year of 2010

The single discount rates used to calculate the total OPEB liability within each plan changed since the prior year. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2021, valuation process and was updated to better reflect the plan's anticipated long-term healthcare costs. There were no other material assumption changes.

NOTE 11 – OPEB PLAN (Continued)

Senate Bill 209 passed during the 2022 legislative session and increased the insurance dollar contribution for members hired on or after July 1, 2003, by $5 for each year of service a member attains over certain thresholds, depending on a member's retirement eligibility requirement. This increase in the insurance dollar contribution does not increase by 1.5% annually and is only payable for non-Medicare retirees. Additionally, it is only payable when the member's applicable insurance fund is at least 90% funded. The increase is first payable January 1, 2023. Senate Bill 209 also allows members receiving the insurance dollar contribution to participate in a medical insurance reimbursement plan that would provide the reimbursement of premiums for health plans other than those administered by KPPA.

The total OPEB Liability as of June 30, 2022, was determined using these updated provisions. There were no other material plan provision changes.

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:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Equity		
Public Equity	50.00 %	4.45 %
Private Equity	10.00 %	10.15 %
Fixed Income		
Core Fixed Income	10.00 %	0.28 %
Specialty Credit	10.00 %	2.28 %
Cash	- %	(0.91) %
Inflation Protected		
Real Estate	7.00 %	3.67 %
Real Return	13.00 %	4.07 %
Total	100.00 %	

Discount rate: The single discount rate used to measure the total OPEB liability was 5.70% for non-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 3.69%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2022. 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 is not currently being included in the calculation of the system's actuarial determined contributions, and it is understood that any 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.

NOTE 11 – OPEB PLAN (Continued)

The projection of cash flows used to determine the single discount rate must include an assumption regarding future employer contributions made each year. Future contributions are projected assuming that each participating employer in each insurance plan contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy, as most recently revised by House Bill 8, passed during the 2021 legislative session. The assumed future employer contributions reflect the provisions of House Bill 362 (passed during the 2018 legislative session) which limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30 2028, for the CERS plans.

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 (4.70% for non-hazardous) or 1-percentage-point higher (6.70% for non-hazardous) than the current rate:

	1% Decrease	Current Discount	1% Increase
Non-Hazardous	$ 9,000,626	$ 6,732,760	$ 4,857,990

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates: 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 healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Non-Hazardous	$ 5,005,658	$ 6,732,760	$ 8,806,685

Other Information about the OPEB Plan

Payable to the OPEB Plan: At December 31, 2022, the District reported a payable of $32,759 for the outstanding amount of contributions to the OPEB plan required for the years ended December 31, 2022.

OPEB plan fiduciary net position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Kentucky Public Pensions Authority Annual Comprehensive Financial Report on the KPPA website at www.kyret.ky.gov.

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 – RISKS AND UNCERTAINTIES – COVID-19 OUTBREAK

In 2020, the World Health Organization announced a global health emergency later classified as a global pandemic as a result of the COVID-19 outbreak. The outbreak and response have impacted financial and economic markets across the World and within the United States. The full impact continues to evolve and as such, it is uncertain as to the full magnitude that the pandemic will have on the District's financial condition, liquidity, and future results of operations. Management is actively monitoring the possible effects on every aspect of the District.

NOTE 14 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through April 20, 2023, which is the date the financial statements were available to be issued.

In January 2023, the District issued Revenue Bonds, Series 2023A for $17,615,000. The bonds, in addition to an $8,000,000 contribution by the District, were used to pay off the Revenue Bond Anticipation Notes, Series 2021A. The bonds were sold at a premium of $576,489, and the final principal payment for the bond will be due in February 2048.

In February 2023, the Kentucky Public Service Commission approved the District's application for a rate adjustment. The rate adjustment is to be implemented in two phases, with the first phase adjustment being implemented in February 2023 for an approximate 7.2% rate increase. The second adjustment will become effect in February 2024 for an approximate 6.6% rate increase.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
DECEMBER 31, 2022

County Employees Retirement System
Last 10 Calendar Years*

	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's Proportion of the Net Pension Liability - Non-Hazardous	0.341174%	0.351637%	0.339709%	0.330854%	0.312275%	0.320590%	0.335200%	0.344120%	0.333600%
Total District's Proportionate Share of the Net Pension Liability	$ 24,663,515	$ 22,419,617	$ 26,055,399	$ 23,269,110	$ 19,018,499	$ 18,765,118	$ 16,504,154	$ 14,819,690	$ 11,002,199
District's Covered Payroll	$ 9,357,873	$ 8,930,918	$ 8,757,359	$ 8,040,890	$ 7,732,260	$ 7,925,067	$ 7,972,340	$ 7,931,952	$ 7,931,952
District's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	263.56%	251.03%	297.53%	289.38%	245.96%	236.78%	207.02%	186.84%	138.71%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability - Non-Hazardous	52.42%	57.33%	47.81%	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%

** Only nine 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, 2022

County Employees Retirement System
Last 10 Calendar Years*

Non-Hazardous	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 2,231,101	$ 1,875,015	$ 1,723,667	$ 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	(2,231,101)	(1,875,015)	(1,723,667)	(1,557,127)	(1,230,042)	(1,099,103)	(1,045,628)	(1,429,517)	(1,483,609)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's Covered Payroll	$ 9,811,881	$ 9,357,873	$ 8,930,918	$ 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	22.74%	20.04%	19.30%	17.78%	15.30%	14.21%	13.19%	17.93%	18.70%

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

NORTHERN KENTUCKY WATER DISTRICT
NOTES TO SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS
DECEMBER 31, 2022

NOTE 1 - ACTUARIAL ASSUMPTIONS

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2022:

Valuation Date:	June 30, 2020
Experience Study	July 1, 2013 to June 30, 2018
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level percent of pay
Remaining Amortization Period:	30 years closed period at June 30, 2019 *Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases*
Payroll Growth Rate:	2.00%
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 10.30%, varies by service
Investment Rate of Return:	6.25%
Phase-in Provision:	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018

The retiree mortality is a System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.

NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
DECEMBER 31, 2022

County Employees Retirement System
Last 10 Calendar Years*

	2022	2021	2020	2019	2018	2017	2016
District's Proportion of the Net OPEB Liability - Non-Hazardous	0.341156%	0.351554%	0.339610%	0.330768%	0.312275%	0.320590%	0.335200%
Total District's Proportionate Share of the Net OPEB Liability	$ 6,732,760	$ 6,730,325	$ 8,200,549	$ 5,563,369	$ 5,544,345	$ 6,444,956	$ 5,055,231
District's Covered Payroll	$ 9,357,873	$ 8,930,918	$ 8,757,359	$ 8,040,890	$ 7,732,260	$ 7,925,067	$ 7,972,340
District's Proportionate Share of the Net OPEB Liability as a Percentage of Its Covered Payroll	71.95%	75.36%	93.64%	69.19%	71.70%	81.32%	63.41%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability - Non-Hazardous	60.95%	62.91%	51.67%	60.44%	57.62%	52.39%	55.24%

** Only seven 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, 2022

County Employees Retirement System
Last 10 Calendar Years*

Non-Hazardous	2022	2021	2020	2019	2018	2017	2016
Contractually Required Contribution	$ 363,290	$ 489,371	$ 425,112	$ 438,448	$ 399,058	$ 364,575	$ 371,330
Contributions in Relation to the Contractually Required Contribution	(363,290)	(489,371)	(425,112)	(438,448)	(399,058)	(364,575)	(371,330)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's Covered Payroll	$ 9,811,881	$ 9,357,873	$ 8,930,918	$ 8,757,359	$ 8,040,890	$ 7,732,260	$ 7,925,067
Contributions as a Percentage of Covered Payroll	3.70%	5.23%	4.76%	5.01%	4.96%	4.71%	4.69%

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

NORTHERN KENTUCKY WATER DISTRICT
NOTES TO SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
DECEMBER 31, 2022

NOTE 1 – ACTUARIAL ASSUMPTIONS

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2022:

Valuation Date:	June 30, 2020
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level percent of pay
Remaining Amortization Period:	30-year, closed period at June 30, 2019, *Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases*
Payroll Growth:	2.00%
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 10.30%, varies by service
Investment Return:	6.25%
Healthcare Trend Rates:	
Pre-65:	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2021 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Post-65:	Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2021 premiums were known at the time of the valuation and were incorporated into the liability measurement. Additionally, Humana provided "Not to Exceed" 2022 Medicare premiums, which were incorporated and resulted in an assumed 2.90% increase in Medicare premiums at January 1, 2022.

OTHER SUPPLEMENTARY INFORMATION

NORTHERN KENTUCKY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET TO ACTUAL
YEAR ENDED DECEMBER 31, 2022

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues			
Water Sales	$ 56,839,212	$ 59,541,043	$ 2,701,831
Forfeited Discounts	825,000	983,494	158,494
Rents From Property	372,700	357,499	(15,201)
Other Water Revenues	398,064	259,619	(138,445)
Total Operating Revenues	58,434,976	61,141,655	2,706,679
Operating Expenses			
Operation and Maintenance Expense	34,389,766	33,683,678	706,088
Depreciation Expense	12,120,000	12,487,979	(367,979)
Total Operating Expenses	46,509,766	46,171,657	338,109
Net Operating Income	11,925,210	14,969,998	3,044,788
Non-Operating Income (Expense)			
Investment Income	384,000	2,007,323	1,623,323
Miscellaneous Non-Operating Income	89,100	240,514	151,414
Loss on Abandonment of Mains	-	(139,273)	(139,273)
Interest on Long-Term Debt and Customer Deposits	(5,142,092)	(4,940,084)	202,008
Amortization of Debt Premiums and Defeasance Costs	-	1,547,728	1,547,728
Pension Expense	-	(40,243)	(40,243)
Other Post Employment Benefit Expense	-	(560,705)	(560,705)
Arbitrage Expense	-	(222,923)	(222,923)
Gain on Sale of Capital Assets	-	20,899	20,899
Total Non-Operating Expense	(4,668,992)	(2,086,764)	2,582,228
Change in Net Position Before Capital Contributions	7,256,218	12,883,234	5,627,016
Capital Contributions	-	2,420,667	2,420,667
Change in Net Position	$ 7,256,218	$ 15,303,901	$ 8,047,683

NORTHERN KENTUCKY WATER DISTRICT
STATEMENT OF WATER OPERATING REVENUE
YEAR ENDED DECEMBER 31, 2022

Operating Revenues	
Metered Sales	
Sales to Residential Customers	$ 36,609,493
Sales to Commercial Customers	8,299,997
Sales to Industrial Customers	4,229,063
Sales to Public Authorities	2,164,236
Sales to Multiple Family Dwellings	6,010,733
Sales Through Bulk Loading Stations	78,102
Total Metered Sales	57,391,624
Fire Protection Revenue	89,355
Sales For Resale	2,060,064
Total Sales of Water	59,541,043
Other Revenue	1,600,612
Total Operating Revenues	$ 61,141,655

NORTHERN KENTUCKY WATER DISTRICT
STATEMENT OF COMBINED OPERATION AND MAINTENANCE EXPENSES
YEAR ENDED DECEMBER 31, 2022

Operating and Maintenance Expenses	
Salaries and Wages	$ 10,090,506
Employee Pensions and Benefits	6,018,749
Taxes Other Than Income Taxes	748,779
Purchased Power	3,616,740
Chemicals	3,596,207
Materials and Supplies	2,556,622
Contractual Services	4,658,882
Transportation Expenses	860,755
Insurance	719,784
Bad Debt Expense	437,577
Miscellaneous Expense	265,396
Regulatory Commission Assessment	113,681
Total Operating and Maintenance Expenses	$ 33,683,678

NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF INSURANCE COVERAGES
December 31, 2022

Company	Policy Number	Description of Coverage		Amount of Coverage	Effective Period From	Effective Period To
Travelers Insurance	ZLP-14T80653	General Liability	$	1,000,000	1/1/2022	1/1/2023
Travelers Insurance	ZUP14T80665	Umbrella	$	19,000,000	1/1/2022	1/1/2023
Travelers Insurance	ZLP14T80653	Public Officials	$	1,000,000	1/1/2022	1/1/2023
Travelers Insurance	H-810-6R989070	Business Auto	$	1,000,000	1/1/2022	1/1/2023
Travelers Insurance	H-630-6R989070	Property-Including Equipment	$	323,718,639	1/1/2022	1/1/2023
Travelers Insurance	H-630-6R989070	Employee Dishonesty	$	500,000	1/1/2022	1/1/2023
Coalition Insurance	C-4LRU-169579-CYBER-2022	Cyber Liability	$	2,000,000	1/1/2022	1/1/2023
Kentucky Employers Mutual Insurance	WC 338786	Worker's Compensation	$	1,000,000	7/1/2021	7/1/2022
Kentucky Employers Mutual Insurance	WC 338786	Worker's Compensation	$	1,000,000	7/1/2022	7/1/2023
Cincinnati Insurance	8877070	Fidelity Bond		Per Application	1/1/2022	12/31/2022
Great American Insurance	PEL1093742-02	Pollution Liability	$	15,000,000	1/1/2022	1/1/2023

RETAIL WATER RATES

1. Monthly Service Rate

First	1,500 Cubic Feet	$4.77 per 100 Cubic Feet
Next	163,500 Cubic Feet	$4.44 per 100 Cubic Feet
Over	165,000 Cubic Feet	$3.25 per 100 Cubic Feet

Sub District B shall be assessed a monthly surcharge in the amount of	$	11.96
Sub District C shall be assessed a monthly surcharge in the amount of	$	11.06
Sub District D shall be assessed a monthly surcharge in the amount of	$	28.96
Sub District E shall be assessed a monthly surcharge in the amount of	$	29.41
Sub District F shall be assessed a monthly surcharge in the amount of	$	13.70
Sub District G shall be assessed a monthly surcharge in the amount of	$	19.19
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	$	28.92
Sub District K shall be assessed a monthly surcharge in the amount of	$	6.45
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	$	4.59
Sub District RF shall be assessed a monthly surcharge in the amount of	$	20.97

2. Quarterly Rates

First	4,500 Cubic Feet	$4.77 per 100 Cubic Feet
Next	490,500 Cubic Feet	$4.44 per 100 Cubic Feet
Next	495,000 Cubic Feet	$3.25 per 100 Cubic Feet

3. Fixed Service Charge

Meter Size	Monthly	Quarterly
5/8”	$ 18.50	$ 40.50
3/4”	$ 19.00	$ 42.50
1”	$ 20.80	$ 48.80
1½”	$ 23.40	$ 57.70
2”	$ 29.60	$ 80.90
3”	$ 71.30	$ 251.80
4”	$ 89.50	$ 315.50
6”	$ 132.40	$ 466.20
8”	$ 178.80	$ 637.10
10” and Larger	$ 237.80	$ 831.90

WHOLESALE WATER RATES

Bullock Pen Water District	$3.98 per 1,000 Gallons (or) $2.98 per 100 Cubic Feet
City of Walton	$3.98 per 1,000 Gallons (or) $2.98 per 100 Cubic Feet
Pendleton District	$3.98 per 1,000 Gallons (or) $2.98 per 100 Cubic Feet

MISCELLANEOUS SERVICE FEES

<u>Service Area Non-Recurring Charges</u>

Returned Check Charge	$	20.00	
Water Hauling Station	$	6.38	/ 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, 2022

COMMISSIONERS	TITLE	TERM EXPIRES
Joseph J. Koester	Chair	July 31, 2024
Fred A. Macke, Jr.	Vice-Chair	August 26, 2024
Douglas C Wagner, CDT	Treasurer	August 26, 2025
Jody R. Lange, CPA, CGMA	Secretary	August 28, 2023
Clyde Cunningham		August 28, 2023
Nicholas E. Winnike		August 28, 2025

ADMINISTRATIVE STAFF	TITLE
Lindsey Rechtin, CPA	President/CEO
Stacey Kampsen, CPA	Vice President of Finance and Support Services
Amy Stoffer, PE	Vice President of Engineering, Production, and Distribution

REQUIRED REGULATORY INFORMATION

VonLehman
CPA & ADVISORY FIRM

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, 2022 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 April 20, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 or significant deficiencies may exist that have not been identified.

810 Wright's Summit Parkway, Suite 300, Fort Wright, KY 41011 859.331.3300 VLCPA.COM
9987 Carver Road, Suite 120, Blue Ash, OH 45242 513.891.5911
5975 Castle Creek Parkway North Drive, Suite 400, Indianapolis, IN 46250 317.469.0169

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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
April 20, 2023