

**NORTHERN KENTUCKY  
WATER DISTRICT**

**ANNUAL  
FINANCIAL REPORT**

**For the Years Ended December 31, 2025 and 2024**

**Prepared by:**

**Northern Kentucky Water District  
Finance Department  
Erlanger, Kentucky**

**Stacey Kampsen, CPA  
Vice President of Finance and Support Services**

**Mackenzie Enzweiler  
Finance Manager**

**NORTHERN KENTUCKY WATER DISTRICT**  
**ANNUAL**  
**FINANCIAL REPORT**  
**For the Years Ended December 31, 2025 and 2024**

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**Board of Directors**

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Douglas C. Wagner, CDT  
Chair

Nicholas E. Winnike  
Vice-Chair

Gary E. Holland  
Secretary

Fred A. Macke, Jr.  
Treasurer

Joseph J. Koester  
Commissioner

Jody R. Lange, CPA, CGMA  
Commissioner

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**Executive Team**

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Lindsey Rehtin, CPA  
President/CEO

Richard Harrison, P.E.  
Vice President of Engineering & Distribution

Stacey Kampsen, CPA  
Vice President of Finance & Support Services

Johnathan Moor, P.E.  
Vice President of Water Quality & Production

Chris Bryant  
Director of Technology, Innovation & Business Intelligence

Tom Edge, Esq.  
General Counsel & Director of Compliance, Communications & Regulatory Affairs

Stacey Hoeter, SHRM-CP  
Director of Human Resources and Safety

## INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors  
Northern Kentucky Water District  
Erlanger, Kentucky**

### **Opinions**

We have audited the accompanying financial statements of the business-type activities of the Northern Kentucky Water District, as of and for the years ended December 31, 2025 and 2024, 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 financial statements referred to above present fairly, in all material respects, the respective financial positions of the business-type activities of the Northern Kentucky Water District as of December 31, 2025 and 2024, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinions**

We conducted our audits in accordance with accounting standards generally accepted in the United States of America. 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **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.

### **Auditor's Responsibilities 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 auditor's report that includes our opinions. 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 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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted 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* and the *Multiple Employer, Cost Sharing, Defined Benefit Pension and OPEB Plan* disclosures 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 the 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 opinions on the financial statements that collectively comprise the Northern Kentucky Water District's basic financial statements. The accompanying statements of revenues, expenses and changes in net position – budget to actual, statements of operating revenue, statements of combined operation and maintenance expenses, schedules of insurance coverages, and schedules of rates, rules and regulations, and the schedule of expenditure of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative*

*Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 listed above 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 23, 2026, 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.

*Chamberlin Owen & Co., Inc.*

**Chamberlin Owen, & Co., Inc.**  
Erlanger, Kentucky  
April 23, 2026

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

Our discussion and analysis of Northern Kentucky Water District's financial performance provides an overview of the District's financial activities for the years ended December 31, 2025 and 2024. This information is presented in conjunction with the audited financial statements that follow this section.

**2025 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 \$342,155,152 (net position). This was an increase of \$36,019,654 from the prior year.

- Operating revenues decreased \$1,674,495 or (2.28%) from 2024, mainly due to a leveling of water sales revenue after a significant \$6,054,795 increase in the prior year.
- The debt coverage ratio decreased from 2.29 in 2024 to 2.00 in 2025. The debt coverage ratio including subordinate debt decreased from 1.97 in 2024 to 1.71 in 2025.

**2024 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 \$306,135,498 (net position). This was an increase of \$28,358,107 from the prior year.

- Operating revenues increased \$6,103,031 or 9.05% from 2023.
- The debt coverage ratio increased from 2.08 in 2023 to 2.29 in 2024. The debt coverage ratio including subordinate debt increased from 1.84 in 2023 to 1.97 in 2024.

**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 Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, the Statements of Cash Flows and the Notes to the Financial Statements. The report also contains additional required supplementary information and other supplementary information in addition to the basic financial statements themselves.

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

The Statements 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 Statements 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 Statements 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

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

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 2025 compared to 2024.

<b>Table 1</b>		
<b>Net Position</b>		
<b>December 31,</b>		
	<b>2025</b>	<b>2024</b>
<b>Assets</b>		
Current Assets	\$ 80,752,672	\$ 74,151,685
Restricted Assets - Noncurrent	53,509,857	52,694,908
Other Noncurrent Assets	16,699,577	18,719,194
Capital Assets, Net	377,114,954	357,589,041
Total Assets	528,077,060	503,154,828
<b>Deferred Outflows of Resources</b>	5,181,312	6,175,877
<b>Liabilities</b>		
Current Liabilities	23,749,195	21,958,995
Restricted Liabilities - Noncurrent	1,144,320	375,620
Other Noncurrent Liabilities	151,494,795	166,207,705
Total Liabilities	176,388,310	188,542,320
<b>Deferred Inflows of Resources</b>	14,714,910	14,652,887
<b>Net Position</b>		
Net Investment in Capital Assets	234,052,655	201,224,628
Restricted	52,365,537	52,319,288
Unrestricted	55,736,960	52,591,582
<b>Total Net Position</b>	<b>\$ 342,155,152</b>	<b>\$ 306,135,498</b>

The District's net position for 2025 increased 11.8% to \$342,155,152 compared to a 10.2% increase to \$306,135,498 in 2024.

A portion of the District's net position, 15.3% and 17.1% in 2025 and 2024, respectively, is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

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

An additional portion of the District's net position 68.4 and 65.7% in 2025 and 2024, respectively, 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 16.3% and 17.2% in 2025 and 2024, respectively, may be used to meet the District's ongoing obligations to customers and creditors.

The following points explain the major changes impacting the 2025 net position as shown on the previous page:

- Cash and cash equivalents decreased \$404,433 from the previous year primarily due to continued payment on debt balances and capital asset purchases
- Investments decreased \$500,981 from the previous year due to transfer of an investment reserve fund to cash and cash equivalents in the current year.
- Accounts receivable, net increased \$4,744,097 due to KIA grants receivable for construction of capital assets.
- Capital assets, net of accumulated depreciation increased \$19,525,913 from the previous year due to additions of capital assets totaling \$38,417,157, depreciation expense incurred on capital assets of \$13,829,727 and net disposals totaling \$5,061,517.
- Bond indebtedness decreased \$14,416,833 due to continued payments on outstanding bonds.
- Notes payable increased \$1,379,173 from the previous year due to \$3,635,642 in additional draws on notes, offset by \$2,256,467 in continued payments on outstanding notes.
- The pension liability decreased \$1,636,936 as a result of an overall decrease in the net pension and liability of the Kentucky Public Pension Authority's CERS non-hazardous pension plan.
- The Other Post Employment Benefits (OPEB) asset decreased \$967,312 and became a net OPEB liability of \$343,712. This follows the total OPEB liability of the Kentucky Public Pension Authority's CERS non-hazardous OPEB plan.
- The pension liability decreased \$1,089,796 and the OPEB asset increased \$136,708 as a result of an overall decrease in the net pension and net OPEB liability of the Kentucky Public Pension Authority's CERS non-hazardous plan.

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

Table 2 shows the changes in net position, as well as revenue and expenses for 2025 compared to 2024.

**Table 2  
Changes in Net Position**

	<b>Years Ended December 31,</b>	
	<i>(Reclassified)</i>	
	<b>2025</b>	<b>2024</b>
<b>Operating Revenues</b>		
Water Sales	\$ 70,076,786	\$ 71,779,299
Forfeited Discounts	1,061,000	1,101,243
Rents From Properties	345,143	339,753
Other Water Revenues	347,237	284,366
Total Operating Revenues	<u>71,830,166</u>	<u>73,504,661</u>
<b>Operating Expenses</b>		
Operation and Maintenance Expense	41,938,749	39,542,377
Depreciation and Amortization	13,999,245	13,077,527
Total Operating Expenses	<u>55,937,994</u>	<u>52,619,904</u>
Net Operating Income	<u>15,892,172</u>	<u>20,884,757</u>
<b>Non-Operating Income (Expense)</b>		
Investment Income	3,851,760	4,529,359
Grant Revenue	8,446,924	2,062,318
Settlement Revenue	5,773,611	-
Loss on Abandonment of Mains	(683,935)	(431,646)
Interest on Long-Term Debt	(4,104,114)	(4,653,502)
Bond Issuance Costs	-	-
Amortization of Debt Premiums and Defeasement Costs	1,570,787	1,570,787
Net Effect of Change in Pension Expense	1,114,392	1,080,609
Net Effect of Change in OPEB Expense	1,323,183	1,501,462
Arbitrage Expense	(431,800)	(338,179)
Miscellaneous Non-Operating Income	11,248	(13,936)
Gain (Loss) on Disposal of Capital Assets	58,203	(185,420)
Total Non-Operating Income (Expense)	<u>16,930,259</u>	<u>5,121,852</u>
Change in Net Position		
Before Capital Contributions	32,822,431	26,006,609
Capital Contributions	<u>3,197,223</u>	<u>2,351,497</u>
<b>Change in Net Position</b>	<b><u>\$ 36,019,654</u></b>	<b><u>\$ 28,358,106</u></b>

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

In reviewing income before capital contributions, the financial statements showed net income of \$32,822,431 and \$26,006,609 for 2025 and 2024, respectively. Operating revenues decreased (2.28%) in 2025 versus an increase of 9.05% in 2024. This is mainly as a result of the leveling off of the second phase rate increases that went into effect February 2024, combined with a decrease in water consumption in 2025 compared to 2024.

Operating expenses (including depreciation) increased 6.3% in 2025 and 6.2% in 2024 from the previous years due to significant increases in employee wages, contractual services and purchased power.

Non-Operating Income (Expense) increased \$11,808,407 in 2025 due to settlement revenue of \$5,773,611 and a \$6,384,606 increase in grant revenue from the Commonwealth of Kentucky's Cleaner Water Grant program (ARPA funded grants). Non-Operating Income (Expense) increased \$2,844,481 in 2024 due to \$2,062,318 in grant revenue from the Commonwealth of Kentucky's Cleaner Water Grant program (ARPA funded grants).

Capital contributions in 2025 were \$3,197,223 compared to \$2,351,497 in 2024; this was an increase of \$845,726 compared to the increase of \$497,203 (26.8%) seen in 2024. This is primarily due to the increase of mains constructed by other entities and contributed to the District.

**Capital Assets**

Table 3 summarizes the District's capital assets at the end of 2025 as compared to 2024.

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

	<u>December 31,</u>	
	<u>2025</u>	<u>2024</u>
<b>Not Being Depreciated</b>		
Land	\$ 3,358,565	\$ 3,358,565
Construction in Progress	31,297,629	12,274,174
Plant Acquisition Adjustment	5,516,136	5,516,136
<b>Other Capital Assets</b>		
Utility Plants, Transmission and Distribution, Source of Supply, Pumping System, Power Generation, Water Treatment, and General Plant and Equipment	<u>572,686,727</u>	<u>560,610,827</u>
Subtotal	612,859,057	581,759,702
Less Accumulated Depreciation	<u>(235,744,103)</u>	<u>(224,170,661)</u>
<b>Totals</b>	<b><u>\$ 377,114,954</u></b>	<b><u>\$ 357,589,041</u></b>

Additional information on the District's capital assets can be found in Note 7 of this report.

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

**Long-Term Liabilities**

Table 4 summarizes the District's long-term liabilities at the end of 2025 as compared to 2024

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

	<u>December 31,</u>	
	<u>2025</u>	<u>2024</u>
Bond Indebtedness	\$ 110,189,252	\$ 124,606,085
Notes Payable - Direct Borrowings	33,749,345	32,370,171
Subscription Liability	1,744,734	1,925,106
Compensated Absences	2,343,503	2,062,511
Arbitrage Liability	1,236,217	871,274
	<u><b>\$ 149,263,051</b></u>	<u><b>\$ 161,835,147</b></u>

The District had \$143,938,597 and \$156,976,256 in outstanding bond and note payable indebtedness at December 31, 2025 and 2024, respectively as shown in Table 4. Additional information on the District's capital assets can be found in Note 10 of this report.

**Economic Factors and Next Year's Budget**

The District's budget for 2026 provides for an increase in revenue compared to the 2025 budget mainly due to a modest increase in water sales and increases in grant and settlement revenue. A modest increase is anticipated for operating expenses as a result of an increase in employee related expenses along with increases to purchased power, materials and supplies, and contractual services. Other factors contributing to the increase in operating expenses are 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 or at [www.nkywater.org](http://www.nkywater.org).

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>STATEMENTS OF NET POSITION</b> <b>December 31, 2025 and 2024</b>
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	<u>2025</u>	<u>2024</u>
<b>Assets and Deferred Outflows of Resources</b>		
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 40,372,146	\$ 40,776,579
Investments	4,354,798	4,855,779
Accounts receivable		
Customers, net of allowance	7,368,762	8,515,518
Unbilled customers	11,000,000	11,200,000
Other	7,750,851	1,659,998
Lease receivable	145,996	132,309
Inventory supplies, at cost	3,623,653	2,828,190
Prepaid items	2,169,032	1,350,242
Restricted Assets		
Bond proceeds	-	22,525
Debt service account	1,702,340	1,944,477
Improvement, repair, and replacement	2,265,094	866,068
Total Current Assets	<u>80,752,672</u>	<u>74,151,685</u>
Noncurrent Assets		
Lease receivable	4,809,419	4,819,201
Restricted assets - cash and cash equivalents		
Bond proceeds	2,152,794	2,032,312
Debt service account	20,145,209	19,779,441
Improvement, repair, and replacement	10,154,842	10,546,789
Restricted assets - investments		
Debt service reserve account	21,057,012	20,336,366
Net other post-employment benefits asset	-	623,600
Miscellaneous deferred charges	10,192,979	11,345,219
Subscription assets, net of amortization	<u>1,697,179</u>	<u>1,931,174</u>
Capital Assets		
Land, system, buildings, and equipment	581,561,428	569,485,528
Construction in progress	31,297,629	12,274,174
Less: accumulated depreciation	<u>(235,744,103)</u>	<u>(224,170,661)</u>
Total Capital Assets, Net	<u>377,114,954</u>	<u>357,589,041</u>
Total Noncurrent Assets	<u>447,324,388</u>	<u>429,003,143</u>
Total Assets	<u>528,077,060</u>	<u>503,154,828</u>
<b>Deferred Outflow of Resources</b>		
Deferred loss on refundings	1,477,415	1,767,839
Deferred outflows related to pensions	1,952,596	2,698,616
Deferred outflows related to other post-employment benefits	<u>1,751,301</u>	<u>1,709,422</u>
Total Deferred Outflow of Resources	<u>5,181,312</u>	<u>6,175,877</u>
<b>Total Assets and Deferred Outflow of Resources</b>	<u>\$ 533,258,372</u>	<u>\$ 509,330,705</u>

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

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>STATEMENTS OF NET POSITION (Continued)</b> <b>December 31, 2025 and 2024</b>
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	<u>2025</u>	<u>2024</u>
<b>Liabilities and Deferred Inflow of Resources</b>		
<b>Liabilities</b>		
Current Liabilities		
Bond indebtedness	\$ 15,032,333	\$ 14,416,833
Notes payable	2,642,801	2,187,884
Subscription liability	57,997	238,471
Accounts payable	857,603	746,779
Accrued payroll and taxes	476,967	645,950
Accrued subscription interest	5,816	32,300
Compensated absences	280,756	256,252
Arbitrage liability	-	66,858
Other accrued liabilities	427,488	534,598
Liabilities payable - restricted assets		
Accrued interest payable	1,702,340	1,944,477
Accounts payable	2,265,094	888,593
Total Current Liabilities	<u>23,749,195</u>	<u>21,958,995</u>
Non-Current Liabilities		
Liabilities payable - restricted assets		
Accounts payable	1,144,320	375,620
Compensated absences	2,062,747	1,806,259
Arbitrage liability	1,236,217	804,416
Bonded indebtedness	95,156,919	110,189,252
Notes payable	31,106,544	30,182,288
Subscription liability	1,686,737	1,686,635
Net pension liability	19,901,919	21,538,855
Net other post-employment benefits liability	343,712	-
Total Long-Term Liabilities	<u>152,639,115</u>	<u>166,583,325</u>
Total Liabilities	<u>176,388,310</u>	<u>188,542,320</u>
<b>Deferred Inflows of Resources</b>		
Deferred inflow related to pensions	2,134,489	2,357,965
Deferred inflow related to OPEB	4,303,180	6,551,796
Deferred inflow related to leases	4,476,124	4,587,131
Deferred inflow related to grants	3,200,000	-
Deferred gain on refundings	601,117	1,155,995
Total Deferred Inflows of Resources	<u>14,714,910</u>	<u>14,652,887</u>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<u>191,103,220</u>	<u>203,195,207</u>
<b>Net Position</b>		
Net investment in capital assets	234,052,655	201,224,628
Restricted for:		
Debt service funds	41,202,221	40,115,807
Capital improvement projects	11,163,316	12,203,481
Unrestricted	55,736,960	52,591,582
<b>Total Net Position</b>	<u>342,155,152</u>	<u>306,135,498</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 533,258,372</u>	<u>\$ 509,330,705</u>

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

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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	<b>2025</b>	<i>(Reclassified)</i> <b>2024</b>
<b>Operating Revenues</b>		
Water sales	\$ 70,076,786	\$ 71,779,299
Forfeited discounts	1,061,000	1,101,243
Rents from property	345,143	339,753
Other water revenues	347,237	284,366
<b>Total Operating Revenues</b>	<u>71,830,166</u>	<u>73,504,661</u>
<b>Operating Expenses</b>		
Operation and maintenance	41,938,749	39,542,377
Depreciation and amortization	13,999,245	13,077,527
<b>Total Operating Expenses</b>	<u>55,937,994</u>	<u>52,619,904</u>
<b>Net Operating Income</b>	<u>15,892,172</u>	<u>20,884,757</u>
<b>Non-Operating Income (Expense)</b>		
Investment income	3,851,760	4,529,359
Grant revenue	8,446,924	2,062,318
Settlement revenue	5,773,611	-
Loss on abandonment of mains	(683,935)	(431,646)
Interest on long-term debt	(4,104,114)	(4,653,502)
Amortization of debt premiums and defeasance costs	1,570,787	1,570,787
Net effect of change in pension expense	1,114,392	1,080,609
Net effect of change in OPEB expense	1,323,183	1,501,462
Arbitrage expense	(431,800)	(338,179)
Miscellaneous non-operating revenue (expense)	11,248	(13,936)
Gain/(Loss) on disposal of capital assets	58,203	(185,420)
<b>Total Non-Operating Income (Expense)</b>	<u>16,930,259</u>	<u>5,121,852</u>
<b>Change in Net Position Before Capital Contributions</b>	32,822,431	26,006,609
Capital Contributions	3,197,223	2,351,497
<b>Change in Net Position</b>	36,019,654	28,358,106
<b>Net Position, Beginning of Year</b>	<u>306,135,498</u>	<u>277,777,392</u>
<b>Net Position, End of Year</b>	<u>\$ 342,155,152</u>	<u>\$ 306,135,498</u>

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

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>STATEMENTS OF CASH FLOWS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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	<u>2025</u>	<u>2024</u>
<b>Cash Flows from Operating Activities</b>		
Received from customers	\$ 67,086,069	\$ 69,538,250
Paid to suppliers for goods and services	(20,191,527)	(23,868,187)
Paid to or on behalf of employees for services	(19,894,688)	(18,916,406)
<b>Change in Net Cash from Operating Activities</b>	<u>26,999,854</u>	<u>26,753,657</u>
<b>Cash Flows from Investing Activities</b>		
Investment income	3,650,853	4,328,837
Purchases of investments, net of proceeds	(741,383)	(1,957,321)
<b>Change in Net Cash from Investing Activities</b>	<u>2,909,470</u>	<u>2,371,516</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Principal received on notes and bonds	3,635,642	7,412,000
Cash received from sale of asset	146,051	89,187
Principal payments on long term debt	(15,366,967)	(14,507,556)
Interest paid on bonds and notes	(5,168,310)	(5,739,594)
Acquisition and construction of capital assets and regulatory assets	(30,144,148)	(16,792,290)
Cash paid for arbitrage	(66,857)	-
Principal received as lessor	246,809	123,007
Interest received as lessor	200,907	200,522
Other non-operating income	17,431,783	2,048,382
<b>Change in Net Cash from Capital and Related Financing Activities</b>	<u>(29,085,090)</u>	<u>(27,166,342)</u>
<b>Increase in Cash and Cash Equivalents</b>	824,234	1,958,831
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>75,968,191</u>	<u>74,009,360</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 76,792,425</u>	<u>\$ 75,968,191</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income (loss)	\$ 15,892,172	\$ 20,884,757
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	13,999,245	13,077,527
Change in operating assets and liabilities		
Decrease (Increase) in receivables	1,146,756	(1,469,322)
Decrease (Increase) in accrued unbilled charges	200,000	(1,000,000)
Decrease (Increase) in other receivables	(6,090,853)	(1,497,089)
Decrease (Increase) in inventory supplies	(795,463)	270,567
Decrease (Increase) in prepaid assets	(818,790)	(432,026)
Decrease (Increase) in miscellaneous deferred charges	1,205,863	(950,443)
Increase (Decrease) in accounts payable	2,256,025	(2,489,505)
Increase (Decrease) in accrued payroll and taxes	(168,983)	34,947
Increase (Decrease) in compensated absences payable	280,992	133,964
Increase (Decrease) in other liabilities	(107,110)	190,280
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 26,999,854</u>	<u>\$ 26,753,657</u>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>STATEMENT OF CASH FLOWS (Continued)</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**Supplemental Schedule of Noncash Capital and Related Financing**

Change in fair value of investments	\$ 200,907	\$ 200,522
	<u>                    </u>	<u>                    </u>
Contributions of capital assets	\$ 3,197,223	\$ 2,351,497
	<u>                    </u>	<u>                    </u>
Net effect of change in pension expense	\$ 1,114,392	\$ 1,080,609
	<u>                    </u>	<u>                    </u>
Net effect of change in OPEB expense	\$ 1,323,183	\$ 1,501,462
	<u>                    </u>	<u>                    </u>
Amortization expense	\$ 1,570,787	\$ 1,570,787
	<u>                    </u>	<u>                    </u>

**Reconciliation of Cash and Cash Equivalents to the Statement of Net Position**

Cash and Cash Equivalents - Current	\$ 40,372,146	\$ 40,776,579
Cash and Cash Equivalents - Restricted	36,420,279	35,191,612
	<u>                    </u>	<u>                    </u>
Cash and Cash Equivalents	\$ 76,792,425	\$ 75,968,191
	<u>                    </u>	<u>                    </u>

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

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Description of Northern Kentucky Water District**

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.

The District is governed and operated by a Board of Directors, consisting of six Directors, who serve for four-year staggered terms, and such Directors may be reappointed. Directors are appointed by the County Judges Executive of Kenton and Campbell Counties.

**Reporting Entity**

Generally accepted accounting principles require that the District's financial statements include its component units if certain criteria regarding financial or operational relationships are met. Based on the evaluation criteria, the District has no component units.

**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 unsettled transactions and events as of the date of the financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results may differ from estimated amounts.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****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.

**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 them uncollectible. Based on these criteria, the District has estimated an allowance for doubtful accounts of \$60,000 and 65,000 at December 31, 2025 and 2024, respectively.

**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.

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2025 and 2024**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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 are 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 the installation of distribution systems which the District absorbs and provides for their operations and maintenance.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Subscription-Based Information Technology Arrangements**

The District has entered into multiple contracts that convey control of the right to use information technology software. The District has recognized an IT subscription liability and an intangible right-to-use IT subscription asset in the government-wide financial statements. At the commencement of the IT subscription term, the District initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the IT subscription liability is reduced by the principal portion of payments made. The right-to-use an IT subscription asset is initially measured as the sum of the initial IT subscription liability, adjusted for payments made at or before the commencement date, plus capitalization implementation costs less any incentives received from the SBITA vendor at or before the commencement of the subscription term. Subsequently, the right-to-use IT subscription asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to IT subscription arrangements include how the District determines the discount rate it uses to discount the expected payments to present value, term, and payments. Because the interest rates charged by vendors are not provided, the District uses the Federal Prime Interest Rate at December 31 of year of inception as the discount rate.

The IT subscription term includes the noncancellable period of the subscription. Payments included in the measurement of the liability are composed of fixed payments.

The District monitors changes in circumstances that would require a remeasurement of its IT subscription and will remeasure the right-to-use IT subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

Right-to-use IT subscription assets are reported with non-current assets and IT subscription liabilities are reported with both current and long-term liabilities on the statement of net position

**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 pay depending on length of service and other factors. The amounts recorded for accumulated vacation and sick were \$2,343,503 and \$2,062,511 as of December 31, 2025 and 2024, respectively.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****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.

**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.

**Adoption of New Accounting Standards***GASB Statement No. 99, Omnibus 2022*

*GASB 99* is related to leases, public-private partnerships, and subscription-based information technology arrangements. The requirement related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 was effective for the fiscal years beginning after June 15, 2023. This statement had no significant impact on the District's financial statements.

*GASB Statement No. 100, Accounting Changes and Error Corrections*

*GASB 100* took effect for financial statements starting with fiscal years beginning after June 15, 2023. This statement had no significant effect of the District's financial statements.

*GASB Statement No. 101, Compensated Absences*

*GASB 101* took effect for financial statements starting with fiscal years beginning after December 15, 2023; however, the District's chose to early adopt these requirements, as was encouraged in the standard, beginning with the year ended December 31, 2023.

*GASB Statement No. 102, Certain Risk Disclosures*

*GASB 102* requires that other capital leases such as leased assets available for use, assets under Public-Private and Public-Public Partnerships and assets listed as Subscription-Based Information Technology Arrangements, be disclosed separately by major classes. This statement took effect for financial statements starting with the fiscal years that begin after June 15, 2024.

**Recently Issued Significant Accounting Standards***GASB Statement No. 103, Financial Reporting Model Improvements*

*GASB 103* seeks to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. This statement takes effect for financial statements starting with fiscal years beginning after June 15, 2025, with early implementation encouraged.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*GASB Statement No. 104, Disclosure of Certain Capital Assets*

*GASB 104* seeks to improve disclosure of information about capital assets by required separate disclosure of capital assets under *GASB 34*, Leases under *GASB 87*, Public Private Partnerships under *GASB 94*, and Subscription Based Technology Arrangements under *GASB 96*. This statement takes effect for financial statements starting with the fiscal years beginning after June 15, 2025, with early implementation encouraged.

*GASB Statement No. 105, Subsequent Events*

*GASB 105* seeks to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. The requirements of this Statement are effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter. Earlier application is encouraged.

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

<p><b>NORTHERN KENTUCKY WATER DISTRICT</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  <b>For the Years Ended December 31, 2025 and 2024</b></p>
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**NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)**

- 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)(1).

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

**Deposits and 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, 2025 and 2024, 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, 2025 and 2024.

*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, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Bond Cash and Cash Equivalents	<u>\$ 2,152,794</u>	<u>\$ 2,054,837</u>

*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, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Cash and Cash Equivalents	\$ 16,259,209	\$ 8,756,625
Purchase and Resale Agreements	732,136	732,136
Forward Delivery Agreements	2,976,008	3,008,900
US Treasuries	994,180	5,959,318
FHLB Bonds	-	1,800,000
Accrued Interest Receivable and CD Market Change	95,479	79,387
	<u>\$ 21,057,012</u>	<u>\$ 20,336,366</u>

<p><b>NORTHERN KENTUCKY WATER DISTRICT</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  <b>For the Years Ended December 31, 2025 and 2024</b></p>
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**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, 2025 and 2024:

	2025	2024
Debt Service Cash and Cash Equivalents	<u>\$ 21,847,549</u>	<u>\$ 21,723,918</u>

**Improvement, Repair, and Replacement** — These assets are available to make major repairs and replacements and to pay the cost of construction of additions, extensions and improvements to the water system. The balance of the improvement, repair, and replacement account consisted of the following at December 31, 2025 and 2024:

	2025	2024
IR&R Cash and Cash Equivalents	<u>\$ 12,419,936</u>	<u>\$ 11,412,856</u>

**NOTE 4 – 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 SD1 has the ability to access.

**Level 2** – Other observable inputs (included but not limited to, quotes process for similar assets or liabilities in the markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets and liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks, and default rates) or other market-corroborated inputs).

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

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Restricted assets are classified in Level 2 and are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 4 – FAIR VALUE MEASUREMENT (Continued)**

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value at December 31, 2025:

Investments	Level 1	Level 2	Level 3	Total
Certificates of Deposit	\$ 534,000	\$ -	\$ -	\$ 534,000
US Treasuries	-	1,111,236	-	1,111,236
Commercial Paper	-	2,709,562	-	2,709,562
Total Investments	<u>\$ 534,000</u>	<u>\$ 3,820,798</u>	<u>\$ -</u>	<u>\$ 4,354,798</u>
<b>Restricted Investments</b>				
Cash and Equivalents	\$ 16,354,688	\$ -	\$ -	\$ 16,354,688
Purchase and Resale Agreements	-	732,136	-	732,136
US Treasuries	-	994,180	-	994,180
Forward Delivery Agreements	-	2,976,008	-	2,976,008
Total Restricted Investments	<u>\$ 16,354,688</u>	<u>\$ 4,702,324</u>	<u>\$ -</u>	<u>\$ 21,057,012</u>

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value at December 31, 2024:

Investments	Level 1	Level 2	Level 3	Total
Certificates of Deposit	\$ 1,155,000	\$ -	\$ -	\$ 1,155,000
US Treasuries	-	1,305,165	-	1,305,165
Commercial Paper	-	2,395,614	-	2,395,614
Total Investments	<u>\$ 1,155,000</u>	<u>\$ 3,700,779</u>	<u>\$ -</u>	<u>\$ 4,855,779</u>
<b>Restricted Investments</b>				
Cash and Equivalents	\$ 8,836,012	\$ -	\$ -	\$ 8,836,012
Purchase and Resale Agreements	-	732,136	-	732,136
US Treasuries	-	5,959,318	-	5,959,318
Forward Delivery Agreements	-	3,008,900	-	3,008,900
Federal Home Loan Bonds	-	1,800,000	-	1,800,000
Total Restricted Investments	<u>\$ 8,836,012</u>	<u>\$ 11,500,354</u>	<u>\$ -</u>	<u>\$ 20,336,366</u>

**NOTE 5 – ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at December 31, 2025 and 2024:

	2025	2024
Accounts receivable arising from billings of metered water sales, net of allowance	\$ 7,368,762	\$ 8,515,518
Accrual for estimated unbilled water revenue	11,000,000	11,200,000
Grant receivable	7,555,955	1,454,031
Other	194,896	205,967
Total	<u>\$ 26,119,613</u>	<u>\$ 21,375,516</u>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 6 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES**

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	Total
2026	\$ 145,996	195,567	\$ 341,563
2027	158,432	189,522	347,954
2028	177,588	182,807	360,395
2029	185,749	175,570	361,319
2030	198,038	167,901	365,939
2031-2035	1,228,086	704,024	1,932,110
2036-2040	1,686,307	415,131	2,101,438
2041-2045	1,125,448	94,225	1,219,673
2046-2047	49,771	1,423	51,194
Total	<u>\$ 4,955,415</u>	<u>\$ 2,126,170</u>	<u>\$ 7,081,585</u>

The District reported a lease receivable of \$4,955,415 at December 31, 2025 and a related deferred inflows of \$4,476,124. During the year ended December 31, 2025, the District recognized \$250,714 of lease revenue and \$200,907 of interest revenue related to these leases.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 7– CAPITAL ASSETS**

Capital assets for the District for the year ended December 31, 2025 were as follows:

Land, System, Buildings and Equipment	Balance at December 31, 2024	Additions	Deletions	Balance at December 31, 2025
Land and Land Rights	\$ 3,358,565	\$ -	\$ -	\$ 3,358,565
Structures and Improvements	138,110,659	1,019,141	-	139,129,800
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	30,750	-	4,066,777
Pumping Equipment	13,116,966	212,704	(242,939)	13,086,731
Water Treatment Equipment	34,679,315	117,247	(106,463)	34,690,099
Distribution Reservoirs and Standpipes	11,354,093	-	-	11,354,093
Transmission /Distribution Mains	250,859,981	7,958,195	(1,015,531)	257,802,645
Services	39,642,775	1,730,191	(393,509)	40,979,457
Meters	27,063,555	1,536,396	(471,503)	28,128,448
Hydrants	11,208,373	267,756	(75,252)	11,400,877
Other Plant Equipment	3,457,017	-	(24,645)	3,432,372
Office Furniture and Equipment	3,959,919	423,488	(78,652)	4,304,755
Transportation Equipment	8,032,093	1,027,078	(426,961)	8,632,210
Tools, Shop, and Garage Equip.	1,241,517	44,404	-	1,285,921
Laboratory Equipment	1,104,126	545,829	(53,976)	1,595,979
Power Operated Equipment	1,060,274	-	(35,298)	1,024,976
Communication Equipment	6,686,381	88,691	(1,241)	6,773,831
Miscellaneous Equipment	668,892	-	-	668,892
Utility Plant Acquisition Adjust.	545,925	-	-	545,925
Acquisition Adjustment - Newport	4,970,211	-	-	4,970,211
<b>Total Land, System, Buildings and Equipment</b>	<b>569,485,528</b>	<b>15,001,870</b>	<b>(2,925,970)</b>	<b>581,561,428</b>
Construction in Progress	12,274,174	23,415,287	(4,391,832)	31,297,629
<b>Total Capital Assets</b>	<b>581,759,702</b>	<b>38,417,157</b>	<b>(7,317,802)</b>	<b>612,859,057</b>
Less: Accumulated Depreciation	(224,170,661)	(13,829,727)	2,256,285	(235,744,103)
<b>Capital Assets, Net</b>	<b>\$ 357,589,041</b>	<b>\$ 24,587,430</b>	<b>\$ (5,061,517)</b>	<b>\$ 377,114,954</b>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 8 – SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS**

The District has noncancellable subscription-based information technology arrangements (SBITAs) for the right to use IT vendors' information technology software reportable under GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which was implemented in fiscal year 2023. For SBITAs, the District recognizes a subscription asset with a corresponding subscription liability. The liability has been discounted at the District's estimated incremental borrowing rate on the contracts.

The total amounts of subscription assets and the related accumulated amortization at December 31, 2025 and 2024 are as follows:

	<u>2025</u>	<u>2024</u>
Subscription based assets	\$ 2,030,854	\$ 2,259,458
Less: accumulated amortization	<u>(333,675)</u>	<u>(328,285)</u>
Subscription based assets, net	<u>\$ 1,697,179</u>	<u>\$ 1,931,173</u>

The following schedule details minimum subscription payments to maturity for the District's SBITA liability at December 31, 2025:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 38,909	\$ 19,088	\$ 57,997
2027	47,938	23,516	71,454
2028	47,938	23,516	71,454
2029	102,138	50,105	152,243
2030	102,138	50,105	152,243
2031-2035	520,903	255,536	776,439
2036-2040	546,948	268,313	815,261
2041-2043	<u>337,822</u>	<u>165,723</u>	<u>503,545</u>
Total	<u>\$ 1,744,734</u>	<u>\$ 855,902</u>	<u>\$ 2,600,636</u>

**NOTE 9 – 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. The arbitrage rebate liability was \$1,236,217 and \$871,274 at December 31, 2025 and 2024, respectively.

Rebate calculations are prepared annually. However, any liability due is only required to be paid every 5 years from the original date of the bond. During the years ended December 31, 2025 and 2024, the District paid \$68,858 and \$0, respectively.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 10 – 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:

Year ending December 31,	Interest Rates	Principal	Interest & Fees	Total
2026	5.00%	\$ 1,020,000	\$ 706,526	\$ 1,726,526
2027	5.00%	1,070,000	659,626	1,729,626
2028	4.00%	1,110,000	616,026	1,726,026
2029	4.00%	1,155,000	570,726	1,725,726
2030	4.00%	1,205,000	523,526	1,728,526
2031-2035	4.00% - 4.13%	6,855,000	1,781,822	8,636,822
2036-2038	4.13% - 4.25%	4,865,000	314,911	5,179,911
Totals		<u>\$ 17,280,000</u>	<u>\$ 5,173,163</u>	<u>\$ 22,453,163</u>

Water District Refunding Revenue Bonds, Series 2013B

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

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

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

Year ending December 31,	Interest Rates	Principal	Interest & Fees	Total
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
Totals		<u>\$ 5,350,000</u>	<u>\$ 401,250</u>	<u>\$ 5,751,250</u>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 10 – LONG-TERM DEBT (Continued)**

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:

<u>Year ending</u> <u>December 31,</u>	<u>Interest</u> <u>Rates</u>	<u>Principal</u>	<u>Interest &amp; Fees</u>	<u>Total</u>
2026	4.00%	\$ 540,000	\$ 62,838	\$ 602,838
2027	3.00%	550,000	43,788	593,788
2028	3.00%	570,000	26,988	596,988
2029	3.13%	590,000	9,219	599,219
Totals		<u>\$ 2,250,000</u>	<u>\$ 142,833</u>	<u>\$ 2,392,833</u>

Water District Refunding Revenue Bonds, Series 2016A

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

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

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

<u>Year ending</u> <u>December 31,</u>	<u>Interest</u> <u>Rates</u>	<u>Principal</u>	<u>Interest &amp; Fees</u>	<u>Total</u>
2026	5.00%	\$ 3,015,000	\$ 686,025	\$ 3,701,025
2027	5.00%	3,170,000	531,400	3,701,400
2028	3.00%	3,300,000	402,650	3,702,650
2029	4.00%	3,425,000	284,650	3,709,650
2030	3.00%	3,545,000	162,975	3,707,975
2031	3.00%	3,660,000	54,900	3,714,900
Totals		<u>\$ 20,115,000</u>	<u>\$ 2,122,600</u>	<u>\$ 22,237,600</u>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 10 – LONG-TERM DEBT (Continued)**

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:

Year ending December 31,	Interest Rates	Principal	Interest & Fees	Total
2026	5.00%	\$ 560,000	\$ 473,600	\$ 1,033,600
2027	5.00%	585,000	444,975	1,029,975
2028	5.00%	615,000	414,975	1,029,975
2029	4.00%	645,000	386,700	1,031,700
2030	3.00%	665,000	363,825	1,028,825
2031-2035	3.00%	3,660,000	1,501,200	5,161,200
2036-2040	3.00%	4,250,000	909,000	5,159,000
2041-2044	3.00%	3,885,000	237,375	4,122,375
Totals		<u>\$ 14,865,000</u>	<u>\$ 4,731,650</u>	<u>\$ 19,596,650</u>

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.

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

Year ending December 31,	Interest Rates	Principal	Interest & Fees	Total
2026	5.00%	\$ 1,355,000	\$ 501,325	\$ 1,856,325
2027	5.00%	1,425,000	431,825	1,856,825
2028	5.00%	1,500,000	358,700	1,858,700
2029	4.00%	1,565,000	289,900	1,854,900
2030	3.00%	1,625,000	234,225	1,859,225
2031-2035	2.00% - 3.00%	8,795,000	482,075	9,277,075
Totals		<u>\$ 16,265,000</u>	<u>\$ 2,298,050</u>	<u>\$ 18,563,050</u>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
--

**NOTE 10 – LONG-TERM DEBT (Continued)**

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:

Year ending December 31,	Interest Rates	Principal	Interest & Fees	Total
2026	4.00%	\$ 5,070,000	\$ 254,200	\$ 5,324,200
2027	4.00%	3,820,000	76,400	3,896,400
Totals		<u>\$ 8,890,000</u>	<u>\$ 330,600</u>	<u>\$ 9,220,600</u>

Water District Revenue Bonds, Series 2023

In January 2023, the District issued \$17,615,000 of Revenue Bonds, Series 2023 for the purpose of using the proceeds along with a planned issuer contribution of \$8,000,000 to pay off the Revenue Bond Anticipation Note. The bonds were sold at a premium of \$576,488, for a total source of funds of \$26,191,488.

The Water District Revenue Bonds, Series 2023 are scheduled to mature as follows:

Year ending December 31,	Interest Rates	Principal	Interest & Fees	Total
2026	5.00%	\$ 435,000	\$ 703,531	\$ 1,138,531
2027	5.00%	455,000	681,281	1,136,281
2028	5.00%	475,000	658,031	1,133,031
2029	5.00%	500,000	633,656	1,133,656
2030	5.00%	525,000	608,031	1,133,031
2031-2035	4.00% - 5.00%	3,040,000	2,635,855	5,675,855
2036-2040	4.00%	3,705,000	1,950,880	5,655,880
2041-2045	4.00% - 4.13%	4,510,000	1,129,418	5,639,418
2046-2048	4.13%	3,175,000	199,964	3,374,964
Totals		<u>\$ 16,820,000</u>	<u>\$ 9,200,647</u>	<u>\$ 26,020,647</u>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 10 – LONG-TERM DEBT (Continued)**

Rural Development Loan 91-03 (Series 2014A)

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:

Year ending December 31,	Interest Rates	Principal	Interest & Fees	Total
2026	2.75%	\$ 31,000	\$ 42,556	\$ 73,556
2027	2.75%	32,000	41,690	73,690
2028	2.75%	33,000	40,796	73,796
2029	2.75%	33,500	39,882	73,382
2030	2.75%	34,500	38,947	73,447
2031-2035	2.75%	187,500	179,746	367,246
2036-2040	2.75%	215,500	152,069	367,569
2041-2045	2.75%	246,500	120,377	366,877
2046-2050	2.75%	282,500	84,047	366,547
2051-2055	2.75%	323,500	42,480	365,980
2056-2057	2.75%	143,500	3,995	147,495
Totals		<u>\$ 1,563,000</u>	<u>\$ 786,585</u>	<u>\$ 2,349,585</u>

*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.

<b>NORTHERN KENTUCKY WATER DISTRICT NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 10 – 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.

**Notes Payable - Direct Borrowings**

Fiscal Court of Kenton County, Kentucky

The Kenton County Water District received a \$100,000 deferred payment loan at 3.0%. This loan was required as a local match to qualify for a \$750,000 Community Development Block Grant for Phase 1 of a water project in southern Kenton District. This loan was deemed unenforceable in 2024 and the balance is \$0 at December 31, 2024.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 10 – LONG-TERM DEBT (Continued)**

Kentucky Infrastructure Authority Loan F08-07

In November 2008, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds is \$4,000,000 at an interest rate of 1.0% and a servicing fee of 0.2%.

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

Year ending December 31,	Principal	Interest & Fees	Total
2026	\$ 206,764	\$ 18,001	\$ 224,765
2027	208,837	15,409	224,246
2028	210,930	12,793	223,723
2029	213,045	10,149	223,194
2030	215,181	7,480	222,661
2031-2032	436,853	6,843	443,696
Totals	<u>\$ 1,491,610</u>	<u>\$ 70,675</u>	<u>\$ 1,562,285</u>

Kentucky Infrastructure Authority Loan F09-02

In October 2010, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds is \$8,000,000 at an interest rate of 2.0% and a servicing fee of 0.25%.

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

Year ending December 31,	Principal	Interest & Fees	Total
2026	\$ 1,265,476	\$ 220,942	\$ 1,486,418
2027	1,290,912	192,327	1,483,239
2028	1,316,859	163,136	1,479,995
2029	1,343,328	133,358	1,476,686
2030	1,370,329	102,982	1,473,311
2031-2033	3,547,538	120,524	3,668,062
Totals	<u>\$ 10,134,442</u>	<u>\$ 933,269</u>	<u>\$ 11,067,711</u>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 10 – LONG-TERM DEBT (Continued)**

Kentucky Infrastructure Authority Loan F13-012

In May 2013, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds is \$8,000,000 at an interest rate of 1.75% and a servicing fee of 0.25%. As of December 31, 2024, the full \$8,000,000 had been received.

The Kentucky Infrastructure Authority Loan F13-012 is scheduled to mature as follows:

Year ending December 31,	Principal	Interest & Fees	Total
2026	\$ 346,205	\$ 148,113	\$ 494,318
2027	352,290	141,160	493,450
2028	358,482	134,083	492,565
2029	364,783	126,882	491,665
2030	371,195	119,554	490,749
2031-2035	1,956,162	483,271	2,439,433
2036-2040	2,134,227	279,769	2,413,996
2041-2044	1,608,529	64,901	1,673,430
Totals	<u>\$ 7,491,873</u>	<u>\$ 1,497,733</u>	<u>\$ 8,989,606</u>

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 1.75% and a servicing fee of 0.25%.

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

Year ending December 31,	Principal	Interest & Fees	Total
2026	\$ 170,362	\$ 46,323	\$ 216,685
2027	173,357	42,901	216,258
2028	176,404	39,419	215,823
2029	179,504	35,875	215,379
2030	182,659	32,269	214,928
2031-2035	962,599	105,002	1,067,601
2036-2038	513,676	15,500	529,176
Totals	<u>\$ 2,358,561</u>	<u>\$ 317,289</u>	<u>\$ 2,675,850</u>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 10 – LONG-TERM DEBT (Continued)**

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 1.75% and a servicing fee of 0.25%. As of December 31, 2018, all funds have been received.

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

Year ending December 31,	Principal	Interest & Fees	Total
2026	\$ 169,843	\$ 46,182	\$ 216,025
2027	172,828	42,770	215,598
2028	175,866	39,298	215,164
2029	178,957	35,766	214,723
2030	182,102	32,171	214,273
2031-2035	959,662	104,682	1,064,344
2036-2038	512,109	15,452	527,561
Totals	<u>\$ 2,351,367</u>	<u>\$ 316,321</u>	<u>\$ 2,667,688</u>

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% and a servicing fee of 0.2%. As of December 31, 2018, all funds have been received.

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

Year ending December 31,	Principal	Interest & Fees	Total
2026	\$ 68,845	\$ 8,018	\$ 76,863
2027	69,362	7,362	76,724
2028	69,883	6,702	76,585
2029	70,408	6,037	76,445
2030	70,937	5,367	76,304
2031-2035	362,762	16,606	379,368
2036-2037	148,950	1,772	150,722
Totals	<u>\$ 861,147</u>	<u>\$ 51,864</u>	<u>\$ 913,011</u>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 10 – LONG-TERM DEBT (Continued)**

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. In January 2019, the District entered into a supplemental assistance agreement with KIA. The full amount of allowable funds is \$4,000,000 at an interest rate of 1.75% and a servicing fee of 0.25%. As of December 31, 2025, \$1,620,771 has been received.

The Kentucky Infrastructure Authority Loan F16-027 is scheduled to mature as follows:

Year ending December 31,	Principal	Interest & Fees	Total
2026	\$ 69,531	\$ 30,703	\$ 100,234
2027	70,754	29,306	100,060
2028	71,997	27,885	99,882
2029	73,263	26,438	99,701
2030	74,551	24,966	99,517
2031-2035	392,874	101,837	494,711
2036-2040	428,636	60,967	489,603
2041-2044	370,835	16,857	387,692
Totals	<u>\$ 1,552,441</u>	<u>\$ 318,959</u>	<u>\$ 1,871,400</u>

Kentucky Infrastructure Authority Loan F20-044

In May 2020, 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 1.50% and a servicing fee of 0.25%. As of December 31, 2025, \$7,507,904 has been drawn on this loan. Payments will not begin until one year after the initiation of operation of the project, and therefore a maturity date has not been determined.

Kentucky Infrastructure Authority Loan F23-007S

In June 2025, 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 2.25%. The loan qualifies for principal forgiveness up to \$1,598,681. As of December 31, 2025, no funds have been drawn on this loan. 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.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 10 – LONG-TERM DEBT (Continued)**

Changes in long-term liabilities for the year ended December 31, 2025 are as follows:

	Debt Outstanding December 31, 2024	Additions	Retirements	Debt Outstanding December 31, 2025	Amounts Due Within 1 Year
<b>Bond Indebtedness</b>					
Series 2013 A	\$ 18,250,000	\$ -	\$ (970,000)	\$ 17,280,000	1,020,000
Series 2013 A Bond Premium	678,178	-	(50,235)	627,943	50,235
Series 2013 B	6,985,000	-	(1,635,000)	5,350,000	1,700,000
Series 2013 B Bond Premium	447,406	-	(119,308)	328,098	119,308
Series 2014 A	1,593,500	-	(30,500)	1,563,000	31,000
Series 2014 B	2,765,000	-	(515,000)	2,250,000	540,000
Series 2014 B Bond Premium	421,125	-	(84,225)	336,900	84,225
Series 2016	22,980,000	-	(2,865,000)	20,115,000	3,015,000
Series 2016 Bond Premium	2,379,796	-	(344,064)	2,035,732	344,064
Series 2019	15,395,000	-	(530,000)	14,865,000	560,000
Series 2019 Bond Premium	853,466	-	(43,397)	810,069	43,397
Series 2020	17,555,000	-	(1,290,000)	16,265,000	1,355,000
Series 2020 Bond Premium	1,792,436	-	(165,456)	1,626,980	165,456
Series 2021 B	13,755,000	-	(4,865,000)	8,890,000	5,070,000
Series 2021 B Bond Premium	992,887	-	(476,587)	516,300	476,587
Series 2023 A	17,230,000	-	(410,000)	16,820,000	435,000
Series 2023 A Bond Premium	532,291	-	(23,061)	509,230	23,061
<b>Total Bond Indebtedness</b>	<b>\$ 124,606,085</b>	<b>\$ -</b>	<b>\$(14,416,833)</b>	<b>\$ 110,189,252</b>	<b>\$ 15,032,333</b>
<b>Notes Payable-Direct Borrowings</b>					
KIA F 08-07	\$ 1,696,321	\$ -	\$ (204,711)	\$ 1,491,610	\$ 206,764
KIA F 09-02	11,374,983	-	(1,240,541)	10,134,442	1,265,476
KIA F 13-012	7,832,098	-	(340,225)	7,491,873	346,205
KIA F 14-015	2,525,981	-	(167,420)	2,358,561	170,362
KIA F 15-011	2,518,276	-	(166,909)	2,351,367	169,843
KIA B 15-003	929,478	-	(68,331)	861,147	68,845
KIA F 16-027	1,558,034	62,737	(68,331)	1,552,440	69,532
KIA F 20-044	3,935,000	3,572,905	-	7,507,905	345,774
<b>Total Notes Payable</b>					
- Direct Borrowings	32,370,171	3,635,642	(2,256,468)	33,749,345	2,642,801
<b>Subscription Liability</b>	1,925,106	-	(180,372)	1,744,734	57,997
<b>Arbitrage Liability</b>	871,274	364,943	-	1,236,217	-
<b>Compensated Absences</b>	2,062,511	280,992	-	2,343,503	280,756
<b>Total Long-Term Liabilities</b>	<b>\$ 161,835,147</b>	<b>\$ 4,281,577</b>	<b>\$(16,853,673)</b>	<b>\$ 149,263,051</b>	<b>\$ 18,013,887</b>

<p><b>NORTHERN KENTUCKY WATER DISTRICT</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  <b>For the Years Ended December 31, 2025 and 2024</b></p>
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**NOTE 11 – PENSION PLAN**

*Plan description* – District employees are covered by CERS (County Employees’ Retirement System), a cost-sharing multiple-employer defined benefit pension and health insurance (Other Post-Employment Benefits; OPEB) plan administered by the Kentucky Public Pension Authority, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Public Pension Authority administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Public Pension Authority issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

The Plan is divided into both a **Pension Plan** as described in **NOTE 11** and **Health Insurance Fund Plan** (Other Post-Employment Benefits; OPEB) as described in **NOTE 12** and each plan is further subdivided based on **Non-Hazardous** duty and **Hazardous** duty covered-employee classifications. The District has only Non-Hazardous employees.

Membership in CERS consisted of the following at June 30, 2024:

	Non-Hazardous	
	Pension	OPEB
Active Plan Members	80,440	80,072
Inactive Plan Members	115,789	26,288
Retired Members	72,385	38,993
	268,614	145,353
Number of participating employers		1,151

**PENSION PLAN**

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

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 11 – PENSION PLAN (Continued)**

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

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
65	1 month	None
Any	27	None
55	5	6.5% per year for first five years, and 4.5% for the 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 the 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**

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
65	5	None
57	Rule of 87	None
60	10	6.5% per year for first five years, and 4.5% for the 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**

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
65	5	None
57	Rule of 87	None

**Benefit Formula for Tiers 1 & 2**

<u>Final Compensation</u>	<u>X</u>	<u>Benefit Factor</u>	<u>X</u>	<u>Years of Service</u>
Average of the five highest years of compensation if participation began before 09/01/2008.		2.20% if:		Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).
Average of the last complete five years of compensation if participation began on or after 09/01/2008 but before 01/01/2014.		2.00% if:		
		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 08/01/2004 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%)**

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2025 and 2024**

**NOTE 11 – PENSION PLAN (Continued)**

**Benefit Formula for Tier 3**  
**(A-B) = C X 75% = D, then B+D = Interest**

Measurement Year	A	B	C	D	Interest Rate Earned (4% + Upside)	Total Interest Credited to Members' Account
	5 Year Geometric Average Return	Less Guarantee Rate	Upside Sharing Interest	Interest Rate Earned		
2025	9.89%	4.00%	5.89%	4.42%	8.42%	\$ 54,364,000
2024	7.67%	4.00%	3.67%	2.75%	6.75%	\$ 35,699,000

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

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

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

The Kentucky General Assembly has the authority to increase, suspend, or reduce Cost of Living Adjustments (COLAs). Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature 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 271 passed during the 2020 legislative session which removed provisions that reduce the monthly payment to a surviving spouse of a member whose death was due to an in line of duty or duty-related injury upon remarriage of the surviving spouse. It also increased benefits for a very small number of surviving spouses and dependent children who did not initially elect the in line of duty or duty-related benefit. There were no other material benefit provision changes since the prior valuation.

**Contributions**

The employee contribution rate is set by state statute. Non-Hazardous employees contribute 5.00% of their annual creditable compensation. Employees hired on or after September 1, 2008 contribute an additional 1.00% to health insurance.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
--

**NOTE 11 – PENSION PLAN (Continued)**

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 members were classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5.00% non-hazardous of their annual creditable compensation and 1.00% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with 4.00% non-hazardous employer pay credit. The employer pay credit represents a portion of the employer contribution.

The employer contribution rates are set by the KRS Board under Kentucky Revised Statute 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly.

The District contributed 19.71% of covered-employee's compensation (from January – June 2025) of which 19.71% was for the pension fund and 0% was for the health insurance fund and contributed 18.62% of covered-employee's compensation (from July – December 2025), of which 18.62% was for the pension fund and 0% was for the health insurance fund.

The District made all required contributions for the non-hazardous Plan pension obligation for the fiscal year in the amount of \$2,439,035, of which \$2,439,034 was for the pension fund and \$0 was for the health insurance fund.

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

At December 31, 2025, the District reported a liability of \$19,901,919 as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At the June 30, 2025 measurement year, the District's non-hazardous employer allocation proportion was 0.3577% of the total CERS non-hazardous duty employees. For the year ended December 31, 2025, the District recognized a pension benefit of \$1,114,393 in addition to its \$2,439,034 pension contribution.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 11 – PENSION PLAN (Continued)**

At December 31, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Non-Hazardous	
	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ 659,788	\$ -
Net difference between projected actual earnings on plan investments	-	(1,990,078)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	94,010	(144,411)
Contributions subsequent to the measurement date	<u>1,198,798</u>	<u>-</u>
	<u>\$ 1,952,596</u>	<u>\$ (2,134,489)</u>

The District's contributions subsequent to the measurement date of \$1,198,798 will be recognized as a reduction of the net pension liability in the year ending December 31, 2026.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ending June 30,	Net Deferral
2026	\$ 350,176
2027	(743,995)
2028	(646,675)
2029	(340,197)
2030	-
Thereafter	-
	<u>\$ (1,380,691)</u>

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2025 and 2024**

**NOTE 11 – PENSION PLAN (Continued)**

**Basis of Calculations**

The actuarial valuation as of June 30, 2025 was performed by Gabriel, Roeder, Smith & Co. (GRS) plan in compliance with *GASB Statement No. 67 - Financial Reporting for Pension Plans*. The total pension liability, the net pension liability, and the sensitivity information as of June 30, 2025 were based on an actuarial valuation date of June 30, 2024. The total pension liability was rolled-forward from the original valuation date of June 30, 2024 to the plan's fiscal year ending of June 30, 2025 using generally accepted actuarial procedures.

**Actuarial Methods and Assumptions to Determine the Total Pension Liability and the Net Pension Liability**

Below is a summary of the principal assumptions used for the June 30, 2024, actuarial valuation:

Inflation	2.50%
Payroll Growth Rate	2.0% for CERS Non-hazardous
Salary Increases	3.30% to 10.30%, varies by service for CERS Non-hazardous
Investment Rate of Return	6.50% for CERS Non-hazardous
Mortality	
Pre-retirement	PUB-2010 General Mortality table projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.
Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023.
Post-retirement (disabled)	PUB-2010 Disabled Mortality table projected with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2010.

**Changes of Assumptions - Plan**

There have been no assumption, method or plan provision changes that would materially impact the total pension liability since June 30, 2024. It is GRS's opinion that these procedures for determining the information contained in these reports are reasonable, appropriate, and comply with applicable requirements under *GASB Statement No. 68 Accounting and Financial Reporting for Pensions*.

**Discount Rate**

The projection of cash flows used to determine the discount rate of 6.50% for CERS Nonhazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute, as amended by House Bill 362, (passed in 2018) over the remaining 27 years (closed) amortization period of the unfunded actuarial accrued liability.

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2025 and 2024**

**NOTE 11 – PENSION PLAN (Continued)**

Also, the provisions of House Bill 362 (passed during the 2018 legislative session) are still in effect and limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30, 2028. However, contribution rates are not currently projected to increase by more than 12% in any given future year. Therefore, for the purposes of this calculation, the provisions of House Bill 362 do not impact the projected employer contributions.

The discount rate determination does not use a municipal bond rate.

**Actuarial Methods and Assumptions used to determine the Actuarial Determined Contributions for 2025**

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending December 31, 2025:

Actuarial Valuation Date	June 30, 2023
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Method	Level Percent of Pay
Amortization Period	30 years closed period at June 30, 2019; gains and losses incurring after 2019 will be amortized over separate closed 20-year amortization bases
Payroll Growth Rate	2.0%
Investment Rate of Return	6.50%
Inflation	2.50%
Salary Increases	3.30% to 10.30%, varies by service for Non-Hazardous
Mortality	System specific mortality table based on experience from 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 11 – PENSION PLAN (Continued)**

**Plan Target Allocation**

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

<u>Asset Class</u>	CERS Pensions	
	Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Public equity	45.00%	4.15%
Private equity	8.00%	7.90%
Core bonds	13.00%	2.70%
Specialty credit / high yield	20.00%	3.83%
Cash	2.00%	1.25%
Real estate	5.00%	4.75%
Real return	7.00%	5.20%
Expected Real Return	<u>100.00%</u>	<u>4.24%</u>
Long-Term Inflation Assumption		<u>2.50%</u>
Expected Nominal Return for Portfolio		<u>6.74%</u>

**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 6.50%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50%) or 1-percentage-point higher (7.50%) than the current rate:

	<u>Proportionate Share of Net Pension Liability</u>		
	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
	<u>5.50%</u>	<u>6.50%</u>	<u>7.50%</u>
Non-hazardous	<u>\$ 26,311,667</u>	<u>\$ 19,901,919</u>	<u>\$ 14,613,725</u>
Total	<u>\$ 26,311,667</u>	<u>\$ 19,901,919</u>	<u>\$ 14,613,725</u>

**Plan Fiduciary Net Position**

The Pension Plan issues publicly available financial reports that include financial statements and required supplementary information, and detailed information about the Plan’s fiduciary net position. This report may be obtained, in writing, from the Kentucky Public Pension Authority, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601 or online at [www.kyret.ky.gov](http://www.kyret.ky.gov).

<p><b>NORTHERN KENTUCKY WATER DISTRICT</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  <b>For the Years Ended December 31, 2025 and 2024</b></p>
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**NOTE 12 – HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS**

**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 Pension Authority under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS. The District only participates in the non-hazardous plan.

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

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Upon death of a hazardous employee, the employee’s spouse receives \$10 per month for insurance benefits for each year of the deceased employee’s earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5% based upon Kentucky Revised Statutes.

This benefit is not protected under the inviolable contract provisions of KRS 61.692. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

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%
< 4 Years	0.00%

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 12 – HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Contributions**

The employee contribution rate is set by state statute. Non-Hazardous employees contribute 5.00% of their annual creditable compensation. Employees hired on or after September 1, 2008 contribute an additional 1.00% 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 members were classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5.00% non-hazardous of their annual creditable compensation and 1.00% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with 4.00% non-hazardous employer pay credit. The employer pay credit represents a portion of the employer contribution.

The employer contribution rates are set by the KRS Board under Kentucky Revised Statute 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly.

The District contributed the required 0% of covered-employee's compensation (from January – June 2025) and contributed the required 0% of covered-employee's compensation (from July – December 2025) for the health insurance fund. These contributions are actuarially determined as an amount that is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability (asset). For the year ended December 31, 2025, the District recognized an OPEB benefit of \$1,323,183 in addition to its \$0 OPEB contribution.

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

At December 31, 2025, the District reported an OPEB liability of \$343,712 as its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2025, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB asset was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all governmental entities, actuarially determined. At the June 30, 2025 measurement year, the District's proportion of the total non-hazardous plan was 0.3579%.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 12 – HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS (Continued)**

In addition, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Non-Hazardous	
	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ 1,114,782	\$ (2,954,924)
Net difference between projected actual earnings on plan investments	-	(778,409)
Changes of assumptions	229,249	(196,803)
Changes in proportion and differences between contributions and proportionate share of contributions	135,188	(100,962)
Contributions subsequent to the measurement date	-	-
	\$ 1,479,219	\$ (4,031,098)

The District's contributions subsequent to the measurement date of \$0 for non-hazardous duty employees will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2026.

Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Measurement Year Ending June 30,	Net Deferral
2026	\$ (1,427,780)
2027	(1,205,600)
2028	53,630
2029	27,871
2030	-
Thereafter	-
	\$ (2,551,879)

<p><b>NORTHERN KENTUCKY WATER DISTRICT</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  <b>For the Years Ended December 31, 2025 and 2024</b></p>
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**NOTE 12 – HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Basis of Calculations**

The actuarial valuation as of June 30, 2025 was performed by Gabriel, Roeder, Smith & Co. (GRS) plan in compliance with *GASB Statement No. 74 - Financial Reporting for Other Post-Employment Benefit Plans*. The total OPEB liability, the net OPEB liability, and the sensitivity information as of June 30, 2025 were based on an actuarial valuation date of June 30, 2024. The total OPEB liability was rolled-forward from the original valuation date of June 30, 2024 to the plan’s fiscal year ending of June 30, 2025 using generally accepted actuarial procedures.

**Actuarial Methods and Assumptions to Determine the Total OPEB Liability and the Net OPEB Liability**

Below is a summary of the principal assumptions used for the June 30, 2023 actuarial valuation:

Investment Rate of Return	6.50% for CERS Non-hazardous
Inflation	2.50%
Salary Increases	3.30% to 10.30%, varies by service for CERS Non-hazardous
Payroll Growth Rate	2.0% for CERS Non-hazardous
Mortality	
Pre-retirement	PUB-2010 General Mortality table projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.
Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023.
Post-retirement (disabled)	PUB-2010 Disabled Mortality table projected with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2010.
Health Care Trend Rates	
Pre-65	Initial trend starting at 7.10% at January 1, 2026, and gradually decreasing to an ultimate trend rate of 4.25% over a period of 14 years.
Post-65	Initial trend starting at 8.00% in 2026, then gradually decreasing to an ultimate trend rate of 4.25% over a period of 10 years.

**Change in Assumptions - Plan**

The discount rate used to calculate the total OPEB liability increased from 5.99% to 6.26% for the nonhazardous plan. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2024, valuation process and was updated to better reflect the plan’s anticipated long-term healthcare cost increases. In general, the updated assumption is assuming higher future increases in pre-Medicare health care costs. The Total OPEB Liability as of June 30, 2025, is determined using these updated assumptions.

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2025 and 2024**

**NOTE 12 – HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS (Continued)**

Senate Bill 10 passed during the 2025 legislative session and increased the insurance benefit for members who began participation on or after July 1, 2003, to \$40 a month for nonhazardous CERS service effective January 1, 2026. These increases are only payable when a member is not eligible for Medicare benefits and only if they have met certain service thresholds at retirement. Additionally, this legislation increases the insurance member contribution rate for hazardous members from 1% of pay to 2% of pay, effective July 1, 2026, and extended the required member contribution to CERS members hired on or after July 1, 2003, but prior to September 1, 2008, for both funds.

There have been no other plan provision changes that would materially impact the total OPEB liability since June 30, 2024. It is GRS's opinion that these procedures are reasonable and appropriate and comply with applicable requirements under *GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

**Discount Rate**

Single discount rates of 6.26% for CERS Nonhazardous was used to measure the total OPEB liability as of June 30, 2025. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.50%, and a municipal bond rate of 5.20%, as reported in Bond Buyer's "20-Year Municipal GO AA Index" as of June 30, 2025. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected separately and were 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 periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy was not included in the calculation of the plans' actuarially determined contributions, and any cost associated with the implicit subsidy will not be paid out of the plan trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The projection of cash flows used to determine the single discount rate 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.

**Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for Fiscal Year 2025**

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the fiscal year ending June 30, 2025:

Valuation Date	June 30, 2023
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Method	Level Percent of Pay

<p><b>NORTHERN KENTUCKY WATER DISTRICT</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  <b>For the Years Ended December 31, 2025 and 2024</b></p>
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**NOTE 12 – HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS (Continued)**

Amortization Period	30 years closed period at June 30, 2019; gains and losses incurring after 2019 will be amortized over separate closed 20-year amortization bases
Payroll Growth Rate	2.0%
Investment Rate of Return	6.50%
Inflation	2.50%
Salary Increases	3.30% to 10.30%, varies by service for Non-hazardous
Mortality	System-specific mortality table based on mortality experience 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 6.80% at January 1, 2025, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2024 premiums were known at the time of the valuation and were included into the liability measurement.
Post - 65	Initial trend starting at 8.50% at January 1, 2025, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years. The 2024 premiums were known at the time of the valuation and were included into the liability measurement.

**Changes of Assumptions - Contributions**

The discount rates used to calculate the total OPEB liability (asset) increased from 5.99% to 6.26%. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2025 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. There were no other material assumption changes.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 12 – HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Plan Target Allocation**

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	CERS Pensions	
	Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Public equity	45.00%	4.15%
Private equity	8.00%	7.90%
Core bonds	13.00%	2.70%
Specialty credit /high yield	20.00%	3.83%
Cash	2.00%	1.25%
Real estate	5.00%	4.75%
Real return	7.00%	5.20%
Expected Real Return	<u>100.00%</u>	4.24%
Long-Term Inflation Assumption		<u>2.50%</u>
Expected Nominal Return for Portfolio		<u>6.74%</u>

**Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the proportionate share of the net OPEB liability calculated using the discount rates of 6.26% for the non-hazardous plan, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Discount Rate, Non-Hazardous	5.26%	6.26%	7.26%
Net OPEB liability, Non-Haz	<u>\$ 2,062,379</u>	<u>\$ 343,712</u>	<u>\$ (1,102,807)</u>
Total	<u>\$ 2,062,379</u>	<u>\$ 343,712</u>	<u>\$ (1,102,807)</u>

**Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates**

The following presents the proportionate share of the net OPEB liability, as well as what the 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:

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Healthcare cost trend rate			
Net OPEB liability, non-hazardous	<u>\$ (794,318)</u>	<u>\$ 343,712</u>	<u>\$ 1,675,936</u>
Total	<u>\$ (794,318)</u>	<u>\$ 343,712</u>	<u>\$ 1,675,936</u>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>For the Years Ended December 31, 2025 and 2024</b>
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**NOTE 12 – HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Plan Fiduciary Net Position**

The Health Insurance Plan issues publicly available financial reports that include financial statements and required supplementary information, and detailed information about the Plan's fiduciary net position. These reports may be obtained, in writing, from the Kentucky Public Pension Authority, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601 or online at [www.kyret.ky.gov](http://www.kyret.ky.gov).

**NOTE 13– ECONOMIC DEPENDENCY**

The District receives all of its service revenues from customers in the Kenton and Campbell Counties Kentucky and sells water to other water districts in neighboring counties. The District is not dependent upon a small number of customers, industries or commercial users.

**NOTE 14 – LITIGATION**

The District is the defendant in 6 separate lawsuits relating to matters arising in the normal course of business. The District intends to aggressively defend each of these suits, and financial contingencies that could be awarded in the lawsuits are covered, at least in part, by the District's insurance company. The District has several claims against it which involve water damage and minor property damages; the majority of these claims are covered by the District's insurance policies and are being vigorously defended by the District's insurance carrier.

**NOTE 15 – RECLASSIFICATION OF PRIOR YEAR BALANCES**

To match the 2025 presentation, the District has reclassified *Grant Revenue* as a separate line item, removing its balance for 2024 from *Miscellaneous non-operating revenue (expense)* on the Statement of Revenue, Expenses and Changes in Net Position. There are no changes to the total revenues, total expenses, or total change in net position.

**NOTE 16 – SUBSEQUENT EVENTS**

The District has evaluated subsequent events through April 23, 2026, which is the date the financial statements were available for issue. The District had no events subsequent to December 31, 2025 through April 23, 2026 to disclose.

**NORTHERN KENTUCKY WATER DISTRICT**  
**MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN-NON-HAZARDOUS**  
**Last Ten Fiscal Years**

**Schedule of Northern Kentucky Water District's Proportionate Share of the Net Pension Liability**  
**County Employees' Retirement System (CERS)**

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Proportion of net pension liability	0.3358%	0.3602%	0.3527%	0.3412%	0.3516%	0.3397%	0.3309%	0.3123%	0.3206%	0.3352%
Proportionate share of the net pension liability (asset)	\$ 19,901,919	\$ 21,538,855	\$ 22,628,651	\$ 24,663,515	\$ 22,419,617	\$ 26,055,399	\$ 23,269,110	\$ 19,018,499	\$ 18,765,118	\$ 16,504,154
Covered payroll in year of measurement	12,324,678	11,570,888	9,811,881	9,357,873	8,930,918	8,757,359	8,040,890	7,732,260	7,925,067	7,972,340
Share of the net pension liability (asset) as a percentage of its covered payroll	161.48%	186.15%	230.63%	263.56%	251.03%	297.53%	289.38%	245.96%	236.78%	207.02%
Plan fiduciary net position as a percentage of total pension liability	65.34%	61.61%	57.48%	52.42%	57.33%	47.81%	50.45%	53.54%	53.32%	55.50%

**Schedule of Northern Kentucky Water District's Contributions**  
**County Employees' Retirement System (CERS)**

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	\$ 2,439,035	\$ 2,568,105	\$ 2,297,036	\$ 2,231,101	\$ 1,875,015	\$ 1,723,667	\$ 1,557,127	\$ 1,230,042	\$ 1,099,103	\$ 1,045,628
Actual contribution	2,439,035	2,568,105	2,297,036	2,231,101	1,875,015	1,723,667	1,557,127	1,230,042	1,099,103	1,045,628
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Covered payroll	12,730,653	11,941,201	10,713,317	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	19.16%	21.51%	21.44%	22.74%	20.04%	19.30%	17.78%	15.30%	14.21%	13.19%

**Notes to Required Supplementary Information**  
**December 31, 2025**

**Changes of Assumptions**

The net pension liability as of December 31, 2025, is based on the June 30, 2025, actuarial valuation.. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between the District's contributions and

**NORTHERN KENTUCKY WATER DISTRICT**  
**MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN-NON-HAZARDOUS**  
**Last Ten Fiscal Years**

**Schedule of Northern Kentucky Water District's Proportionate Share of the Net OPEB Liability**  
**County Employees' Retirement System (CERS)**

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Proportion of net OPEB liability	0.3579%	0.3605%	0.3527%	0.3512%	0.3516%	0.3396%	33.0800%	0.3123%	0.3206%	0.3352%
Proportionate share of the net OPEB liability (asset)	\$ 343,712	\$ (623,600)	\$ (486,892)	\$ 6,762,760	\$ 6,730,325	\$ 8,200,549	\$ 5,563,369	\$ 5,544,345	\$ 6,444,956	\$ 5,055,231
Covered payroll in year of measurement	12,324,678	11,570,888	9,811,881	9,357,873	8,930,918	8,757,359	8,040,890	7,732,260	7,925,067	7,972,340
Share of the net OPEB liability (asset) as a percentage of its covered payroll	2.79%	-5.39%	-4.96%	72.27%	75.36%	93.64%	69.19%	71.70%	81.32%	63.41%
Plan fiduciary net position as a percentage of total OPEB liability	97.66%	104.89%	104.23%	60.95%	62.91%	51.67%	60.44%	57.62%	52.39%	55.24%

**Schedule of Northern Kentucky Water District's Contributions**  
**County Employees' Retirement System (CERS)**

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	\$ -	\$ -	\$ 377,545	\$ 363,290	\$ 489,371	\$ 425,112	\$ 438,448	\$ 399,058	\$ 364,575	\$ 371,330
Actual contribution	-	-	377,545	363,290	489,371	425,112	438,448	399,058	364,575	371,330
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Covered payroll	12,730,653	11,941,201	10,713,317	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	0.00%	0.00%	3.52%	3.70%	5.23%	4.76%	5.01%	4.96%	4.71%	4.69%

**Notes to Required Supplementary Information**  
**December 31, 2025**

**Changes of Assumptions**

The net OPEB liability as of December 31, 2025, is based on the June 30, 2025, actuarial valuation.. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between the District's contributions and

**NORTHERN KENTUCKY WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -**  
**BUDGET TO ACTUAL**  
**For the Year Ended December 31, 2025**

	<b>Original and Final Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Operating Revenues</b>			
Water Sales	\$ 66,868,004	\$ 70,076,786	\$ 3,208,782
Forfeited Discounts	994,800	1,061,000	66,200
Rents From Property	406,100	345,143	(60,957)
Other Water Revenues	322,965	347,237	24,272
<b>Total Operating Revenues</b>	<b>68,591,869</b>	<b>71,830,166</b>	<b>3,238,297</b>
<b>Operating Expenses</b>			
Operation and Maintenance Expense	43,340,736	41,938,749	1,401,987
Depreciation Expense	12,600,000	13,999,245	(1,399,245)
<b>Total Operating Expenses</b>	<b>55,940,736</b>	<b>55,937,994</b>	<b>2,742</b>
<b>Net Operating Income</b>	<b>12,651,133</b>	<b>15,892,172</b>	<b>3,241,039</b>
<b>Non-Operating Income (Expense)</b>			
Investment Income	2,180,393	3,851,760	1,671,367
Grant revenue	3,160,000	8,446,924	
Settlement revenue		5,773,611	
Loss on Abandonment of Mains	-	(683,935)	(683,935)
Interest on Long-Term Debt	(4,359,075)	(4,104,114)	254,961
Amortization of Debt Premiums and Defeasance Costs	-	1,570,787	1,570,787
Pension Expense	-	1,114,392	1,114,392
Other Post Employment Benefit Expense	-	1,323,183	1,323,183
Arbitrage Expense	-	(431,800)	(431,800)
Miscellaneous Non-Operating Income	19,790	11,248	(8,542)
Gain (Loss) on Sale of Capital Assets	-	58,203	58,203
<b>Total Non-Operating Income (Expense)</b>	<b>1,001,108</b>	<b>16,930,259</b>	<b>15,929,151</b>
<b>Change in Net Position Before Capital Contributions</b>	<b>13,652,241</b>	<b>32,822,431</b>	<b>19,170,190</b>
Capital Contributions	-	3,197,223	3,197,223
<b>Change in Net Position</b>	<b>\$ 13,652,241</b>	<b>\$ 36,019,654</b>	<b>\$ 22,367,413</b>

<p><b>NORTHERN KENTUCKY WATER DISTRICT</b>  <b>STATEMENT OF WATER OPERATING REVENUE</b>  <b>For the Years Ended December 31, 2025 and 2024</b></p>
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**Operating Revenues**

	<b>2025</b>	<b>2024</b>
Metered Sales		
Sales to Residential Customers	\$ 42,435,473	\$ 43,540,382
Sales to Commercial Customers	10,292,224	10,768,981
Sales to Industrial Customers	4,965,999	5,248,107
Sales to Public Authorities	2,488,500	2,477,979
Sales to Multiple Family Dwellings	7,390,852	7,319,231
Sales Through Bulk Loading Stations	92,073	106,407
Total Metered Sales	<u>67,665,121</u>	<u>69,461,087</u>
Fire Protection Revenue	86,538	94,241
Sales For Resale	2,325,127	2,223,971
Total Sales of Water	<u>70,076,786</u>	<u>71,779,299</u>
Other Revenue	<u>1,753,380</u>	<u>1,725,362</u>
<b>Total Operating Revenues</b>	<b><u><u>\$ 71,830,166</u></u></b>	<b><u><u>\$ 73,504,661</u></u></b>

<p><b>NORTHERN KENTUCKY WATER DISTRICT</b>  <b>STATEMENT OF COMBINED OPERATION AND MAINTENANCE EXPENSES</b>  <b>For the Years Ended December 31, 2025 and 2024</b></p>
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<b>Operating and Maintenance Expenses</b>	<b>2025</b>	<b>2024</b>
Salaries and Wages	\$ 13,194,843	\$ 12,266,582
Employee Pensions and Benefits	6,811,854	6,818,735
Taxes Other Than Income Taxes	992,963	924,826
Purchased Power	3,930,939	3,575,119
Chemicals	4,586,577	4,528,703
Materials and Supplies	3,304,397	3,069,781
Contractual Services	6,541,872	5,689,818
Transportation Expenses	763,029	816,930
Insurance	924,430	817,945
Bad Debt Expense	622,092	559,973
Miscellaneous Expense	67,816	288,077
Subscription Interest Expense	75,615	82,386
Regulatory Commission Assessment	122,322	103,502
<b>Total Operating and Maintenance Expenses</b>	<b>\$ 41,938,749</b>	<b>\$ 39,542,377</b>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>SCHEDULE OF INSURANCE COVERAGES</b> <b>For the Year Ended December 31, 2025</b>
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Company	Policy Number	Description of Coverage	Amount of Coverage	Effective Period	
				From	To
Travelers Insurance	ZLP-14T80653	General Liability	\$ 1,000,000	1/1/2025	1/1/2026
Travelers Insurance	ZUP14T80665	Umbrella	19,000,000	1/1/2025	1/1/2026
Travelers Insurance	ZLP14T80653	Public Officials	1,000,000	1/1/2025	1/1/2026
Travelers Insurance	H-810-6R989070	Business Auto	1,000,000	1/1/2025	1/1/2026
Travelers Insurance	H-630-6R989070	Property-Including Equip.	383,911,029	1/1/2025	1/1/2026
Travelers Insurance	107733627	Employee Dishonesty	2,000,000	1/1/2025	1/1/2026
Tokio Marine (Houston Casualty Co.)	H24NGP233794-00	Cyber Liability	2,000,000	1/1/2024	1/1/2025
Kentucky Employers Mutual Insurance	WC 338786	Worker's Compensation	1,000,000	7/1/2025	7/1/2026
Zurich American Insurance Company	WC9668494-11	Worker's Compensation - CO & TN	1,000,000	7/1/2025	7/1/2026
Great American Insurance	PRE109374203	Pollution Liability	15,000,000	7/1/2025	7/1/2028

<p><b>NORTHERN KENTUCKY WATER DISTRICT</b>  <b>SCHEDULE OF RATES, RULES AND REGULATIONS</b>  <b>December 31, 2025</b></p>
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**RETAIL WATER RATES**

**1. Monthly Service Rate**

First 1,500 Cubic Feet \$5.52 per 100 Cubic Feet  
 Next 163,500 Cubic Feet \$5.13 per 100 Cubic Feet  
 Over 165,000 Cubic Feet \$3.83 per 100 Cubic Feet

Sub District B shall be assessed a monthly surcharge in the amount of \$15.54  
 Sub District C shall be assessed a monthly surcharge in the amount of \$10.14  
 Sub District D shall be assessed a monthly surcharge in the amount of \$27.70  
 Sub District E shall be assessed a monthly surcharge in the amount of \$27.94  
 Sub District F shall be assessed a monthly surcharge in the amount of \$12.24  
 Sub District G shall be assessed a monthly surcharge in the amount of \$17.72  
 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 \$23.73  
 Sub District K shall be assessed a monthly surcharge in the amount of \$6.16  
 Sub District M shall be assessed a monthly surcharge in the amount of \$30.00  
 Sub District RF shall be assessed a monthly surcharge in the amount of \$20.97  
 Sub District HB shall be assessed a monthly surcharge in the amount of \$30.00  
 Sub District O shall be assessed a monthly surcharge in the amount of \$30.00

**2. Quarterly Rates**

First 4,500 Cubic Feet \$5.52 per 100 Cubic Feet  
 Next 490,500 Cubic Feet \$5.13 per 100 Cubic Feet  
 Next 495,000 Cubic Feet \$3.83 per 100 Cubic Feet

**3. Fixed Service Charge**

<u>Meter Size</u>	<u>Monthly</u>	<u>Quarterly</u>
5/8"	\$ 20.45	\$ 45.20
3/4"	21.40	47.40
1"	23.00	54.40
1 1/2"	25.90	64.40
2"	32.70	90.30
3"	78.80	281.00
4"	98.90	352.10
6"	146.40	520.30
8"	197.60	711.00
10" and Larger	262.90	928.40

**WHOLESALE WATER RATES**

Wholesale Rate \$3.43 per 100 Cubic Foot

**MISCELLANEOUS SERVICE FEES**

**Service Area Non-Recurring Charges**

Returned Check Charge	\$ 5.00
Water Hauling Station	7.38 / per 1,000 Gallons
Service Charge	4.00
Overtime Charge	49.00

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

**To the Board of Directors  
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 as of December 31, 2025 and the related notes to the financial statements which collectively comprise Northern Kentucky Water District's financial statements, and have issued our report thereon dated April 23, 2026.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Northern Kentucky Water 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 Northern Kentucky Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Northern Kentucky Water 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Northern Kentucky Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

*Chamberlin Owen & Co., Inc.*

**Chamberlin Owen & Co., Inc.**

Erlanger, Kentucky

April 23, 2026

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS</b> <b>For the Year Ended December 31, 2025</b>
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Federal Agency	Federal Grantor/Program Title/Project	Federal Assistance Listing Number	Grant or Loan Number	Expenditures
<b><i>Department of the Treasury</i></b>				
	American Rescue Plan Act;	21.027	21CWW025	\$ 1,000,000
	Cleaner Water Program Grant		21CWW280	1,000,000
	Passed through Commonwealth		21CWW285	1,073,415
	of Kentucky - Kentucky Infrastructure		22CWW222	2,960,000
	Authority		22CWW223	1,534,521
	American Rescue Plan Act;	21.027	CC ARPA	<u>1,300,000</u>
	Cleaner Water Program Grant			
	Passed through Commonwealth			
	of Kentucky Department for Local			
	Government - Campbell County			
	Fiscal Court			
	<i>Total Department of the Treasury</i>			<u>8,867,936</u>
			Total Federal Expenditures:	<u><u>\$ 8,867,936</u></u>

**Notes to the Schedule of Expenditure of Federal Awards**

**Note 1 - Basis of Presentation**

This schedule is presented on the modified accrual basis of accounting.

**Note 2 - Subrecipients**

There are no subrecipients of these funds

**Note 3 - Indirect Costs**

The District directly allocates 100% of program costs and has no indirect costs.

<p><b>NORTHERN KENTUCKY WATER DISTRICT</b>  <b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>  <b>Year Ended December 31, 2025</b></p>
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**I. SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?        Yes   X   No
- Significant deficiencies identified?        Yes   X   None reported

Noncompliance material to financial statements noted

       Yes   X   No

*Federal Awards*

Internal Control Over Major Programs:

- Material weakness(es) identified?        Yes   X   No
- Significant deficiencies identified?        Yes   X   None reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance

       Yes   X   No

Identification of major programs:  
Federal Program or Cluster

CFDA No.

-----  
American Rescue Plan Act, Cleaner Water Grant  
Program – Passed through Commonwealth  
of Kentucky – Kentucky Infrastructure Authority

-----  
21.027

Dollar threshold used to distinguish between type A and type B programs:

\$ 1,000,000

Auditee qualified as low-risk auditee?

       Yes   X   No

**II. FINDINGS - FINANCIAL STATEMENTS AUDIT**

No matters were reported

**III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

No findings or questions costs noted.

**NORTHERN KENTUCKY WATER DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**For the Year Ended December 31, 2025**

There were no findings in the 2024 Uniform Guidance Audit

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

**To the Board of Directors  
Northern Kentucky Water District  
Erlanger, Kentucky**

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited Northern Kentucky Water District's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Northern Kentucky Water District's major federal programs for the year ended December 31, 2025. Northern Kentucky Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Northern Kentucky Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2025.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Northern Kentucky Water District and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Northern Kentucky Water District's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Northern Kentucky Water District's federal programs.

***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Northern Kentucky Water District's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists.

The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Northern Kentucky Water District's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Northern Kentucky Water District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Northern Kentucky Water District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Northern Kentucky Water District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

*Chamberlin Owen & Co., Inc.*

**Chamberlin Owen & Co., Inc.**  
Erlanger, Kentucky  
April 23, 2026