

**NEW ISSUE****RATING: Moody's "Aa2"**

*In the opinion of Bond Counsel for the Series 2020 Bonds (defined below), based upon an analysis of laws, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants made by the District, and subject to the conditions and limitations set forth herein under the caption "TAX EXEMPTION," interest on the Series 2020 Bonds is excludable from gross income for Federal income tax purposes and is not a specific item of tax preference for purposes of the Federal individual or corporate alternative minimum taxes. Interest on the Series 2020 Bonds is exempt from Kentucky income tax and the Series 2020 Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions. See "TAX EXEMPTION" herein.*

**\$22,325,000****NORTHERN KENTUCKY WATER DISTRICT  
REFUNDING REVENUE BONDS, SERIES 2020****Dated: Date of Delivery****Due Date: February 1, as shown below**

Interest on the Series 2020 Bonds is payable from their dated date on each February 1 and August 1, beginning February 1, 2021. The Series 2020 Bonds will mature on February 1 of the years, in the amounts, bear interest at the annual rates, have the yields and CUSIP numbers, as follows:

Year (February 1)	Amount	Interest Rate	Yield	CUSIP 665306	Year (February 1)	Amount	Interest Rate	Yield	CUSIP 665306
2021	\$1,270,000	5.000%	0.300%	PX8	2029	\$1,565,000	4.000%	1.150%	QF6
2022	1,110,000	5.000	0.340	PY6	2030	1,625,000	3.000	1.360	QG4
2023	1,165,000	5.000	0.380	PZ3	2031	1,670,000	3.000	1.500	QH2
2024	1,225,000	5.000	0.460	QA7	2032	1,725,000	3.000	1.600	QJ8
2025	1,290,000	5.000	0.550	QB5	2033	1,765,000	2.000	2.000	QK5
2026	1,355,000	5.000	0.660	QC3	2034	1,800,000	2.000	2.087	QL3
2027	1,425,000	5.000	0.820	QD1	2035	1,835,000	2.000	2.123	QM1
2028	1,500,000	5.000	0.990	QE9					

The Bonds captioned above (the "Series 2020 Bonds") are issued pursuant to an Amended and Restated General Bond Resolution adopted by the Board of Commissioners of the Northern Kentucky Water District (the "District") on November 19, 1985 as amended by the First Supplemental General Bond Resolution adopted November 17, 1987 (the "General Bond Resolution"), and a Series 2020 Bond Resolution (the "Series 2020 Bond Resolution") adopted by the Board of Commissioners of the District on May 21, 2020 (collectively, the "Resolution"). The holders of the Series 2020 Bonds shall, on a parity basis with the holders of all bonds outstanding under the Resolution (the "Bonds"), have a priority lien on and security interest in the Pledged Receipts of the District and other special funds derived from the operations of the works and facilities of the District (the "System"). The District reserves the right to issue additional Bonds on a parity with the outstanding Bonds, subject to satisfaction of the conditions set forth in the Resolution. See "SECURITY FOR THE SERIES 2020 BONDS" herein.

The Series 2020 Bonds will be fully registered bonds in denominations of \$5,000 or any integral multiple thereof without coupons. The Series 2020 Bonds will be issuable under a book entry system, registered in the name of The Depository Trust Company ("DTC") or its nominee. There will be no distribution of the Series 2020 Bonds to the ultimate purchasers. See "Book Entry" and APPENDIX E herein. Principal and interest on the Series 2020 Bonds is payable at the principal office of The Bank of New York Mellon Trust Company, N.A, East Syracuse, New York, as Paying Agent and Bond Registrar. The Series 2020 Bonds are subject to optional redemption prior to maturity as described herein.

The Series 2020 Bonds are subject to redemption prior to maturity as described herein.

The Series 2020 Bonds are special and limited obligations of the District and do not constitute a debt, liability or general obligation of the District within the meaning of the Constitution and laws of the Commonwealth of Kentucky, or a pledge of the faith and credit or the taxing power of the District. See "SECURITY FOR THE SERIES 2020 BONDS" herein.

The District deems this Preliminary Official Statement to be final for purposes of Security and Exchange Commission Rule 15c2-12, except for certain information on the cover page hereof and certain pages herein which has been omitted in accordance with the Rule and will be provided with the final Official Statement.

The Series 2020 Bonds are offered when, as and if issued, subject to the approving legal opinion of Dinsmore & Shohl LLP, Covington, Kentucky, Bond Counsel. Certain legal matters have been passed upon for the District by T. Alex Mattingly, Esq., General Counsel to the District and Manager of Legal, Compliance, and Regulatory Affairs. The Series 2020 Bonds are expected to be available for delivery on or about November 5, 2020.

Dated: October 20, 2020

**NORTHERN KENTUCKY WATER DISTRICT**

*Board of Commissioners*

Douglas C. Wagner, CDT, Chair  
Joseph J. Koester, Vice-Chair  
Fred Macke, Secretary  
Jody R. Lange, CPA, CGMA, Treasurer  
Clyde Cunningham  
Dr. Patricia J. Sommerkamp, PhD

*President/CEO*

C. Ronald Lovan, P.E.

*Vice President of Finance and Support Services*

Lindsey Rehtin, CPA

*General Counsel & Manager Of Legal, Compliance and Regulatory Affairs*

T. Alex Mattingly, Esq.

**BOND COUNSEL**

Dinsmore & Shohl LLP  
Covington, Kentucky

**FINANCIAL ADVISOR**

RSA Advisors, LLC  
Lexington, Kentucky

**BOND PAYING AGENT AND REGISTRAR**

The Bank of New York Mellon Trust Company, N.A  
Louisville, Kentucky

## REGARDING THIS OFFICIAL STATEMENT

This Official Statement, which includes the cover page, has been prepared by officials of the Northern Kentucky Water District (the “District”) in connection with the sale by the District of \$22,325,000 aggregate principal amount of Refunding Revenue Bonds, Series 2020 of the District. Certain information concerning the authorization, purpose, terms, conditions of sale and sources of payment of, and security for, the Series 2020 Bonds are described herein. Insofar as such information embodies statements of opinion, or estimates, even if not so labeled, it should be regarded as suggesting independent investigation or consultation of other sources prior to making investment decisions. Certain information may not be the most current that is available; however, attempts were made to date and document sources of information.

No dealer, broker, salesman or other person has been authorized by the District to give any information or to make any representation, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been given by the District. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2020 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof.

Neither this Official Statement nor any verbal or written representations by or on behalf of the District before sale of the Series 2020 Bonds should be regarded as part of the contract with the holders from time to time of the District’s Series 2020 Bonds.

All financial and other information presented herein has been provided by the District from its records, except for information expressly attributed to other sources. It is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as might be shown by such financial and other information, will necessarily continue or be repeated in the future.

Insofar as the statements contained in this Official Statement involve matters of opinion or estimates, even if not expressly stated as such, such statements are made as such and not as representations of fact or certainty, no representation is made that any of such statements have been or will be realized, and such statements should be regarded as suggesting independent investigation or consultation of other sources prior to the making of investment decisions. Certain information may not be current; however, attempts were made to date and document sources of information. Neither this Official Statement nor any oral or written representations by or on behalf of the District preliminary to sale of the Bonds should be regarded as part of the District’s contract with the successful bidder or the holders from time to time of the Bonds.

References herein to provisions of Kentucky law, whether codified in the Kentucky Revised Statutes (“KRS”) or uncodified, or of the Kentucky Constitution, are references to such provisions as they presently exist. Any of those provisions may from time to time be amended, repealed or supplemented.

As used in this Official Statement, “debt service” means principal of and interest on the obligations referred to, and “Commonwealth” or “Kentucky” means the Commonwealth of Kentucky.

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**\$22,325,000**  
**NORTHERN KENTUCKY WATER DISTRICT**  
**REFUNDING REVENUE BONDS, SERIES 2020**

**INTRODUCTION**

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to provide certain information with respect to the issuance of the Series 2020 Bonds.

**This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Series 2020 Bonds to potential investors is made only by means of the entire Official Statement.**

**The District**

The Series 2020 Bonds are being issued by the Northern Kentucky Water District (the “District”), a public body corporate and politic and a political subdivision of the Commonwealth of Kentucky.

**Sources of Payment and Security for the Series 2020 Bonds**

Pursuant to District’s Amended and Restated General Bond Resolution adopted by the Board of Commissioners of the District on November 19, 1985 as amended by the First Supplemental General Bond Resolution adopted November 17, 1987 (the “General Bond Resolution”), and a Series 2020 Bond Resolution (the “Series 2020 Bond Resolution”) adopted by the Board of Commissioners of the District on May 21, 2020 (collectively, the “Resolution”), the District has pledged: (i) the proceeds of the District’s Water District Refunding Revenue Bonds, Series 2020 (the “Series 2020 Bonds”) authorized and directed to be issued under the Series 2020 Bond Resolution (except for amounts used to refund the Prior Bonds, hereinafter defined); (ii) any Investment Obligations, as hereinafter defined (except for any Investment Obligations related to the refunding of the Prior Bonds), purchased with the proceeds of the Series 2020 Bonds; and (iii) subject to the priority lien granted to the holders of the District’s outstanding Revenue Bonds, including the Series 2020 Bonds, and any additional obligations issued on a parity therewith in accordance with the terms of the General Bond Resolution, the revenues from the operation of the facilities of the District (the “System”), to the payment of the principal of, premium, if any, and interest on the Series 2020 Bonds as and when same shall become due and payable.

THE SERIES 2020 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE DISTRICT WITHIN THE MEANING OF THE CONSTITUTION OF THE COMMONWEALTH OF KENTUCKY. THE SERIES 2020 BONDS ARE PAYABLE SOLELY FROM THE REVENUES OF THE SYSTEM AND THE ASSETS AND REVENUES PLEDGED THEREFORE UNDER THE ORDINANCE, AND ARE SECURED BY A STATUTORY MORTGAGE LIEN ON ALL OF THE PROPERTIES OF THE SYSTEM. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT, THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION OR TAXING AUTHORITY THEREOF, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE SERIES 2020 BONDS.

**Purpose of the Series 2020 Bonds**

The proceeds of the Series 2020 Bonds will be used to (i) currently refund and retire the District’s outstanding Water District Revenue Bonds, Series 2000 dated August 4, 2000 (the “Series 2000 Bonds”), (ii) currently refund the District’s outstanding Water District Revenue Bonds, Series 2011 dated May 31, 2011 (the “Series 2011 Bonds” and together with the Series 2000 Bonds, the “Prior Bonds”), which Prior

Bonds were issued to provide funds used for paying the costs of various capital projects of the System; and (iii) make a deposit to the Series 2020 Bonds Cost of Issuance Account to pay the costs of issuing the Series 2020 Bonds.

### **Description of the Series 2020 Bonds**

Redemption. The Series 2020 Bonds are subject to redemption prior to their maturity (see “THE SERIES 2020 BONDS – Redemption,” herein).

Denominations. The Series 2020 Bonds will be issued in principal amounts of \$5,000 and integral multiples thereof.

Book Entry. The Series 2020 Bonds are issuable only as fully registered Series 2020 Bonds, without coupons. The Series 2020 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Series 2020 Bonds. Purchasers will not receive certificates representing their ownership interest in the Series 2020 Bonds purchased. So long as DTC or its nominee is the registered owner of the Series 2020 Bonds, payments of the principal of and interest due on the Series 2020 Bonds will be made directly to DTC. Principal of, redemption premium, if any, and interest on the Series 2020 Bonds will be paid directly to DTC by The Bank of New York Mellon Trust Company, N.A, East Syracuse, New York, as Paying Agent and Registrar (the “Paying Agent” and “Registrar”). See “BOOK-ENTRY SYSTEM” and APPENDIX E herein.

Interest. The Series 2020 Bonds will bear interest at the rates set forth on the cover hereof, payable semi-annually on February 1 and August 1, beginning February 1, 2021.

Notices. In the event any Series 2020 Bonds are called for redemption, notice shall be given by mailing a copy of the redemption notice by registered mail not less than twenty (20) days prior to the date fixed for redemption to the registered owner of each Series 2020 Bond to be redeemed.

### **Tax Exemption**

Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest, including original issue discount, if any, on the Series 2020 Bonds is excludible from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the “Code”). Interest on the Series 2020 Bonds will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax. In rendering the opinions in this paragraph regarding the Series 2020 Bonds, Bond Counsel has assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. Bond Counsel expresses no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Series 2020 Bonds. Interest on the Series 2020 Bonds is exempt from income taxation and the Series 2020 Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

The District has not designated the Series 2020 Bonds as “qualified tax exempt obligations” with respect to certain financial institutions under Section 265 of the Code. See Appendix F hereto for the form of the opinion Bond Counsel proposes to deliver in connection with the Series 2020 Bonds.

### **Parties to the Issuance of the Series 2020 Bonds**

The Paying Agent and Registrar for the Series 2020 Bonds is The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky. Legal matters incidence to the issuance of the Series 2020 Bonds and with regard to the tax-exempt status of the interest thereon are subject to the approving legal opinion of Dinsmore & Shohl LLP, Covington, Kentucky, Bond Counsel. The financial advisor to the

District with regard to the issuance of the Series 2020 Bonds is RSA Advisors, LLC, Lexington, Kentucky.

### **Authority for Issuance**

Authority for the issuance of the Series 2020 Bonds is provided by Chapter 58 and Chapter 74 of the Kentucky Revised Statutes (collectively, the “Act”) and the Resolution. An Order of the Kentucky Public Service Commission in the matter of Case No. 2020-00284 approving the issuance of the Series 2020 Bonds was issued on October 9, 2020.

### **Offering and Delivery of the Series 2020 Bonds**

The Series 2020 Bonds are offered when, as and if issued by the District. The Series 2020 Bonds will be delivered on or about November 5, 2020 in New York, New York through the Depository Trust Company (DTC).

### **Disclosure Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Official Statement and continuing disclosure documents of the District are intended to be made available through one or more repositories. Copies of the basic documentation relating to the Series 2020 Bonds, including the Resolution and the bond form, are available from the District.

The District has deemed this Official Statement to be final for the purposes of Securities and Exchange Commission Rule 15c2-12, except for certain information on the cover page hereof and certain pages herein which has been omitted in accordance with the Rule and will be provided with the final Official Statement

### **Additional Information**

Additional information concerning this Official Statement, as well as copies of the basic documentation relating to the Series 2020 Bonds, is available from RSA Advisors, LLC, 325 West Main Street, Suite 300, Lexington, Kentucky 40507, Attention: Mr. Dwight Salsbury.

Brief descriptions of the Series 2020 Bonds, security for the Series 2020 Bonds, the District, the System and the Resolution are included in this Official Statement. Certain information with respect to the District is included in Appendices hereto. Capitalized terms not otherwise defined herein shall have the meanings assigned to them in the Resolution. All summaries herein of documents and agreements are qualified in their entirety by reference to such documents and agreements, copies of which are available at the office of the District.

## **THE DISTRICT AND AUTHORITY**

The District is the lawful successor to the Campbell County, Kentucky Water District and the Kenton County Water District No. 1 (collectively the “Prior Districts”). On May 24, 1996, the Prior Districts petitioned the Commonwealth of Kentucky Public Service Commission (the “PSC”) for approval to merge and operate as the Northern Kentucky Water District. On August 28, 1996, the PSC by Order Case No. 96-234 approved the merger of the Prior Districts. The rates, rules and regulations of the Prior Districts were adopted by the District.

The Series 2020 Bonds are being issued under Section 510(2) of the General Bond Resolution and the Series 2020 Bond Resolution. The Series 2020 Bonds rank on a parity with the Outstanding Bonds of the District and any other Parity Bonds that may be issued in the future, and are collectively referred to as the “Bonds.” All Bonds are issued under the Act. An Order of the Kentucky Public Service

Commission in the matter of Case No. 2020-00284 approving the issuance of the Series 2020 Bonds was issued on October 9, 2020.

## **THE SERIES 2020 BONDS**

### **General**

The Series 2020 Bonds are to be issued only as fully registered Bonds in denominations of \$5,000 or any integral multiple thereof without coupons. The Series 2020 Bonds will be dated their date of delivery, will bear interest from that date as described herein, payable semi-annually on February 1 and August 1 of each year commencing February 1, 2021 (each an “Interest Payment Date”), and will mature on February 1, in the years and in the principal amounts set forth on the cover page of this Official Statement.

The Series 2020 Bonds shall be payable at the principal office of the Paying Agent and Registrar with respect to principal or premium, if any, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public or private debts. All interest payments shall be payable by check or draft mailed to the record date registered Bondholders. The record dates for February 1 and August 1 interest payment dates shall be the preceding January 15 and July 15, respectively.

Each registered Series 2020 Bond shall be transferable only upon the books of the Registrar, at the request of the registered owner thereof or by his authorized Attorney upon surrender thereof together with an assignment satisfactory to the appropriate Registrar duly executed by the registered owner or his duly authorized Attorney. Upon the transfer of any such Series 2020 Bond, the District shall issue in the name of the transferee a new registered Series 2020 Bond of the same aggregate principal amount, series and maturity as the surrendered Series 2020 Bond. If any Series 2020 Bond is mutilated, lost, stolen or destroyed, the District will execute and deliver a new Series 2020 Bond in accordance with the General Bond Resolution.

### **Redemption**

Optional Redemption. The Series 2020 Bonds maturing on or after February 1, 2029 are subject to optional redemption, in whole or in part, on any date beginning February 1, 2028, at a redemption price equal to the principal amount to be redeemed, plus interest accrued to the date of redemption, without premium.

Selection of Bonds to be Redeemed. In the event of redemption of less than all the outstanding Series 2020 Bonds of the same maturity, the District shall assign to each such outstanding Series 2020 Bond a distinctive number for each \$5,000 of the principal amount of such Series 2020 Bond and shall select by lot, using such method of selection as it shall deem proper in its discretion, as many numbers as, at \$5,000 for each number shall equal the principal amount of such Series 2020 Bonds to be redeemed. The Series 2020 Bonds to be redeemed shall be the Series 2020 Bonds to which were assigned numbers so selected; provided, however, that only so much of the principal amount of each such Series 2020 Bond of a denomination of more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected.

Notice of Redemption. The District shall give notice in the name of the District of the redemption of Series 2020 Bonds determined by the District to be redeemed, which notice shall specify the maturities of the Series 2020 Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Series 2020 Bonds of the same maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Series 2020 Bonds so to be redeemed and, in the case of Series 2020 Bonds to be redeemed in part only,



such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Series 2020 Bond to be redeemed the redemption price thereof, or the redemption price of the specified portions of the principal thereof of Series 2020 Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such Redemption Date interest thereon shall cease to accrue and be payable. The District shall mail a copy of such notice, postage prepaid, registered mail, not less than twenty (20) days before the Redemption Date to the registered owners of any Series 2020 Bonds or portions of Series 2020 Bonds which are to be redeemed, at their last addresses, appearing upon the registry books.

### **Book Entry System**

The Series 2020 Bonds initially will be issued solely in book entry form to be held in the book-entry only system maintained by DTC. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of Series 2020 Bonds and Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Series 2020 Bonds under the Resolution. For additional information about DTC and the book-entry-only system see “APPENDIX E – Book-Entry Only System.”

THE INFORMATION IN THIS SECTION AND IN APPENDIX E CONCERNING DTC AND DTC’S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE DISTRICT BELIEVES TO BE RELIABLE, BUT THE DISTRICT TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

## **SECURITY FOR THE SERIES 2020 BONDS**

### **Security for the Series 2020 Bonds**

All the Bonds issued under the Resolution of the District (the “Outstanding Bonds”) are issued and secured pursuant to the Resolution. For a more complete description of the terms and provisions of the Resolution, including the Funds and Accounts to be maintained by the District, the limitations on the issuance of additional Bonds and requirements as to rates and charges for water service, see Appendix D “SUMMARY OF THE GENERAL BOND RESOLUTION.” See “INTRODUCTION” as to the availability of copies of the Resolution.

Source of Payment. The interest and principal payments of the Series 2020 Bonds are payable from and secured by a pledge of District Revenues, as determined in accordance with generally accepted accounting principles. District Revenues are defined in the General Bond Resolution as “the totality of all water service rates, rentals and charges of any and all types and varieties imposed, enforced and collected by the District for any services rendered by the works and facilities of the District, together with other income received by the District, if any, from any agency of government, both federal and state, as representing income or operating subsidies, as distinguished from capital grants, to the extent not otherwise required to be treated and applied.”

Rate Covenant. The District has covenanted, that it will at all times establish, enforce and collect rates, rentals, and charges for services rendered and facilities constituting the System (subject to such regulatory approval as may be required by law), in an amount, after accumulation of all reserves required by the Resolution and allowances for all operation and maintenance costs (but not including depreciation), of 1.20 times the annual principal, interest and sinking fund requirements on all Bonds that are Outstanding under the Resolution.

Debt Service Reserve. A Debt Service Reserve has been established for the Bonds. The District is required to maintain on deposit in the Debt Service Reserve an amount that is no less than the

maximum principal, interest and sinking fund requirements in any future Bond Fiscal Year on all Bonds that are Outstanding under the Resolution.

Mortgage Lien. The Bonds are further secured by a statutory mortgage lien on all properties of the District, granted to and in favor of the registered owners of the Bonds and said properties shall remain subject to the lien until the Series 2020 Bonds are no longer Outstanding under the Resolution.

### **Global Health Emergency Risk**

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus. On March 6, 2020, Kentucky's Governor Andy Beshear declared a state of emergency, directing state agencies to use all resources necessary to prepare for and respond to the outbreak. On March 13, 2020, President Donald Trump declared a national emergency to unlock federal funds to help states and local governments fight the pandemic. Governor Beshear and the Kentucky Public Service Commission subsequently issued orders suspending all utility disconnections. The Kentucky Public Service Commission allowed some utilities to resume disconnections in an order dated September 21, 2020.

The current spread of COVID-19 has resulted in the required suspension or limited operation of certain businesses and is altering the behavior of businesses and people in a manner that has had and in the foreseeable future may have negative effects on economic activity. The negative economic effects from COVID-19 may adversely affect the financial condition of the District and its rate paying customers, either directly or indirectly. The District actively monitors its revenue collections, and continually evaluates possible mitigation and expense reduction measures. The District has already taken the following measures: tracked, and continuing to track, all COVID related expenses and applied for federal funding reimbursement for those expenses, resumed collection efforts where allowed, and continually comparing actual expenses to budgeted expenses to adjust actual expenses, if necessary. The District will continue to monitor the impact of COVID-19 on the District's revenue collections and will implement, if necessary, additional expense containment and reduction measures.

### **PLAN OF FINANCE**

The Prior Bonds will be discharged by depositing an amount of proceeds of the Series 2020 Bonds in (i) the bond payment fund for the Series 2000 Bonds that will be used to redeem all the outstanding Series 2000 Bonds on or about November 6, 2020 and (ii) the bond payment fund for the Series 2011 Bonds that will be used to redeem all the outstanding Series 2011 Bonds on or about February 1, 2021, in each case at a redemption price equal to the principal amount thereof plus accrued interest thereon, without premium.. The remaining proceeds from the sale of the Series 2020 Bonds will be used to pay the costs of issuing the Bond.

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## **SOURCES AND USES OF FUNDS**

### Sources

Principal Amount of Series 2020 Bonds	\$22,325,000.00
Plus Original Issue Premium	<u>2,481,833.80</u>
TOTAL	\$24,806,833.80

### Uses

Deposit to Series 2000 Bond Payment Fund	\$22,931,358.33
Deposit to Escrow Fund for the Series 2011 Bonds	1,643,340.11
Costs of Issuance	81,371.62
Underwriter's Discount	<u>150,763.74</u>
TOTAL	\$24,806,833.80

## **PLANS TO ISSUE ADDITIONAL DEBT - FIVE YEAR CAPITAL PLAN**

The District over the years has acquired or consolidated several systems located in the older river cities located within the current boundaries of the District. Significant portions of the infrastructure of these systems are in need of repair or replacement. The District prioritizes all of these needs in order to use capital dollars in the most effective and efficient manner possible.

The District continues to face the challenges of meeting the aging infrastructure both at its production facilities and in its transmission and distribution system. This is reflected in the Five Year Capital Budget for the period 2020 through 2024 that totals approximately \$150 million. Water Quality and Production issues account for approximately \$54 million (36%) of this total while Distribution issues also represent approximately \$96 million (64%).

The District was approved for an Assistance Agreement with the Kentucky Infrastructure Authority for up to \$8,000,000 on loan # F13-012. As of October 20, 2020, the District has received \$4,523,000 of the loan proceeds. The obligations of the District under the Assistance Agreement are subordinate to the Series 2020 Bonds and all other bonds outstanding under the Resolution.

In addition, the District was approved for an Assistance Agreement with the Kentucky Infrastructure Authority for up to \$4,000,000 on loan # F16-027. As of October 20, 2020, the District has received \$947,240 of the loan proceeds. The obligations of the District under the Assistance Agreement are subordinate to the Series 2020 Bonds and all other bonds outstanding under the Resolution.

The District was also approved for an Assistance Agreement with the Kentucky Infrastructure Authority for up to \$8,000,000 on loan # F20-044. As of October 20, 2020, the District has not received any funds related to this loan. The obligations of the District under the Assistance Agreement are subordinate to the Series 2020 Bonds and all other bonds outstanding under the Resolution.

The replacement of aging infrastructure, the upgrade of distribution capacity, and the provision for redundancy and reliability are the drivers of this capital effort in order to provide water to the region in a sustainable manner.

## **GENERAL LEGAL MATTERS**

The issuance of the Series 2020 Bonds and certain legal matters incident to compliance by the District with Sections 103(b)(2) and 148 of the Code, and regulations thereunder relating to "arbitrage bonds" are subject to the approval of Dinsmore & Shohl LLP, Covington, Kentucky, Bond Counsel, whose approving opinion will be delivered with the Series 2020 Bonds. Certain legal matters will be passed upon for the District by its counsel, T. Alex Mattingly, Esq., General Counsel & Manager of Legal, Compliance, and Regulatory Affairs, Northern Kentucky Water District, Erlanger, KY.

Bond Counsel has reviewed legal matters incident to those sections of the Official Statement entitled “The Series 2020 Bonds,” “Security for the Bonds,” “Summary of General Bond Resolution,” and “Tax Exemption,” and is of the opinion that the statements contained in such identified sections are, as to law and legal conclusions, correct and that such sections fairly summarize the contents of documents therein described. Bond Counsel assumes no responsibility for the accuracy or completeness of other statements or financial information contained in this Official Statement.

### **LITIGATION INVOLVING DISTRICT**

There is no controversy or litigation of any nature now pending or threatened, restraining or enjoining the issuance, sale, execution or delivery of the Series 2020 Bonds, or in any way contesting or affecting the validity of such Series 2020 Bonds, or any proceedings of the District taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of such Series 2020 Bonds, or the due existence or powers of the District.

### **TAX EXEMPTION**

General. In the opinion of Bond Counsel for the Series 2020 Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Series 2020 Bonds will be excludible from gross income for federal income tax purposes. Bond Counsel for the Series 2020 Bonds is also of the opinion that interest on the Series 2020 Bonds will not be a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the “Code”) for purposes of computing the alternative minimum tax. Furthermore, Bond Counsel for the Series 2020 Bonds is of the opinion that interest on the Series 2020 Bonds is exempt from income taxation by the Commonwealth and the Series 2020 Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

A copy of the form of opinion of Bond Counsel for the Series 2020 Bonds is set forth in Appendix F, attached hereto.

The Code imposes various restrictions, conditions, and requirements relating to the qualification of the Series 2020 Bonds as so-called “tax-exempt” bonds. The District has covenanted to comply with certain restrictions designed to ensure that interest on the Series 2020 Bonds will not be includable in gross income for federal income tax purposes. Failure to comply with these covenants could result in the Series 2020 Bonds not qualifying as “tax-exempt bonds,” and thus interest on the Series 2020 Bonds being includable in the gross income of the holders thereof for federal income tax purposes. Such failure to qualify and the resulting inclusion of interest could be required retroactively to the date of issuance of the Series 2020 Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2020 Bonds may adversely affect either the federal or Kentucky tax status of the Series 2020 Bonds.

Certain requirements and procedures contained or referred to in the Resolution and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series 2020 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series 2020 Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Dinsmore & Shohl LLP.

Although Bond Counsel for the Series 2020 Bonds is of the opinion that interest on the Series 2020 Bonds will be excludible from gross income for federal income tax purposes and the Series 2020 Bonds will be exempt from Kentucky income tax, as described above, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2020 Bonds may otherwise affect a Holder’s Federal, state

or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Holder or the Holder's other items of income or deduction. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Holder or potential Holder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Series 2020 Bonds on the tax liabilities of the individual or entity.

Receipt of tax-exempt interest, ownership or disposition the Series 2020 Bonds may result in other collateral federal, state or local tax consequence for certain taxpayers. Such effects may include, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, increasing the federal tax liability of certain individual recipients of Social Security or the Railroad Retirement benefits under Section 86 of the Code and limiting the amount of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any of the Series 2020 Bonds may also result in the limitation of interest and certain other deductions for financial institutions and other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the Holder of the Series 2020 Bonds in a state other than Kentucky or being subject to tax in a state other than Kentucky, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Series 2020 Bonds.

The District has not designated the Series 2020 Bonds as "qualified tax-exempt obligations" under Section 265 of the Code.

Premium. "Acquisition Premium" is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. The Series 2020 Bonds having a yield that is lower than their stated interest rate, as shown on the cover page hereto (the "Premium Bonds"), are being initially offered and sold to the public at an Acquisition Premium. For federal income tax purposes, the amount of Acquisition Premium on each bond the interest on which is excludable from gross income for federal income tax purposes ("tax-exempt bonds") must be amortized and will reduce the bondholder's adjusted basis in that bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining bondholder's taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Bonds, or on any of the Series 2020 Bonds, that must be amortized during any period will be based on the "constant yield" method, using the original bondholder's basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

Holders of any Series 2020 Bonds, including any Premium Bonds, purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

Original Issue Discount. Series 2020 Bonds having a yield that is higher than their stated interest rate, as shown on the cover page hereto (the "Discount Bonds"), are being offered and sold to the public at an original issue discount ("OID") from the amounts payable at maturity thereon. OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the "issue price" of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond, and for the Discount Bonds, the amount of accretion will be based on a single rate of interest, compounded semiannually (the "yield to maturity"). The amount of OID that accrues during each semi-annual period will do so ratably over that period on a daily basis. With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OID that accrues

during the period that such purchaser owns the Discount Bond is added to such purchaser's tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Discount Bond and thus, in practical effect, is treated as stated interest, which is excludable from gross income for federal income tax purposes.

Holders of Discount Bonds should consult their own tax advisors as to the treatment of OID and the tax consequences of the purchase of such Discount Bonds other than at the issue price during the initial public offering and as to the treatment of OID for state tax purposes.

### **RATING**

Moody's has assigned its municipal bond rating to the Series 2020 Bonds, as shown on the cover page hereto. Such rating reflects only the view of the rating agency. Any explanation of the significance of such ratings may only be obtained from Moody's at the following address: Moody's Investors Service, Inc. at 7 World Trade Center, 250 Greenwich Street, Public Finance Group - 23rd Floor, New York, New York 10007, (212) 553-0300. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such organization if, in the judgment of such organization, circumstances so warrant. Any such downward revision or withdrawal of such rating will have adverse effects on the market price of the Series 2020 Bonds.

### **UNDERWRITING**

The Series 2020 Bonds are being purchased for reoffering by Citigroup Global Markets Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Series 2020 Bonds at an aggregate purchase price of \$24,656,070.06 (reflecting the par amount of the Series 2020 Bonds, plus premium of \$2,481,833.80, and less underwriter's discount of \$150,763.74). The initial public offering prices, which produce the yields set forth on the cover page of this Official Statement, may be changed by the Underwriter and the Underwriter may offer and sell the Series 2020 Bonds to certain dealers (including dealers depositing Series 2020 Bonds into investment trusts) and others at prices lower than the offering prices which produce the yields set forth on the cover page.

### **FINANCIAL ADVISOR**

RSA Advisors, LLC is employed as Financial Advisor to the District in connection with the issuance of the Series 2020 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2020 Bonds is contingent upon the issuance and delivery thereof. The Preliminary Official Statement was prepared and distributed by the Financial Advisors. The information set forth herein was obtained from the District and other sources believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of the Financial Advisors.

### **CONTINUING DISCLOSURE**

In accordance with Securities and Exchange Commission Rule 15c2-12 (the "Rule"), the District will agree, pursuant to a Continuing Disclosure Agreement dated as of November 5, 2020 (the "Disclosure Agreement"), to be delivered on the date of delivery of the Series 2020 Bonds, to cause the following information to be provided:

- (i) to the Municipal Securities Rulemaking Board (the "MSRB"), certain annual financial information and operating data, including audited financial statements prepared in accordance with generally accepted accounting principles as applied to governmental units, generally consistent with the information contained in "Appendix B" and "Appendix C" (the "Financial Data") of the Official Statement; such information shall be provided on or before October 1 following the fiscal year ending on the preceding December 31, commencing with the fiscal year ended December 31, 2020, provided that

the audited financial statements may not be available by such date, but will be made available immediately upon delivery thereof by the auditor to the Obligated Person;

- (ii) to the MSRB, not in excess of ten business days after the occurrence of the event, notice of the occurrence of the following events, with respect to the Bonds:
- (a) Principal and interest payment delinquencies;
  - (b) Non-payment related defaults, if material;
  - (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
  - (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
  - (e) Substitution of credit or liquidity providers, or their failure to perform;
  - (f) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security;
  - (g) Modifications to rights of security holders, if material;
  - (h) Bond calls, if material, and tender offers (except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event);
  - (i) Defeasances;
  - (j) Release, substitution or sale of property securing repayment of the securities, if material;
  - (k) Rating changes;
  - (l) Bankruptcy, insolvency, receivership or similar event of the obligated person (Note: For the purposes of this event, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person);
  - (m) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
  - (n) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
  - (o) Incurrence of a financial obligation of an obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of an obligated person, any of which affect security holders, if material; and
  - (p) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of an obligated person, any of which reflect financial difficulties.

- (iii) to the MSRB, timely notice of a failure of an obligated person to provide the required Annual Financial Information on or before the date specified in the Disclosure Agreement.

The Disclosure Agreement provides holders of the Series 2020 Bonds, including beneficial owners of the Series 2020 Bonds, with certain enforcement rights in the event of a failure by the District to comply with the terms thereof; however, a default under the Disclosure Agreement does not constitute an event of default under the Resolution. The Disclosure Agreement may also be amended or terminated under certain circumstances in accordance with the Rule as more fully described therein. Holders of the Series 2020 Bonds are advised that the Disclosure Agreement, the form of which is obtainable from the Financial Advisor, should be read in its entirety for more complete information regarding its contents.

For purposes of this transaction with respect to events as set forth in the Rule:

- (i) there are no credit enhancements applicable to the Bonds;
- (ii) there are no liquidity providers applicable to the Bonds; and
- (iii) there is no property securing the repayment of the Bonds.

Pursuant to outstanding continuing disclosure agreements (the “Existing Agreements”) the District is required to file certain annual financial information with the MSRB by October 1 of each year. The District operates on a fiscal year ending each December 31 and the General Bond Resolution requires that annual audits be completed within 60 days of the end of each fiscal year. Certain Existing Agreements correctly reference a fiscal year ending December 31 while others reference a fiscal year ending June 30. The District has filed its annual audits upon completion in accordance with the General Bond Resolution.

The District has procedures in place to assure compliance with the Rule and the Existing Agreements and is in compliance the continuing disclosure undertaking requirements of the Rule in connection with its outstanding obligations that are subject to such requirements.

#### **VERIFICATION OF MATHEMATICAL CALCULATIONS**

AMTEC, Avon, Connecticut will verify from information provided to them the mathematical accuracy as of the date of the closing on the Series 2020 Bonds of (1) the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposits listed in the provided schedules, to be held in escrow, is sufficient to pay, when due, the principal, interest and call premium payment requirements of the Prior Bonds, and (2) the computations of yield on both the securities and the Series 2020 Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the Series 2020 Bonds is excludible from gross income for federal income tax purposes. AMTEC has expressed no opinion on the assumptions provided to them, nor as to the exemption from income taxation of interest on the Series 2020 Bonds.

#### **CONCLUDING STATEMENT**

The financial statements of the District have been examined to the extent set forth in the report of VonLehman & Company, Inc., Certified Public Accountants, Ft. Wright, Kentucky, independent certified public accountants, and are included in reliance upon the report of such firm and upon their authority as experts in auditing and accounting.

The foregoing summaries or descriptions of provisions in the Resolution and all references to other materials not purporting to be quoted in full, are only brief outlines of certain provisions thereof and do not purport to be complete statements of such documents and provisions. Reference is hereby made to



the complete documents, copies of which will be furnished by the District upon request, for further information.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or holders of any of the Series 2020 Bonds.

This Official Statement has been approved by the District as of the date set forth on the cover hereof.

**NORTHERN KENTUCKY WATER DISTRICT**

By: /s/ Douglas C. Wagner  
Chairman

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## **APPENDIX A**

### **AGGREGATE DEBT SERVICE SCHEDULE**

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Northern Kentucky Water District  
 Refunding Revenue Bonds, Series 2020  
 Debt Service Schedule

<b>Fiscal Year Ended</b>	<b>Principal</b>	<b>Interest</b>	<b>Total P+I</b>
12/31/2021	\$1,270,000.00	\$587,586.67	\$1,857,586.67
12/31/2022	1,110,000.00	746,950.00	1,856,950.00
12/31/2023	1,165,000.00	690,075.00	1,855,075.00
12/31/2024	1,225,000.00	630,325.00	1,855,325.00
12/31/2025	1,290,000.00	567,450.00	1,857,450.00
12/31/2026	1,355,000.00	501,325.00	1,856,325.00
12/31/2027	1,425,000.00	431,825.00	1,856,825.00
12/31/2028	1,500,000.00	358,700.00	1,858,700.00
12/31/2029	1,565,000.00	289,900.00	1,854,900.00
12/31/2030	1,625,000.00	234,225.00	1,859,225.00
12/31/2031	1,670,000.00	184,800.00	1,854,800.00
12/31/2032	1,725,000.00	133,875.00	1,858,875.00
12/31/2033	1,765,000.00	90,350.00	1,855,350.00
12/31/2034	1,800,000.00	54,700.00	1,854,700.00
12/31/2035	<u>1,835,000.00</u>	<u>18,350.00</u>	<u>1,853,350.00</u>
<b>TOTAL</b>	<b>\$22,325,000.00</b>	<b>\$5,520,436.67</b>	<b>\$27,845,436.67</b>

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## **APPENDIX B**

### **INFORMATION REGARDING THE DISTRICT AND THE SYSTEM**

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**GENERAL INFORMATION CONCERNING THE DISTRICT AND THE SYSTEM**

The Northern Kentucky Water District (the "District") is the lawful successor to the Campbell County Kentucky Water District (originally established in 1953) and the Kenton County Water District No. 1 (originally established in 1926). On May 24, 1996, the Prior Districts petitioned the PSC for approval to merge and operate as the Northern Kentucky Water District. On August 28, 1996 the PSC by Order Case #96-234 approved the merger of the Prior Districts. The rates, rules and regulations of the Prior Districts were adopted by the District. The District is governed by a Board of Commissioners appointed by the county judge/executives from the District's service area.

The District serves more than 300,000 customers in the northern Kentucky area. The District is the largest water service special district in the Commonwealth of Kentucky and the largest supplier of potable water outside of the major metropolitan areas of Lexington and Louisville, Kentucky. The District has the authority and duty to plan, design, finance, construct, install, operate, replace and maintain a waterworks and water distribution system within the service area approved by the PSC.

**Service Area**

*Customers and Sales*

The District's service area lies within Campbell and Kenton counties and portions of Boone County in Kentucky. The Service area is bound to the west by Boone County, to the south by Grant and Pendleton Counties and to the east by Bracken County. The Ohio River forms a natural boundary to the north. Kenton, Boone and Campbell counties in Kentucky, and three counties in Ohio, form the Cincinnati Standard Metropolitan Statistical Area (SMSA).

The following table and chart reflects the number of general service customers and water sales by each class served by the District at the beginning and end of calendar year 2019.

	<b>2019 Beginning Year Customers</b>	<b>2019 Year End Customers</b>	<b>Year End Customers by Class</b>	<b>Sales</b>	<b>Sales by Class</b>
Residential	77,145	77,767	92.25%	\$34,204,142	61.34%
Commercial	4,009	4,051	4.81%	\$7,752,357	13.90%
Industrial	109	107	0.13%	\$4,239,685	7.60%
Public Authorities	471	462	0.55%	\$2,673,446	4.79%
Multiple Family Dwellings	1,698	1,746	2.07%	\$5,048,482	9.05%
Bulk Loading Stations	6	6	0.01%	\$66,697	0.12%
Fire Hydrants	408	157	0.19%	\$66,062	0.12%
Wholesale Customers	3	3	0.00%	\$1,713,358	3.07%
<b>Total:</b>	83,849	84,299	100.00%	\$55,764,229	100.00%



## Wholesale Customers

At the end of calendar year 2019, the District served as a supplier to three (3) water distribution systems in the Northern Kentucky area (the "Resale Customers"). Resale Customers purchase treated water from the District for resale to their general customers. A wholesale rate, based on 1,000 gallon increments, is approved by the PSC for sale to the Resale Customers.

The following table shows the number of gallons sold and the amount billed to each of the three (3) water distribution systems at the end of calendar year 2019.

	<b>Consumption</b>	
	<b>Gallons</b>	<b>Revenue</b>
City of Walton	184,956,500	\$690,773
Bullock Pen Water District	190,428,100	\$712,418
Pendleton County Water	83,048,900	\$312,175
Total:	458,433,500	\$1,715,366

### *Change in Wholesale Water Contracts*

During February 2001, the District amended its water purchase contracts with the City of Florence, Kentucky and the Boone County Water District. Both contracts were amended such that the City of Florence and the Boone County Water District have no further obligation to purchase treated water from the District, except in case of an emergency. Collectively, the City of Florence and the Boone County Water District paid to the District approximately \$3.5 million in order to amend the contracts. The amended contracts provide that the City of Florence and the Boone County Water District will only purchase treated water from the District through December 31, 2003. Thereafter, except in case of an emergency, the City of Florence and the Boone County Water District have made plans to purchase their treated water from the City of Cincinnati, Ohio.

During 2000 and 2001, the District took over the management and operations of three waterworks systems. The District acquired for one dollar (\$1.00) each, the Winston Park Water District consisting of about 300 customers, the City of Ludlow, Kentucky waterworks system consisting of about 1,400 customers and the City of Bromley, Kentucky waterworks system consisting of about 350 customers. Additionally, the District has entered into a long-term supply contract with the Bullock Pen Water District.

On March 9, 2004, the District purchased the City of Taylor Mill waterworks system for three million dollars to be paid to the City of Taylor Mill over a fifteen (15) year period. The City of Taylor Mill waterworks system currently serves approximately 5,400 customers.

The Northern Kentucky Water District (NKWD) updated two key wholesale agreements with its two largest wholesale customers. Key provisions include:

### **City of Walton**

- The agreement establishes a 40 year term and encompasses Walton's entire service area.
- The agreement gives the District the first right of refusal to purchase Walton's system in the event of merger or sale.
- The agreement establishes the District as the City of Walton's exclusive supplier as compared to the old agreement that did not obligate the City of Walton to purchase any specific amount from the District. Walton could purchase any amount that they needed with no minimum under the provisions of the old agreement.

### ***Bullock Pen Water District***

- The agreement expires in 2040.
- The agreement doubles Bullock Pen's minimum purchase requirement from 150,000 gallons per day to 300,000 gallons per day as compared to the old agreement.
- The agreement establishes NKWD as the Bullock Pen Water District's premier supplier and defines a service area within Grant County that will be exclusively served by the District or Bullock Pen's Treatment Plant which is near capacity. The old agreement did not establish any service area. This will increase the amount of water that the District sells to Bullock Pen in the future and also puts the District in position to provide additional service if Bullock Pen takes its plant out of service in the future.
- The agreement contains provisions that require Bullock Pen to: 1) notify the District if it decides to sell any or all of its system, 2) sell any new lines extended in Kenton County at actual cost to the District if Bullock Pen does sell its system in the future to someone other than the District and 3) requires that the agreement would remain in force to any newly created merged District within Grant County.

### **City of Newport Waterworks Acquisition**

On January 2, 2002, the District filed a second amendment and restated application to the PSC to issue approximately \$46,045,00 of its Series 2002A revenue and refunding bonds in connection with Case # 2001-198. In addition to refinancing its Series 1992A Bonds, the District in its application proposed to use \$17,100,000 of its Series 2002A Bond proceeds to refinance all of its then outstanding Bond Anticipation Notes; however, if the agreement to acquire the City of Newport, Kentucky Waterworks System was consummated prior to the discharging of the then outstanding Bond Anticipation Notes, the District requested that it be given the opportunity to petition the Commission for approval to use the Bond proceeds for the acquisition of the Newport facilities.

An Order of the PSC was granted on January 8, 2002 and the District acquired and took over the management and operations of the City of Newport, Kentucky waterworks system on June 13, 2002 at a cost of approximately \$17.1 million which was paid from a portion of the net proceeds of the Series 2002A Bonds.

Newport is a former second class city, now a "home rule class" city, located in Campbell County, Kentucky on the Ohio River. The City, founded in 1795, has a population of approximately 17,000 persons. In addition to the water mains and distribution lines and an elevated water tower storage system, its waterworks system primarily consists of an Ohio River pumping facility originally built in 1872 and a treatment facility originally built in 1962 that has had two major renovations since that time.

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## Major Customers

The ten largest customers of the District during calendar year 2019 were:

<b>Customer Name</b>	<b>Total Consumption (Gallons, HCF)</b>	<b>Total Water Sales</b>
Continental Silver Grove, LLC	262,692	808,196,710
Bullock Pen Water	254,583	713,086,240
City of Walton	247,268	690,763,360
Sara Lee	192,638	629,813,560
Kenton County Airport	186,440	587,486,280
Club Chef, LLC	137,074	433,112,320
Pendleton Co. Water	111,028	313,721,750
St. Elizabeth Healthcare	109,787	374,482,610
US Housing	99,701	352,624,600
SFC Global Supply Chain, Inc.	93,891	305,816,800
<b>Totals:</b>	<b>1,695,102</b>	<b>5,209,104,230</b>

## Water Supply and Water Quality

The District obtains its raw water supply from the Ohio and Licking rivers. Treatment is provided at the Newport, Campbell County, Ft. Thomas and Taylor Mill water treatment plants. The total pumping capacity of all the District's plants is 64 million gallons per day. The average daily demand is 26-30 mgd or slightly under 50% of capacity.

The District utilizes a computerized Supervisory Control and Data Acquisition (SCADA) system to monitor and control physical assets installed throughout its service area. The present SCADA system was installed in 2003 and 2004 and is maintained by an in-house staff of instrumentation specialists. The District secured FCC licenses for the use of fixed frequency radios to transmit to and receive data from the Fort Thomas Treatment Plant (FTTP), which serves as the communication hub of the SCADA system. This system provides operators and management with real-time data about water quantity and quality, and stores all operation and alarm data for generating daily, weekly and monthly operation reports.

The distribution system consists of more than 1,000 miles of water mains and distribution lines. The distribution main system is primarily constructed of cast or ductile iron with some of the larger mains constructed of concrete and the distribution lines are constructed of PVC piping.

According to the District, compliance is met with all requirements of the Safe Drinking Water Act of the Environmental Protection Agency and they are planning accordingly for increased monitoring and reporting requirements of the Act.

## Water Rates

PSC Order 2018-00291, dated March 26, 2019 (the "Order"), provides that the District is authorized to adjust certain rates charged by the System to its customers in order to produce additional revenues in two phases.

Each customer pays a minimum charge by meter size in addition to the cost of water usage as set forth below:

<b>Meter Size</b>	<b>Monthly Charge</b>	<b>Quarterly Charge</b>
5/8 inch	\$18.50	\$40.50
3/4 inch	\$19.00	\$42.50
1 inch	\$20.80	\$48.80
1 1/2 inch	\$23.40	\$57.70
2 inch	\$29.60	\$80.90
3 inch	\$71.30	\$251.80
4 inch	\$89.50	\$315.50
6 inch	\$132.40	\$466.20
8 inch	\$178.80	\$637.10
10 inch and larger	\$237.80	\$831.90

	<b>Monthly Block/Quarterly Block</b>	<b>Rate</b>
<b>First</b>	1,500 cubic feet/4,500 cubic feet	\$4.77 Per 100 cubic feet
<b>Next</b>	163,500 cubic feet/490,500 cubic feet	\$4.44 Per 100 cubic feet
<b>Over</b>	165,000 cubic feet/495,000 cubic feet	\$3.25 Per 100 cubic feet

<b>Wholesale</b>	\$3.98 per 1,000 gallons
	\$2.98 Per 100 cubic feet
<b>Bulk Sales (Fill Stations)</b>	\$6.38 Per 1,000 gallons
<b>Overtime Charge</b>	\$60

Certain customers pay a surcharge that has been approved by the Kentucky Public Service Commission as set forth below:

**Sub-district Charges**

Sub-district B shall be assessed a monthly surcharge in the amount of \$12.53  
 Sub-district C shall be assessed a monthly surcharge in the amount of \$10.87  
 Sub-district D shall be assessed a monthly surcharge in the amount of \$29.30  
 Sub-district E shall be assessed a monthly surcharge in the amount of \$30.00  
 Sub-district F shall be assessed a monthly surcharge in the amount of \$15.55  
 Sub-district G shall be assessed a monthly surcharge in the amount of \$20.55  
 Sub-district H shall be assessed a monthly surcharge in the amount of \$30.00  
 Sub-district I shall be assessed a monthly surcharge in the amount of \$30.00  
 Sub-district K shall be assessed a monthly surcharge in the amount of \$6.45  
 Sub-district M shall be assessed a monthly surcharge in the amount of \$30.00  
 Sub-district R shall be assessed a monthly surcharge in the amount of \$19.09  
 Sub-district RF shall be assessed a monthly surcharge in the amount of \$21.61  
 Sub-district RL shall be assessed a monthly surcharge in the amount of \$24.84

## District Production, Usage and Sales Trends

	2015	2016	2017	2018	2019
<b>Customers</b>					
Residential	75,376	76,055	76,616	77,145	77,767
Commercial	4,006	4,006	4,004	4,009	4,051
Industrial	112	110	110	109	107
Other	2,630	2,371	2,578	2,586	2,374
<b>Total</b>	<b>82,124</b>	<b>82,542</b>	<b>83,308</b>	<b>83,849</b>	<b>84,299</b>
<b>Water Sales</b>					
Residential	\$29,945,579	\$31,146,733	\$32,144,608	\$32,997,415	\$34,204,142
Commercial	\$7,060,232	\$7,246,450	\$7,468,981	\$7,450,952	\$7,752,357
Industrial	\$3,724,937	\$3,966,911	\$4,013,168	\$4,084,359	\$4,239,685
Other	\$8,045,555	\$8,617,046	\$8,832,459	\$9,072,366	\$9,568,045
<b>Total</b>	<b>\$48,776,303</b>	<b>\$50,977,140</b>	<b>\$52,459,216</b>	<b>\$53,605,092</b>	<b>\$55,764,299</b>
<b>Avg Monthly Bill by Customer</b>					
Residential	\$33.11	\$34.13	\$34.96	\$35.64	\$36.65
Commercial	\$146.87	\$150.74	\$155.45	\$154.88	\$159.47
Industrial	\$2,771.53	\$3,005.24	\$3,040.28	\$3,122.60	\$3,301.94
Other	\$254.93	\$302.86	\$285.51	\$292.36	\$335.86
<b>Line Loss (as % of Production)</b>	<b>8.32%</b>	<b>15.10%</b>	<b>12.65%</b>	<b>17.02%</b>	<b>16.53%</b>

## Historical Debt Service Coverage

	Year Ending 12/31/2017	Year Ending 12/31/2018	Year Ending 12/31/2019
Total Operating Revenue	\$54,085,214	\$55,326,624	57,567,896
Total Operating Expense	24,467,676	26,138,403	28,738,889
Net Operating Income	29,617,538	29,188,221	28,829,007
<b>Other Revenues</b>			
Interest Income	944,480	1,664,146	1,881,532
Service Applications	446,018	420,303	631,675
Net Annual Income and Revenues	\$31,008,036	\$31,272,670	31,342,214
Maximum Annual Debt Service Requirement	\$17,434,169	\$17,434,169	18,467,359
Debt Service Coverage	1.78	1.79	1.70

Source: Northern Kentucky Water District & Financial Advisor Unaudited Projections

## Outstanding Indebtedness

The table below lists the District's outstanding bond issues as of 09/01/2020, including the estimates on the proposed debt:

<b>Bond Series</b>	<b>Original Par Amount</b>	<b>Amount Outstanding</b>	<b>Interest Rate Range</b>	<b>Final Maturity</b>	<b>Call Information</b>
2008KIA F08-07	\$4,000,000	\$2,592,669	1.000%	12/01/32	N/A
2010KIA F09-02	24,000,000	16,661,797	2.000%	06/01/33	N/A
Series 2012-Ref	54,840,000	33,675,000	4.000 - 5.000%	02/01/27	Feb 2022 @ 100%
Series 2013	26,400,000	21,685,000	2.000 - 5.000%	02/01/38	Feb 2023 @ 100%
Series 2013-REF	24,120,000	12,840,000	5.000 - 4.000%	02/01/28	Aug 2023 @ 100%
Series 2014-REF	15,805,000	4,650,000	3.125 - 5.000%	02/01/29	Aug 2023 @ 100%
2016-REF	41,905,000	33,155,000	5.000 - 3.000%	02/01/31	Feb 2026 @ 100%
USDA Loan 91-03	1,733,000	1,706,500	2.750%	02/01/57	N/A
KIA Fund B 15-003	1,392,195	1,230,717	0.950%	12/01/37	N/A
KIA Loan F15-011	3,535,094	3,234,401	2.000%	06/01/38	N/A
KIA Loan F14-015	3,545,910	3,244,297	2.000%	06/01/38	N/A
Series 2019	17,845,000	17,310,000	3.00-5.00%	02/01/44	Aug 2027 @ 100%
Series 2020	<u>22,325,000</u>	<u>22,325,000</u>	2.00-5.00%	02/01/35	Aug 2028 @ 100%
<b>TOTAL:</b>	\$241,446,199	\$174,310,381			
<i>Proposed Debt <sup>1</sup></i>					
KIA Loan F13-012	\$8,000,000	\$4,523,000	2.000%		
KIA Loan F16-027	4,000,000	947,240	2.000%		
KIA Loan F20-044	8,000,000	0	1.750%		
Total Proposed:	\$20,000,000	\$5,470,240	---	---	---
Total Existing + Proposed	\$261,446,199	\$179,780,621			

<sup>1</sup> Amount approved Outstanding Balance to be determined based on amounts drawn

Outstanding debt does not include 2000 USDA Bonds and 2011 Bonds to be redeemed with proceeds of Series 2020 bonds.

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**APPENDIX C**

**NORTHERN KENTUCKY WATER DISTRICT AUDITED FINANCIAL STATEMENTS**

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**NORTHERN KENTUCKY WATER DISTRICT**

**December 31, 2019**

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

**NORTHERN KENTUCKY WATER DISTRICT  
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## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Northern Kentucky Water District  
Erlanger, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Northern Kentucky Water District (the District) as of and for the years ended December 31, 2019 and 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Northern Kentucky Water District as of December 31, 2019 and 2018 and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the District's proportionate share of the net pension liability, schedule of the District's pension contributions, schedule of the District's proportionate share of the net OPEB liability, and schedule of the District's OPEB contributions on pages 1 – 5 and 47 – 50, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 18, 2020, on our consideration of the Northern Kentucky Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Northern Kentucky Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Northern Kentucky Water District's internal control over financial reporting and compliance.

*VonLehman & Company Inc.*

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

Our discussion and analysis of Northern Kentucky Water District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2019. This information is presented in conjunction with the audited financial statements that follow this section.

### **Financial Highlights**

The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows at the close of the most recent year by \$210,590,259 (net position). This was an increase of \$11,049,203 in comparison to the prior year.

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

### **Overview of the Financial Statements**

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

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

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

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

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

### **Basis of Accounting**

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

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

**Overview of Annual Financial Report**

Table 1 provides a summary of the District's net position for 2019 compared to 2018.

**Table 1  
Net Position**

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

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

A portion of the District's net position (20.6%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

An additional portion of the District's net position (67.0%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment); less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

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

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

**Table 2  
Changes in Net Position**

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

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

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



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

**Capital Assets**

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

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

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

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

**Long-Term Liabilities**

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

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

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

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



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

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

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

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

**Contacting the District's Financial Management**

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

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

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

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

See accompanying notes.

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

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

See accompanying notes.

## NORTHERN KENTUCKY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Reporting Entity**

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

#### **Presentation, Basis of Accounting, and Measurement Focus**

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

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

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

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

#### **Use of Estimates**

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

#### **Operating Revenues and Expenses**

Enterprise funds distinguish operating revenues and expenses from non-operating items in accordance with the flow of economic resources measurement focus and the accrual basis of accounting. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues from water sales, forfeited discounts, rents from property, and other water revenues are reported as operating revenues. Operating expenses for enterprise funds includes the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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



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

**Cash and Cash Equivalents**

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

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

**Investments**

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

**Accounts Receivable - Customers**

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

Accounts receivable are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of an account has not been paid in full within the contractual terms of the account. The District begins to assess its ability to collect receivables that are over 90 days past due and provides for an adequate allowance for doubtful accounts based on the District's collection history, the financial stability and recent payment history of the customer, and other pertinent factors. Receivables are written off as uncollectible after the District has used reasonable collection efforts and deems them uncollectible. Based on these criteria, the District has estimated an allowance for doubtful accounts of \$35,000 at December 31, 2019 and 2018.

**Assessments Receivable**

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

**Inventory**

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

**Deferred Inflows and Outflows of Resources**

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

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



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

**Capital Assets**

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

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

Capital assets are stated at cost or appraised value and depreciated over the estimated useful lives of the related assets. The cost of current repairs and maintenance is charged to expense, while the cost of replacements or betterments is capitalized.

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

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

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

**Construction in Progress**

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

**Capital Contributions**

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

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Compensated Absences**

Employees of the District are entitled to paid vacation and sick depending on length of service and other factors. The amounts recorded for accumulated vacation and sick for the years ended December 31, 2019 and 2018 were \$1,005,126 and \$662,920, respectively.

**Net Position**

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

**Bond Premiums and Issue Costs**

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

**Reclassifications**

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

**Adoption of New Accounting Standards***Certain Asset Retirement Obligations*

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

*Fiduciary Activities*

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

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

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

**Recently Issued Significant Accounting Standards***Lease Accounting Standard*

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

*Certain Disclosures Related to Debt*

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

**NOTE 2 – DEPOSITS AND INVESTMENTS****Investment Policy***General Policy*

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

*Authorized Investment Instruments*

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

**NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)**

Limitations of Investment Transactions

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

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

**Deposits and Investments**

The District had investments in certificates of deposit as of December 31, 2019 and 2018 in the amounts of \$2,341,386 and \$905,611, respectively.

*Custodial Credit Risk – Deposits.* For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned. The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of December 31, 2019 and 2018, the District's deposits are entirely insured and/or collateralized with securities held by the financial institutions on the District's behalf and the FDIC insurance.

*Custodial Credit Risk – Investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District had no custodial credit risk at December 31, 2019 and 2018.

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

**NOTE 3 – RESTRICTED ASSETS**

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

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

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

**NOTE 3 – RESTRICTED ASSETS (Continued)**

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

	December 31	
	2019	2018
Cash and Cash Equivalents	\$ 10,199,049	\$ 10,018,475
Purchase and Resale Agreements	2,003,619	2,569,827
FAMC and FHLB Discount Notes	4,118,452	4,101,219
FHLB Bonds	-	2,229,383
United States Treasuries	3,093,614	-
FNMA	499,645	-
Accrued Interest Receivable and CD Market Change	134,675	106,642
	\$ 20,049,054	\$ 19,025,546

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

Cash and Cash Equivalents	\$ 22,919,610	\$ 20,205,002
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*Improvement, Repair, and Replacement* – These assets are available to make major repairs and replacements and to pay the cost of construction of additions, extensions and improvements to the water system. The account assets are:

Cash and Cash Equivalents	\$ 1,143,336	\$ 4,556,753
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*Customer Deposits* – These assets are available to secure deposits paid by customers that have been collected in accordance with the District's tariff. When services are terminated, the deposit, plus interest, is applied to any unpaid bills or refunded to the customer if all billings have been paid. The account assets are:

Cash and Cash Equivalents	\$ 942,820	\$ 1,032,152
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**NOTE 4 – ACCOUNTS RECEIVABLE**

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

**NOTE 5 – FAIR VALUE MEASUREMENT**

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

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

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

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

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

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

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value at December 31, 2019:

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

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

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



**NOTE 6 – CAPITAL ASSETS**

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

	Balance December 31, 2018	Additions	Deductions	Balance December 31, 2019
Land, System, Buildings and Equipment				
Land and Land Rights	\$ 3,267,226	\$ -	\$ -	\$ 3,267,226
Structures and Improvements	127,487,622	162,873	-	127,650,495
Lake River and Other Intakes	1,463,171	-	-	1,463,171
Supply Mains	2,865,693	-	-	2,865,693
Power Generation Plant	3,491,523	-	-	3,491,523
Pumping Equipment	11,852,274	68,132	-	11,920,406
Water Treatment Equipment	30,149,040	57,453	(11,429)	30,195,064
Distribution Reservoirs and Standpipes	11,414,093	-	-	11,414,093
Transmissions and Distribution Mains	218,938,595	3,271,377	(873,646)	221,336,326
Services	32,193,133	776,330	(68,952)	32,900,511
Meters and Meter Installations Hydrants	19,708,705	546,059	(95,888)	20,158,876
	10,743,513	118,161	(482,617)	10,379,057
Other Plant and Miscellaneous Equipment	3,419,128	-	-	3,419,128
Office Furniture and Equipment	4,034,707	56,388	(4,760)	4,086,335
Transportation Equipment	4,048,093	497,755	(218,462)	4,327,386
Tools, Shop, and Garage Equipment	802,344	63,914	(6,000)	860,258
Laboratory Equipment	801,805	19,443	-	821,248
Power Operated Equipment	1,249,998	22,392	-	1,272,390
Communication Equipment	6,287,274	-	-	6,287,274
Miscellaneous Equipment	581,124	-	-	581,124
Utility Plant Acquisition Adjustment	545,925	-	-	545,925
Acquisition Adjustment - Newport	4,970,211	-	-	4,970,211
Total Land, System, Buildings and Equipment	500,315,197	5,660,277	(1,761,754)	504,213,720
Construction in Progress	7,333,224	8,426,673	(2,704,905)	13,054,992
Total Capital Assets	507,648,421	14,086,950	(4,466,659)	517,268,712
Less Accumulated Depreciation	162,660,578	12,179,078	(1,225,081)	173,614,575
Capital Assets - Net	\$ 344,987,843	\$ 1,907,872	\$ (3,241,578)	\$ 343,654,137

**NOTE 7 – ARBITRAGE**

The Tax Reform Act of 1986 (Act) substantially revised the treatment to be afforded to earnings on the proceeds of tax-exempt debt, and requires the District to calculate and remit rebatable arbitrage earnings to the Internal Revenue Service. Certain of the District's debt and interest earned on the proceeds thereof are subject to the requirements of the Act. The District has accrued a liability for estimated rebatable arbitrage earnings and has set aside such earnings as restricted cash. At December 31, 2019 and 2018, the arbitrage rebate liability was \$734,477 and \$555,707, respectively.

Rebate calculations are prepared annually. However, any liability due is only required to be paid every 5 years from the original date of the bond. In the upcoming year, a payment of \$412,209 is due and accrued as a current portion for the year ending December 31, 2019.

**NOTE 8 – LONG-TERM DEBT**

**Revenue Bonds**

Water District Revenue Bonds, Series 2011

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

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

Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2020	4.00%	\$ 1,055,000	\$ 1,022,662	\$ 2,077,662
2021	4.00%	1,095,000	979,662	2,074,662
2022	4.00%	1,140,000	934,962	2,074,962
2023	4.00%	1,185,000	888,462	2,073,462
2024	4.00%	1,235,000	840,062	2,075,062
2025-2029	4.00-4.25%	7,000,000	3,378,456	10,378,456
2030-2034	4.50-5.00%	8,755,000	1,626,450	10,381,450
2035	5.00%	2,025,000	50,625	2,075,625
Total		\$ 23,490,000	\$ 9,721,341	\$ 33,211,341

Water District Refunding Revenue Bonds, Series 2012

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



**NOTE 8 – LONG-TERM DEBT (Continued)**

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

Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2020	5.00%	\$ 4,150,000	\$ 1,787,500	\$ 5,937,500
2021	5.00%	4,365,000	1,574,625	5,939,625
2022	5.00%	4,590,000	1,350,750	5,940,750
2023	5.00%	4,720,000	1,118,000	5,838,000
2024	5.00%	4,970,000	875,750	5,845,750
2025-2027	5.00%	15,030,000	1,082,000	16,112,000
Total		\$ 37,825,000	\$ 7,788,625	\$ 45,613,625

Water District Revenue Bonds, Series 2013A

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

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

2020	5.00%	\$ 755,000	\$ 971,151	\$ 1,726,151
2021	5.00%	795,000	932,401	1,727,401
2022	5.00%	835,000	891,651	1,726,651
2023	5.00%	880,000	848,776	1,728,776
2024	5.00%	925,000	803,651	1,728,651
2025-2029	4.00-5.00%	5,325,000	3,309,180	8,634,180
2030-2034	4.00-4.50%	6,570,000	2,069,798	8,639,798
2035-2038	4.13-4.25%	6,355,000	550,461	6,905,461
Total		\$ 22,440,000	\$ 10,377,069	\$ 32,817,069

Water District Refunding Revenue Bonds, Series 2013B

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

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

**NOTE 8 – LONG-TERM DEBT (Continued)**

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

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2020	5.00%	\$ 1,295,000	\$ 625,325	\$ 1,920,325
2021	5.00%	1,355,000	559,075	1,914,075
2022	5.00%	1,430,000	489,450	1,919,450
2023	5.00%	1,500,000	416,200	1,916,200
2024	4.00%	1,570,000	347,300	1,917,300
2025-2028	4.00-5.00%	6,985,000	684,450	7,669,450
Total		<u>\$ 14,135,000</u>	<u>\$ 3,121,800</u>	<u>\$ 17,256,800</u>

Water District Refunding Revenue Bonds, Series 2014B

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

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

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

2020	5.00%	\$ 1,505,000	\$ 206,513	\$ 1,711,513
2021	5.00%	440,000	157,888	597,888
2022	5.00%	465,000	135,263	600,263
2023	3.00%	485,000	116,363	601,363
2024	3.00%	495,000	101,663	596,663
2025-2029	3.00-4.00%	2,765,000	226,771	2,991,771
Total		<u>\$ 6,155,000</u>	<u>\$ 944,461</u>	<u>\$ 7,099,461</u>

Water District Refunding Revenue Bonds, Series 2016A

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

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

**NOTE 8 – LONG-TERM DEBT (Continued)**

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

Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2020	5.00%	\$ 2,380,000	\$ 1,472,900	\$ 3,852,900
2021	5.00%	2,325,000	1,355,275	3,680,275
2022	5.00%	2,450,000	1,235,900	3,685,900
2023	5.00%	2,685,000	1,107,525	3,792,525
2024	5.00%	2,715,000	972,525	3,687,525
2025-2029	3.00-5.00%	15,775,000	2,737,750	18,512,750
2030-2031	3.00%	7,205,000	217,875	7,422,875
Total		\$ 35,535,000	\$ 9,099,750	\$ 44,634,750

Water District Refunding Revenue Bonds, Series 2019

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

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

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

**Rural Development Loan 91-02**

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

**NOTE 8 – LONG-TERM DEBT (Continued)**

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

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

**Rural Development Loan 91-03**

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

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

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

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

**Fiscal Court of Kenton District, Kentucky**

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

**NOTE 8 – LONG-TERM DEBT (Continued)**

**Kentucky Infrastructure Authority Loan F06-03**

In January 2007, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds was \$4,000,000 at an interest rate of 3.0% and with a scheduled maturity date in June 2028. As of December 31, 2010, all funds have been received. The balance of this loan was paid in full in December 2018.

**Kentucky Infrastructure Authority Loan C08-01**

In January 2009, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds was \$6,000,000 at an interest rate of 3.0%. As of December 31, 2010, all funds have been received. The balance of this loan was paid in full in December 2018.

**Kentucky Infrastructure Authority Loan F08-07**

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

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

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

**Kentucky Infrastructure Authority Loan F09-02**

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

**NOTE 8 – LONG-TERM DEBT (Continued)**

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

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2020	\$ 1,123,045	\$ 381,176	\$ 1,504,221
2021	1,145,619	355,782	1,501,401
2022	1,168,646	329,876	1,498,522
2023	1,192,135	303,450	1,495,585
2024	1,216,098	276,493	1,492,591
2025-2029	6,457,116	958,757	7,415,873
2030-2033	<u>4,917,868</u>	<u>223,506</u>	<u>5,141,374</u>
Total	<u>\$ 17,220,527</u>	<u>\$ 2,829,040</u>	<u>\$ 20,049,567</u>

**Kentucky Infrastructure Authority Loan F13-012**

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

**Kentucky Infrastructure Authority Loan F14-015**

In December 2013, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds is \$4,000,000 at an interest rate of 2.0%. As of December 31, 2018, all funds have been received.

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

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

**Kentucky Infrastructure Authority Loan F15-011**

In November 2014, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds is \$4,000,000 at an interest rate of 2.0%. As of December 31, 2018, all funds have been received.

**NOTE 8 – LONG-TERM DEBT (Continued)**

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

Years	Principal Amount	Interest Amount	Total Debt Service
2020	\$ 152,983	\$ 65,450	\$ 218,433
2021	155,672	62,377	218,049
2022	158,409	59,249	217,658
2023	161,193	56,067	217,260
2024	164,026	52,830	216,856
2025-2029	864,403	213,550	1,077,953
2030-2034	943,086	123,626	1,066,712
2035-2038	710,787	28,679	739,466
Total	<u>\$ 3,310,559</u>	<u>\$ 661,828</u>	<u>\$ 3,972,387</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%. As of December 31, 2018, all funds have been received.

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

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

**Kentucky Infrastructure Authority Loan F16-027**

In July 2017, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds is \$5,385,000 at an interest rate of 1.75%. As of December 31, 2019, \$569,581 has been received. Payments will not begin until one year after the initiation of operation of the project, and therefore a maturity date has not been determined.

**NORTHERN KENTUCKY WATER DISTRICT**

**NOTE 8 – LONG-TERM DEBT (Continued)**

Changes in long-term debt are as follows:

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



**NOTE 9 – PENSION PLAN**

**General Information about the Pension Plan**

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

*Benefits provided:* These systems provide for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

**Tier 1: Retirement Eligibility for Members  
Whose Participation Began Before 09/01/2009**

<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 next five years before age 65 or 27 years of service.
Any	25	6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service.

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

<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 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

NOTE 9 – PENSION PLAN (Continued)

Benefit Formula for Tiers 1 & 2			
Final Compensation	X	Benefit Factor	X Years of Service
Average of the five highest years of compensation if participation began before 09/01/2008.		2.20% if:	Member begins participating prior to 08/01/2004.
		2.00% if:	Member begins participating on or after 08/01/2004 and before 09/01/2008.
Average of the last complete five years of compensation if participation began on or after 09/01/2008 but before 01/01/2014.		Increasing percent based on service at retirement up to 30 years* plus 2.00% for each year of service over 30 if.	Member begins participating on or after 09/01/2008 but before 01/01/2014.

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

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

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

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

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

**NOTE 9 – PENSION PLAN (Continued)**

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

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

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

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6.00% for non-hazardous of their annual creditable compensation. The 1.00% was deposited to an account created for the payment of health insurance benefits under 26 USC section 401(h) in the Pension Fund. These members were classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.50%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1.00% contribution to the 401(h) account is non-refundable and is forfeited.

Plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. These member were classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5.00% non-hazardous of their annual creditable compensation and 1.00% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with 4.00% non-hazardous employer pay credit. The employer pay credit represents a portion of the employer contribution.

The employer contribution rates are set by the KRS Board under Kentucky Revised Statute 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly. For the fiscal years ended June 30, 2020, 2019, and 2018, participating employers contributed 24.06% (19.30% pension fund and 4.76% insurance fund, 21.48% (16.22% pension fund and 5.26% insurance fund), and 19.18% (14.48% pension fund and 4.70% insurance fund), respectively, for the non-hazardous system of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years was a percentage of each employee's creditable compensation. Contributions to the pension fund (excluding the insurance portion) from the District were \$1,557,127 and \$1,230,042 for the years ended December 31, 2019 and 2018, respectively.

**Plan Information for December 31, 2019 Financial Statements****Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

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

**NOTE 9 – PENSION PLAN (Continued)**

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

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

\$856,487 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

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

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

**NOTE 9 – PENSION PLAN (Continued)**

The mortality for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years). There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets was determined by using a building-block method in which best-estimate ranges of expected future real returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

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

*Discount rate* The discount rate used to measure the total pension liability was 6.25%. The single discount rate was based on the expected rate of return on pension plan investments for the system. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan member. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability for the system. The projection of cash flows used to determine the single discount rate assumes that each fund receives the employer required contributions each future year as determined by the current funding policy established in statute, which includes the phase-in provisions from House Bill 362 (passed in 2018) that applies to CERS.

**NOTE 9 – PENSION PLAN (Continued)**

*Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate.* The following present's the District's proportionate share of the net pension liability using the discount rate of 6.25%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

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

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

**Plan Information for December 31, 2018 Financial Statements**

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

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

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

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

**NOTE 9 – PENSION PLAN (Continued)**

The \$663,732 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

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

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	25 years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.05%, Average
Investment Rate of Return	6.25% Net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years). There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.



**NOTE 9 – PENSION PLAN (Continued)**

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

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

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

*Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate:* The following presents the District's proportionate share of the net pension liability using the discount rate of 6.25%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

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



**NOTE 9 – PENSION PLAN (Continued)**

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

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

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

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

**NOTE 10 – OPEB PLAN****General Information about the OPEB Plan**

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

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

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

**NOTE 10 – OPEB PLAN (Continued)**

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

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

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

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6.00% for non-hazardous of their annual creditable compensation. The 1.00% was deposited to an account created for the payment of health insurance benefits under 26 USC section 401(h) in the Pension Fund. These members were classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.50%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1.00% contribution to the 401(h) account is non-refundable and is forfeited.

Plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. These member were classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5.00% non-hazardous of their annual creditable compensation and 1.00% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with 4.00% non-hazardous employer pay credit. The employer pay credit represents a portion of the employer contribution.

The employer contribution rates are set by the KRS Board under Kentucky Revised Statute 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly. For the fiscal years ended June 30, 2020, 2019, and 2018, participating employers contributed 24.06% (19.30% pension fund and 4.76% insurance fund), 21.48% (16.22% pension fund and 5.26% insurance fund), and 19.18% (14.48% pension fund and 4.70% insurance fund), respectively, for the non-hazardous system of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years was a percentage of each employee's creditable compensation. Contributions to the insurance fund from the District were \$438,448 and \$399,058 for the years ended December 31, 2019 and 2018, respectively.

NOTE 10 – OPEB PLAN (Continued)

Plan Information for December 31, 2019 Financial Statements

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

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

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

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

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

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

**NOTE 10 – OPEB PLAN (Continued)**

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

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

The mortality for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years). There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets was determined by using a building-block method in which best-estimate ranges of expected future real returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

**NOTE 10 – OPEB PLAN (Continued)**

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

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

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

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

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

**NOTE 10 – OPEB PLAN (Continued)**

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

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

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

**Plan Information for December 31, 2018 Financial Statements**

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

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

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

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

**NOTE 10 – OPEB PLAN (Continued)**

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

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

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

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

The mortality for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years). There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.



**NOTE 10 – OPEB PLAN (Continued)**

The long-term expected return on plan assets was determined by using a building-block method in which best-estimate ranges of expected future real returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

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

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

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

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



**NOTE 10 – OPEB PLAN (Continued)**

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

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

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

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

*Pension plan fiduciary net position:* Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at [www.kyret.ky.gov](http://www.kyret.ky.gov).

**NOTE 11 – OPERATING LEASES**

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

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

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

**NOTE 12 – ECONOMIC DEPENDENCY**

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

**NOTE 13 – CONTINGENT LIABILITIES**

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

**NOTE 14 – SUBSEQUENT EVENTS**

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

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

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

**REQUIRED SUPPLEMENTARY INFORMATION**

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

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

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

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

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

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

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

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

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

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

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

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

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

County Employees Retirement System  
Last 10 Calendar Years\*

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

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

**OTHER SUPPLEMENTARY INFORMATION**



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

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

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

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

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

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

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

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

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

**RETAIL WATER RATES**

1. Monthly Service Rate

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

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Sub District B shall be assessed a monthly surcharge in the amount of	\$	12.78
Sub District C shall be assessed a monthly surcharge in the amount of	\$	11.07
Sub District D shall be assessed a monthly surcharge in the amount of	\$	30.00
Sub District E shall be assessed a monthly surcharge in the amount of	\$	30.00
Sub District F shall be assessed a monthly surcharge in the amount of	\$	17.30
Sub District G shall be assessed a monthly surcharge in the amount of	\$	20.93
Sub District H shall be assessed a monthly surcharge in the amount of	\$	30.00
Sub District I shall be assessed a monthly surcharge in the amount of	\$	30.00
Sub District K shall be assessed a monthly surcharge in the amount of	\$	6.82
Sub District M shall be assessed a monthly surcharge in the amount of	\$	30.00
Sub District R shall be assessed a monthly surcharge in the amount of	\$	19.09
Sub District RF shall be assessed a monthly surcharge in the amount of	\$	23.77
Sub District RL shall be assessed a monthly surcharge in the amount of	\$	24.84

2. Quarterly Rates

First	4,500 Cubic Feet	\$4.65 per 100 Cubic Feet
Next	490,500 Cubic Feet	\$4.19 per 100 Cubic Feet
Next	495,000 Cubic Feet	\$3.07 per 100 Cubic Feet

3. Fixed Service Charge

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

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

**WHOLESALE WATER RATES**

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

**MISCELLANEOUS SERVICE FEES**

Service Area Non-Recurring Charges

Returned Check Charge	\$	20.00
Water Hauling Station	\$	6.22 / per 1,000 Gallons
Reconnection Fee	\$	25.00
Overtime Charge	\$	60.00

**NORTHERN KENTUCKY WATER DISTRICT  
MEMBERS OF THE COMMISSION AND ADMINISTRATIVE STAFF  
DECEMBER 31, 2019**

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

<u>ADMINISTRATIVE STAFF</u>	<u>TITLE</u>
C. Ronald Lovan, PE	President/CEO
Lindsey Rehtin, CPA	Vice President of Finance and Support Services
Amy Kramer, PE	Vice President of Engineering, Production, and Distribution

**REQUIRED REGULATORY INFORMATION**



**NORTHERN KENTUCKY WATER DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2019**

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

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

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedules of expenditures of federal awards (the Schedule) include the federal award activity of the Northern Kentucky Water District under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Northern Kentucky Water District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Northern Kentucky Water District.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 3 – LOANS**

The Capitalization Grants for Drinking Water State Revolving Funds (CFDA 66.468) includes two loans administered by the District. Balances and transactions relating to these programs are included in the District's basic financial statements. Current year expenditures are included in the Federal expenditures presented in the schedule as required by the Compliance Supplement issued by the Office and Management and Budget in August 2019. The balance of the loans outstanding as of December 31, 2019 is \$5,092,581.



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

Board of Commissioners  
Northern Kentucky Water District  
Erlanger, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Northern Kentucky Water District (the District) as of and for the year ended December 31, 2019 and the related notes to the financial statements, which collectively comprise the Northern Kentucky Water District's basic financial statements, and have issued our report thereon dated June 18, 2020.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

*VonLehman & Company Inc.*

Fort Wright, Kentucky  
June 18, 2020



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

Board of Commissioners  
Northern Kentucky Water District  
Erlanger, Kentucky

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

We have audited the Northern Kentucky Water District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditors' Responsibility**

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

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

**Opinion on Each Major Federal Program**

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

### **Report on Internal Control over Compliance**

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

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

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

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

*VonLehman & Company Inc.*

Fort Wright, Kentucky  
June 18, 2020

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

**SECTION 1 – SUMMARY OF AUDITORS' RESULTS**

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

**SECTION II – FINANCIAL STATEMENT FINDINGS**

No matters to be reported.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters to be reported.

**NORTHERN KENTUCKY WATER DISTRICT  
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2018**

**PRIOR YEAR – FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**PRIOR YEAR – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.



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## **APPENDIX D**

### **SUMMARY OF THE GENERAL BOND RESOLUTION**

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## GENERAL BOND RESOLUTION

The following is a summary of certain of the terms and provisions of the Resolution and is qualified in its entirety by reference to the Resolution. The following summary supplements the information set forth in “SECURITY AND SOURCES OF PAYMENT OF THE SERIES 2020 BONDS - Security for the Series 2020 Bonds” and should be read in conjunction therewith. See “Introduction” as to the availability of copies of the Resolution.

### **Registration, Payment and Transfer**

Payment of Principal. Principal of and interest on the Bonds will be payable when due without deduction for the services of the Paying Agent and Registrar. Principal of and redemption premium on any Bond will be paid to the registered owner thereof upon presentation and surrender thereof at the principal corporate trust office of the Paying Agent and Registrar.

Payment of Interest - Regular Record Dates. The interest on any Bonds which is payable, and is punctually paid or duly provided for, on any interest payment date will be paid by check or draft mailed by the Paying Agent to the person in whose name such Bond was registered on the registration books at the close of business on the regular record date for such interest payment date and will be mailed to such person at his address as it appears on the registration books. The regular record date for any interest payment date is the fifteenth (15th) day of the month next preceding the month in which the interest payment date occurs.

Exchange and Transfer. The Bonds shall be negotiable as provided by the Resolution, subject to the provisions for registration and transfer contained in the Resolution. The Registrar shall register or cause to be registered therein and permit to be transferred thereon any Bond entitled to registration or transfer under such reasonable regulations as it or the District may prescribe.

### **Pledge of Revenues**

Bonds, together with such additional bonds ranking on a parity therewith that may be issued and outstanding from time to time under the restrictions and provisions of the Resolution do not constitute an indebtedness of the District within the meaning of the Constitution of Kentucky, but are payable as to principal, interest and premium, if any, solely from and are secured by a pledge of revenues and income resulting from the collection of water rates, rentals and charges for the services rendered by the facilities of the District. A statutory mortgage lien is created and granted to and in favor of the registered owner or owners of the Bonds for the issue of which it forms a part and said properties will remain subject to the statutory mortgage lien until the payment in full of the principal and interest on the Bonds and the issue of which it forms a part are paid in full.

### **Application of Revenues**

Establishment of Funds. The Resolution establishes the following funds (the “Funds”) for the deposit and application of revenues:

- (1) Bond Proceeds Fund
- (2) General Revenue Fund
- (3) Debt Service Fund
- (4) Operation and Maintenance Fund
- (5) Improvement Repair and Replacement Fund

The Resolution requires or permits investments of moneys in each Fund, consistent with the contemplated uses of such moneys, in “Investment Obligations.” Investment Obligations are restricted to 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 secured by a pledge of annual contributions under annual contribution contracts with the United States or by requisition or payment agreements with the United States. Investment Obligations are deemed to be part of the Fund or account for which purchased, and income, interest, gains and losses on investments are credited or charged to the Fund or account for which such investments were purchased, subject, in the case of the Debt Service Reserve, that so long as the aggregate debt service reserve requirement is being maintained, income and revenues from such Fund are to be transferred to the General Revenue Fund.

A further description of each of the Funds follows:

Bond Proceeds Fund. Under the Resolution, the District is required to establish within the Bonds Proceeds Fund established by the Resolution a Cost of Issuance Account and a Construction and Acquisition Account for each series of Bonds outstanding. In addition, if Bond proceeds are to be used in whole or in part for the payment or provision therefore of outstanding debt obligations, a Refunding Account may be established. From the proceeds of the sale of a series of Bonds, there will be deposited in the Cost of Issuance Account the costs of issuing the series of Bonds. Moneys received by the District from any other source, unless otherwise provided by the Resolution, may also be deposited in the Cost of Issuance Account. So much of the remainder of the Bond proceeds as is required by the applicable series resolution (except for accrued and capitalized interest, if any, which shall be deposited in the Interest Account, and any premium over the principal amount of the Bonds, which is applied as provided in such series resolution) shall be deposited in the Construction and Acquisition Account. The Cost of Issuance Account and the Construction and Acquisition constitute all the accounts within the Bond Proceeds Fund.

Moneys in the Cost of Issuance Account and the Construction and Acquisition Account shall be applied by the appropriate depository, upon issuance of a check or other bill of exchange signed by two members of the Board of Commissioners of the District only for the making of disbursements and payments required to be made by the District for paying issuance costs and pursuant to construction and acquisition contracts relating to the Public Water System.

General Revenue Fund. All moneys received by the District as Pledged Receipts, together with income from the Debt Service Reserve as provided in the Resolution, are required to be deposited promptly in the General Revenue Fund. Pledged Receipts are defined as the totality of (i) all water service rates, rentals and charges imposed by the District, (ii) all interest earned and gains realized on investments, unless the Resolution specifically requires such interest earned or gains realized to remain in a particular Fund or Account, provided that any interest or gains on funds held in escrow by a trustee for the payment of previously outstanding Bonds shall not be included, and (iii) other income received by the District, if any, from any agency of government, both Federal and State, as representing income or operating subsidies, if any, as distinguished from capital grants, to the extent not otherwise required to be treated and applied.

The designated depository is required to make monthly transfers from the moneys in the General Revenue Fund to the following Funds and Accounts and in the following amounts and order of priority:

- (1) Debt Service Fund-Interest Account. An amount, which when added to the amount then on deposit in the Interest Account, will equal the interest on all outstanding Bonds accrued and unpaid in respect of the next interest payment date.
- (2) Debt Service Fund-Principal Account. An amount which, when added to the amount then on deposit in the Principal Account, will equal the next Principal Installment, which is the sum of the principal amount of outstanding Bonds

maturing in the Bond Fiscal Year (February 1/January 31) plus the unsatisfied balance of any sinking fund installment for such year.

- (3) **Operation and Maintenance Fund.** The amount required prior to the tenth day of the next month to pay operating and maintenance costs of the District in accordance with its annual budget, together with such proportionate amounts as will, during the twenty-four months following the issuance of any series of Bonds, together with sums on deposit in said Fund, equal Operation and Maintenance Costs for one month. Operation and Maintenance Costs include salaries, operating expenses and all other expenses of administering the public water system, fees and expenses of the paying agents and costs of issuance other than those paid from Bond proceeds.
- (4) **Improvement, Repair and Replacement Fund.** Any amounts remaining in the General Revenue Fund. So long as all required transfers are made in respect of amortization of outstanding Bonds, and all reserves are fully funded, the Board of Commissioners of the District may order that funds be retained in the General Revenue Fund in lieu of transferring such funds to the Improvement, Repair and Replacement Fund.

#### Debt Service Fund.

Interest Account. The District will cause the Paying Agent to disburse moneys from the interest Account for the purpose of paying interest on the Series 2020 Bonds when due and payable as well as interest on notes to be redeemed to the extent not otherwise provided for.

Principal Account. The District will cause the Paying Agent to disburse moneys from the Principal Account for the purpose of paying the principal of the Series 2020 Bonds when due and payable. In addition, the District may, at its option, apply amounts accumulated in the Principal Account for each sinking fund installment (plus amounts accumulated in the Interest Account for interest on notes for which the sinking fund installment was established), before the forty-fifth day preceding the due date of such sinking fund installment, to (i) the purchase of notes of the Series and maturity for which the sinking fund was established at prices (including brokerage and other charges) not exceeding the principal amount thereof plus premium, if any, payable from sinking fund installments for such notes when such notes are redeemable by application of such sinking fund installment plus unpaid interest accrued to the date of purchase or (ii) to the redemption of such notes, if then redeemable by their terms at the redemption price referred to in clause (i). The District is required to pay from the Principal Account the amount required to redeem such notes as may be necessary (after taking into account notes purchased as aforesaid) to complete the retirement of the principal amounts specified by any series resolution for the sinking fund installments.

Operation and Maintenance Fund. In addition to the amounts required to be transferred to the Operation and Maintenance Fund from the General Revenue Fund, there may be paid into said Fund any moneys received by the District from any other source, unless otherwise provided by the Resolution. The District may withdraw moneys for the Operation and Maintenance Fund from time to time for the purpose of paying reasonable and necessary Operation and Maintenance Costs, and moneys so withdrawn and paid are free and clear of the pledge created by the Resolution for the payment of the principal, premium, if any, and interest on the Bonds and any sinking fund installments. The District may also withdraw moneys from the Operation and Maintenance Fund for deposit to any other Fund or Account except the Improvement, Repair and Replacement Fund. At the District's discretion, amounts in the Operation and Maintenance Fund may be invested from time to time to provide funds when needed to pay Operation and Maintenance Costs.

Improvement, Repair and Replacement Fund. The Improvement, Repair and Replacement Fund is available and is to be utilized to balance depreciation to make unforeseen major repairs and replacements and to pay the cost of construction of additions, extensions, betterments and improvements of the Public Water System which will either increase income and revenues or provide a higher degree of service. In addition to any amounts required by any series resolution and the Resolution to be set aside and deposited therein there shall be transferred and deposited to the Improvement, Repair and Replacement Fund any other moneys (a) received by the District from any other source and duly ordered to be deposited therein (unless required to be otherwise applied), (b) for which the District has exercised a discretion to so deposit or transfer as permitted in the Resolution, and (c) ordered to be so deposited from the proceeds of any series of Bonds. Within ninety (90) days following the end of each calendar year, all amounts in the Improvement, Repair and Replacement Fund in excess of \$2,500,000 shall be expended and applied by the depository upon written direction of the District only for (i) making up any deficiency in the Debt Service Fund and the Debt Service Reserve, (ii) redemption of Bonds, (iii) payments of principal installments of or interest on Bonds when due, (iv) transfer to the Operation and Maintenance Fund, or (v) investment in investment obligations. To the extent that other moneys are not available for payment of principal installments or interest on Bonds when due, all investment earnings credited to, and investments in, the Improvement, Repair and Replacement Fund shall be sold and the proceeds deposited in the Debt Service Fund.

### **Redemption Provisions**

The Resolution provides that, whenever Bonds are to be redeemed, the District shall give notice for the redemption of Bonds determined by the District to be redeemed. Notice shall be given by registered mail only, postage prepaid, at least thirty (30) days before the redemption date, addressed to the registered holder at the address shown in the records of the Registrar. After such notice has been given, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated in an amount equal to the principal amount thereof, premium, if any, plus interest accrued and unpaid to the redemption date. If on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any Series and maturity to be redeemed, together with interest to the redemption date, shall be held by any paying agent so to be available therefor on such date and if notice shall have been given as aforesaid, then, from and after the redemption date, interest on such Bonds or portions thereof shall cease to accrue. If less than all outstanding Bonds of a series and maturity are to be redeemed, the Registrar shall select, in such manner as the Registrar shall determine, each \$5,000 of the principal amount of Bonds to be redeemed.

### **Issuance of Bonds, Additional Bonds and Other Obligations**

The Resolution provides that the District may issue notes in anticipation of an authorized issuance of a series of Bonds in a principal amount not to exceed the principal amount of such Bonds. Bonds are payable from any moneys of the District available therefore and not pledged under the Resolution for the benefit of the Bonds and from the proceeds of the sale of any authorized series of Bonds in anticipation of which notes were issued. Such proceeds may be pledged for payment of the principal of the notes and such pledge will have priority over any pledge created by the Resolution.

The Resolution provides that the District may issue notes, bonds and other obligations having such terms and secured by a pledge of such funds as the resolution authorizing the issue provides, but any pledge to the holders of such notes, bonds or other obligations of a fund or account created under the Resolution is required to be subordinated in all respects to the pledge created under the Resolution for the benefit of the holders of Bonds, except that proceeds of the sale of Bonds may be pledged for the payment of notes issued in anticipation thereof as aforesaid and additional series of Bonds may be issued on a parity with the initially issued Bonds and secured equally by the revenues and assets pledged under the Resolution and payable equally therefrom, as herein described.

## **Issuance of Parity Bonds**

The Resolution provides that from and after the issuance of any Bonds thereunder, the Resolution shall constitute the sole and exclusive method for the issuance of any further Bonds by the District.

The District reserves the right to issue additional series of Bonds payable from the revenues of the District on a basis of parity and equality with all other parity Bonds authorized to be issued by the Resolution in order to (a) reconstruct, repair and improve the District's public water system, (b) make, acquire, construct and install additions, extensions, betterments or improvements thereto, (c) acquire existing waterworks and water distributions systems from any person, if said waterworks and water distribution systems are revenue-producing, and (d) refund any outstanding Bonds. No such parity Bonds shall be issued unless: (i) the facility or facilities to be acquired, constructed, reconstructed or improved from parity Bond proceeds are made in integral part of the District's public water system and revenues therefrom are pledged as additional security for all outstanding Bonds and additional parity bonds, (ii) the District is in compliance with all covenants and undertakings in connection with all of its Bonds then outstanding and payable from the revenues and pledged receipts, (iii) the net annual income and revenues of the District for a period of twelve (12) consecutive months of the fifteen (15) months immediately prior to the issuance of said parity Bonds are certified in writing by an independent firm of state-licensed Certified Public Accountants to have been equal to at least 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 outstanding bonds, together with the parity bonds to be issued.

The net annual income and revenues of the Public Water System may be adjusted by a firm of independent state-licensed Certified Public Accountants to reflect, for the historical period being tested, any revision in the schedule of water rates, rentals and charges being actually imposed and billed by the District or approved by the Public Service Commission of Kentucky or its successor, at the time of issuance of parity bonds. The net annual income and revenues may also be adjusted in writing by a consulting engineer of national recognition to take into account and reflect, for the historical period being tested, the amount of additional net income and revenues to be realized by the District (a) by virtue of the acquisition by the District of existing and operating waterworks and water distribution facilities, and (b) by virtue of contractual relationships between the District and other municipal corporations or other entities where such income and revenues are historically determinable. A further adjustment to the net annual income and revenues may also be made by adding an estimate of a consulting engineer of the annual increase in operating revenues anticipated to be derived from the extensions, additions, replacements and betterments to be financed by such additional bonds, less the engineer's estimate of any additional expenses of operation and maintenance.

In the event parity bonds are issued in the future, the District is required to (i) adjust the monthly deposits into the Debt Service Fund in the manner prescribed by the Resolution to reflect the annual debt service on the additional parity bonds, and (ii) adjust the prescribed amount to be accumulated in the Debt Service Reserve in accordance with the provisions of the Resolution and fund from such parity bonds said additional amount in the Debt Service Reserve, being the maximum debt service requirement in any Bond Fiscal Year with respect to outstanding bonds of all series.

## **Issuance of Refunding Bonds**

Bonds of one or more series may be issued to refund outstanding bonds subject to the following provisions and limitations. A series of Refunding Bonds may be delivered only upon receipt of:

- (a) irrevocable instructions to the Paying Agent and Registrar in respect of the bonds to be refunded to give due notice of redemption of all bonds to be refunded on a specified redemption date, and



- (b) irrevocable instructions to the Paying Agent and Registrar in respect of the bonds to be refunded to give due notice provided for in the Resolution to the Holders of outstanding bonds being refunded.
- (c) Either
  - 1. moneys in an amount sufficient to effect payment at the applicable principal amount and premium, if any, of the bonds to be refunded, together with accrued interest thereon to the date of redemption, or
  - 2. United States government obligations or obligations the payment of which is unconditionally guaranteed by the United States government, the principal of and interest on which, when due, will provide moneys which, together with any moneys deposited with the appropriate depository at the same time, will be sufficient to pay the principal or premium, if any, of and interest due or to become due on the bonds to be refunded.
- (d) all other documents required to be delivered to the Paying Agent in respect of the bonds to be refunded as a condition precedent to delivery of bonds under the Resolution and any series resolution.

In addition, the Paying Agent is required to deliver to the District at the time of delivery of the refunding bonds a certificate stating that it holds in trust the moneys and/or investments required to effect the aforesaid redemption on the date specified in such series resolution.

### **Modification, Adoption and Requirement for Consent**

The Resolution provides procedures whereby the District may amend the Resolution by adoption of a Supplemental Resolution.

Amendments that may be made without the consent of the bondholders must be for purposes of further securing the bonds, imposing further limitations on or surrendering rights of the District or curing ambiguities.

Series Resolutions may be adopted from time to time pursuant to compliance with the conditions of the Resolution to provide for the issuance of one or more series of bonds and to prescribe the terms and conditions thereof.

Amendments of the respective rights and obligations of the District and the Bondholders may be made with the written consent of the holders of not less than 66-2/3% in principal amount of the outstanding Bonds affected by such amendment. No such amendment shall permit a change in the terms of redemption or maturity of the principal of any outstanding bond or any installment of interest thereon or a reduction in the premium payable with respect thereto or the rate of interest thereon or reduce the percentages or otherwise affect the classes of bonds the consent of the holders of which is required to effect such amendment.

### **Certain Covenants of the District**

Among other covenants made by the District in the Resolution are those related to the following matters:

Tax Covenant. The District has covenanted to do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the District on the Bonds shall, for the purposes of Federal income taxation, be exempt from income taxation under any valid provision of

law. The District shall not permit at any time or times any of the proceeds of the Bonds or other funds of the District to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an “arbitrage bond” as defined in subsection (c) of Section 103 of the Internal Revenue Code as then in effect (now Section 103(b)(2) and 148 of the Internal Revenue Code of 1986) and to be subject to treatment under subsection (c) (1) of such Section, as an obligation not described in subsection (a) (1) of such Section, unless under any valid provisions of the law hereafter enacted, the interest paid by the District on the Bonds shall be excludable from the gross income of a recipient thereof for Federal income tax purposes without regard to compliance with the provisions of subsection (c) of Section 103 of the Internal Revenue Code (now Section 103(b)(2) and 148 of the Internal Revenue Code).

In order to assure compliance with such covenant, the District, from the date of adoption of the Resolution, has covenanted that it shall not:

- (a) make any investment in connection with the Public Water System that produces a yield in excess of such applicable maximum yield as may be permitted by the Internal Revenue Code, and
- (b) invest or direct any depository to invest moneys in any such Fund or Account in Investment Obligations that produce a yield in excess of such applicable maximum yield as may be permitted by the Internal Revenue Code.

The District further covenants that prior to the issuance of any series of bonds the District shall certify by issuance of a certificate that on the basis of the facts, estimates and circumstances in existence on the date of issue of such Series it is not expected that the proceeds thereof will be used in a manner that would cause such obligations to be arbitrage bonds.

Accounts and Reports. The District shall keep complete and accurate books of record and accounts relating to the Public Water System, and all Funds and Accounts established by the Resolution, which are subject at reasonable times to the inspection of the holders of an aggregate of not less than five percent (5%) in principal amount of the bonds then outstanding or their representatives duly authorized.

General Compliance. The District has covenanted to faithfully and punctually perform all duties with reference to the Public Water System required by the Constitution and Laws of the Commonwealth of Kentucky, Chapter 74 and Sections 96.350 to 96.510, inclusive, of the Kentucky Revised Statutes, and by the terms and provisions of the Resolution.

Rates and Charges. The District has covenanted to at all times establish, enforce and collect rates, rentals and charges for the services and facilities afforded by said District’s works and facilities, the same to be adequate to operate and maintain the public water system, provide necessary allowances for depreciation and for extensions and additions, and to timely retire all outstanding bonds and interest thereon. Such rates must also be adequate to accumulate and maintain all reserves as provided in the Resolution, and to provide, after fulfillment of all contractual obligations required of the District incident to the bonds, including accumulation and maintenance of all reserves, and after payment of operating and maintenance costs of the District, 1.20 times coverage of annual principal, interest and sinking fund requirements on all bonds. If necessary, such rates, rentals and charges must be adjusted from time to time in order to comply with the Resolution (see “Security and Sources of Payment - Rate Covenant”).

Budgets. On or before the first day of each calendar year, so long as any bonds authorized or permitted to be issued by the Resolution are outstanding, the District shall adopt an annual budget of current expenses covering its fiscal operations for the ensuing calendar year and will promptly file a copy of each such Budget, and any amendments thereto, in the office of the Secretary of the District. Copies of same shall be furnished to any bondholder upon request. The District may file amendments of the Annual

Budget for the remainder of the calendar year. The District shall not incur current expenses in excess of the amounts provided therefore in the annual budget as originally prepared or as amended, except upon resolution duly adopted by the Board of Commissioners determining that such expenses are necessary in order to operate and maintain the Public Water System.

No Decrease in Rates, Rentals and Charges. The District has covenanted that it will not at any time make any reduction in any prevailing schedule of rates, rentals and charges without first obtaining the written determination of a consulting engineer of national recognition that any such proposed reduction will not materially affect the ability of the District to meet all the requirements of the Resolution.

Annual Audit. The District has covenanted that it will, within sixty (60) days after the end of each calendar year cause an audit to be made of the books of record and accounts pertinent to the District, and a report to be issued by an independent state-licensed certified public accountant reflecting in reasonable detail the financial condition and results of operations of the District, including the status of the several Funds created by the Resolution, the status of required insurance and fidelity bonding as provided by the Resolution, all in accordance with generally accepted governmental accounting principles. A copy of such audit must be submitted to the Board of Commissioners of the District, and a copy of same shall be filed in the office of the District where it will be available for public inspection.

Insurance of Facilities and Fidelity Bonding of Personnel. The District has covenanted to keep all buildings, machinery and equipment constituting any part of the public water system insured as provided in the Resolution, and to cause each officer or other person having custody of any moneys administered under the provisions of the Resolution to be bonded at all times in an amount at least equal to \$25,000. The District has further covenanted to carry public liability, vehicular insurance and property damage insurance.

Waiver of Laws. The District has covenanted not to insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law not or at any time hereafter in force which may affect the covenants and agreements contained in the Resolution or in any series resolution or supplemental resolution or in the bonds, and all benefit or advantage of such law or laws has been expressly waived by the District.

Termination of Water Services to Delinquent Users. The District has covenanted that pursuant to KRS 74.367 and any other applicable provisions of law, it will, to the maximum extent authorized by law, enforce and collect the schedule of rates, rentals and charges imposed upon users of the District's works and facilities, and will promptly cause water service to be discontinued to any premises where such District bill is not paid in full.

Statutory Mortgage Lien. Pursuant to the provisions of Chapter 74 and Section 96.400 of the Kentucky Revised Statutes, the District has recognized for the further protection of the holders of the bonds a statutory mortgage lien upon the Public Water System (see "Security and Sources of Payment - Mortgage Lien").

## **Defaults and Remedies**

The General Bond Resolution declares each of the following events to be 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 (45) days after written notice thereof by the holder of not less than five percent (5%) in principal amount of the outstanding bonds.

The Resolution provides that upon the happening and continuance of any event of default, the holders of not less than twenty-five percent (25%) in principal amount of the outstanding bonds may proceed, in their own name, 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, being advised by counsel, 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.

### **No Individual Liability**

All covenants, stipulations, promises, agreements and obligations of the District in the Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the District and not of any member, officer, director or employee of the District in his individual capacity, and no recourse shall be had for the payment of the principal, premium, if any, or interest on the bonds or for any claims based thereon or on the Resolution against any member, officer, director or employee of the District or any natural person executing the bonds.

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## **APPENDIX E**

### **BOOK-ENTRY ONLY SYSTEM**

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## **BOOK-ENTRY ONLY SYSTEM**

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Series 2020 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity date of the Series 2020 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Series 2020 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2020 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2020 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2020 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2020 Bonds, except in the event that use of the book-entry system for the Series 2020 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2020 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2020 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2020 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2020 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial



Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2020 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2020 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2020 Bond documents. For example, Beneficial Owners of Series 2020 Bonds may wish to ascertain that the nominee holding the Series 2020 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2020 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2020 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2020 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2020 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2020 Bonds at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

**APPENDIX F**

**FORM OF BOND COUNSEL OPINION**

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[Date of Delivery]

Northern Kentucky Water District  
Erlanger, Kentucky

Ladies and Gentlemen:

We have acted as bond counsel in connection with the authorization, sale and issuance by Northern Kentucky Water District (the "District"), a public body corporate and politic and a political subdivision of the Commonwealth of Kentucky, acting by and through its Board of Commissioners as its duly authorized governing body, of \$22,325,000 principal amount of Refunding Revenue Bonds, Series 2020 (the "Series 2020 Bonds").

The Series 2020 Bonds have been authorized and issued pursuant to Chapter 74 of the Kentucky Revised Statutes (the "Act"), a certain General Bond Resolution adopted by the District on November 19, 1985, as amended by the District on November 17, 1987 (collectively the "Resolution"), a certain Series 2020 Bond Resolution authorizing approximately \$23,410,000 of Series 2020 Bonds adopted on May 21, 2020 (the "Series 2020 Bond Resolution"). Pursuant to the Resolution and the Series 2020 Bond Resolution, the District has authorized the issuance of the Series 2020 Bonds for the purpose of (i) refunding and retiring the District's outstanding Water District Revenue Bonds, Series 2000 dated August 4, 2000, and Water District Revenue Bonds, Series 2011 dated May 31, 2011 (collectively, the "Prior Bonds") which were issued to provide funds used for paying the costs of various capital projects of the System and (ii) paying the costs of issuing the Series 2020 Bonds.

We have examined such portions of the Constitution and Statutes of the United States, the Constitution and Statutes of the Commonwealth of Kentucky, and such applicable court decisions, regulations, rulings and opinions as we have deemed necessary or relevant for the purposes of the opinions set forth below.

We have also examined records, and the transcript of proceedings relating to the authorization and issuance of the Series 2020 Bonds, including a specimen Bond, and other relevant matters. We have also made such investigation as we have deemed necessary for the purposes of such opinions, and relied upon certificates of officials of the District as to certain factual matters. Based upon the foregoing, we advise you that in our opinion under existing law:

1. The Series 2020 Bonds have been duly authorized, executed and issued by the District in accordance with the Constitution and Statutes of the Commonwealth, including the Act, and in accordance with the Resolution and the Series 2020 Bond Resolution, and constitute valid and binding special obligations of the District, payable as to principal, interest, and premium, if any, from and secured by a pledge of: (i) the proceeds of the Series 2020 Bonds; (ii) any Investment Obligations, as defined in the Resolution, purchased with the proceeds of the Series 2020 Bonds; and (iii) subject to the priority lien granted to the holders of the District's outstanding Revenue Bonds, and any obligations issued on a parity therewith in accordance with the terms of the General Bond Resolution, the revenues from the operation of the facilities of the District, to the payment of the principal of, premium, if any, and interest on the Series 2020 Bonds as and when same shall become due and payable.

2. Neither the faith and credit nor the taxing power of the District, the Commonwealth, or any political subdivision thereof, nor the faith and credit of the District is pledged to the payment of the principal of or interest on the Series 2020 Bonds, or to the payment of premium, if any.

3. The interest on the Series 2020 Bonds is not subject to taxation by the Commonwealth of Kentucky, and the Series 2020 Bonds are not subject to ad valorem taxation by the Commonwealth of Kentucky or by any political subdivision thereof.

4. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the Series 2020 Bonds, including original issue discount, is excludible from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the “Code”). Furthermore, interest on the Series 2020 Bonds will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax. In rendering the opinions in this paragraph, we have assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. We express no other opinion as to the federal or state tax consequences of purchasing, holding or disposing of the Series 2020 Bonds.

5. The Bonds are NOT “qualified tax-exempt obligations” with respect to investments by certain financial institutions under Section 265 of the Code.

In giving this opinion, we have relied upon covenants and certifications of facts, estimates and expectations made by officials of the Issuer and others contained in the transcript which we have not independently verified. It is to be understood that the enforceability of the Resolution, the Series 2020 Bonds and agreements relating thereto may be limited by bankruptcy, insolvency, reorganization, moratorium, insolvency, or other similar laws relating to or affecting the enforcement of creditors’ rights or by general equitable principles.

Without having undertaken to determine independently or to verify the accuracy or completeness of the statements contained in the Official Statement issued with respect to the Series 2020 Bonds, and expressing no opinion as to the financial statements or any other financial or statistical data contained therein, nothing has come to our attention in the course of our professional engagement as Bond Counsel which would lead us to believe that the Official Statement contains any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

Very truly yours,

DINSMORE & SHOHL LLP

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