

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF NORTHERN)	CASE NO. 2022-00319
KENTUCKY WATER DISTRICT FOR APPROVAL)	
TO ISSUE EVIDENCE OF INDEBTEDNESS)	

APPLICATION

Northern Kentucky Water District (“NKWD”), by and through counsel, applies for authorization from the Kentucky Public Service Commission (“Commission”) to execute an assistance agreement with Kentucky Infrastructure Authority (“KIA”) in connection with KIA Loan No. F20-044 to borrow \$8,000,000 to finance a portion of the cost of the Fort Thomas Treatment Plant Basin Improvements Phase 2 Project and the Taylor Mill Treatment Plant Emergency Generator project. In support of its Application, NKWD states:

GENERAL INFORMATION

1. Pursuant to **807 KAR 5:001(14)**, the full name and post office address of NKWD is 2835 Crescent Springs Rd., P.O. Box 18640, Erlanger, Kentucky 41018-0640. Its electronic mail address is tedge@nkywater.org.
2. Pursuant to **807 KAR 5:001(14)**, NKWD states: it is not a corporation, limited liability company or limited partnership. It is a non-profit water district organized under Chapter 74 and has no articles of incorporation or partnership agreements.
3. Copies of all orders, pleadings and other communications related to this proceeding should be sent to:

Stacey Kampsen Acting VP of Finance and Support Services 2835 Crescent Spring Road Erlanger, KY 41018 Phone: (859) 578 9898 Fax: (859) 578-3668 Email: skampsen@nkywater.org	Tom Edge General Counsel and Manager of Legal, Compliance, and Regulatory Affairs 2835 Crescent Spring Road Erlanger, Kentucky 41018 Phone: (859) 578 5457 Fax: (859) 578-3668 Email: tedge@nkywater.org
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4. NKWD serves retail customers in Kenton, Boone and Campbell Counties and sells water at wholesale to non-affiliated water distribution systems in Kenton, Boone, Pendleton and Campbell Counties.

5. A description of NKWD's water system and its property stated at original cost by accounts is contained in its 2021 Annual Report, which is on file with the Commission and incorporated by reference.

807 KAR 5:001(18)(1)(a) and 807 KAR 5:001(18)(1)(b).

6. NKWD proposes to borrow \$8,000,000 through KIA Loan F20-044 to help fund necessary and important improvement projects listed below:

- a. \$3,935,000 for part of the Fort Thomas Treatment Plant Basin Improvements Phase 2 project with approved Certificate of Public Convenience and Necessity (CPCN) in Case No. 2021-00047; and
- b. \$4,065,000 for part of the Taylor Mill Treatment Plant Emergency Generator Project which has not been submitted for approval of CPCN.

7. NKWD respectfully requests approval to execute the KIA Loan F20-044 on the condition that no proceeds will be used for the Generator Project until NKWD has obtained a CPCN for the project.

FINANCING PURSUANT TO KRS 278.300

8. NKWD proposes to borrow \$8,000,000 through KIA Loan F20-044 to finance two projects in part. The first project, the Fort Thomas Treatment Plant Basin Improvements Phase 2 has already been found by the Public Service Commission that public convenience and necessity required the project as evidenced by the CPCN in Case No. 2021-00047. The second project, the Taylor Mill Treatment Plant Emergency Generator Project is currently being reviewed by Kentucky Division of Water and NKWD expects to make application for a CPCN within the next year. The Taylor Mill Treatment Plant Emergency Generator project will include the installation of a new 7.5 MVA, 69KV x 2400V substation, 2000 KW, 2400V standby diesel generator, 2400V switchgear in a walk-in enclosure, 500 KVA, 2400V x 480/277V pad mounted transformer, and associated structures, cabling, terminations, etc., and remote

I/O panel connected via fiber optic cabling. The project includes site grading, relocation of underground utilities, equipment pads, fencing, and platforms and railings. The Emergency Generator project is vital to provide a reliable backup power source to the Taylor Mill Treatment Plant. Both of these projects are important for NKWD's ability to continue to provide adequate and reasonable water service.

9. The total financing requested through KIA Loan F20-044 is \$8,000,000 as evidenced in the Conditional Commitment Letter in Exhibit D which also includes a detail of the two projects to be financed. KIA Loan F20-044 has a 1.5 percent interest rate and a loan servicing fee of 0.25 percent. NKWD must execute the Assistance Agreement for KIA Loan F20-044 no later than **November 8, 2022**.

10. Pursuant to **807 KAR 5:001(12)(1)(a)**, NKWD submits financial operations information for a "twelve (12) month period, the period ending not more than ninety (90) days prior to the date the application is filed" as Exhibit A.

11. Execution of an assistance agreement with KIA to implement KIA Loan No. F20-044 is for a lawful object within the corporate purposes of the NKWD, is necessary or appropriate for or consistent with the proper performance by the NKWD of its service to the public and will not impair NKWD's ability to perform that service and is reasonably necessary and appropriate for such purpose. Both projects to be funded by the KIA Loan F20-044 are of vital importance for NKWD's continued operations.

12. The following information is provided as required by 807 KAR 5:001 (18):

- a. A general description of the property is contained in the 2021 Annual Report, incorporated by reference.
- b. No stock is to be issued; no additional bonds are to be issued.
- c. There is no refunding of any obligation.
- d. The proceeds of the proposed loan will be used to finance a portion of the cost of the

two projects described herein and in the attached Exhibit D.

- e. The par value, expenses, use of proceeds, interest rates, how loan will be secured, and other information is included in Exhibit A, Exhibit B, and Exhibit D.
- f. A copy of NKWD's notice to the state debt officer, as required by 807 KAR 5:001(18)(1)(g), is attached to this Application as Exhibit E.

13. The following exhibits are provided pursuant to 807 KAR 5:001 (18)(2):

- g. There are no trust deeds. All current bonds are listed in Exhibit B.
- h. No property is to be constructed or acquired.

14. The following information is provided pursuant to 807 KAR 5:001(12):

- i. No stock is authorized.
- j. No stock is issued.
- k. There are no stock preferences.
- l. Mortgages are listed in Exhibit B.
- m. Bonds are listed in Exhibits B.
- n. Notes are listed in Exhibits B.
- o. Other indebtedness is listed in Exhibits B.
- p. No dividends have been paid.
- q. Current balance sheet and income statement are attached as Exhibit A.
- r. The current independent audit report is attached as Exhibit C.

Wherefore, NKWD respectfully requests:

1. Place this Application at the head of the Public Service Commission's docket as KRS 278.300(2) requires;
2. Enter an Order authorizing NKWD to execute an assistance agreement to borrow \$8,000,000 from KIA; and
3. Grant such other relief to which NKWD may be entitled.

RESPECTFULLY SUBMITTED:



Tom Edge
General Counsel
Manager of Legal, Compliance, and Regulatory Affairs
Northern Kentucky Water District
2835 Crescent Springs Rd.
Erlanger, KY 41018
Phone - 859-578-5457
Fax - 859-426-2770
Email: tedge@nkywater.org
Counsel for Northern Kentucky Water District

EXHIBIT LIST
Table of Contents

Exhibit A – Financial Exhibits pursuant to 807 KAR 5:001(12)(1)(a) including current Balance Sheet and Income Statement

Exhibit B – Schedule of Mortgages, Bonds, Notes and Other Indebtedness

Exhibit C – 2021 Audit Report

Exhibit D – KIA Loan F20-044 Conditional Commitment Letter

Exhibit E – Notice to State Debt Officer

Exhibit F – Affidavit



EXHIBIT A

**Financial Exhibits pursuant to 807 KAR 5:001(12)(1)(a)
including current Balance Sheet and Income Statement**

**NORTHERN KENTUCKY WATER DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2022**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets

Cash and Cash Equivalents	\$ 46,076,915
Investments	3,736,095
Accounts Receivable	
Customers, Net	4,615,570
Unbilled Customers	9,100,000
Others	118,813
Assessments Receivable	174,942
Inventory Supplies for New Installation and Maintenance, at Cost	2,566,460
Prepaid Items	1,440,881
Restricted Assets - Cash and Cash Equivalents	
Bond Proceeds Fund	12,580
Debt Service Account	562,094
Improvement, Repair & Replacement	60,842
	<u>68,465,192</u>
Total Current Assets	

Noncurrent Assets

Restricted Assets - Cash and Cash Equivalents	
Bond Proceeds Fund	13,952,554
Debt Service Account	15,051,044
Improvement, Repair and Replacement	5,376,240
Restricted Assets - Investments	
Debt Service Reserve Account	17,479,462
Miscellaneous Deferred Charges	3,808,571
Capital Assets	
Land, System, Buildings and Equipment	531,762,462
Construction in Progress	18,590,261
	<u>550,352,723</u>
Total Capital Assets	
Less Accumulated Depreciation	<u>205,035,336</u>
	<u>345,317,387</u>
Total Capital Assets, Net of Accumulated Depreciation	
Total Noncurrent Assets	<u>400,985,258</u>
Total Assets	<u>469,450,450</u>

Deferred Outflows of Resources

Deferred Outflows Related to Pension	2,553,369
Deferred Outflows Related to OPEB	3,519,560
Deferred Loss on Refundings	2,445,494
	<u>8,518,423</u>
Total Deferred Outflows of Resources	
Total Assets and Deferred Outflows of Resources	\$ <u><u>477,968,873</u></u>

**NORTHERN KENTUCKY WATER DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2022**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Liabilities and Deferred Inflows of Resources

Current Liabilities

Bonded Indebtedness	\$ 12,996,773
Bond Anticipation Note	
Notes Payable	1,767,144
Accounts Payable	276,342
Accrued Payroll and Taxes	583,935
Compensated Absences	167,705
Arbitrage Liability	5,596
Other Accrued Liabilities	204,402
Liabilities Payable-Restricted Assets	
Accrued Interest Payable	562,094
Accounts Payable	<u>73,422</u>
Total Current Liabilities	<u>16,637,413</u>

Long-Term Liabilities (Net of Current Portion)

Liabilities Payable-Restricted Assets	
Accounts Payable	678,591
Compensated Absences	1,512,807
Arbitrage Liability	15,850
Bond Indebtedness	120,694,325
Bond Anticipation Notes Payable	24,685,000
Notes Payable	27,936,707
Net Pension Liability	22,419,617
Net Unfunded OPEB Liability	<u>6,730,325</u>
Total Long-Term Liabilities	<u>204,673,222</u>
Total Liabilities	221,310,635

Deferred Inflows of Resources

Deferred Inflows Related to Pension	3,205,757
Deferred Inflows Related to OPEB	3,132,278
Deferred Inflows Related to Refundings	<u>2,450,709</u>
Total Deferred Inflows of Resources	<u>8,788,744</u>
Total Liabilities and Deferred Inflows of Resources	<u>230,099,379</u>

Net Position

Net Investment in Capital Assets	157,232,222
Restricted For	
Debt Service Funds	32,530,506
Capital Improvement Projects	18,650,204
Unrestricted	<u>39,456,562</u>
Total Net Position	<u>247,869,494</u>

**Total Liabilities, Deferred Inflows
of Resources, and Net Position** **\$ 477,968,873**

**NORTHERN KENTUCKY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
12 MONTH PERIOD ENDED AUGUST 31, 2022**

Operating Revenues	
Water Sales	\$ 59,356,029
Forfeited Discounts	832,160
Rents From Property	438,143
Other Water Revenues	<u>254,284</u>
Total Operating Revenues	<u>60,880,616</u>
Operating Expenses	
Operating and Maintenance Expense	32,005,606
Depreciation Expense	<u>12,536,919</u>
Total Operating Expenses	<u>44,542,525</u>
Net Operating Income	<u>16,338,091</u>
Non-Operating Income (Expense)	
Investment Income	886,382
Miscellaneous Non-Operating Income/(Expense)	337,043
Loss on Abandonment of Mains	(238,602)
Gain/(Loss) on Disposal of Fixed Assets	10,359
Interest on Long Term Debt	(5,356,577)
Pension Expense	(1,029,997)
Other Post Employment Benefit Expense	(267,744)
Arbitrage Expense	53,883
Amortization of Debt Premiums and Defeasance Costs	1,370,602
Bond Issuance Costs	<u>(129,693)</u>
Total Non-Operating Income (Expenses)	<u>(4,364,344)</u>
Change in Net Position Before Capital Contributions	11,973,747
Capital Contributions	<u>2,408,716</u>
Change in Net Position	14,382,463
Net Position - Beginning of Year	<u>233,487,031</u>
Net Position - End of Year	<u>\$ 247,869,494</u>



EXHIBIT B

Schedule of Mortgages, Bonds, Notes and Other Indebtedness

**Northern Kentucky Water District
Bonds & Notes
August 31, 2022**

Bonds

Bond Identification	Amount	Par Amount	Amount	Date of Issue	Rate of	Date of	Interest Paid
	Authorized	Issued	Outstanding 8/31/2022		Interest	Maturity	Year 2021
2013A	28,165,000	26,400,000	20,055,000	6/27/2013	4.250 - 5.000%	2/1/2038	932,401
2013B	26,570,000	24,120,000	10,055,000	9/25/2013	5.000 - 4.000%	2/1/2028	559,075
2014A	1,733,000	1,733,000	1,651,500	12/11/2017	2.750%	2/1/2057	46,558
2014B	16,965,000	15,805,000	3,745,000	12/23/2014	3.125 - 4.000%	2/1/2029	157,888
2016A	47,335,000	41,905,000	28,380,000	11/22/2016	5.000 - 3.000%	2/1/2031	1,355,275
2019	19,600,000	17,845,000	16,385,000	9/26/2019	3.000 - 5.000%	2/1/2044	574,625
2020	25,195,000	22,325,000	19,945,000	11/5/2020	5.000 - 2.000%	2/1/2035	587,586
2021B	32,395,000	27,730,000	22,915,000	12/14/2021	4.000%	2/1/2027	-
			123,131,500				

Notes

Note Identification	Date of Issue	Par Amount	Amount	Date of Maturity	Rate of	In Whose Favor	Interest Paid
		Issued	Outstanding 8/31/2022		Interest		Year 2021
2021A BAN	3/18/2021	24,685,000	24,685,000	2/1/2023	0.3750%	Various	34,199
KIA Loan F08-07	11/1/2008	4,000,000	2,199,254	12/1/2032	1.2000%	KIA	30,575
KIA Loan F09-02	6/1/2010	24,000,000	14,370,447	6/1/2033	2.2500%	KIA	355,781
KIA Loan F14-015	6/1/2015	3,545,910	2,931,987	6/1/2038	2.0000%	KIA	62,567
KIA Loan F15-011	3/1/2016	3,535,094	2,923,044	6/1/2038	2.0000%	KIA	62,377
KIA Loan B15-003	7/1/2016	1,392,195	1,098,085	12/1/2037	0.9500%	KIA	11,221
KIA Loan F13-012*	8/1/2014	8,000,000	4,523,000	N/A	2.0000%	KIA	90,460
KIA Loan F16-027*	1/1/2019	4,000,000	1,558,034	N/A	2.0000%	KIA	26,716
KIA Loan F20-044*	N/A	8,000,000	-	N/A	1.7500%	KIA	-

*not yet closed

54,288,852

Other Notes

	Amount Outstanding 8/31/2022
Deferred Note Kenton County	100,000



EXHIBIT C

2021 Audit Report

June 30, 2022

Members of the Board of Commissioners
c/o Lindsey Rehtin
Northern Kentucky Water District
Erlanger, Kentucky

We have audited the financial statements of the business-type activities of Northern Kentucky Water District, for the year ended December 31, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 30, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Northern Kentucky Water District are described in the Summary of Significant Accounting Policies note to the financial statements. No new significant accounting policies were adopted and the application of existing policies was not changed during 2021. We noted no transactions entered into by Northern Kentucky Water District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Northern Kentucky Water District, financial statements were:

Management's estimate of unbilled customers' receivable is based on estimated usage per day and the number of days unbilled less an estimated allowance. We evaluated the key factors and assumptions used to develop the unbilled customers receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the collectability of accounts receivable is based on the management's determination of collectability after reasonable collection efforts have been made. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the depreciation expense of capital assets is based on the useful life of the asset using the straight-line method. We evaluated the key factors and assumptions used to develop the depreciation expense of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.



Management's estimate of the Net Pension Liability, Deferred Inflows and Outflows, and Pension Expense is based on an actuarial valuation as of the measurement date. We evaluated the key factors and assumptions used to develop the Net Pension Liability, Deferred Inflows and Outflows, and Pension Expense in determining that they are reasonable in relation to the financial statements as a whole.

Management's estimate of the Net OPEB Liability, Deferred Inflows and Outflows, and OPEB Expense is based on an actuarial valuation as of the measurement date. We evaluated the key factors and assumptions used to develop the Net OPEB Liability, Deferred Inflows and Outflows, and OPEB Expense in determining that they are reasonable in relation to the financial statements as a whole.

Management's estimate of the compensated absences is based on hours accrued and pay rates as of December 31, 2021. We evaluated the key factors and assumptions used to develop the compensated absences in determining that they are reasonable in relation to the financial statements as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached Adjusting Journal Entries Report summarizes material misstatements provided to us by management or detected as a result of audit procedures and corrected by management.

Additionally, the attached Schedule of Passed Adjusting Journal Entries summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a disagreement on financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 30, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Northern Kentucky Water District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Northern Kentucky Water District auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and the pension and OPEB schedules which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of Members of the Board of Commissioners and management of the Northern Kentucky Water District and is not intended to be, and should not be, used by anyone other than these specified parties.

VonLehman & Company Inc.

Client: **15077 - Northern Kentucky Water District**
Engagement: **2021 Audit - Northern Kentucky Water District**
Trial Balance: **TB**
Workpaper: **1250.00 - Adjusting Journal Entries Report Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1		4206.00		
To adjust unbilled water receivable for correction of error related to a prior period.				
173-0001-000	A/R Unbilled Water KC		1,640,000.00	
215-0000-000	UnAppropriated Fund Balance			1,640,000.00
Total			<u>1,640,000.00</u>	<u>1,640,000.00</u>
Adjusting Journal Entries JE # 2		6001.00		
To record pension activity				
190-0001-000	Contributions Subseq. to the Measurement Date		1,033,048.00	
190-0002-000	Difference Between Expected and Actual Earnings		257,446.00	
190-0004-000	Changes of Assumptions		300,898.00	
190-0005-000	Changes in Proportion and Differences Between Cont		961,977.00	
253-0010-000	Net Unfunded Pension Liability (CERS)		26,055,399.00	
290-0005-000	Changes in Proportion and Differences Before		53,168.00	
699-9000-000	Pension Expense		24,105,053.00	
190-0001-000	Contributions Subseq. to the Measurement Date			885,281.00
190-0002-000	Difference Between Expected and Actual Earnings			649,739.00
190-0003-000	Net Difference Between Projected and Actual Earnin			652,004.00
190-0004-000	Changes of Assumptions			1,017,419.00
190-0005-000	Changes in Proportion and Differences Between Cont			862,116.00
253-0010-000	Net Unfunded Pension Liability (CERS)			22,419,617.00
290-0002-000	Difference Between Expected and Actual Experience			217,598.00
290-0003-000	Net Difference Projected and Actual Invest Earning			2,988,159.00
699-9000-000	Pension Expense			1,033,048.00
699-9000-000	Pension Expense			22,042,008.00
Total			<u>52,766,989.00</u>	<u>52,766,989.00</u>
Adjusting Journal Entries JE # 3		6101.00		
To record OPEB activity				
190-0007-000	Deferred Outflow Related to OPEB		282,051.00	
190-0007-000	Deferred Outflow Related to OPEB		3,237,509.00	
253-0020-000	Net Unfunded OPEB Liability		8,200,549.00	
290-0007-000	Deferred Inflows Related to OPEB		1,472,539.00	
699-9500-000	Other Post Employment Benefit Expense		6,625,094.00	
190-0007-000	Deferred Outflow Related to OPEB			3,597,789.00
253-0020-000	Net Unfunded OPEB Liability			6,730,325.00
290-0007-000	Deferred Inflows Related to OPEB			3,132,278.00
699-9500-000	Other Post Employment Benefit Expense			282,051.00
699-9500-000	Other Post Employment Benefit Expense			6,075,299.00
Total			<u>19,817,742.00</u>	<u>19,817,742.00</u>

SCHEDULE OF PASSED ADJUSTING JOURNAL ENTRIES

Governmental Unit:

Financial Statement Date:

Description (Nature) of Audit Difference (AD)	Factual (F), Judgmental (J), or Projected (P)	Cause	W/P Ref.	Financial Statement Effect—Amount of Over- (Under-) statement of:					Change in Fund Balance/ Net Position
				Total Assets	Total Liabilities	Fund Balance/Net Position	Revenues	Expen.	
The 2020 Unbilled AR amount is understated.	F	The calculation of unbilled AR excluded billing cycles that should have been included in the AR amount.	4206.00			-165,290	165,290		
Total				0	0	-165,290	165,290	0	0



NORTHERN KENTUCKY WATER DISTRICT

December 31, 2021

Financial Statements and Independent Auditors'
Report Including Supplementary Information

**NORTHERN KENTUCKY WATER DISTRICT
TABLE OF CONTENTS**

	PAGE
Independent Auditors' Report	
Management's Discussion and Analysis (Unaudited).....	1
Basic Financial Statements	
Statements of Net Position	7
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows.....	10
Notes to the Financial Statements.....	12
Required Supplementary Information	
Schedule of the District's Proportionate Share of the Net Pension Liability.....	54
Schedule of the District's Pension Contributions.....	55
Schedule of the District's Proportionate Share of the Net OPEB Liability.....	56
Schedule of the District's OPEB Contributions.....	57
Other Supplementary Information	
Statement of Revenues, Expenses and Changes in Net Position – Budget to Actual.....	58
Statements of Water Operating Revenue	59
Statements of Combined Operation and Maintenance Expenses	60
Schedule of Insurance Coverages	61
Schedule of Rates, Rules and Regulations.....	62
Members of the Commission and Administrative Staff.....	64
Required Regulatory Information	
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 <i>Government Auditing Standards</i>	65

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Northern Kentucky Water District
Erlanger, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of the Northern Kentucky Water District, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Northern Kentucky Water District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Northern Kentucky Water District as of December 31, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter

As discussed in the Prior Period Adjustment note to the financial statements, the previously issued financial statements for both the years ended December 31, 2020 and 2019 have been restated for the correction of an error. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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



Auditors' Responsibility for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

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

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

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2022 on our consideration of the Northern Kentucky Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Northern Kentucky Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northern Kentucky Water District's internal control over financial reporting and compliance.

VonLehman & Company Inc.

Fort Wright, Kentucky
June 30, 2022

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, 2021. 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 \$240,485,087 (net position). This was an increase of \$14,887,566 in comparison to the prior year.

- Operating revenues decreased \$676,334 or 1.1% from 2020.
- The debt coverage ratio decreased from 1.99 in 2020 to 1.93 in 2021.

Overview of the Financial Statements

The discussion and analysis portion serves as an introduction to the District's basic financial statements. The basic financial statements are comprised of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows and the Notes to the Financial Statements. The report also contains additional required supplementary information and other supplementary information in 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 questions such as where cash came from, what cash was used for, and what the change in cash balance was during the reporting period.

Basis of Accounting

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

**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 2021 compared to 2020.

**Table 1
Net Position**

	December 31,	
	2021	2020 (As Restated)
Assets		
Current Assets	\$ 68,844,595	\$ 66,527,811
Restricted Assets Noncurrent	63,364,426	38,901,855
Miscellaneous Deferred Charges	4,031,730	4,136,001
Capital Assets, Net	342,107,768	341,687,056
Total Assets	478,348,519	451,252,723
Deferred Outflows of Resources		
	8,712,038	11,359,648
Liabilities		
Current Liabilities	20,109,293	19,358,024
Restricted Liabilities Noncurrent	294,537	1,024,188
Other Noncurrent Liabilities	217,012,978	215,106,931
Total Liabilities	237,416,808	235,489,143
Deferred Inflows of Resources		
	9,158,662	1,525,707
Net Position		
Net Investment in Capital Assets	158,184,530	151,974,245
Restricted	45,654,439	37,877,667
Unrestricted	36,646,118	35,745,609
Total Net Position	\$ 240,485,087	\$ 225,597,521

The District's net position for 2021 increased 6.6% to \$240,485,087 compared to \$225,597,521 for 2020.

A portion of the District's net position (19.0%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

An additional portion of the District's net position (65.8%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment); less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

The remaining balance of unrestricted net position (15.2%) may be used to meet the District's ongoing obligations to customers and creditors.

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

- Cash and cash equivalents increased \$29,090,609 from the previous year primarily due to issuance of bond anticipation notes that were unspent at year end.
- Investments decreased \$1,271,527 primarily due to transfer of an investment reserve fund to cash and cash equivalents in the current year.
- Accounts receivable, net decreased \$1,277,234 from the previous year due to slower payments at the end of the prior year resulting from the temporary suspension of water turn offs because of the pandemic.
- Capital assets, net of accumulated depreciation increased \$420,712 from the previous year due to additions of capital assets totaling \$13,146,721, depreciation expense incurred on capital assets of \$12,436,919, and net disposals totaling \$289,090.
- Bond indebtedness decreased \$15,215,483 and notes payable decreased \$1,720,458 from the previous year due to continued payments on outstanding bonds and notes. Additionally, the District issued Refunding Revenue Bonds, Series 2021 for \$27,730,000 during 2021 to refund the District's outstanding Revenue Bonds Series at a lower interest rate.
- Bond Anticipation Notes increased \$24,685,000 due to issuance of Series 2021A notes to fund the cost of ongoing capital improvement projects.
- Net pension liability decreased \$3,635,782 and net OPEB liability decreased \$1,470,224 as a result of an overall decrease in the net pension and net OPEB liability of the Kentucky Public Pension Authority's CERS non-hazardous plan.

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

Table 2 shows the changes in net assets for 2021, as well as revenue and expense comparisons to 2020.

**Table 2
Changes in Net Position**

	Years Ended December 31,	
	2021	2020
Operating Revenues		
Water Sales	\$ 58,983,695	\$ 59,767,687
Forfeited Discounts	442,082	237,109
Rents From Property	383,269	548,933
Other Water Revenues	266,276	197,927
	<u>60,075,322</u>	<u>60,751,656</u>
Operating Expenses		
Operating and Maintenance Expense	29,965,655	28,706,549
Depreciation Expense	12,436,919	12,301,512
	<u>42,402,574</u>	<u>41,008,061</u>
	<u>17,672,748</u>	<u>19,743,595</u>
Non-Operating Income (Expense)		
Investment Income	481,326	688,108
Miscellaneous Non-Operating Income	347,304	112,631
Loss on Abandonment of Mains	(289,089)	(264,847)
Interest on Long-Term Debt and Customer Deposits	(5,826,155)	(6,555,100)
Amortization of Debt Premiums and Defeasance Costs	989,953	851,294
Bond Issuance Costs	(181,821)	(226,603)
Pension Expense	(1,029,997)	(2,604,502)
Other Post Employment Benefit Expense	(267,744)	(564,502)
Arbitrage Rebate	53,883	27,184
Gain on Sale of Capital Assets	25,977	60,861
	<u>(5,696,363)</u>	<u>(8,475,476)</u>
	11,976,385	11,268,119
	<u>2,911,181</u>	<u>2,099,143</u>
	<u>\$ 14,887,566</u>	<u>\$ 13,367,262</u>

In reviewing income before capital contributions, the financial statements showed net income for the year of \$11,976,385. Operating revenues decreased 1.1% mainly as a result of a decrease in water consumption in 2021 compared to 2020. Operating expenses (including depreciation) increased 3.4% from the previous year due to an increase in salary and related expenses. Non-Operating Income (Expense) increased \$2,779,113 due to decreased pension and OPEB expense, as well as a reduction in interest expense on long-term debts. Capital contributions increased by \$812,038 (38.7%) primarily due to the increase of mains constructed by other entities and contributed to the District.

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

The District budgeted for \$57,297,758 in operating revenues. Actual revenues were \$60,075,322, a difference of \$2,777,564. The largest difference was due to water sales being overbudget by \$2,825,477. The water sales were overbudget primarily due to conservative budgeting practices. Operation, maintenance, and administration expenses were budgeted at \$32,153,526. Actual expenses were \$29,965,655, a difference of \$2,187,871. This difference is due to employee pension and benefits having a total budget of \$6,418,953, while actual expenses totaled \$5,762,134. The District budgeted for an increase in CERS contribution rates, however during the 2020 regular session, Senate Bill 249 froze the CERS employer rate phase-in for one year. Additionally, the District budgeted for an increase in contractual service expense, which ended under budget of \$788,577 for 2021.

Capital Assets

At December 31, 2021, the capital assets reported were \$342,107,768 including land, buildings, water systems, equipment, and vehicles. This represents a net increase of \$420,712, or (0.1%), 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**

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
Not Being Depreciated		
Land	\$ 3,348,169	\$ 3,267,226
Construction in Progress	12,495,400	9,363,904
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	<u>517,618,547</u>	<u>508,590,398</u>
Subtotal	538,978,252	526,737,664
Less Accumulated Depreciation	<u>196,870,484</u>	<u>185,050,608</u>
Totals	<u>\$ 342,107,768</u>	<u>\$ 341,687,056</u>

Major capital additions during the year included adding mains for approximately \$4,400,000 and services for approximately \$1,800,000.

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

Long-Term Liabilities

Table 4 summarizes the District's long-term liabilities at the end of 2021 as compared to 2020.

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

	December 31,	
	2021	2020
Compensated Absences	\$ 1,652,359	\$ 1,369,138
Arbitrage Liability	241,201	295,084
Bond Anticipation Notes	24,685,000	-
Bond Indebtedness	146,149,614	161,365,097
Notes Payable	30,322,556	32,043,014
	\$ 203,050,730	\$ 195,072,333

At year-end, the District had \$201,157,170 in outstanding bond anticipation notes, bond indebtedness, and notes payable compared to \$193,408,111 last year. That is an increase of 4.0% as shown in Table 4.

Economic Factors and Next Year's Budget

The District's budget for 2022 is allowing for a slight increase in revenue from previously budgeted amounts to reflect water sales based on projected consumption and the reinstatement of forfeited discounts and disconnections for non-payment. A modest increase is anticipated for operating expenses as a result of an increase in employee related expenses along with projected increases in competitively bid chemicals, GAC, materials and supplies, contractual services, and transportation, along with decreases in purchased power, insurance and bad debt expense.

The District's operations are presented as a proprietary fund, and as such, the District is not required to present budgetary comparison information as required supplementary information (RSI). However, the District's 1985 general bond resolution does require the adoption of an annual budget of current expenses and revenues. The annual budget is further used as a management tool, which serves as the foundation for the District's financial planning and control. Additionally, the Board also chooses to present the budgetary comparison as part of the supplementary information to the financial statements. The Board does not formally amend the budget after approval.

Contacting the District's Financial Management

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

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

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31,	
	2021	2020
		(As Restated)
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and Cash Equivalents	\$ 42,708,186	\$ 39,074,049
Investments	4,389,971	3,884,495
Accounts Receivable		
Customers, Net	6,350,629	7,785,823
Unbilled Customers	9,100,000	9,100,000
Others	228,310	70,350
Assessments Receivable	174,942	165,091
Inventory Supplies for New Installation and Maintenance, at Cost	2,048,552	1,854,834
Prepaid Items	1,118,470	1,084,532
Restricted Assets - Cash and Cash Equivalents		
Bond Proceeds Fund	486,648	37,000
Debt Service Account	1,922,180	2,453,994
Improvement, Repair & Replacement	316,707	1,017,643
	68,844,595	66,527,811
Non-current Assets		
Restricted Assets - Cash and Cash Equivalents		
Bond Proceeds Fund	16,928,802	674,652
Debt Service Account	18,678,385	18,091,707
Improvement, Repair and Replacement	10,422,934	164,656
Customer Deposits Fund	-	859,532
Restricted Assets - Investments		
Debt Service Reserve Account	17,334,305	19,111,308
Miscellaneous Deferred Charges	4,031,730	4,136,001
Capital Assets		
Land, System, Buildings and Equipment	526,482,852	517,373,760
Construction in Progress	12,495,400	9,363,904
	538,978,252	526,737,664
Less Accumulated Depreciation	196,870,484	185,050,608
	342,107,768	341,687,056
	409,503,924	384,724,912
	478,348,519	451,252,723
Deferred Outflows of Resources		
Deferred Outflows Related to Pension	2,553,369	4,066,559
Deferred Outflows Related to Other Postemployment Benefits	3,519,560	3,597,789
Deferred Loss on Refundings	2,639,109	3,695,300
	8,712,038	11,359,648
Total Assets and Deferred Outflows of Resources	\$ 487,060,557	\$ 462,612,371

See accompanying notes.

NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF NET POSITION
(Continued)

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	December 31,	
	2021	2020
		(As Restated)
Liabilities and Deferred Inflows of Resources		
Current Liabilities		
Bonded Indebtedness	\$ 12,886,273	\$ 12,401,280
Notes Payable	1,751,438	1,720,459
Accounts Payable	1,264,825	942,005
Accrued Payroll and Taxes	475,742	396,705
Compensated Absences	324,632	99,611
Arbitrage Liability	225,351	-
Other Accrued Liabilities	455,497	289,327
Liabilities Payable - Restricted Assets		
Accrued Interest Payable	1,922,180	2,453,994
Accounts Payable	803,355	1,054,643
Total Current Liabilities	20,109,293	19,358,024
Non-current Liabilities		
Liabilities Payable - Restricted Assets		
Accounts Payable	294,537	164,656
Customer Deposits	-	859,532
Compensated Absences	1,327,727	1,269,527
Arbitrage Liability	15,850	295,084
Bond Anticipation Notes	24,685,000	-
Bond Indebtedness	133,263,341	148,963,817
Notes Payable	28,571,118	30,322,555
Net Pension Liability	22,419,617	26,055,399
Net Other Postemployment Benefits Liability	6,730,325	8,200,549
Total Long-Term Liabilities	217,307,515	216,131,119
Total Liabilities	237,416,808	235,489,143
Deferred Inflows of Resources		
Deferred Inflows Related to Pension	3,205,757	53,168
Deferred Inflows Related to Other Postemployment Benefits	3,132,278	1,472,539
Deferred Gain on Refundings	2,820,627	-
Total Deferred Inflows of Resources	9,158,662	1,525,707
Total Liabilities and Deferred Inflows of Resources	246,575,470	237,014,850
Net Position		
Net Investment in Capital Assets	158,184,530	151,974,245
Restricted For Debt Service Funds	36,012,690	37,203,015
Restricted For Capital Improvement Projects	9,641,749	674,652
Unrestricted	36,646,118	35,745,609
Total Net Position	240,485,087	225,597,521
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 487,060,557	\$ 462,612,371

See accompanying notes.

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

	Years Ended December 31,	
	2021	2020
		(As Restated)
Operating Revenues		
Water Sales	\$ 58,983,695	\$ 59,767,687
Forfeited Discounts	442,082	237,109
Rents From Property	383,269	548,933
Other Water Revenues	266,276	197,927
Total Operating Revenues	60,075,322	60,751,656
Operating Expenses		
Operating and Maintenance Expense	29,965,655	28,706,549
Depreciation Expense	12,436,919	12,301,512
Total Operating Expenses	42,402,574	41,008,061
Net Operating Income	17,672,748	19,743,595
Non-Operating Income (Expense)		
Investment Income	481,326	688,108
Miscellaneous Non-Operating Income	347,304	112,631
Loss on Abandonment of Mains	(289,089)	(264,847)
Interest on Long-Term Debt and Customer Deposits	(5,826,155)	(6,555,100)
Amortization of Debt Premiums and Defeasance Costs	989,953	851,294
Bond Issuance Costs	(181,821)	(226,603)
Pension Expense	(1,029,997)	(2,604,502)
Other Post Employment Benefit Expense	(267,744)	(564,502)
Arbitrage Rebate (Expense)	53,883	27,184
Gain on Sale of Capital Assets	25,977	60,861
Total Non-Operating Income (Expenses)	(5,696,363)	(8,475,476)
Change in Net Position Before Capital Contributions	11,976,385	11,268,119
Capital Contributions	2,911,181	2,099,143
Change in Net Position	14,887,566	13,367,262
Net Position - Beginning of Year	225,597,521	212,230,259
Net Position - End of Year	\$ 240,485,087	\$ 225,597,521

See accompanying notes.

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

	Years Ended December 31,	
	2021	2020
		(As Restated)
Cash Flows From Operating Activities		
Received From Customers	\$ 60,483,173	\$ 59,024,741
Received for Miscellaneous Non-Operating Income	347,304	112,631
Paid to Suppliers for Goods and Services	(14,270,905)	(14,181,880)
Paid to or on Behalf of Employees for Services	(15,088,294)	(14,245,342)
	<u>31,471,278</u>	<u>30,710,150</u>
Cash Flows From Investing Activities		
Purchase of Investments	(43,124,955)	(53,241,616)
Proceeds From Sale of Investments	44,624,625	52,656,436
Investment Income	281,979	667,923
	<u>1,781,649</u>	<u>82,743</u>
Cash Flows From Capital and Related Financing Activities		
Principal Paid on Debt	(12,752,459)	(13,442,555)
Debt Proceeds	24,685,000	735,347
Interest Paid on Bonds and Notes	(5,804,373)	(6,724,363)
Acquisition and Construction of Capital Assets	(10,316,463)	(8,531,994)
Proceeds on Sale of Capital Assets	25,977	92,722
Payment on Arbitrage Liability	-	(412,209)
	<u>(4,162,318)</u>	<u>(28,283,052)</u>
Net Cash Used by Capital and Related Financing Activities		
Net Change in Cash	29,090,609	2,509,841
Cash and Cash Equivalents Beginning of Year	<u>62,373,233</u>	<u>59,863,392</u>
Cash and Cash Equivalents End of Year	<u>\$ 91,463,842</u>	<u>\$ 62,373,233</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Net Operating Income	\$ 17,672,748	\$ 19,743,595
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Depreciation	12,436,919	12,301,512
Miscellaneous Non-Operating Income	347,304	112,631
Change in Assets and Liabilities		
Accounts Receivable, Net	1,277,234	(1,634,349)
Assessments Receivable	(9,851)	(9,278)
Inventory Supplies	(193,718)	(187,565)
Prepaid Items	(33,938)	(271,127)
Miscellaneous Deferred Charges	104,271	344,781
Accounts Payable	201,413	78,574
Accrued Payroll and Taxes	79,037	(60,309)
Accrued Compensated Absences	283,221	364,012
Other Accrued Liabilities	166,170	10,961
Customer Deposits	(859,532)	(83,288)
	<u>31,471,278</u>	<u>30,710,150</u>
Net Cash Provided by Operating Activities	<u>\$ 31,471,278</u>	<u>\$ 30,710,150</u>

See accompanying notes.

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

	Years Ended December 31,	
	2021	2020
Supplemental Schedule of Noncash Capital and Related Financing Activities		
Change in Fair Value of Investments	\$ <u>(244,161)</u>	\$ <u>(1,673,767)</u>
Contributions of Capital Assets	\$ <u>2,911,181</u>	\$ <u>2,099,143</u>
Current Refunding of Revenue Bonds, Series 2012	\$ <u>33,013,731</u>	\$ <u>-</u>
Current Refunding of Revenue Bonds, Series 2011	\$ <u>-</u>	\$ <u>22,587,779</u>
Retirement of Rural Development Loan 91-02 through Refunding Revenue Bonds, Series 2020	\$ <u>-</u>	\$ <u>1,641,000</u>
Accrued Interest on Refunding	\$ <u>553,596</u>	\$ <u>274,955</u>
Bond Issuance Costs on Refunding	\$ <u>181,821</u>	\$ <u>226,603</u>
Deferred (Gain) Loss on Refunding	\$ <u>(3,520,545)</u>	\$ <u>76,496</u>
Pension Expense	\$ <u>(1,029,997)</u>	\$ <u>(2,604,502)</u>
Other Post Employment Benefit Expense	\$ <u>(267,744)</u>	\$ <u>(564,502)</u>
Amortization Expense	\$ <u>(989,953)</u>	\$ <u>(851,294)</u>
Reconciliations of Cash and Cash Equivalents to the Statement of Net Position		
Cash and Cash Equivalents - Current	\$ 42,708,186	\$ 39,074,049
Cash and Cash Equivalents - Restricted	<u>48,755,656</u>	<u>23,299,184</u>
Total Cash and Cash Equivalents	\$ <u>91,463,842</u>	\$ <u>62,373,233</u>

See accompanying notes.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Presentation, Basis of Accounting, and Measurement Focus

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

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

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

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

Use of Estimates

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

Operating Revenues and Expenses

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers all highly liquid 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 \$90,000 and \$470,000 at December 31, 2021 and 2020, respectively.

Assessments Receivable

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

Inventory

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

Deferred Inflows and Outflows of Resources

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital Assets

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

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

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

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

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

Construction in Progress

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

Capital Contributions

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

Pensions

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

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 as of December 31, 2021 and 2020 were \$1,652,359 and \$1,369,138, 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 premiums, which are amortized over the life of the applicable bonds using the straight-line method, which approximates the effective interest method. Issuance costs are recognized as an expense in the year incurred.

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 years beginning after June 15, 2021. The District is currently evaluating the impact GASB Statement No. 87 may have on its financial statements.

Conduit Debt Obligations

GASB Statement No. 91, *Conduit Debt Obligations*, was issued to provide a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related not disclosures. The requirements of GASB Statement No. 91 are effective for reporting periods beginning after December 15, 2021. The District is currently evaluating the impact GASB Statement No. 91 may have on its financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*Omnibus 2020*

GASB Statement No. 92, *Omnibus 2020*, was issued to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of GASB Statement No. 92 are effective for fiscal years or reporting periods beginning after June 15, 2021, other than the requirements related to the effective date of GASB Statement No. 87, which is effective upon issuance. The District is currently evaluating the impact GASB Statement No. 92 may have on its financial statements.

Replacement of Interbank Offered Rates

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, was issued to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). The requirements of GASB Statement No. 93, except paragraphs 11b, 13, and 14 are effective for reporting periods beginning after June 15, 2020. The requirements in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal year periods beginning after June 15, 2021. However, these did not have a significant impact to the District's financial statements. The District is currently evaluating the impact that the remaining aspects of GASB Statement No. 93 may have on its financial statements.

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

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

Subscription-Based Information Technology Arrangements

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32, was issued to (1) increase consistency and comparability related to the fiduciary reporting of component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans that meet the definition of a pension plan for benefits provided through those plans. Aspects of GASB Statement No. 97 are effective immediately, however there was no significant impact to the District's financial statements for the year ended December 31, 2020. Other requirements of GASB Statement No. 97 are effective for fiscal years or reporting periods beginning after June 15, 2021. However, these did not have a significant impact to the District's financial statements. The District is currently evaluating the impact that the remaining aspects of GASB Statement No. 97 may have on its financial statements.

Omnibus 2022

GASB Statement No. 99, *Omnibus 2022*, was issued to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of GASB Statement No. 99 related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023. Other aspects of GASB 99 are effective immediately. However, there was not a significant impact to the District's financial statements for the year ended December 31, 2021. The District is currently evaluating the impact the remaining aspects of GASB Statement No. 99 may have on its financial statements.

Subsequent Events

The District has evaluated subsequent events through June 30, 2022, which is the date the financial statements were available to be issued.

NOTE 2 – DEPOSITS AND INVESTMENTS

Investment Policy

General Policy

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

Authorized Investment Instruments

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

- A) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian.
- B) U.S. Treasury and other U.S. government obligations that carry the full faith and credit guarantee of the United States for the payment of principal and interest.
- C) Federal Agency or U.S. government-sponsored enterprises obligations, participations or other instruments.
- D) CDs issued by or other interest-bearing accounts of any bank or savings and loan institution having a physical presence in Kentucky and that are insured by the Federal Deposit Insurance Corporation or similar entity or that are collateralized by any obligations, including surety bonds permitted by KRS 41.240. KRS 66.480(1)(d).
- E) Uncollateralized CDs issued by any bank or savings and loan having a physical presence in Kentucky rated in one of three highest categories by a competent rating agency.
- F) Bankers' acceptances, which must be rated in one of the three highest categories by a competent rating agency.
- G) Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a competent rating organization.
- H) Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities.
- I) Investment-grade obligations of state or local governments or instrumentality thereof rated one of three highest categories by a competent rating agency.
- J) Shares of mutual funds and exchange traded funds as identified by KRS 66.480(1)(j).
- K) Individual equity securities if the funds are managed by a professional investment manager regulated by a federal regulatory agency and are included within the S&P 500 pursuant to KRS 66.480(1)(k).
- L) Individual high-quality corporate bonds managed by a professional investment manager pursuant to KRS 66.480(1)(l).

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

Custodial Credit Risk – Deposits. For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned. The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of December 31, 2021 and 2020, 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.

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

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, 2021 and 2020.

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	
	2021	2020
Cash and Cash Equivalents	\$ 17,415,450	\$ 711,652

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:

Cash and Cash Equivalents	\$ 10,649,698	\$ 12,378,350
Purchase and Resale Agreements	732,136	732,136
Forward Delivery Agreements	4,112,089	4,076,931
United States Treasuries	-	1,871,691
FHLB Bonds	1,800,000	-
Accrued Interest Receivable and CD Market Change	40,382	52,200
	\$ 17,334,305	\$ 19,111,308

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	\$ 20,600,565	\$ 20,545,701
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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	\$ 10,739,641	\$ 1,182,299
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NOTE 3 – RESTRICTED ASSETS (Continued)

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:

	December 31	
	2021	2020
Cash and Cash Equivalents	\$ -	\$ 859,532

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts Receivable Arising From Billings of Metered Water Sales, Net of Allowance	\$ 6,350,629	\$ 7,785,823
Accrual for Estimated Unbilled Water Revenue	9,100,000	9,100,000
Other	228,310	70,350
Total	\$ 15,678,939	\$ 16,956,173

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.

NOTE 5 – FAIR VALUE MEASUREMENT (Continued)

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value at December 31, 2021:

	Level 1	Level 2	Level 3	Total
Investments				
Certificates of Deposit	\$ 438,466	\$ -	\$ -	\$ 438,466
Commercial Paper	-	3,951,505	-	3,951,505
Total Investments	438,466	3,951,505	-	4,389,971
Restricted Investments				
Cash and Cash Equivalents	10,690,080	-	-	10,690,080
Purchase and Resale Agreements	-	732,136	-	732,136
Forward Delivery Agreements	-	4,112,089	-	4,112,089
FHLB Bonds	-	1,800,000	-	1,800,000
Total Restricted Investments	10,690,080	6,644,225	-	17,334,305
Total Assets at Fair Value	\$ 11,128,546	\$ 10,595,730	\$ -	\$ 21,724,276

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value at December 31, 2020:

Investments				
Certificates of Deposit	\$ 441,034	\$ -	\$ -	\$ 441,034
Commercial Paper	-	3,443,461	-	3,443,461
Total Investments	441,034	3,443,461	-	3,884,495
Restricted Investments				
Cash and Cash Equivalents	12,430,550	-	-	12,430,550
Purchase and Resale Agreements	-	732,136	-	732,136
FAMC and FHLB Discount Notes	-	4,076,931	-	4,076,931
United States Treasuries	-	1,871,691	-	1,871,691
Total Restricted Investments	12,430,550	6,680,758	-	19,111,308
Total Assets at Fair Value	\$ 12,871,584	\$ 10,124,219	\$ -	\$ 22,995,803

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the District for the year ended December 31, 2021, was as follows:

	Balance December 31, 2020	Additions	Deductions	Balance December 31, 2021
Land, System, Buildings and Equipment				
Land and Land Rights	\$ 3,267,226	\$ 80,943	\$ -	\$ 3,348,169
Structures and Improvements	128,948,788	344,678	-	129,293,466
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	544,504	-	4,036,027
Pumping Equipment	11,982,266	550,721	-	12,532,987
Water Treatment Equipment	30,253,266	737,992	-	30,991,258
Distribution Reservoirs and Standpipes	11,354,093	-	-	11,354,093
Transmissions and Distribution Mains	229,742,195	4,411,381	(420,683)	233,732,893
Services	34,483,517	1,782,133	(231,623)	36,034,027
Meters and Meter Installations Hydrants	20,550,391	465,638	(132,967)	20,883,062
10,778,716	224,784	(40,696)	10,962,804	
Other Plant and Miscellaneous Equipment	3,419,128	8,300	-	3,427,428
Office Furniture and Equipment	4,214,129	18,218	-	4,232,347
Transportation Equipment	5,069,122	731,644	(80,164)	5,720,602
Tools, Shop, and Garage Equipment	991,016	24,418	-	1,015,434
Laboratory Equipment	827,678	5,300	-	832,978
Power Operated Equipment	1,275,926	7,063	-	1,282,989
Communication Equipment	6,287,274	77,508	-	6,364,782
Miscellaneous Equipment	592,506	-	-	592,506
Utility Plant Acquisition Adjustment	545,925	-	-	545,925
Acquisition Adjustment - Newport	4,970,211	-	-	4,970,211
Total Land, System, Buildings and Equipment	517,373,760	10,015,225	(906,133)	526,482,852
Construction in Progress	9,363,904	8,614,131	(5,482,635)	12,495,400
Total Capital Assets	526,737,664	18,629,356	(6,388,768)	538,978,252
Less Accumulated Depreciation	185,050,608	12,436,919	(617,043)	196,870,484
Capital Assets - Net	\$ 341,687,056	\$ 6,192,437	\$ (5,771,725)	\$ 342,107,768

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, 2021 and 2020, the arbitrage rebate liability was \$241,201 and \$295,084, respectively.

Rebate calculations are prepared annually. However, any liability due is only required to be paid every 5 years from the original date of the bond. During the year ended December 31, 2021 and 2020, the District paid \$-0- and \$412,209, respectively.

NOTE 8 – LONG-TERM DEBT

Revenue Bonds

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 refunded in December 2021 by the Refunding Revenue Bonds, Series 2021.

Water District Revenue Bonds, Series 2013A

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

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

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
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	5.00%	970,000	756,276	1,726,276
2026	5.00%	1,020,000	706,526	1,726,526
2027-2031	4.00-5.00%	5,795,000	2,843,445	8,638,445
2032-2036	4.13-4.50%	7,155,000	1,481,028	8,636,028
2037-2038	4.13-4.25%	3,310,000	142,164	3,452,164
Total		\$ 20,890,000	\$ 8,473,517	\$ 29,363,517

NOTE 8 – LONG-TERM DEBT (Continued)

Water District Refunding Revenue Bonds, Series 2013B

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

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

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

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2022	5.00%	\$ 1,430,000	\$ 489,450	\$ 1,919,450
2023	5.00%	1,500,000	416,200	1,916,200
2024	5.00%	1,570,000	347,300	1,917,300
2025	4.00%	1,635,000	283,200	1,918,200
2026	4.00%	1,700,000	216,500	1,916,500
2027-2028	4.00-5.00%	3,650,000	184,750	3,834,750
Total		<u>\$ 11,485,000</u>	<u>\$ 1,937,400</u>	<u>\$ 13,422,400</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:

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2022	5.00%	\$ 465,000	\$ 135,263	\$ 600,263
2023	5.00%	485,000	116,363	601,363
2024	3.00%	495,000	101,663	596,663
2025	3.00%	515,000	83,938	598,938
2026	4.00%	540,000	62,838	602,838
2027-2029	3.00-4.00%	1,710,000	79,995	1,789,995
Total		<u>\$ 4,210,000</u>	<u>\$ 580,060</u>	<u>\$ 4,790,060</u>

NOTE 8 – LONG-TERM DEBT (Continued)

Water District Refunding Revenue Bonds, Series 2016A

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

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

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

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
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	5.00%	2,865,000	833,025	3,698,025
2026	5.00%	3,015,000	686,025	3,701,025
2027-2031	3.00-5.00%	17,100,000	1,436,485	18,536,485
Total		<u>\$ 30,830,000</u>	<u>\$ 6,271,485</u>	<u>\$ 37,101,485</u>

Water District Refunding Revenue Bonds, Series 2019

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

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

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2022	3.00%	\$ 470,000	\$ 560,750	\$ 1,030,750
2023	3.00%	485,000	544,000	1,029,000
2024	4.00%	505,000	524,200	1,029,200
2025	4.00%	530,000	500,850	1,030,850
2026	5.00%	560,000	473,600	1,033,600
2027-2031	3.00-5.00%	3,200,000	1,953,975	5,153,975
2032-2036	3.00%	3,770,000	1,389,750	5,159,750
2037-2041	3.00%	4,380,000	779,550	5,159,550
2042-2044	3.00%	2,955,000	134,775	3,089,775
Total		<u>\$ 16,855,000</u>	<u>\$ 6,861,450</u>	<u>\$ 23,716,450</u>

NOTE 8 – LONG-TERM DEBT (Continued)

Water District Refunding Revenue Bonds, Series 2020

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

The reacquisition price exceeded the net carrying amount of the refunded debt by \$76,496. This amount is netted against the new debt and amortized over the remaining life of the new debt. The refunding reduces its total debt service over 15 years by \$5,828,770 and obtains an economic gain (difference between the present values of the old and new debt service) of \$5,051,126.

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

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2022	5.00%	\$ 1,110,000	\$ 746,950	\$ 1,856,950
2023	5.00%	1,165,000	690,075	1,855,075
2024	5.00%	1,225,000	630,325	1,855,325
2025	5.00%	1,290,000	567,450	1,857,450
2026	5.00%	1,355,000	501,325	1,856,325
2027-2031	3.00-5.00%	7,785,000	1,499,450	9,284,450
2032-2035	2.00-3.00%	7,125,000	297,275	7,422,275
Total		<u>\$ 21,055,000</u>	<u>\$ 4,932,850</u>	<u>\$ 25,987,850</u>

Water District Refunding Revenue Bonds, Series 2021B

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

The net carrying amount of the refunded debt exceeded the reacquisition price \$2,848,371. This amount is netted against the new debt and amortized over the remaining life of the new debt. The refunding reduces its total debt service over 15 years by \$3,149,288 and obtains an economic gain (difference between the present values of the old and new debt service) of \$3,093,721.

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

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2022	4.00%	\$ 4,815,000	\$ 603,112	\$ 5,418,112
2023	4.00%	4,485,000	826,900	5,311,900
2024	4.00%	4,675,000	643,700	5,318,700
2025	4.00%	4,865,000	452,900	5,317,900
2026	4.00%	5,070,000	254,200	5,324,200
2027	4.00%	3,820,000	76,400	3,896,400
Total		<u>\$ 27,730,000</u>	<u>\$ 2,857,212</u>	<u>\$ 30,587,212</u>

NOTE 8 – LONG-TERM DEBT (Continued)

Rural Development Loan 91-03

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

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

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2022	\$ 28,000	\$ 45,801	\$ 73,801
2023	28,500	45,024	73,524
2024	29,500	44,227	73,727
2025	30,500	43,402	73,902
2026	31,000	42,556	73,556
2027-2031	168,500	199,299	367,799
2032-2036	193,000	174,514	367,514
2037-2041	221,000	146,068	367,068
2042-2046	253,500	113,502	367,002
2047-2051	290,000	76,175	366,175
2052-2056	332,500	33,460	365,960
2057	73,500	1,011	74,511
Total	\$ 1,679,500	\$ 965,039	\$ 2,644,539

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

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

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

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

NOTE 8 – LONG-TERM DEBT (Continued)

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

- a) Enforce by mandamus or other suit, action or proceedings at law or in equity all rights of the bondholders, including the right to require the District to enforce, collect and receive water rates, rentals and charges adequate to carry out the covenants and agreements of the District as to production of income, and to require the District to carry out any other covenant or agreement with bondholders and to perform its duties under the Act;
- b) Bring suit upon the bonds;
- c) Require the District by action or suit to account as if it were the trustee of an express trust for the holders of the bonds;
- d) Enjoin by action or suit any act or things which may be unlawful or in violation of the rights of the holders of the bonds;
- e) By action or suit in equity, seek the appointment of a receiver who shall take charge of and administer the affairs of the District;
- f) Declare all bonds due and payable, and if all default shall be made good (excepting acceleration provisions), then with the written consent of not less than twenty-five percent (25%) in principal amount of the holders of outstanding bonds, to annul such declaration and its consequences; and
- g) In the event that all bonds are declared due and payable, and a receiver is appointed, to sell all investments and all other assets of the District (to the extent not theretofore set aside for redemption of bonds for which call has been made), and to cause the receiver to take over the public water system and operate same in the name of the District for the use and benefit of the bondholders.

Revenue Bond Anticipation Note

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

Notes from Direct Borrowings

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.

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.

NOTE 8 – LONG-TERM DEBT (Continued)

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>
2022	\$ 198,676	\$ 28,110	\$ 226,786
2023	200,668	25,620	226,288
2024	202,680	23,106	225,786
2025	204,711	20,566	225,277
2026	206,764	18,001	224,765
2027-2031	1,065,331	50,614	1,115,945
2032	219,514	2,060	221,574
Total	\$ 2,298,344	\$ 168,077	\$ 2,466,421

Kentucky Infrastructure Authority Loan F09-02

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

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

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
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	1,240,541	248,994	1,489,535
2026	1,265,476	220,942	1,486,418
2027-2031	6,719,301	663,799	7,383,100
2032-2033	2,149,665	48,528	2,198,193
Total	\$ 14,951,862	\$ 2,092,082	\$ 17,043,944

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.

NOTE 8 – LONG-TERM DEBT (Continued)

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

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2022	\$ 158,893	\$ 59,431	\$ 218,324
2023	161,686	56,239	217,925
2024	164,529	52,991	217,520
2025	167,420	49,686	217,106
2026	170,362	46,323	216,685
2027-2031	897,794	179,064	1,076,858
2032-2036	979,517	85,666	1,065,183
2037-2038	310,887	6,235	317,122
Total	\$ <u>3,011,088</u>	\$ <u>535,635</u>	\$ <u>3,546,723</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.

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

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2022	\$ 158,409	\$ 59,249	\$ 217,658
2023	161,193	56,067	217,260
2024	164,026	52,829	216,855
2025	166,909	49,535	216,444
2026	169,843	46,182	216,025
2027-2031	895,056	177,518	1,072,574
2032-2036	976,531	85,406	1,061,937
2037-2038	309,937	6,217	316,154
Total	\$ <u>3,001,904</u>	\$ <u>533,003</u>	\$ <u>3,534,907</u>

NOTE 8 – LONG-TERM DEBT (Continued)

Kentucky Infrastructure Authority Loan B15-003

In July 2016, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds is \$1,500,000 at an interest rate of 0.75%. As of December 31, 2018, all funds have been received.

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

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2022	\$ 66,814	\$ 10,590	\$ 77,404
2023	67,316	9,954	77,270
2024	67,822	9,314	77,136
2025	68,331	8,668	76,999
2026	68,845	8,018	76,863
2027-2031	352,060	30,160	382,220
2032-2036	365,488	13,153	378,641
2037	74,753	533	75,286
Total	<u>\$ 1,131,429</u>	<u>\$ 90,390</u>	<u>\$ 1,221,819</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, 2021, \$1,304,928 has been received. Payments will not begin until one year after the initiation of operation of the project, and therefore a maturity date has not been determined.

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

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

NORTHERN KENTUCKY WATER DISTRICT

NOTE 8 – LONG-TERM DEBT (Continued)

Changes in long-term debt are as follows:

	Debt Outstanding December 31, 2020	Additions of New Debt	Retirements and Repayments	Debt Outstanding December 31, 2021	Amounts Due Within 1 Year
Bond Indebtedness					
Rural Development Loan 91-03	\$ 1,706,500	\$ -	\$ 27,000	\$ 1,679,500	\$ 28,000
Series 2012	33,675,000	-	33,675,000	-	-
Series 2012 Bond Premium	4,219,440	-	4,219,440	-	-
Series 2013 A	21,685,000	-	795,000	20,890,000	835,000
Series 2013 A Bond Premium	879,119	-	50,235	828,884	50,235
Series 2013 B	12,840,000	-	1,355,000	11,485,000	1,430,000
Series 2013 B Bond Premium	924,639	-	119,308	805,331	119,308
Series 2014 B	4,650,000	-	440,000	4,210,000	465,000
Series 2014 B Bond Premium	758,024	-	84,225	673,799	84,225
Series 2016	33,155,000	-	2,325,000	30,830,000	2,450,000
Series 2016 Bond Premium	3,756,064	-	344,067	3,411,997	344,067
Series 2019	17,310,000	-	455,000	16,855,000	470,000
Series 2019 Bond Premium	1,027,053	-	43,397	983,656	43,397
Series 2020	22,325,000	-	1,270,000	21,055,000	1,110,000
Series 2020 Bond Premium	2,454,258	-	165,456	2,288,802	165,456
Series 2021	-	27,730,000	-	27,730,000	4,815,000
Series 2021 Bond Premium	-	2,446,473	23,828	2,422,645	476,585
Total Bond Indebtedness	<u>161,365,097</u>	<u>30,176,473</u>	<u>45,391,956</u>	<u>146,149,614</u>	<u>12,886,273</u>
Bond Anticipation Notes					
Series 2021 A	-	24,685,000	-	24,685,000	-
Notes Payable - Direct Borrowings					
KIA Loan F08-07	2,495,048	-	196,703	2,298,345	198,676
KIA Loan F09-02	16,097,481	-	1,145,619	14,951,862	1,168,646
KIA Loan F13-012	4,523,000	-	-	4,523,000	-
KIA Loan F14-015	3,167,237	-	156,149	3,011,088	158,893
KIA Loan F15-011	3,157,576	-	155,672	3,001,904	158,409
KIA Loan B15-003	1,197,744	-	66,315	1,131,429	66,814
KIA Loan F16-027	1,304,928	-	-	1,304,928	-
Kenton County Fiscal Court	100,000	-	-	100,000	-
Total Notes Payable - Direct Borrowings	<u>32,043,014</u>	<u>-</u>	<u>1,720,458</u>	<u>30,322,556</u>	<u>1,751,438</u>
Arbitrage Liability	295,084	-	53,883	241,201	225,351
Compensated Absences	1,369,138	283,221	-	1,652,359	324,632
Total Long-Term Debt	<u>\$ 195,072,333</u>	<u>\$ 55,144,694</u>	<u>\$ 47,166,297</u>	<u>\$ 203,050,730</u>	<u>\$ 15,187,694</u>

NOTE 9 – PENSION PLAN

General Information about the Pension Plan

Plan description: County Employees Retirement System consists of two plans, Non-Hazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Public Pensions Authority (KPPA) under the provisions of Kentucky Revised Statute Section 78.782 and 61.645. The plan was formerly administered by the Kentucky Retirement System (KRS). However, during the 2020 Legislative Session, House Bill 484 was passed establishing a new governance structure for the agency that operates the system. Effective April 1, 2021, KRS as an agency of the Commonwealth became known as the KPPA. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS. The District only participates in the non-hazardous plan.

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

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

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

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

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

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

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

NOTE 9 – PENSION PLAN (Continued)

Benefit Formula for Tiers 1 & 2				
<u>Final Compensation</u>	<u>X</u>	<u>Benefit Factor</u>	<u>X</u>	<u>Years of Service</u>
Average of the five highest years of compensation if participation began before 09/01/2008.		2.20% if:	Member begins participating prior to 08/01/2004.	Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).
		2.00% if:	Member begins participating on or after 08/01/2004 and before 09/01/2008.	
Average of the last complete five years of compensation if participation began on or after 09/01/2008 but before 01/01/2014.		Increasing percent based on service at retirement up to 30 years* plus 2.00% for each year of service over 30 if:	Member begins participating on or after 09/01/2008 but before 01/01/2014.	

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

Benefit Formula for Tier 3				
<u>Accumulate Account Balance / Actuarial Factor = Monthly Life Annuity</u>				
<u>Accumulate Account Balance</u>				
<u>Member Contributions</u>	<u>Employer Contributions</u>	<u>Base Annual Interest</u>	<u>Upside Sharing Interest (FY 2021)</u>	<u>Actuarial Factor</u>
5.00%	4.00%	4.00%	6.35%	Various*

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

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

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

NOTE 9 – PENSION PLAN (Continued)

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

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

Senate Bill 169 passed during the 2021 legislative session and increased the disability benefits for qualified members who become "totally and permanently disabled" as a result of a duty-related disability. The minimum disability benefit increased from 25% of the member's monthly final rate of pay to 75% of the member's monthly average pay. The insurance premium for the member, the member's spouse, and the member's dependent children shall also be paid in full by the System. For non-hazardous members to be eligible for this benefit, they must be working in a position that could be certified as a hazardous position. There were no other material plan provision changes since the prior valuation.

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

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

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

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

NOTE 9 – PENSION PLAN (Continued)

For the fiscal years ended June 30, 2022, 2021, and 2020, participating employers contributed 26.95% (21.17% pension fund and 5.78% insurance fund), 24.06% (19.30% pension fund and 4.76% insurance fund), and 24.06% (19.30% pension fund and 4.76% 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 \$1,875,015 and \$1,723,667 for the years ended December 31, 2021 and 2020, respectively.

Plan Information for December 31, 2021 Financial Statements

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

At December 31, 2021, the District reported a liability of \$22,419,617 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2021, 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, 2021, the District's proportion for the non-hazardous system was 0.351637% which was an increase of 0.011928% from its proportion measured as of December 31, 2020.

For the year ended December 31, 2021, the District recognized pension expense of \$1,029,997. At December 31, 2021, 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	\$ -	\$ 2,988,159
Difference between expected and actual experience	257,446	217,598
Changes of assumptions	300,898	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	961,977	-
District contributions after measurement date	<u>1,033,048</u>	<u>-</u>
Total	<u>\$ 2,553,369</u>	<u>\$ 3,205,757</u>

NOTE 9 – PENSION PLAN (Continued)

The \$1,033,048 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, 2022. 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,	
2022	\$ 293,097
2023	(391,421)
2024	(651,374)
2025	<u>(935,738)</u>
Total	<u>\$ (1,685,436)</u>

Actuarial assumptions: The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2020
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay Amortization Method
Remaining Amortization Period	30 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%
Payroll Growth Rate	2.00%
Salary Increase	3.30% to 10.30%, Varies by Service
Investment Rate of Return	6.25% Net of Pension Plan Investment Expense, Including Inflation

There have been no actuarial assumption or method changes since June 30, 2020. Senate Bill 169 passed during the 2021 legislative session increased the disability benefits for certain qualifying members who become “totally and permanently disabled” in the line of duty or as a result of a duty-related disability. The total pension liability as of June 30, 2021, is determined using these updated benefit provisions.

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

NOTE 9 – PENSION PLAN (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Growth		
US Equity	21.75 %	5.70 %
Non-US Equity	21.75	6.35
Private Equity	10.00	9.70
Specialty Credit/High Yield	15.00	2.80
Liquidity		
Core Bonds	10.00	-
Cash	1.50	(0.60)
Diversifying Strategies		
Real Estate	10.00	5.40
Real Return	10.00	4.55
Total	<u>100.00 %</u>	

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

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Non-Hazardous	\$ 28,754,222	\$ 22,419,617	\$ 17,177,880

Changes of assumptions: There were no changes in actuarial assumptions for the June 30, 2021 valuation date.

NOTE 9 – PENSION PLAN (Continued)

Plan Information for December 31, 2020 Financial Statements

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

At December 31, 2020, the District reported a liability of \$26,055,399 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019. The total pension liability was rolled-forward from the valuation date to the plan’s fiscal year end, June 30, 2020, 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, 2020, the District’s proportion for the non-hazardous system was 0.339709%, which was an increase of 0.008855% from its proportion measured as of December 31, 2019.

For the year ended December 31, 2020, the District recognized pension expense of \$2,604,502. At December 31, 2020, 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	\$ 652,004	\$ -
Difference between expected and actual experience	649,739	-
Changes of assumptions	1,017,419	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	862,116	53,168
District contributions after measurement date	<u>885,281</u>	<u>-</u>
Total	<u>\$ 4,066,559</u>	<u>\$ 53,168</u>

The \$885,281 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending December 31,</u>	
2021	\$ 1,508,684
2022	1,014,444
2023	343,123
2024	<u>261,859</u>
Total	<u>\$ 3,128,110</u>

NOTE 9 – PENSION PLAN (Continued)

Actuarial assumptions: The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2019
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay Amortization Method
Remaining Amortization Period	30 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%
Payroll Growth Rate	2.00%
Salary Increase	3.30% to 10.30%, Varies by Service
Investment Rate of Return	6.25% Net of Pension Plan Investment Expense, Including Inflation

The Board of Trustees for the Kentucky Retirement Systems adopted new actuarial assumptions since June 30, 2018. The Total Pension liability as of June 30, 2020 was determined using these updated assumptions.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

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

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 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>
Growth		
US Equity	18.75 %	4.50 %
Non-US Equity	18.75	5.25
Private Equity	10.00	6.65
Specialty Credit/High Yield	15.00	3.90
Liquidity		
Core Bonds	13.50	(0.25)
Cash	1.00	(0.75)
Diversifying Strategies		
Real Estate	5.00	5.30
Opportunistic	3.00	2.25
Real Return	<u>15.00</u>	3.95
Total	<u>100.00 %</u>	

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

The projections of cash flows used to determine the single discount rate includes an assumption regarding actual employer contributions made each future year. Except where noted, the future contributions are projected assuming that each participating employer in the system contributes the actuarially determined employer contribution rate each future year calculated in accordance with the current funding policy, as most recently revised by Senate Bill 249, passed during the 2020 Legislative Session. This includes the phase-in provisions from House Bill 362 (passed in 2020) which kept CERS contributions level for fiscal year ending 2021.

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	\$ 32,131,977	\$ 26,055,399	\$ 21,023,762

Changes of assumptions: There were no changes in actuarial assumptions for the June 30, 2020 valuation date.

NOTE 9 – PENSION PLAN (Continued)**Other Information about the Pension Plan**

Payable to the pension plan: At December 31, 2021 and 2020, the District reported a payable of \$187,554 and \$167,861 for the outstanding amount of contributions to the pension plan required for the years ended December 31, 2021 and 2020, respectively.

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

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

NOTE 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 Public Pensions Authority (KPPA) under the provisions of Kentucky Revised Statute Section 78.782 and 61.645. The plan was formerly administered by the Kentucky Retirement System (KRS). However, during the 2020 Legislative Session, House Bill 484 was passed establishing a new governance structure for the agency that operates the system. Effective April 1, 2021, KRS as an agency of the Commonwealth became known as the KPPA. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS. The District only participates in the non-hazardous plan.

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

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

NOTE 10 – OPEB PLAN (Continued)

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

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

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

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

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

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

NOTE 10 – OPEB PLAN (Continued)

For the fiscal years ended June 30, 2022, 2021, and 2020, participating employers contributed 26.95% (21.17% pension fund and 5.78% insurance fund), 24.06% (19.30% pension fund and 4.76% insurance fund), and 24.06% (19.30% pension fund and 4.76% insurance fund), respectively, for the non-hazardous system of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years was a percentage of each employee's creditable compensation. Contributions to the insurance fund (excluding the pension portion) from the District were \$489,371 and \$425,112 for the years ended December 31, 2021 and 2020, respectively.

Plan Information for December 31, 2021 Financial Statements

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

At December 31, 2021, the District reported a liability of \$6,730,325 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2021, 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, 2021, the District's proportion for the non-hazardous system was 0.351554%, which was an increase of 0.011944% from its proportion measured as of December 31, 2020.

For the year ended December 31, 2021, the District recognized OPEB expense of \$267,744. At December 31, 2021, 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	\$ -	\$ 1,052,867
Difference between expected and actual experience	1,058,346	2,009,451
Changes of assumptions	1,784,337	6,258
Changes in proportion and difference between employer contributions and proportionate share of contributions	394,826	63,702
District contributions after measurement date	<u>282,051</u>	<u>-</u>
Total	<u>\$ 3,519,560</u>	<u>\$ 3,132,278</u>

NOTE 10 – OPEB PLAN (Continued)

The \$282,051 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, 2022. 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>	
2022	\$ 257,173
2023	97,043
2024	95,977
2025	<u>(344,962)</u>
Total	<u>\$ 105,231</u>

Actuarial assumptions: The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2020
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay Amortization Method
Amortization Period	30 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%
Payroll Growth Rate	2.00%
Salary Increase	3.30% to 10.30%, Varies by Services
Investment Rate of Return	6.25%
Healthcare Cost Trend Rates (Pre-65)	Initial Trend Starting at 6.30% at January 1, 2023 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 6.30% at January 1, 2023, then Gradually Decreasing to an Ultimate Trend Rate of 4.05% Over a period of 13 Years.
Mortality	
Pre-retirement	PUB-2010 General Mortality Table, for the Non-Hazardous Systems, Projected with the Ultimate Rates from the MP-2014 Mortality Improvement Scale Using a Base Year of 2010
Post Retirement (non-disabled)	System-Specific Mortality Table Based on Mortality Experience from 2013-2018, Projected with the Ultimate Rates from MP-2014 Mortality Improvement Scale Using a Base Year of 2019.
Post Retirement (disabled)	PUB-2010 Disabled Mortality Table, with a 4-year Set-forward for both Male and Female Rates, Projected With the Ultimate Rates from the MP-2014 Mortality Improvement Scale Using a Base Year of 2010

NOTE 10 – OPEB PLAN (Continued)

Senate Bill 249 passed during the 2020 legislative session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total OPEB Liability and only impacts the calculation of the contribution rates that were payable starting July 1, 2020.

Senate Bill 169 passed during the 2021 legislative session and increased the disability benefits for certain qualifying members who become “totally and permanently disabled” in the line of duty or as a result of a duty-related disability. The total OPEB liability as of June 30, 2021, is determined using these updated benefit provisions.

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	21.75 %	5.70 %
Non-US Equity	21.75	6.35
Private Equity	10.00	9.70
Specialty Credit/High Yield	15.00	2.80
Liquidity		
Core Bonds	10.00	-
Cash	1.50	(0.60)
Diversifying Strategies		
Real Estate	10.00	5.40
Real Return	10.00	4.55
Total	<u>100.00 %</u>	

Discount rate: The single discount rate used to measure the total OPEB liability was 5.34% for non-hazardous. The single discount rate was based on the expected rate of return on the OPEB plan investments of 6.25% and a municipal bond rate of 1.92%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2021. Based on the stated assumptions and the projection of cash flows as of each fiscal year ended, the plan’s insurance fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on Insurance Plan investments was applied to all period of the projected benefit payments paid from the retirement plan. However, the cost associated with the implicit subsidy is not currently being included in the calculation of the system’s actuarial determined contributions, and it is understood that any cost associated with the implicit subsidy will not be paid out of the plan’s trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

NOTE 10 – OPEB PLAN (Continued)

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

Sensitivity of the District’s proportionate share of the net OPEB liability to changes in the discount rate: The following present’s the District’s proportionate share of the net OPEB liability, as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.20% for non-hazardous) or 1-percentage-point higher (6.20% for non-hazardous) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount</u>	<u>1% Increase</u>
Non-Hazardous \$	9,240,686	\$ 6,730,325	\$ 4,670,158

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:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Non-Hazardous \$	4,845,034	\$ 6,730,325	\$ 9,005,901

Changes of assumptions: There were no changes in actuarial assumptions for the June 30, 2021 valuation date.

Plan Information for December 31, 2020 Financial Statements

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

At December 31, 2020, the District reported a liability of \$8,200,549 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date to the plan’s fiscal year end, June 30, 2020, 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, 2020, the District’s proportion for the non-hazardous system was 0.339610%, which was an increase of 0.008842% from its proportion measured as of December 31, 2019.

NOTE 10 – OPEB PLAN (Continued)

For the year ended December 31, 2020, the District recognized OPEB expense of \$564,502. At December 31, 2020, 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	\$ 272,567	\$ -
Difference between expected and actual experience	1,370,140	1,371,210
Changes of assumptions	1,426,411	8,674
Changes in proportion and difference between employer contributions and proportionate share of contributions	310,333	92,655
District contributions after measurement date	<u>218,338</u>	<u>-</u>
Total	<u>\$ 3,597,789</u>	<u>\$ 1,472,539</u>

The \$218,338 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, 2021. 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>	
2021	\$ 495,356
2022	576,020
2023	421,400
2024	420,964
2025	<u>(6,828)</u>
Total	<u>\$ 1,906,912</u>

NOTE 10 – OPEB PLAN (Continued)

Actuarial assumptions: The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2019
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay Amortization Method
Amortization Period	30 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%
Payroll Growth Rate	2.00%
Salary Increase	3.30% to 11.55%, Varies by Services
Investment Rate of Return	6.25%
Healthcare Cost Trend Rates (Pre-65)	Initial Trend Starting at 6.40% at January 1, 2022 and Gradually Decreasing to an Ultimate Trend Rate of 4.05% Over a Period of 14 Years.
Healthcare Cost Trend Rates (Post-65)	Initial Trend Starting at 2.90% at January 1, 2022, and Increasing to 6.30% in 2023, then Gradually Decreasing to an Ultimate Trend Rate of 4.05% Over a period of 14 Years.
Mortality	
Pre-retirement	PUB-2010 General Mortality Table, for the Non-Hazardous Systems, Projected with the Ultimate Rates from the MP-2014 Mortality Improvement Scale Using a Base Year of 2010
Post Retirement (non-disabled)	System-Specific Mortality Table Based on Mortality Experience from 2013-2018, Projected with the Ultimate Rates from MP-2014 Mortality Improvement Scale Using a Base Year of 2010.
Post Retirement (disabled)	PUB-2010 Disabled Mortality Table, with a 4-year Set-forward for both Male and Female Rates, Projected With the Ultimate Rates from the MP-2014 Mortality Improvement Scale Using a Base Year of 2010

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the total OPEB liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan changes.

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

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 %	4.50 %
Non-US Equity	18.75	5.25
Private Equity	10.00	6.65
Specialty Credit/High Yield	15.00	3.90
Liquidity		
Core Bonds	13.50	(0.25)
Cash	1.00	(0.75)
Diversifying Strategies		
Real Estate	5.00	5.30
Opportunistic	3.00	2.25
Real Return	15.00	3.95
Total	<u>100.00 %</u>	

Discount rate: The single discount rate used to measure the total OPEB liability was 5.34% for non-hazardous. The single discount rate was based on the expected rate of return on the OPEB plan investments of 6.25% and a municipal bond rate of 2.45%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 28, 2020. Based on the stated assumptions and the projection of cash flows as of each fiscal year ended, the plan’s insurance fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on Insurance Plan investments was applied to all period of the projected benefit payments paid from the retirement plan. However, the cost associated with the implicit subsidy is not currently being included in the calculation of the system’s actuarial determined contributions, and it is understood that any cost associated with the implicit subsidy will not be paid out of the plan’s trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The projection of cash flows used to determine the single discount rate include an assumption regarding actual employer contributions made each future year. The future contributions are projected assuming that each participating employer in system contributes the actuarially determined employer contribution rate each future year calculated in accordance with the current funding policy, as most recently revised by Senate Bill 249, passed during the 2020 Legislative Session. This includes the phase-in provisions from House Bill 362 (passed in 2018) that applies to the CERS Funds as well as the provisions from Senate Bill 249 (passed in 2020) which kept CERS contributions level from fiscal year ending 2021.

NOTE 10 – OPEB PLAN (Continued)

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 (4.34% for non-hazardous) or 1-percentage-point higher (6.34% for non-hazardous) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount</u>	<u>1% Increase</u>
Non-Hazardous \$	10,535,298	\$ 8,200,549	\$ 6,282,942

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:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Non-Hazardous \$	6,349,274	\$ 8,200,549	\$ 10,447,114

Changes of assumptions: There were no changes in actuarial assumptions for the June 30, 2020 valuation date.

Other Information about the OPEB Plan

Payable to the OPEB Plan: At December 31, 2021 and 2020, the District reported a payable of \$51,208 and \$41,400 for the outstanding amount of contributions to the OPEB plan required for the years ended December 31, 2021 and 2020, respectively.

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

NOTE 11 – OPERATING LEASES

Commitments

The District is obligated under certain non-cancelable leases for equipment and land. The leases expire at various dates through June 2033. Lease expense for the years ended December 31, 2021 and 2020 were \$16,791 and \$16,041, respectively.

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

<u>Years Ending December 31,</u>	
2022	\$ 16,791
2023	16,791
2024	6,577
2025	750
2026	750
Thereafter	<u>4,875</u>
	<u>\$ 46,534</u>

Receivable

The District has various transmission system license agreements with communication companies for use of the District’s towers. Each lease agreement has an initial term of five years, with various five-year renewal options at the end of the lease that are reasonably certain to be exercised. The terms of the renewals expire at various dates through February 2046. Lease revenue from these leases for the years ended December 31, 2021 and 2020 were \$291,508 and \$264,008, respectively.

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

<u>Years Ending December 31,</u>	
2022	\$ 296,443
2023	281,430
2024	259,188
2025	261,688
2026	264,438
Thereafter	<u>5,100,857</u>
	<u>\$ 6,464,044</u>

NOTE 12 – ECONOMIC DEPENDENCY

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

NOTE 13 – RISKS AND UNCERTAINTIES – COVID-19 OUTBREAK

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

NOTE 14 – PRIOR PERIOD ADJUSTMENT

The District is restating its beginning net position to correct unbilled customer’s accounts receivables that were understated in a prior year. This change has resulted in a restatement of net position as follows:

Net Position January 1, 2020	\$ 210,590,259
Correction of Unbilled Customers Accounts Receivable	<u>1,640,000</u>
Net Position January 1, 2020, As Restated	<u>\$ 212,230,259</u>
Net Position January 1, 2021	\$ 223,957,521
Correction of Unbilled Customers Accounts Receivable	<u>1,640,000</u>
Net Position January 1, 2021, As Restated	<u>\$ 225,597,521</u>

REQUIRED SUPPLEMENTARY INFORMATION

NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
DECEMBER 31, 2021

County Employees Retirement System
Last 10 Calendar Years*

	2021	2020	2019	2018	2017	2016	2015	2014
District's Proportion of the Net Pension Liability - Non-Hazardous	0.351637%	0.339709%	0.330854%	0.312275%	0.320590%	0.335200%	0.344120%	0.333600%
Total District's Proportionate Share of the Net Pension Liability	\$ <u>22,419,617</u>	\$ <u>26,055,399</u>	\$ <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>8,930,918</u>	\$ <u>8,757,359</u>	\$ <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 as a Percentage of Its Covered Payroll	251.03%	297.53%	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	57.33%	47.81%	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%

* Only eight 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, 2021**

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

Non-Hazardous	2021	2020	2019	2018	2017	2016	2015	2014
Contractually Required Contribution	\$ 1,875,015	1,723,667	\$ 1,557,127	\$ 1,230,042	\$ 1,099,103	\$ 1,045,628	\$ 1,429,517	\$ 1,483,609
Contributions in Relation to the Contractually Required Contribution	<u>(1,875,015)</u>	<u>(1,723,667)</u>	<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>	<u>- \$</u>	<u>-</u>
District's Covered Payroll	\$ 9,357,873	8,930,918	\$ 8,757,359	\$ 8,040,890	\$ 7,732,260	\$ 7,925,067	\$ 7,972,340	\$ 7,931,952
Contributions as a Percentage of Covered Payroll	20.04%	19.30%	17.78%	15.30%	14.21%	13.19%	17.93%	18.70%

* Only eight 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, 2021**

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
District's Proportion of the Net OPEB Liability - Non-Hazardous	0.351554%	0.339610%	0.330768%	0.312275%	0.320590%	0.335200%
Total District's Proportionate Share of the Net OPEB Liability	<u>\$ 6,730,325</u>	<u>\$ 8,200,549</u>	<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>\$ 8,930,918</u>	<u>\$ 8,757,359</u>	<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 OPEB Liability as a Percentage of Its Covered Payroll	75.36%	93.64%	69.19%	71.27%	81.79%	63.79%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability - Non-Hazardous	62.91%	51.67%	60.44%	57.62%	52.39%	55.24%

* 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 OPEB CONTRIBUTIONS
 DECEMBER 31, 2021

County Employees Retirement System
 Last 10 Calendar Years*

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

* Only six 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, 2021**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues			
Water Sales	\$ 56,158,218	\$ 58,983,695	\$ 2,825,477
Forfeited Discounts	527,000	442,082	(84,918)
Rents From Property	380,300	383,269	2,969
Other Water Revenues	<u>232,240</u>	<u>266,276</u>	<u>34,036</u>
 Total Operating Revenues	 <u>57,297,758</u>	 <u>60,075,322</u>	 <u>2,777,564</u>
Operating Expenses			
Operation and Maintenance Expense	32,153,526	29,965,655	2,187,871
Depreciation Expense	<u>12,060,000</u>	<u>12,436,919</u>	<u>(376,919)</u>
 Total Operating Expenses	 <u>44,213,526</u>	 <u>42,402,574</u>	 <u>1,810,952</u>
 Net Operating Income	 <u>13,084,232</u>	 <u>17,672,748</u>	 <u>4,588,516</u>
Non-Operating Income (Expense)			
Investment Income	384,000	481,326	97,326
Miscellaneous Non-Operating Income	114,500	347,304	232,804
Loss on Abandonment of Mains	-	(289,089)	(289,089)
Interest on Long-Term Debt and Customer Deposits	(6,551,893)	(5,826,155)	725,738
Amortization of Debt Premiums and Defeasance Costs	-	989,953	989,953
Bond Issuance Costs	-	(181,821)	(181,821)
Pension Expense	-	(1,029,997)	(1,029,997)
Other Post Employment Benefit Expense	-	(267,744)	(267,744)
Arbitrage Rebate	-	53,883	53,883
Gain on Sale of Capital Assets	<u>-</u>	<u>25,977</u>	<u>25,977</u>
 Total Non-Operating Expense	 <u>(6,053,393)</u>	 <u>(5,696,363)</u>	 <u>357,030</u>
 Change in Net Position Before Capital Contributions	 7,030,839	 11,976,385	 4,945,546
 Capital Contributions	 <u>-</u>	 <u>2,911,181</u>	 <u>2,911,181</u>
 Change in Net Position	 <u>\$ 7,030,839</u>	 <u>\$ 14,887,566</u>	 <u>\$ 7,856,727</u>

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

	Years Ended December 31,	
	<u>2021</u>	<u>2020</u>
Operating Revenues		
Metered Sales		
Sales to Residential Customers	\$ 36,916,772	\$ 37,580,425
Sales to Commercial Customers	7,749,227	7,564,583
Sales to Industrial Customers	4,034,073	4,697,395
Sales to Public Authorities	2,243,348	2,152,780
Sales to Multiple Family Dwellings	5,907,716	5,830,240
Sales Through Bulk Loading Stations	<u>66,507</u>	<u>72,063</u>
Total Metered Sales	56,917,643	57,897,486
Fire Protection Revenue	43,306	44,657
Sales For Resale	<u>2,022,746</u>	<u>1,825,544</u>
Total Sales of Water	58,983,695	59,767,687
Other Revenue	<u>1,091,627</u>	<u>983,969</u>
Total Operating Revenues	<u><u>\$ 60,075,322</u></u>	<u><u>\$ 60,751,656</u></u>

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

	Years Ended December 31,	
	2021	2020
Operating and Maintenance Expenses		
Salaries and Wages	\$ 9,688,418	\$ 9,222,495
Employee Pensions and Benefits	5,762,134	5,326,550
Taxes Other Than Income Taxes	811,423	651,852
Purchased Power	2,774,426	2,585,613
Chemicals	2,819,594	2,573,311
Materials and Supplies	2,051,607	2,413,632
Contractual Services	3,961,276	3,998,476
Transportation Expenses	628,479	506,318
Insurance	675,350	719,772
Bad Debt Expense	382,985	355,158
Miscellaneous Expense	259,712	209,775
Regulatory Commission Assessment	150,251	143,597
	<hr/>	<hr/>
Total Operating and Maintenance Expenses	\$ 29,965,655	\$ 28,706,549

NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF INSURANCE COVERAGES
 December 31, 2021

Company	Policy Number	Description of Coverage	Amount of Coverage	Effective Period	
				From	To
Travelers Insurance	ZLP-14T80653	General Liability	\$ 1,000,000	1/1/2021	1/1/2022
Travelers Insurance	ZUP14T80665	Umbrella	\$ 19,000,000	1/1/2021	1/1/2022
Travelers Insurance	ZLP14T8065319	Public Officials	\$ 1,000,000	1/1/2021	1/1/2022
Travelers Insurance	H-810-6R989070	Business Auto	\$ 1,000,000	1/1/2021	1/1/2022
Travelers Insurance	H-630-6R989070	Property-Including Equipment	\$ 311,807,442	1/1/2021	1/1/2022
Travelers Insurance	H-630-6R989070	Employee Dishonesty	\$ 500,000	1/1/2021	1/1/2022
Travelers Insurance	H21NGP205822-00	Cyber Liability	\$ 2,000,000	1/1/2021	1/1/2022
Kentucky Employers Mutual Insurance	WC 338786	Worker's Compensation	\$ 1,000,000	7/1/2020	7/1/2021
Kentucky Employers Mutual Insurance	WC 338786	Worker's Compensation	\$ 1,000,000	7/1/2021	7/1/2022
Cincinnati Insurance	8877070	Fidelity Bond	Per Application	1/1/2021	12/31/2021
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, 2021**

RETAIL WATER RATES

1. Monthly Service Rate

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

Sub District B shall be assessed a monthly surcharge in the amount of	\$	12.07
Sub District C shall be assessed a monthly surcharge in the amount of	\$	10.71
Sub District D shall be assessed a monthly surcharge in the amount of	\$	28.96
Sub District E shall be assessed a monthly surcharge in the amount of	\$	29.83
Sub District F shall be assessed a monthly surcharge in the amount of	\$	14.88
Sub District G shall be assessed a monthly surcharge in the amount of	\$	19.85
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	\$	6.39
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	\$	18.75
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	\$	15.60

2. Quarterly Rates

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

3. Fixed Service Charge

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

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF RATES, RULES AND REGULATIONS
DECEMBER 31, 2021
(CONTINUED)**

WHOLESALE WATER RATES

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

MISCELLANEOUS SERVICE FEES

Service Area Non-Recurring Charges

Returned Check Charge	\$	20.00
Water Hauling Station	\$	6.38 / per 1,000 Gallons
Reconnection Fee	\$	25.00
Overtime Charge	\$	60.00

**NORTHERN KENTUCKY WATER DISTRICT
MEMBERS OF THE COMMISSION AND ADMINISTRATIVE STAFF
DECEMBER 31, 2021**

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

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

REQUIRED REGULATORY INFORMATION

**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, 2021 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 30, 2022.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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



Purpose of this Report

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

VonLehman & Company Inc.

Fort Wright, Kentucky
June 30, 2022



EXHIBIT D

KIA Loan F20-044 Conditional Commitment Letter



KENTUCKY INFRASTRUCTURE AUTHORITY

Andy Beshear
Governor

100 Airport Road
Frankfort, Kentucky 40601
(502) 573-0260
kia.ky.gov

Sandy Williams
Executive Director

July 28, 2022

Mrs. Lindsey Rechtin, CFO
Northern Kentucky Water District
P.O. Box 18640
Erlanger, KY 41018

KENTUCKY INFRASTRUCTURE AUTHORITY
FEDERALLY ASSISTED DRINKING WATER REVOLVING LOAN FUND
CONDITIONAL COMMITMENT LETTER (F20-044)
EXTENSION

Dear Mrs. Rechtin:

The Kentucky Infrastructure Authority ("the Authority") has approved an extension of the Drinking Water State Revolving Fund (DWSRF) loan F20-044 for the Taylor Mill Treatment Plant Emergency Generator Project. The Authority has extended the deadline for the District to meet the conditions set forth in the conditional commitment letter for a period of six (6) months. The original expiration date was May 8, 2021. One extension was granted with the expiration of November 8, 2021. Another one was granted with a deadline of May 8, 2022. The new expiration date will be November 8, 2022. If the project does not meet the conditions by the new expiration date, the commitment may be rescinded.

All original terms and conditions from the commitment letter dated May 8, 2020, shall remain in effect.

Please inform the Authority of any changes in your financing plan as soon as possible. We wish you every success for this project to benefit both your community and the Commonwealth.

Sincerely,

Milward Dedman

Milward Dedman
Deputy Executive Director



An Equal Opportunity Employer M/F/D

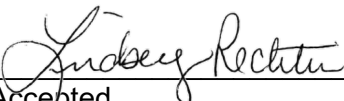
Commitment Letter Extension

NKWD

July 28, 2022

Page 2

Please sign and return a copy of this letter indicating your acceptance of this commitment letter extension and its terms.


Accepted _____

7/29/22
Date _____



KENTUCKY INFRASTRUCTURE AUTHORITY

Andy Beshear
Governor

100 Airport Road
Frankfort, Kentucky 40601
(502) 573-0260
(502) 696-0676 (fax)
kia.ky.gov

Edith Halbleib
Executive Director

May 8, 2020

The Honorable Lindsey Rehtin, CFO
Northern Kentucky Water District
PO Box 18640
Erlanger, KY 41018

KENTUCKY INFRASTRUCTURE AUTHORITY FEDERALLY ASSISTED DRINKING WATER REVOLVING LOAN FUND CONDITIONAL COMMITMENT LETTER (F20-044)

Dear Ms Rehtin:

The Kentucky Infrastructure Authority (“the Authority”) commends your efforts to improve public service facilities in your community. On May 7, 2020, the Authority approved your loan for the Taylor Mill Treatment Plant Emergency Generator project subject to the conditions stated in Attachment A to this letter. The total cost of the project shall not exceed \$10,050,000 without prior authorization of the Authority, of which the Authority loan shall provide 8,000,000 of the funding. The final loan amount will be equal to the Authority’s portion of estimated project cost applied to the actual project cost. Attachment B incorporated herein by reference fully describes the project.

An Assistance Agreement will be executed between the Authority and “the Northern Kentucky Water District” upon satisfactory performance of the conditions set forth in Attachment A. You must meet the conditions set forth in Attachment A and enter into an Assistance Agreement by May 8, 2021 (twelve months from the date of this letter). A one-time extension of up to six months may be granted for applicants that experience extenuating circumstances. Funds will be available for disbursement only after execution of the Assistance Agreement.

Ms Rehtin
May 8, 2020
Page 2

Please inform the Authority of any changes in your financing plan as soon as possible. We wish you every success for this project which will benefit both your community and the Commonwealth as a whole.

Sincerely,



Linda Bridwell, PE
Deputy Executive Director
Kentucky Infrastructure Authority

Attachments

cc: Amy Kramer, Northern Kentucky Water District

Please sign and return a copy of this letter indicating your acceptance of this commitment and its terms along with the completed "Transparency Act Reporting Information Form". Complete the attached "Authorization for Electronic Deposit of Vendor Payment Form" and the "ACH Debit Authorization Form" **and return to the US Bank address at the bottom of each form**. Also included are the "Legal Counsel Certification Letter" sample and the "Statement of Approval of Projections of Revenue and Expenses" for you to complete at the appropriate time.

We have attached an SRF loan checklist to use as a guide.

Accepted

Date

The Assistance Agreement and this commitment shall be subject, but not limited to, the following terms:

1. The Authority project loan shall not exceed \$8,000,000 without prior authorization.
2. This loan does not qualify for principal forgiveness.
3. The loan shall bear interest at the rate of 1.5 % per annum commencing with the first draw of funds.
4. Interest shall be payable on the amount of actual funds received. The first payment shall be due on June 1, or December 1, immediately succeeding the date of the initial draw of funds, provided that if such June 1, or December 1, shall be less than three months since the date of the initial draw of funds, then the first interest payment date shall be the June 1, or December 1, which is at least six months from the date of the initial draw of funds. Interest payments will be due each six months thereafter until the loan is repaid. KIA requires the use of Automated Clearing House (ACH) debits for payment of all balances due on the loan. This will ensure that payments are credited timely to your account without the risk of incurring late payment fees. If the due date falls on a weekend or holiday your account will be debited on the next business day. Please complete and return the attached authorization form to U.S. Bank for processing.
5. Full principal payments will commence on the appropriate June 1, or December 1, within twelve months from initiation of operation. Full payments will be due each six months thereafter until the loan is repaid.
6. The loan shall be repaid over a period not to exceed 20 years from the date of initiation of operation for the project.
7. A loan servicing fee of 0.25% of the outstanding loan balance shall be payable to the Authority as a part of each interest payment.
8. Loan funds will only be disbursed after execution of the Assistance Agreement as project costs are incurred.
9. The Authority loan funds must be expended within six months of the official date of initiation of operation.
10. Fund "F" loan funds may be considered to be federal funds. OMB Circular

A-133, "Audits of States, Local Governments and Non-Profit Organizations, requires that all recipients and sub-recipients **expending \$750,000 or more in a year in federal awards must have a single or program-specific audit conducted for that year** in accordance with the Circular. If the federal amount expended plus all other federal funds expended exceeds the threshold, you are required to arrange for an A-133 audit to be performed by an independent, licensed CPA, or in special cases, the Auditor of Public Accounts of the Commonwealth of Kentucky. Please note that the guidance for single audit requirements has changed for fiscal or calendar year 2016 audits. Please consult with your independent auditor as soon as possible to understand how the changes will affect you.

11. The Authority requires that an annual financial audit be provided for the life of the loan.
12. The final Assistance Agreement must be approved by ordinance or resolution, as applicable, of the city council or appropriate governing board.
13. The Borrower must maintain a 1.1 debt coverage ratio throughout the life of the KIA loan. All borrowers are subject to at least an annual financial review for compliance.

The following is a list of the standard conditions to be satisfied prior to execution of the Assistance Agreement or incorporated in the Assistance Agreement. Any required documentation must be submitted to the party designated.

1. The Authority to Award (bid) package must be submitted to the Division of Water for approval within 14 days of bid opening.
2. The Assistance Agreement must be executed within six (6) months from bid opening.
3. Documentation of final funding commitments from all parties other than the Authority as reflected in the credit analysis shall be provided prior to preparation of the Assistance Agreement and disbursement of the loan monies. Rejections of any anticipated project funding shall be immediately reported and may cause this loan to be subject to further consideration.
4. The loan must undergo review by the Capital Projects and Bond Oversight Committee of the Kentucky Legislature prior to the State's execution of the Assistance Agreement. The committee meets monthly on the third Tuesday. Any special conditions listed in Attachment B must be satisfied

before the project is presented before the Committee.

5. Any required adjustment in utility service rates shall be adopted by ordinance, municipal order or resolution by the appropriate governing body of the Borrower. Public hearings as required by law shall be held prior to the adoption of the service rate ordinance, order, or resolution. Any required approvals by the Kentucky Public Service Commission shall be obtained.
6. The Borrower must complete and return the attached "Authorization for Electronic Deposit of Vendor Payment" form to U.S. Bank.
7. The Borrower must provide documentation of Eclearinghouse Endorsement and Eclearinghouse Comments.
8. Prior to the project bid, an environmental review shall be conducted by the Division of Water for all construction projects receiving State Revolving Funds ("SRF") money.
9. Technical plans and specifications and a complete SRF specifications checklist shall be approved by the Division of Water prior to project bid.
10. All easements or purchases of land shall be completed prior to commencement of construction. Clear Site Certification of all land or easement acquisitions shall be provided to the Division of Water. DOW representatives shall be notified for attendance of the pre-construction conference.
11. Project changes or additions deviating from the original scope of work described in the Project Profile may require a new or amended environmental review and change order review before they can be included in the SRF loan project.
12. The Borrower must provide certification from their legal counsel stating that they have prepared construction specifications in accordance with all applicable state or federal wage rate laws, and that the procurement procedures, including those for construction, land, equipment and professional services that are a part of the project, are in compliance with applicable federal, state and local procurement laws.
13. The Borrower shall implement the Kentucky Uniform System of Accounting (KUSoA), or an alternative approved by the Authority and assure that rates

and charges for services are based upon the cost of providing such service.

14. The Borrower shall comply with all Davis Bacon related monitoring and reporting and require all contractors to pay wages pursuant to applicable prevailing wage rates for all work relating to the subject Project.
15. The project shall comply with the reporting requirements of the Transparency Act, and shall complete the attached Transparency Act Reporting Information Form and provide to the Authority no later than 30 days after the KIA Board approval date of your loan.
16. Based on the final "as-bid" project budget, the Borrower must provide satisfactory proof, based on then existing conditions, that the revenue projections in the attached descriptions are still obtainable and that the projections of operating expenses have not materially changed. The "as bid" project budget shall be reviewed and approved by the consulting engineer.
17. The project shall comply with American Iron and Steel requirements of The Consolidated Appropriations Act of 2014 (H.R. 3547), which became effective January 17, 2014, unless engineering plans and specifications were approved by the Division of Water prior to the effective date.

Any special conditions stated in Attachment B must be resolved.

SRF LOAN CONDITIONS CHECKLIST

Congratulations on receiving a conditional commitment of funding from the State Revolving Fund (SRF) Program. Borrowers will now be assigned a Compliance Analyst to help guide them through the rest of the loan process based on which Area Development District (ADD) they are located. Please submit all documents to one of the following contacts:

- Julie Bickers (Julie.Bickers@ky.gov, 502-892-3455): Purchase, Pennyriple, Green River, Barren River, Lake Cumberland.
- Debbie Landrum (Debbie.Landrum@ky.gov, 502-892-3454): Lincoln Trail, KIPDA, Northern KY, Bluegrass.
- Sarah Parsley (Sarah.Parsley@ky.gov, 502-892-3177): Buffalo Trace, Gateway, FIVCO, Big Sandy, KY River, Cumberland Valley

After all of the conditions of the Conditional Commitment Letter have been fulfilled, KIA will initiate the Assistance Agreement with the borrower. The Assistance Agreement must be fully executed before any funds may be disbursed. The following is a list of items needed to process your loan (forms can be found here <https://kia.ky.gov/FinancialAssistance/Pages/Forms.aspx>):

Before bid opening, submit the following items to the designated Compliance Analyst/DOW Contact:

Submit To:		
KIA	<input type="checkbox"/>	Conditional Commitment Letter (this letter is sent to the borrower via email shortly following KIA board approval and is to be signed by the authorizing official);
USBANK	<input type="checkbox"/>	Authorization for Electronic Deposit/Debit of Borrower Disbursements/ Payment (these forms are attached to the loan commitment letter sent after KIA board approval and are to be signed by the authorizing official and forwarded directly to US Bank)
KIA	<input type="checkbox"/>	Transparency Form (this form is attached to the loan commitment letter sent after KIA board approval)
DOW	<input type="checkbox"/>	Fiscal Sustainability Plan Certification and Cost and Effectiveness Certification (required for "A" loans only, prior to plans approval)
DOW	<input type="checkbox"/>	Environmental review (Kentucky Division of Water will review and is required prior to plans approval. KIA will need copy of approval letter)
DOW	<input type="checkbox"/>	Plans and specifications (Kentucky Division of Water will review and KIA will need copy of approval letter)
KIA	<input type="checkbox"/>	Proof of compliance with any special condition identified in the Conditional Commitment Letter (e.g. adopted ordinance)

After the project has opened bids, please submit the following items to the designated Compliance Analyst/DOW Contact. It is imperative that the remaining standard conditions are fulfilled by the deadlines set forth in the Conditional Commitment Letter.

Submit To:		
DOW	<input type="checkbox"/>	Authority to Award (ATA) Package , the Kentucky Division of Water will review and forward approval to KIA.
DOW	<input type="checkbox"/>	Davis-Bacon prevailing wage rates , the Kentucky Division of Water will review and forward approval to KIA.
KIA	<input type="checkbox"/>	Procurement and Wage Certification (KIA sends to borrower after bid opening.)
KIA	<input type="checkbox"/>	Certification of obtainable revenue projections (KIA sends to borrower after bid opening.)
DOW	<input type="checkbox"/>	Certification of clear site (DOW will forward to KIA.)
	<input type="checkbox"/>	Plans and specifications approval from the Kentucky Division of Water (DOW will send approval to KIA.)
KIA	<input type="checkbox"/>	Public Service Commission (PSC) approval , (CPCN and Authorization to Incur Debt) if applicable.

**AUTHORIZATION FOR ELECTRONIC DEPOSIT
OF BORROWER PAYMENT
KENTUCKY INFRASTRUCTURE AUTHORITY
(FUND F20-044)**

Borrower Information:

Name: _____

Address: _____

City: _____ State: KY Zip: _____

Federal I.D. # _____

Contact Name: _____ Telephone: _____

Email: _____

Financial Institution Information:

Bank Name: _____

Branch: _____ Phone No: _____

City: _____ State: ____ Zip: _____

Transit / ABA No.: _____

Account Name: _____

Account Number: _____

I, the undersigned, authorize payments directly to the account indicated above and to correct any errors which may occur from the transactions. I also authorize the Financial Institution to post these transactions to that account.

Signature: _____ Date: _____

Name Printed: _____ Job Title: _____

Please return completed form to:

**U.S. Bank
Attention: Corporate Trust Administration
One Financial Square
Mail Code: CN-KY-0850
Louisville, KY 40202**

KIA Loan # _____

**ACH DEBIT AUTHORIZATION FORM
AUTHORIZATION AGREEMENT FOR PRE-ARRANGED PAYMENTS
(DEBITS)**

The undersigned hereby authorizes U.S. Bank National Association Corporate Trust Department ("U.S. Bank") to initiate debit entries to the account indicated below at the bank named below:

CHECKING: SAVINGS:
BANK NAME: _____ BRANCH: _____
CITY: _____ STATE: _____ ZIP CODE: _____
BANK TRANSIT/ABA #: _____ ACCOUNT #: _____

This authority is to remain in full force and effect until U.S. Bank has received written notification from the undersigned of its termination in such time and in such manner as to afford U.S. Bank a reasonable opportunity to act. The undersigned has the right to stop payment of a debit entry by reasonable prior written notification to U.S. Bank. After the above account has been charged, the undersigned has the right to have the amount of any erroneous debit immediately credited to its account by U.S. Bank up to 30 days following issuance of a statement.

NAME OF ENTITY: _____
ADDRESS: _____

TAX IDENTIFICATION NUMBER: _____

By: _____ Date: _____
Authorized Signer

Send to: U.S. Bank
Attention: Corporate Trust Administration
One Financial Square
Mail Code: CN-KY-0850
Louisville, KY 40202

**TRANSPARENCY ACT REPORTING INFORMATION FORM
CLEAN WATER STATE REVOLVING FUND
AND
DRINKING WATER STATE REVOLVING FUND**

This form is required for projects funded in whole or in part from the Clean Water State Revolving Fund or the Drinking Water State Revolving Fund. This form is to be completed and returned with the signed Conditional Commitment Letter from the Kentucky Infrastructure Authority.

Borrower Information:

Name:	
Data Universal Numbering system (DUNS) No.*:	
KIA Loan Number:	
Street Address	
City, State and Zip (Zip must include 4 digit extension)	
Federal Congressional District(s) of Borrower Utility Service Area:	

*If the DUNS No. provided above is registered under a different name than the recipient of funding, please provide the registration name below:

DUNS Name	
-----------	--

*If the recipient has not yet obtained a DUNS Number, please do so no later than 30 days after the KIA Board approval date of your loan request and provide notification to KIA of the number once issued. For instructions on DUNS registration, please contact jeff.abshire@ky.gov.

Physical Location of Project (Primary Place of Performance)

Street Address	
City, State and Zip (Zip must include 4 digit extension)	
Federal Congressional District(s) of Project Location	

Reliance upon Federal Assistance (please answer the below questions Yes or No):

Did recipient receive 80% or more of its annual gross revenues from Federal procurement contracts (and subcontracts) and Federal financial assistance subject to the Transparency Act, as defined at 2 CFR 170.320 (and subawards) during the last fiscal year?	
Did recipient receive \$25 million or more in annual gross revenues from Federal procurement contracts (and subcontracts) and Federal financial assistance subject to the Transparency Act, as defined at 2 CFR 170.320 (and subawards) during the last fiscal year?	
Does the public have access to compensation of senior executives of the recipient through periodic reports filed under Section 13A or 15D of the Securities Exchange Act of 1934 or Section 6104 of the Internal Revenue Code of 1986?	

DUNS Registration Information: <http://fedgov.dnb.com/webform> OR 1-866-705-5711

Registration can be completed over the phone or via the web. Phone registration requests take approximately 10 minutes and are free. Internet requests are fulfilled within 24 hours.

SAMPLE LETTER

[Letterhead of Counsel for Water Utility]

[Date]

Kentucky Infrastructure Authority
100 Airport Road
Frankfort, Kentucky 40601

RE: SRF Loan#
 City of xxxxx

Ladies and Gentlemen:

The undersigned is an attorney at law duly admitted to the practice of law in the Commonwealth of Kentucky and is legal counsel to the XXXXXXXXXXXXX, hereinafter referred to as the "Water Utility ". I am familiar with the organization and existence of the Water Utility and the laws of the Commonwealth applicable thereto. Additionally I am familiar with the water project (the "Project") with respect to which the funding commitment by and between the Kentucky Infrastructure Authority ("Authority") and the Water Utility.

I have reviewed the commitment letter by and between the Authority and the Water Utility and the documentation regarding wage rates and procurement with respect to the Project.

Based upon my review I am of the opinion that:

The Water Utility has prepared construction specifications in accordance with all applicable federal wage rate laws and that the procurement procedures including those for construction, land, equipment and professional services that are a part of the project are in compliance with all applicable federal, state and local procurement laws.

Respectfully,

**STATEMENT OF APPROVAL
OF PROJECTIONS OF REVENUE AND EXPENSES**

Borrower Name: _____

Loan No.: _____

I hereby certify that the revenue projections in the attached descriptions are still obtainable and that projections of operating expenses have not materially changed based on the "as-bid" budget submitted for the Project.

Signed: _____

Borrower

Date

ATTACHMENT B

**Northern Kentucky Water District
F20-044**

EXECUTIVE SUMMARY		Reviewer	Ashley Adams	
KENTUCKY INFRASTRUCTURE AUTHORITY		Date	May 7, 2020	
FUND F, FEDERALLY ASSISTED DRINKING WATER		KIA Loan Number	F20-044	
REVOLVING LOAN FUND		WRIS Number	WX21117210	
BORROWER	NORTHERN KENTUCKY WATER DISTRICT KENTON COUNTY			
BRIEF DESCRIPTION				
This project includes two new generators for providing backup electrical power supply to the Taylor Mill Treatment Plant and pumping station during emergencies. The project will also replace treatment process equipment in two basins at the Fort Thomas Treatment Plant that has reached the end of its useful life as well as repair the concrete walls of the basin.				
PROJECT FINANCING		PROJECT BUDGET		
Fund F Loan	\$8,000,000	RD Fee %	Actual %	
Local Funds	2,050,000	Administrative Expenses		\$2,000
		Eng - Design / Const		265,000
		Eng - Insp		75,000
		Construction		8,908,000
		Contingency		800,000
TOTAL	\$10,050,000	TOTAL		\$10,050,000
REPAYMENT	Rate	1.50%	Est. Annual Payment	\$484,482
	Term	20 Years	1st Payment	6 Mo. after first draw
PROFESSIONAL SERVICES	Engineer	N/A		
	Bond Counsel	Rubin & Hays		
PROJECT SCHEDULE	Bid Opening	May-20		
	Construction Start	Aug-20		
	Construction Stop	Sep-22		
DEBT PER CUSTOMER	Existing	\$2,694		
	Proposed	\$1,932		
OTHER DEBT	See Attached			
OTHER STATE-FUNDED PROJECTS LAST 5 YRS	See Attached			
RESIDENTIAL RATES		<u>Users</u>	<u>Avg. Bill</u>	
	Current	80,986	\$36.86	(for 4,000 gallons)
	Additional	0	\$36.86	(for 4,000 gallons)
REGIONAL COORDINATION	This project is consistent with regional planning recommendations.			
CASHFLOW	Cash Flow Before Debt Service	Debt Service	Cash Flow After Debt Service	Coverage Ratio
Audited 2016	29,304,645	19,873,250	9,431,395	1.5
Audited 2017	30,916,136	20,084,194	10,831,942	1.5
Audited 2018	31,319,348	24,325,370	6,993,978	1.3
Projected 2019	32,887,365	20,812,692	12,074,673	1.6
Projected 2020	35,375,823	20,851,550	14,524,273	1.7
Projected 2021	35,639,490	19,555,394	16,084,096	1.8
Projected 2022	35,084,922	19,806,891	15,278,031	1.8
Projected 2023	34,519,263	20,046,964	14,472,299	1.7

Reviewer: Ashley Adams
Date: May 7, 2020
Loan Number: F20-044

**KENTUCKY INFRASTRUCTURE AUTHORITY
DRINKING WATER STATE REVOLVING FUND (FUND F)
NORTHERN KENTUCKY WATER DISTRICT, KENTON COUNTY
PROJECT REVIEW
WX21117210**

I. PROJECT DESCRIPTION

The Northern Kentucky Water District is requesting a Fund F loan in the amount of \$8,000,000 for the Taylor Mill Treatment Plant Emergency Generator/Fort Thomas Treatment Plant Phase 2 Basin Improvements project. The purpose of this project is to improve water quality and service reliability for customers. This project will include improvements to both the Taylor Mill Treatment Plant and the Fort Thomas Treatment Plant.

The Taylor Mill Treatment Plant was built in the 1950s and is capable of treating up to 10 MGD. Additionally, this plant houses a critical pump station, which transmits water from both the Fort Thomas and Taylor Mill Treatment Plants to about 60% of Kenton County. The pump station and a majority of the plant are fed from a Duke Energy transmission line. In the event of power outage or critical substation/transformer failure, the District would lose the ability to supply water to a majority of Kenton County. This is significant water quality and public health concern. With the proposed standby power project, the plan is to install a generator, switch gear, and new substation. These improvements will be capable of powering the existing treatment plant and one of the larger pumps or potentially two of the smaller pumps within the pump station. This will allow improved system reliability without creating potential water quality concerns.

The preliminary treatment facilities at the Fort Thomas Treatment Plant (FTTP) consists of four uncovered concrete basins. Basins #2 and #3 were constructed in 1936 and underwent extensive rehabilitation in 2015. The current project will address Basins #1 and #4 which were built in 1987 and 1992 respectively. These basins are beginning to show signs of concrete deterioration and the process equipment is worn out requiring frequent repair. To extend the life of these 2 basins, improvements will include concrete repair, reconfiguration of the flocculation process and mixing basins, and replacement of influent/effluent valves and sludge collection equipment. In addition to this work, the existing tube settlers in all 4 basins will be replaced with new plate settlers and the chemical feed manifold piping within the sodium hypochlorite building will be replaced. This will improve water quality and treatment efficiency.

The District serves over 80,000 customers in Kenton, Campbell, and a portion of Boone counties and it is a PSC regulated entity. It is a wholesale water provider to Bullock Pen Water District, Pendleton County Water District #1 North, and Walton Waterworks Department.

II. PROJECT BUDGET

	<u>Total</u>	
Administrative Expenses	\$	2,000
Engineering Fees - Design		190,000
Engineering Fees - Construction		75,000
Engineering Fees - Inspection		75,000
Construction		8,908,000
Contingency		800,000
Total	\$	10,050,000

III. PROJECT FUNDING

	<u>Amount</u>		<u>%</u>
Fund F Loan	\$	8,000,000	80%
Local Funds		2,050,000	20%
Total	\$	10,050,000	100%

IV. KIA DEBT SERVICE

Construction Loan	\$	8,000,000
Less: Principal Forgiveness		0
Amortized Loan Amount	\$	8,000,000
Interest Rate		1.50%
Loan Term (Years)		20
Estimated Annual Debt Service	\$	464,482
Administrative Fee (0.25%)		20,000
Total Estimated Annual Debt Service	\$	484,482

V. PROJECT SCHEDULE

Bid Opening	May 2020
Construction Start	August 2020
Construction Stop	September 2022

VI. CUSTOMER COMPOSITION AND RATE STRUCTURE

A) Customers

	<u>Current</u>
Residential	76,378
Commercial	4,499
Industrial	109
Total	80,986

B) Rates

	Proposed	Current	Prior
Date of Last Rate Increase	03/26/20	03/26/19	01/15/17
Monthly Service Charge	\$ 18.50	\$ 17.50	\$ 16.40
Quarterly Service Charge	40.50	36.65	32.80
First 1,500 CF (Per 100 CF)	4.77	4.65	4.53
Next 163,500 CF (Per 100 CF)	4.44	4.19	3.94
Cost for 4,000 gallons (monthly)	\$ 38.78	\$ 36.86	\$ 34.94
Cost for 4,000 gallons (quarterly)	\$ 116.34	\$ 110.59	\$ 104.83
Increase %	5.2%	5.5%	
Affordability Index (Rate/MHI)	0.8%	0.8%	

VII. DEMOGRAPHICS

Based on current Census data from the American Community Survey 5-Year Estimate 2013-2017, the Utility's service area population was 242,910 with a Median Household Income (MHI) of \$54,429. The median household income for the Commonwealth is \$48,392. The project will qualify for a 1.5% interest rate because it is a regional provider.

Year	Population		County Unemployment	
	County	% Change	Date	Rate
1980	137,058		June 2005	5.4%
1990	142,031	3.6%	June 2010	9.6%
2000	151,464	6.6%	June 2015	4.6%
2010	159,720	5.5%	June 2019	4.0%
Current	163,987	2.7%		
Cumulative %		19.6%		

VIII. 2019 CAPITALIZATION GRANT EQUIVALENCIES

- 1) Green Project Reserve - The Drinking Water capitalization grant does not contain a "green" requirement.
- 2) Additional Subsidization – This project does not qualify for additional subsidization.

IX. FINANCIAL ANALYSIS

Financial information was obtained from the audited financial statements for the years ended December 30, 2016 through December 30, 2018. The non-cash impact of GASB 68, Accounting and Financial Reporting for Pensions, has been removed from fiscal 2016-2018 operating expenses and GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, has been removed from 2018 operating expenses. Percentage references in the History section below are based on whole dollar amounts and not the rounded amounts presented.

HISTORY

Revenues have increased 5.2% from \$52.6 million in 2016 to \$55.3 million in 2018. Revenue increases can be attributed to both rate increases and increased water sales during the observed time period. Operating expenses have increased 7.7% from \$24.2 million to \$26.1 million during the same time period. Expense increases are a result of increased cost for both materials and services needed for the efficient operation of the District. The debt coverage ratio averaged 1.4 from 2016-2018 with a slight dip in 2018 as the District paid off two KIA loans (F06-03 and C08-01). The 2018 debt service coverage was adjusted due to inflated principal payments recorded in the cash flows for the 2017 Bond Anticipation Note in order to reflect a more accurate number.

The 2018 balance sheet reflects a current ratio of 1.4, a debt to equity ratio of 1.3, and 13.1 months operating expenses in unrestricted cash. Days sales in accounts receivable is 76.7 as the District does 80-90% of their billing on a quarterly basis as a savings measure.

PROJECTIONS

Projections are based on the following assumptions:

- 1) Revenues will increase approximately 5.2% in 2019 and 5.5% in 2020 as a result of previously approved rate increases through the PSC.
- 2) Expenses will increase 2% yearly for inflation.
- 3) Debt service coverage is 1.7 in 2023 when full principal and interest repayments begin.

Based on the pro forma assumptions, the utility shows adequate cash flow to repay the KIA Fund F loan.

REPLACEMENT RESERVE

The replacement reserve will be 5% (\$400,000 total) of the final amount borrowed to be funded annually (\$20,000 yearly) each December 1 for 20 years and maintained for the life of the loan.

X. DEBT OBLIGATIONS

	Outstanding	Maturity
Revenue Bonds Series 2011	\$ 24,505,000	2035
Revenue Bonds Series 2012	41,475,000	2027
Revenue Bonds Series 2013A	23,160,000	2038
Revenue Bonds Series 2013B	15,365,000	2028
Revenue Bonds Series 2014B	8,135,000	2029
Revenue Bonds Series 2016A	37,540,000	2031
RD Loan 91-02	1,741,000	2039
RD Loan 91-03	1,733,000	2057
BAN Series 2017 (i/a/o \$26m)	17,325,000	TBD
KIA Loan F06-03 (paid off)	0	2018
KIA Loan C08-01 (paid off)	0	2018
KIA Loan F08-07	2,882,619	2032
KIA Loan F09-02	18,321,443	TBD
KIA Loan F13-012 (i/a/o \$8m)	4,523,000	TBD
KIA Loan F14-015 (i/a/o \$4m)	3,471,489	2038
KIA Loan F15-011	3,460,901	2038
KIA Loan B15-003	1,328,896	2037
City of Taylor Mill, KY	0	2018
Kenton County Fiscal Court	100,000	TBD
Bond Premiums	8,118,162	
Total	\$ 213,185,510	

XI. CONTACTS

Legal Applicant	
Entity Name	Northern Kentucky Water District
Authorized Official	Lindsey Rechtin (CFO)
County	Kenton
Email	lrechtin@nkywater.org
Phone	859-426-2758
Address	PO Box 18640 Erlanger, KY 41018

Project Administrator

Name	Amy Kramer
Organization	Northern Kentucky Water District
Email	akramer@nkywater.org
Phone	859-426-2734
Address	PO Box 18640 Erlanger, KY 41018

XII. RECOMMENDATIONS

KIA staff recommends approval of the loan with the standard conditions and the following special conditions as a PSC regulated borrower:

- 1) The District will need to apply to the Public Service Commission (PSC), pursuant to KRS 278.300, for debt authorization for the \$8,000,000 million loan. This debt authorization application should include a forecast for meeting debt service projected through no less than 2025.
- 2) Prior to the assistance agreement being executed, the District must receive a Certificate of Public Convenience and Necessity, pursuant to KRS 278.020, from the PSC for any portion of the project that may require it, or provide an opinion from legal counsel or the staff of the PSC, or a declaratory order from the PSC, that a CPCN is not required for any portion of the assets to be constructed as part of the loan agreement.

**NORTHERN KENTUCKY WATER DISTRICT
FINANCIAL SUMMARY (DECEMBER YEAR END)**

	<u>Audited</u> <u>2016</u>	<u>Audited</u> <u>2017</u>	<u>Audited</u> <u>2018</u>	<u>Projected</u> <u>2019</u>	<u>Projected</u> <u>2020</u>	<u>Projected</u> <u>2021</u>	<u>Projected</u> <u>2022</u>	<u>Projected</u> <u>2023</u>
Balance Sheet								
Assets								
Current Assets	35,487,870	43,951,684	45,915,129	48,769,264	52,308,818	55,695,237	58,750,844	61,645,303
Other Assets	399,032,235	423,574,202	407,191,337	395,016,982	394,546,441	400,348,758	405,254,972	404,491,602
Total	<u>434,520,105</u>	<u>467,525,886</u>	<u>453,106,466</u>	<u>443,786,246</u>	<u>446,855,259</u>	<u>456,043,995</u>	<u>464,005,816</u>	<u>466,136,905</u>
Liabilities & Equity								
Current Liabilities	15,245,926	15,690,622	32,611,969	15,216,727	15,839,947	15,128,653	15,960,073	16,802,974
Long Term Liabilities	236,462,599	263,757,630	220,953,441	179,756,117	165,678,335	157,356,647	148,223,739	133,243,530
Total Liabilities	<u>251,708,525</u>	<u>279,448,252</u>	<u>253,565,410</u>	<u>194,972,844</u>	<u>181,518,282</u>	<u>172,485,300</u>	<u>164,183,812</u>	<u>150,046,504</u>
Net Assets	<u>182,811,580</u>	<u>188,077,634</u>	<u>199,541,056</u>	<u>248,813,402</u>	<u>265,336,977</u>	<u>283,558,695</u>	<u>299,822,004</u>	<u>316,090,401</u>
Cash Flow								
Revenues	52,613,882	54,085,214	55,326,622	57,417,221	60,438,712	61,246,073	61,246,073	61,246,073
Operating Expenses	24,250,515	24,461,156	26,129,086	26,651,668	27,184,701	27,728,395	28,282,963	28,848,622
Other Income	941,278	1,292,078	2,121,812	2,121,812	2,121,812	2,121,812	2,121,812	2,121,812
Cash Flow Before Debt Service	<u>29,304,645</u>	<u>30,916,136</u>	<u>31,319,348</u>	<u>32,887,365</u>	<u>35,375,823</u>	<u>35,639,490</u>	<u>35,084,922</u>	<u>34,519,263</u>
Debt Service								
Existing Debt Service	19,873,250	20,084,194	24,325,370	20,812,692	20,851,550	19,555,394	19,564,650	19,562,482
Proposed KIA Loan	0	0	0	0	0	0	242,241	484,482
Total Debt Service	<u>19,873,250</u>	<u>20,084,194</u>	<u>24,325,370</u>	<u>20,812,692</u>	<u>20,851,550</u>	<u>19,555,394</u>	<u>19,806,891</u>	<u>20,046,964</u>
Cash Flow After Debt Service	<u>9,431,395</u>	<u>10,831,942</u>	<u>6,993,978</u>	<u>12,074,673</u>	<u>14,524,273</u>	<u>16,084,096</u>	<u>15,278,031</u>	<u>14,472,299</u>
Ratios								
Current Ratio	2.3	2.8	1.4	3.2	3.3	3.7	3.7	3.7
Debt to Equity	1.4	1.5	1.3	0.8	0.7	0.6	0.5	0.5
Days Sales in Accounts Receivable	79.7	81.1	76.7	76.7	76.7	76.7	76.7	76.7
Months Operating Expenses in Unrestricted Cash	9.0	12.5	13.1	13.9	14.9	16.0	17.0	17.9
Debt Coverage Ratio	1.5	1.5	1.3	1.6	1.7	1.8	1.8	1.7



EXHIBIT E

Notice to State Debt Officer



September 22, 2022

Commissioner and State Local Debt Officer
1024 Capital Center Drive, Suite 340
Frankfort, Kentucky 40601

Re: Northern Kentucky Water District, PSC Case No. 2022-00319
Notice of Intent to Issue Securities

Dear Mr. Keene:

Pursuant to the regulations of the Kentucky Public Service Commission, specifically 807 KAR 5:001: Section 18(1)(g), please be advised that the Northern Kentucky Water District (the "District") hereby notifies the State Local Debt Officer that the District intends on issuing securities in the form of a Kentucky Infrastructure Authority Loan, KIA Loan No. F20-044 in the amount of \$8,000,000.

We will file the appropriate documents with your office in accordance with the requirements of KRS 65.117 once the securities are issued.

Very truly yours,

The Northern Kentucky Water District

A handwritten signature in black ink that reads "Stacey Kampsen".

By: Stacey Kampsen
Acting VP of Finance and Support Services



EXHIBIT F

Affidavit

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF NORTHERN) CASE NO. 2022-00319
KENTUCKY WATER DISTRICT FOR APPROVAL)
TO ISSUE EVIDENCE OF INDEBTEDNESS)

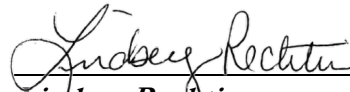
AFFIDAVIT

Comes now the affiant, LINDSEY RECHTIN, after first being duly sworn and cautioned, states as follows:

1. That she is the President/CEO of the Northern Kentucky Water District;
2. That she is authorized to submit this Petition on behalf of the Northern Kentucky Water District;
3. That the information contained in the Petition and its Exhibits are true and correct to the best of her knowledge and belief except as to those matters that are based on information provided to her and as to those she believes to be true and correct.


Further Affiant sayeth naught.

9/26/2022
Date


Lindsey Rechten

COMMONWEALTH OF KENTUCKY :
: SS
COUNTY OF KENTON :

The foregoing instrument was subscribed and sworn before me by Lindsey Rechten this 26th day of September 2022.


Notary Public, Kentucky at Large
Notary ID Number: KYNP17828
My Commission Expires: December 21, 2024