NORTHERN KENTUCKY WATER DISTRICT

December 31, 2016

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT INCLUDING SUPPLEMENTARY INFORMATION

NORTHERN KENTUCKY WATER DISTRICT
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VonLehman
CPA & ADVISORY FIRM

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Northern Kentucky Water District
Erlanger, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Northern Kentucky Water District (the District) as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Northern Kentucky Water District as of December 31, 2016 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the notes to the financial statements, the previously issued financial statements for the years ended December 31, 2015 have been restated for the correction of a material misstatement. Our opinion is not modified with respect to that matter.

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Prior Year Financial Statements

The financial statements of the Northern Kentucky Water District as of December 31, 2015, were audited by other auditors whose report dated April 21, 2016, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability, and schedule of the District's contributions on pages 1 – 5, and 34 - 36, respectively be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 22, 2017, on our consideration of the Northern Kentucky Water District 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Northern Kentucky Water District's internal control over financial reporting and compliance.

VonLehman & Company Inc.

Fort Wright, Kentucky
June 22, 2017

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, 2016. 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 $182,811,580 (net position). This was an increase of $10,853,712 in comparison to the prior year.

- Operating revenues increased $2,058,553 or 4.1% from 2015.

- The debt coverage ratio increased from 1.39 in 2015 to 1.71 in 2016.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the District as prescribed by Governmental Accounting Standards. The District's basic financial statements include the statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows and the notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

Basis of Accounting

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

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position

In the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position, we report the District's activities:

- The District charges rates on water consumption to customers to help it cover all or most of the cost of certain services it provides.

Overview of Annual Financial Report

Table 1 provides a summary of the District's net position for 2016 compared to 2015.

Table 1
Net Position

	December 31, 2016	December 31, 2015 (As Restated)
Assets		
Current Assets	$ 33,070,715	$ 33,438,532
Restricted Assets	42,321,212	42,371,774
Noncurrent Assets, Net	350,738,336	346,577,039
Total Assets	426,130,263	422,387,345
Deferred Outflows of Resources	8,389,842	5,110,391
Liabilities		
Current Liabilities	16,752,904	15,543,790
Restricted Liabilities	3,777,225	6,229,716
Noncurrent Liabilities	230,939,352	233,766,362
Total Liabilities	251,469,481	255,539,868
Deferred Inflows of Resources	239,044	-
Net Position		
Invested in Capital Assets Net of Related Debt	122,122,073	111,971,669
Restricted	37,369,358	35,286,067
Unrestricted	23,320,149	24,700,132
Total Net Position	**$ 182,811,580**	**$ 171,957,868**

The District's net position for 2016 increased 6.3% to $182,811,580 compared to $171,957,868 for 2015. The increase was mainly attributable to additional capital assets acquired from new construction as well as an increase in operating revenue and decreases in operating and non-operating expenses.

A portion of the District's net position (20.4%) 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 (66.8%) 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.

The Unrestricted net position (12.8%) may be used to meet the District's ongoing obligations to customers and creditors.

Table 2 shows the changes in net assets for 2016, as well as revenue and expense comparisons to 2015.

Table 2
Changes in Net Position

	Years Ended December 31, 2016	Years Ended December 31, 2015 (As Restated)
Operating Revenues		
Water Sales	$ 50,977,140	$ 48,776,304
Forfeited Discounts	851,525	832,463
Rents From Property	480,041	567,932
Other Water Revenues	305,176	378,630
Total Operating Revenues	52,613,882	50,555,329
Operating Expenses		
Operating and Maintenance Expense	24,250,515	25,601,079
Depreciation Expense	11,490,107	11,175,166
Total Operating Expenses	35,740,622	36,776,245
Net Operating Income	16,873,260	13,779,084
Non-Operating Income (Expense)		
Investment Income	803,196	793,339
Miscellaneous Non-Operating Income	138,082	155,484
Loss on Abandonment of Mains	(708,452)	(343,332)
Interest on Long-Term Debt	(7,896,934)	(8,446,701)
Amortization of Debt Discount and Bond Issuance Costs	496,128	594,242
Pension Expense	(1,046,797)	(1,473,718)
Arbitrage Expense	(318,638)	(322,040)
Gain (Loss) on Sale of Capital Assets	842,199	(8,410)
Total Non-Operating Expenses	(7,691,216)	(9,051,136)
Change in Net Position Before Capital Contributions	9,182,044	4,727,948
Capital Contributions	1,671,668	956,293
Change in Net Position	**$ 10,853,712**	**$ 5,684,241**

The basic financial statements of the District are included in this report. Operations are accounted for in such a manner as to show change in net assets and the District is intended to be entirely or predominantly self-supported from water user charges.

In reviewing income before capital contributions, the financial statements showed net income for the year of $9,182,044. Operating revenues increased 4.1% due to the first step of the 2015 rate increase phase-in. Operating expenses (including depreciation) decreased 2.8% due mainly to the reduced use of carbon in GAC process due to optimization as the contractors exhaust their carbon. Capital contributions increased by $715,375 (74.8%) primarily due to the increase of mains constructed by other entities and contributed to the District.

The District budgeted for $52,827,647 in operating revenues. Actual revenue were $52,613,882, a difference of $213,765. The largest difference was due to water sales being under budget by $190,479. Operation, maintenance, and administration expenses were budgeted at $27,904,899. Actual expenses were $24,250,515, a difference of $3,654,384. The largest difference was in contractual services being budgeted at $4,022,790 and actual expenses was only $2,969,792.

Debt and Capital Asset Administration

Table 3 summarizes the District's outstanding debt at the end of 2016 as compared to 2015.

Table 3
Outstanding Debt at Year End

	December 31, 2016	December 31, 2015
Bond Indebtedness	$ 187,680,358	$ 194,708,497
Notes Payable	39,228,501	35,624,460
	$ 226,908,859	$ 230,332,957

At year-end, the District had $226,908,859 in outstanding notes and bonds compared to $230,332,957 last year. That is a decrease of 1.5% as shown in Table 3.

Capital Assets

At December 31, 2016, the capital assets reported were $346,668,468 including land, buildings, water systems, equipment, and vehicles. This represents a net increase of $3,474,257, or 1.0%, over last year due to the District's investment in distribution and treatment projects, vehicles and equipment during the fiscal year.

Table 4
Capital Assets, Net of Depreciation

	December 31, 2016	December 31, 2015
Not Being Depreciated		
Land	$ 3,291,127	$ 3,291,127
Construction in Progress	21,175,056	27,277,241
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	457,323,671	437,968,582
Subtotal	487,305,990	474,053,086
Less Accumulated Depreciation	140,637,522	130,858,875
Totals	$ 346,668,468	$ 343,194,211

Economic Factors and Next Year's Budget

The District's budget for 2017 projects a nominal increase in water revenue due to the phase-in of the second step of the 2015 rate increase. A modest increase is anticipated for operating expenses as a result of rising cost of direct and indirect expenses.

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, 2016	December 31, 2015 (As Restated)
Assets and Deferred Outlfows of Resources		
Current Assets		
Cash and Cash Equivalents	$ 18,251,053	$ 19,010,654
Investments	922,031	1,163,010
Accounts Receivable		
Customers	5,214,775	4,796,712
Unbilled Customers	6,100,000	5,900,000
Others	174,044	176,416
Assessments Receivable	131,088	123,785
Inventory Supplies for New Installation and Maintenance, at Cost	1,646,072	1,584,034
Prepaid Items	631,652	683,921
Total Current Assets	33,070,715	33,438,532
Restricted Assets		
Bond Proceeds Fund	2,337,355	3,492,225
Debt Service Reserve Account	18,934,942	18,556,798
Debt Service Account	17,670,156	16,903,629
Improvement, Repair & Replacement	3,378,759	3,419,122
Total Restricted Assets	42,321,212	42,371,774
Noncurrent Assets		
Miscellaneous Deferred Charges	4,069,868	3,382,828
Capital Assets:		
Land, System, Buildings and Equipment	466,130,934	446,775,845
Construction in Progress	21,175,056	27,277,241
Total Capital Assets	487,305,990	474,053,086
Less Accumulated Depreciation	140,637,522	130,858,875
Total Capital Assets, Net of Accumulated Depreciation	346,668,468	343,194,211
Total Noncurrent Assets	350,738,336	346,577,039
Total Assets	426,130,263	422,387,345
Deferred Outflows of Resources		
Deferred Outflows Related to Pension	3,220,484	2,343,773
Deferred Loss on Refundings	5,169,358	2,766,618
Total Deferred Outflows of Resources	8,389,842	5,110,391
Total Assets and Deferred Outflows of Resources	$ 434,520,105	$ 427,497,736

See accompanying notes.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	December 31, 2016	December 31, 2015 (As Restated)
Liabilities and Deferred Inflows of Resources		
Current Liabilities		
Bonded Indebtedness	$ 11,409,228	$ 10,050,020
Notes Payable	2,239,062	2,192,256
Accounts Payable	858,610	1,089,106
Accrued Payroll and Taxes	972,605	1,006,887
Other Accrued Liabilities	256,241	251,253
Customer Deposits	1,017,158	954,268
Total Current Liabilities	16,752,904	15,543,790
Liabilities Payable-Restricted Assets		
Accounts Payable	970,331	2,573,513
Accrued Interest Payable	2,806,894	3,656,203
Total Liabilities Payable From Restricted Assets	3,777,225	6,229,716
Long-Term Liabilities (Net of Current Portion)		
Arbitrage Liability	1,174,629	855,991
Bond Indebtedness	176,271,130	184,658,477
Notes Payable	36,989,439	33,432,204
Net Pension Liability	16,504,154	14,819,690
Total Long-Term Liabilities	230,939,352	233,766,362
Total Liabilities	251,469,481	255,539,868
Deferred Inflows of Resources		
Deferred Inflows Related to Pension	239,044	-
Total Liabilities and Deferred Inflows of Resources	251,708,525	255,539,868
Net Position		
Invested in Capital Assets, Net of Related Debt	122,122,073	111,971,669
Restricted	38,543,987	36,142,058
Unrestricted	22,145,520	23,844,141
Total Net Position	182,811,580	171,957,868
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 434,520,105	$ 427,497,736

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

	Years Ended December 31, 2016	Years Ended December 31, 2015 (As Restated)
Operating Revenues		
Water Sales	$ 50,977,140	$ 48,776,304
Forfeited Discounts	851,525	832,463
Rents From Property	480,041	567,932
Other Water Revenues	305,176	378,630
Total Operating Revenues	52,613,882	50,555,329
Operating Expenses		
Operating and Maintenance Expense	24,250,515	25,601,079
Depreciation Expense	11,490,107	11,175,166
Total Operating Expenses	35,740,622	36,776,245
Net Operating Income	16,873,260	13,779,084
Non-Operating Income (Expense)		
Investment Income	803,196	793,339
Miscellaneous Non-Operating Income	138,082	155,484
Loss on Abandonment of Mains	(708,452)	(343,332)
Interest on Long-Term Debt	(7,896,934)	(8,446,701)
Amortization of Debt Discount and Bond Issuance Costs	496,128	594,242
Pension Expense	(1,046,797)	(1,473,718)
Arbitrage Expense	(318,638)	(322,040)
Gain (Loss) on Sale of Capital Assets	842,199	(8,410)
Total Non-Operating Expenses	(7,691,216)	(9,051,136)
Change in Net Position Before Capital Contributions	9,182,044	4,727,948
Capital Contributions	1,671,668	956,293
Change in Net Position	10,853,712	5,684,241
Net Position - Beginning of Year	171,957,868	166,273,627
Net Position - End of Year	$ 182,811,580	$ 171,957,868

See accompanying notes.

NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2016	2015 (As Restated)
Cash Flows From Operating Activities		
Received from Customers	$ 52,053,778	$ 51,509,486
Paid to Suppliers for Goods and Services	(12,907,534)	(12,725,984)
Paid to or on Behalf of Employees for Services	(12,299,580)	(12,387,353)
Net Cash Provided by Operating Activities	26,846,664	26,396,149
Cash Flows From Investing Activities		
Purchase of Investments	(1,435,000)	(1,163,010)
Proceeds from Sale of Investments	1,675,979	-
Investment Income	803,196	793,339
Net Cash Provided by Investing Activities	1,044,175	(369,671)
Cash Flows From Capital and Related Financing Activities		
Principal Paid on Capital Debt	(11,434,256)	(11,231,588)
Debt Proceeds	5,796,297	4,176,704
Interest Paid on Bonds and Notes, Net of Capitalized Interest	(8,438,994)	(8,372,238)
Acquisition and Construction of Capital Assets	(14,001,146)	(13,855,513)
Decrease (Increase) in Restricted Funds		
Boone Florence Settlement	-	308,392
Bond Proceeds Fund	1,154,870	1,797,438
Debt Service Reserve and Debt Service Account	(1,144,671)	(1,314,453)
Improvement, Repair and Replacement Fund	40,363	(149,956)
(Decrease) Increase of Restricted Liabilities	(1,603,182)	1,025,018
Gain (Loss) on Sale of Capital Assets	842,199	(8,410)
Miscellaneous Non-Operating Income (Expense)	138,080	(187,848)
Net Cash Used by Capital Financing Activities	(28,650,440)	(27,812,454)
Net Change in Cash	(759,601)	(1,785,976)
Cash and Cash Equivalents Beginning of Year	19,010,654	20,796,630
Cash and Cash Equivalents End of Year	$ 18,251,053	$ 19,010,654
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Net Operating Income	$ 16,873,260	$ 13,779,084
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Depreciation	11,490,107	11,175,166
Change in Assets and Liabilities		
Accounts Receivable	(615,691)	674,451
Assessments Receivable	(7,303)	(6,321)
Inventory Supplies	(62,038)	47,387
Prepaid Expenses	52,269	90,757
Miscellaneous Deferred Charges	(687,040)	482,350
Accounts Payable	(230,496)	(3,065)
Accrued Payroll and Taxes	(34,282)	(134,999)
Other Accrued Liabilities	4,988	5,312
Customer Deposits	62,890	286,027
Net Cash Provided by Operating Activities	$ 26,846,664	$ 26,396,149

See accompanying notes.

NOTE 1 – 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 County Water District No. 1 and the Campbell County 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of certain significant accounting policies followed in the preparation of these financial statements.

Basis of Accounting and Presentation

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 as a single enterprise fund. 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. All assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

Revenues from water sales, forfeited discounts, rents from property, and other water revenues are reported as operating revenues. All expenses related to operating the District are reported as operating expenses. Investment income, miscellaneous non-operating income, and gain or loss on sale of capital assets are reported as non-operating income. Interest expense, miscellaneous non-operating expenses, financing costs, amortization of bond premiums and discounts, arbitrage expense, and pension expense are reported as non-operating expenses. Capital contributions are reported separately after non-operating revenues and non-operating expenses.

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

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	December 31	
	2016	2015
Cash and Cash Equivalents	$ 7,137,909	$ 7,016,536
Purchase and Resale Agreements	4,339,546	4,077,011
FAMC and FHLB Discount Notes	7,337,047	7,366,809
Accrued Interest Receivable and CD Market Change	120,440	96,442
	$ 18,934,942	$ 18,556,798

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	$ 17,670,156	$ 16,903,629

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	$ 3,378,759	$ 3,419,122

Use of Estimates

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

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 issues by public housing authorities annual contribution contracts with the United States or by requisition or payment agreement with the United States.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Policy

General Policy

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

Authorized Investment Instruments

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

Limitations of Investment Transactions

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

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

Deposits and Investments

The District had investments in certificates of deposit as of December 31, 2016 and 2015 in the amounts of $922,031 and $1,163,010, respectively.

Custodial Credit Risk – Deposits. For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned. The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of December 31, 2016, the District's deposits are entirely insured and/or collateralized with securities held by the financial institutions on the District's behalf and the FDIC insurance.

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District had no custodial credit risk at December 31, 2016.

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 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Supplemental Disclosure of Cash Flow Information

Cash paid for interest was as follows:

	Years Ended December 31	
	2016	2015
Expensed	$ 8,746,243	$ 8,372,238
Capitalized	250,834	308,920
Total	$ 8,997,077	$ 8,681,158

The District had noncash capital and financing transactions as follows:

	2016	2015
Capital Contributions	$ 1,671,668	$ 956,293
Capitalized Interest	250,834	308,920
Amortization of Bond Discounts and Premiums	836,694	806,370
Amortization of Deferred Loss on Refunding	(226,736)	(212,130)
Current Refunding of Series 2006A Revenue Bonds	21,021,252	-
Advance Refunding of Series 2009 Revenue Bonds	22,994,198	-
Accrued Interest on Refunding	307,254	-
Bond Issuance Costs on Refunding	113,827	-
Deferred Loss on Refunding	2,629,474	-
Total	$ 49,598,465	$ 1,859,453

Accounts Receivable - Customers

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

Accounts receivable are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of an account has not been paid in full within the contractual terms of the account. The District begins to assess its ability to collect receivables that are over 90 days past due and provides for an adequate allowance for doubtful accounts based on the District's collection history, the financial stability and recent payment history of the customer, and other pertinent factors. Receivables are written off as uncollectible after the District has used reasonable collection efforts and deems then uncollectible. Based on these criteria, the District has estimated no allowance for doubtful accounts at December 31, 2016 and 2015.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assessments Receivable

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

Inventory

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

Deferred Inflows and Outflows of Resources

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

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.

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. Interest related to the financing of projects under construction is capitalized as part of the projects' basis in connection with the various construction projects in progress. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Restricted 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.

Restricted net position consists of the following:

	Years Ended December 31	
	2016	2015
Bond Proceeds Fund	$ 2,337,355	$ 3,492,225
Debt Service Reserve Account	18,934,942	18,556,800
Debt Service Account	17,670,156	16,903,629
Improvement, Repair, and Replacement	3,378,759	3,419,122
Total Restricted Assets	42,321,212	42,371,776
Less: Restricted Liabilities	3,777,225	6,229,717
Total Restricted Net Position	$ 38,543,987	$ 36,142,059

Reclassifications

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

NOTE 3 – ACCOUNTS RECEIVABLE

	Years Ended December 31	
	2016	2015
Accounts Receivable Arising From Billings of Metered Water Sales	$ 5,214,775	$ 4,796,712
Accrual for Estimated Unbilled Water Revenue	6,100,000	5,900,000
Other	174,044	176,416
Total	$ 11,488,819	$ 10,873,128

NOTE 4 – FAIR VALUE MEASUREMENT

Accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. 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). The three levels of the fair value hierarchy under FASB Statement No. 157 are described as follows:

LEVEL 1 – Investments reflect prices quoted in active markets.
LEVEL 2 – Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.
LEVEL 3 – Investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

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

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value at December 31, 2016:

	Level 1	Level 2	Level 3	Total
Restricted Assets				
Purchase and Resale Agreements	$ -	$ 4,339,546	$ -	$ 4,339,546
FAMC and FHLB Discount Notes	-	7,337,047	-	7,337,047
Total Restricted Assets at Fair Value	$ -	$ 11,676,593	$ -	$ 11,676,593

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value at December 31, 2015:

	Level 1	Level 2	Level 3	Total
Restricted Assets				
Purchase and Resale Agreements	$ -	$ 4,077,011	$ -	$ 4,077,011
FAMC and FHLB Discount Notes	-	7,366,809	-	7,366,809
Total Restricted Assets at Fair Value	$ -	$ 11,443,820	$ -	$ 11,443,820

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the District for the year ended December 31, 2016, was as follows:

	Balance December 31, 2015	Additions	Deductions	Balance December 31, 2016
Land, System, Buildings and Equipment				
Land and Land Rights	$ 3,291,127	$ -	$ -	$ 3,291,127
Structures and Improvements	117,211,938	5,633,790	-	122,845,728
Lake River and Other Intakes	1,463,171	-	-	1,463,171
Supply Mains	2,865,693	-	-	2,865,693
Power Generation Plant	3,491,523	-	-	3,491,523
Pumping Equipment	11,472,763	220,774	-	11,693,537
Water Treatment Equipment	29,890,493	82,204	-	29,972,697
Distribution Reservoirs and Standpipes	9,567,871	-	-	9,567,871
Transmissions and Distribution Mains	186,681,358	12,033,865	(1,256,863)	197,458,360
Services	28,462,106	1,772,169	(476,062)	29,758,213
Meters and Meter Installations	18,410,778	626,413	(216,502)	18,820,689
Hydrants	8,814,583	658,240	(74,720)	9,398,103
Other Plant and Miscellaneous Equipment	3,419,128	-	-	3,419,128
Office Furniture and Equipment	3,539,622	249,765	-	3,789,387
Transportation Equipment	3,395,403	380,610	(362,990)	3,413,023
Tools, Shop, and Garage Equipment	668,239	40,977	-	709,216
Laboratory Equipment	496,789	61,485	-	558,274
Power Operated Equipment	1,258,632	10,644	(32,773)	1,236,503
Communication Equipment	6,277,368	4,063	-	6,281,431
Miscellaneous Equipment	581,124	-	-	581,124
Utility Plant Acquisition Adjustment	545,925	-	-	545,925
Acquisition Adjustment - Newport	4,970,211	-	-	4,970,211
Total Land, System, Buildings and Equipment	446,775,845	21,774,999	(2,419,910)	466,130,934
Construction in Progress	27,277,241	12,496,598	(18,598,783)	21,175,056
Total Capital Assets	474,053,086	34,271,597	(21,018,693)	487,305,990
Less Accumulated Depreciation	130,858,875	11,490,107	(1,711,460)	140,637,522
Capital Assets - Net	$ 343,194,211	$ 22,781,490	$ (19,307,233)	$ 346,668,468

NOTE 6 – 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, 2016 and 2015, the arbitrage rebate liability was $1,174,629 and $855,991, respectively.

Rebate calculations are prepared annually. However, any liability due is only required to be paid every 5 years from the original date of the bond. In the upcoming year, only the rebate for the Water District Refunding Revenue Bonds, Series 2012 will become due of which $885,746 is accrued.

NOTE 7 – LONG-TERM DEBT

Revenue Bonds

Water District Revenue Bonds, Series 2006A

In September 2006, the District sold $29,000,000 of its Revenue Bonds to refund the Water District Bond Anticipation Notes, Series 2005 and 2004 and in order to refund various construction projects. The bonds were refunded in November 2016 by the Refunding Revenue Bonds, Series 2016.

Water District Revenue Bonds, Series 2009

In January 2009, the District sold $29,290,000 of its Revenue Bonds to refund the Water District Bond Anticipation Notes, Series 2007 and in order to refund various construction projects. The bonds were refunded in November 2016 by the Refunding Revenue Bonds, Series 2016.

Water District Revenue Bonds, Series 2011

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

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

Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2017	3.00%	$ 960,000	$ 1,118,162	$ 2,078,162
2018	3.00%	985,000	1,088,987	2,073,987
2019	3.00%	1,015,000	1,058,987	2,073,987
2020	4.00%	1,055,000	1,022,662	2,077,662
2021	4.13%	1,095,000	979,662	2,074,662
2022-2026	4.00-4.13%	6,185,000	4,189,473	10,374,473
2027-2031	4.25-4.50%	7,625,000	2,753,294	10,378,294
2032-2034	5.00%	7,530,000	776,250	8,306,250
Total		$ 26,450,000	$ 12,987,477	$ 39,437,477

NOTE 7 – LONG-TERM DEBT (Continued)

Water District Refunding Revenue Bonds, Series 2012

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

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

Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2017	5.00%	$ 2,530,000	$ 2,310,750	$ 4,840,750
2018	5.00%	3,475,000	2,160,625	5,635,625
2019	5.00%	3,650,000	1,982,500	5,632,500
2020	5.00%	4,150,000	1,787,500	5,937,500
2021	5.00%	4,365,000	1,574,625	5,939,625
2022-2026	5.00%	24,995,000	4,318,625	29,313,625
2027	5.00%	4,315,000	107,875	4,422,875
Total		$ 47,480,000	$ 14,242,500	$ 61,722,500

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:

Series 2013A

Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2017	3.00%	$ 665,000	$ 1,063,401	$ 1,728,401
2018	4.00%	685,000	1,039,726	1,724,726
2019	5.00%	720,000	1,008,026	1,728,026
2020	5.00%	755,000	971,151	1,726,151
2021	5.00%	795,000	932,401	1,727,401
2022-2026	5.00%	4,630,000	4,006,880	8,636,880
2027-2031	4.00-4.13%	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	4.25%	3,310,000	142,164	3,452,164
Total		$ 24,510,000	$ 13,488,222	$ 37,998,222

NOTE 7 – 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 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:

Series 2013B

Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2017	5.00%	$ 1,645,000	$ 818,825	$ 2,463,825
2018	5.00%	1,170,000	748,450	1,918,450
2019	5.00%	1,230,000	688,450	1,918,450
2020	5.00%	1,295,000	625,325	1,920,325
2021	5.00%	1,355,000	559,075	1,914,075
2022-2026	4.00-5.00%	7,835,000	1,752,650	9,587,650
2027-2028	5.00%	3,650,000	184,750	3,834,750
Total		$ 18,180,000	$ 5,377,525	$ 23,557,525

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 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.

NOTE 7 – LONG-TERM DEBT (Continued)

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

Series 2014B Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2017	5.00%	$ 1,940,000	$ 485,638	$ 2,425,638
2018	5.00%	1,880,000	390,138	2,270,138
2019	5.00%	1,980,000	293,638	2,273,638
2020	5.00%	1,505,000	206,513	1,711,513
2021	5.00%	440,000	157,888	597,888
2022-2026	3.00-5.00%	2,500,000	500,065	3,000,065
2027-2029	3.00-3.13%	1,710,000	79,995	1,789,995
Total		$ 11,955,000	$ 2,113,875	$ 14,068,875

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 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:

Series 2016A Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2017	5.00%	$ 2,455,000	$ 1,218,831	$ 3,673,831
2018	5.00%	1,910,000	1,680,400	3,590,400
2019	5.00%	2,005,000	1,582,525	3,587,525
2020	5.00%	2,380,000	1,472,900	3,852,900
2021	5.00%	2,325,000	1,355,275	3,680,275
2022-2026	5.00%	13,730,000	4,835,000	18,565,000
2027-2031	3.00-5.00%	17,100,000	1,436,575	18,536,575
Total		$ 41,905,000	$ 13,581,506	$ 55,486,506

Rural Development Loan

In August 2000, the District closed on a loan agreement with the Department of Agriculture for the Sub District C Construction project. The amount of the loan was $2,287,000 with an annual interest rate of 5%. The repayment of the loan is on a 40 year amortization schedule.

NOTE 7 – LONG-TERM DEBT (Continued)

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

Years	Principal Amount	Interest Amount	Total Debt Service
2017	$ 44,000	$ 90,450	$ 134,450
2018	46,000	88,200	134,200
2019	49,000	85,825	134,825
2020	51,000	83,325	134,325
2021	54,000	80,700	134,700
2022-2026	310,000	359,500	669,500
2027-2031	396,000	271,650	667,650
2032-2036	509,000	159,175	668,175
2037-2039	372,000	28,500	400,500
Total	$ 1,831,000	$ 1,247,325	$ 3,078,325

Fiscal Court of Kenton County, Kentucky

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

Taylor Mill Purchase Financing

In March 2004, the Water District purchased the assets of the Taylor Mill Water System for $3,000,000. The purchase price will be paid over 14 years without interest. Payments are due as follows:

Years	Principal Amount
2017	$ 175,000
2018	50,000
Total	$ 225,000

Kentucky Infrastructure Authority Loan F06-03

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

NOTE 7 – LONG-TERM DEBT (Continued)

The Kentucky Infrastructure Authority Loan F06-03 is scheduled to mature as follows:

Years	Principal Amount	Interest Amount	Total Debt Service
2017	$ 191,829	$ 82,689	$ 274,518
2018	197,627	76,406	274,033
2019	203,600	69,956	273,556
2020	209,754	63,268	273,022
2021	216,094	56,401	272,495
2022-2026	1,182,479	171,494	1,353,973
2027-2028	390,462	12,753	403,215
Total	$ 2,591,845	$ 532,967	$ 3,124,812

Kentucky Infrastructure Authority Loan C08-01

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

The Kentucky Infrastructure Authority Loan C08-01 is scheduled to mature as follows:

Years	Principal Amount	Interest Amount	Total Debt Service
2017	$ 625,263	$ 74,639	$ 699,902
2018	644,281	54,323	698,604
2019	663,879	33,450	697,329
2020	684,070	11,912	695,982
Total	$ 2,617,493	$ 174,324	$ 2,791,817

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 7 – LONG-TERM DEBT (Continued)

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

Years	Principal Amount	Interest Amount	Total Debt Service
2017	$ 189,010	$ 40,192	$ 229,202
2018	190,905	37,825	228,730
2019	192,819	35,431	228,250
2020	194,752	33,015	227,767
2021	196,704	30,575	227,279
2022-2026	1,013,499	115,403	1,128,902
2027-2031	1,065,331	50,614	1,115,945
2032	219,514	2,060	221,574
Total	$ 3,262,534	$ 345,115	$ 3,607,649

Kentucky Infrastructure Authority Loan F09-02

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

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

Years	Principal Amount	Interest Amount	Total Debt Service
2017	$ 1,057,960	$ 454,398	$ 1,512,358
2018	1,079,225	430,475	1,509,700
2019	1,100,917	406,071	1,506,988
2020	1,123,045	381,176	1,504,221
2021	1,145,619	355,782	1,501,401
2022-2026	6,082,896	1,379,755	7,462,651
2027-2031	6,719,301	663,799	7,383,100
2032-2033	2,149,665	48,528	2,198,193
Total	$ 20,458,628	$ 4,119,984	$ 24,578,612

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 $4,000,000 at an interest rate of 2.0%. As of December 31, 2016, $4,523,000 has been received. Payments will not begin until one year after initial of operation of the project, and therefore a maturity date has not been determined.

NOTE 7 – LONG-TERM DEBT (Continued)

Kentucky Infrastructure Authority Loan F14-015

In December, 2013, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds is $4,000,000 at an interest rate of 2.0%. As of December 31, 2016, $3,287,143 has been received. Payments will not begin until one year after initial of operation of the project, and therefore a maturity date has not been determined.

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, 2016, $2,162,858 has been received. Payments will not begin until one year after initial of operation of the project, and therefore a maturity date has not been determined.

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.

NOTE 7 – LONG-TERM DEBT (Continued)

Changes in long-term debt are as follows:

Governmental Activities	Debt Outstanding December 31, 2015	Additions of New Debt	Retirements and Repayments	Debt Outstanding December 31, 2016	Amounts Due Within 1 Year
Bond Indebtedness					
Rural Development Loan	$ 1,873,000	$ -	$ 42,000	$ 1,831,000	$ 44,000
Series 2006 A	22,105,000	-	22,105,000	-	-
Series 2006 A Bond Discount	(110,159)	-	(110,159)	-	-
Series 2009	24,030,000	-	24,030,000	-	-
Series 2009 Bond Discount	(232,535)	-	(232,535)	-	-
Series 2011	27,380,000	-	930,000	26,450,000	960,000
Series 2011 Bond Premium	200,165	-	9,804	190,361	9,804
Series 2012	49,440,000	-	1,960,000	47,480,000	2,530,000
Series 2012 Bond Premium	7,032,399	-	562,592	6,469,807	562,592
Series 2013 A	25,155,000	-	645,000	24,510,000	665,000
Series 2013 A Bond Premium	1,130,297	-	50,236	1,080,061	50,235
Series 2013 B	20,200,000	-	2,020,000	18,180,000	1,645,000
Series 2013 B Bond Premium	1,521,181	-	119,308	1,401,873	119,308
Series 2014 B	13,805,000	-	1,850,000	11,955,000	1,940,000
Series 2014 B Bond Premium	1,179,149	-	84,225	1,094,924	84,225
Series 2016	-	41,905,000	-	41,905,000	2,455,000
Series 2016 Bond Premium	-	5,161,005	28,673	5,132,332	344,064
Total Bond Indebtedness	194,708,497	47,066,005	54,094,144	187,680,358	11,409,228
Notes Payable					
KIA SRF Loan F06-03	2,778,046	-	186,201	2,591,845	191,829
KIA Loan F08-07	3,449,669	-	187,135	3,262,534	189,010
KIA Loan C08-01	3,224,300	-	606,807	2,617,493	625,263
KIA Loan F09-02	21,495,741	-	1,037,113	20,458,628	1,057,960
KIA Loan F13-012	4,176,704	346,296	-	4,523,000	-
KIA Loan F14-015	-	3,287,143	-	3,287,143	-
KIA Loan F15-011	-	2,162,858	-	2,162,858	-
City of Taylor Mill, KY	400,000	-	175,000	225,000	175,000
Campbell County Fiscal Court	100,000	-	-	100,000	-
Total Notes Payable	35,624,460	5,796,297	2,192,256	39,228,501	2,239,062
Total Long-Term Debt	$ 230,332,957	$ 52,862,302	$ 56,286,400	$ 226,908,859	$ 13,648,290

NOTE 8 – PENSION PLAN

General Information about the Pension Plan

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

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

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

Age	Years of Service	Allowance Reduction
65	4	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 8 – PENSION PLAN (Continued)

Benefit Formula for Tiers 1

Final Compensation	X	Benefit Factor		X	Years of Service
Average of the five highest 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).

Benefit Formula for Tiers 2

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

* ***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 Tiers 3

(A-B) = C X 75% = D then B+D = Interest

A 5 Year Geometric Average Return	B 2016 Rate	C Upside Sharing Interest	D Interest Rate Earned	Interest Rate Earned (4% + Upside)	Total Interest Credited to Members'
5.16%	4.00%	1.16%	0.87%	4.87%	$ 672,783

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

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

NOTE 8 – PENSION PLAN (Continued)

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

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

Contributions:

For the fiscal years ended June 30, 2016 and 2015, plan members who began participating prior to September 1, 2008, were required to contribute 5% non-hazardous of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits.

Tier 2 members were required to contribute a total of 6% for non-hazardous of their annual creditable compensation while 1% 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% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% for non-hazardous of their annual creditable compensation.

Tier 3 members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. 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% non-hazardous of their annual creditable compensation and 1% 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 a 4% non-hazardous employer pay credit. The employer pay credit represents a portion of the employer contribution.

Participating employers were required to contribute at an actuarially determined rate for CERS pensions. Per Kentucky Revised Statute Section CERS 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal year ended June 30, 2017 and 2016, participating employers contributed 18.68% (13.95% pension fund and 4.73% insurance fund) and 17.06% (12.42% pension fund and 4.64% 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 $1,045,628 for the year ended December 31, 2016.

NOTE 8 – PENSION PLAN (Continued)

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

At December 31, 2016, the District reported a liability of $16,504,154 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2016, the District's proportion for the nonhazardous system was 0.335204%.

Change of Benefit Terms: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 are listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1) Tiered structure for benefit accrual rates
2) New retirement eligibility requirements
3) Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

For the year ended December 31, 2016, the District recognized pension expense of $1,046,797. At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ 1,551,559	$ -
Difference between expected and actual experience	72,053	-
Changes of assumptions	874,302	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	163,318	239,044
Contributions after measurement date	559,252	-
Total	$ 3,220,484	$ 239,044

NOTE 8 – PENSION PLAN (Continued)

The $559,252 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, 2017. 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 June 30,		
2017	$	749,147
2018		749,147
2019		536,005
2020		387,889
Total	$	2,422,188

Actuarial assumptions: The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year Smoothed market
Inflation	3.25%
Salary Increase	4.00%, Average, including inflation
Investment Rate of Return	7.50% Net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For health retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, at a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

NOTE 8 – 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:

Asset Class	Target Allocation		Long Term Expected Nominal Return	
Combined Equity	44.00	%	5.40	%
Combined Fixed Income	19.00		1.50	
Real Return (Diversified Inflation Strategies	10.00		3.50	
Real Estate	5.00		4.50	
Absolute Return (Diversified Hedge Funds)	10.00		4.25	
Private Equity	10.00		8.50	
Cash Equivalent	2.00		(0.25)	
Total	100.00	%		

Discount rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate. The periods of projected benefit payments for all current plan members were projected through 2117.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate: The following presents the District's proportionate share of the net pension liability using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Nonhazardous	$ 20,566,862	$ 16,504,154	$ 13,021,625

NOTE 8 – PENSION PLAN (Continued)

Payable to the Pension Plan

At December 31, 2016 and 2015, the District reported a payable of $133,273 and $130,381 for the outstanding amount of contributions to the pension plan required for the years ended December 31, 2016 and 2015, respectively.

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

401(k) Plan and 457 Plan

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

NOTE 9 – OPERATING LEASES

The District is obligated under certain non-cancelable leases for equipment. The leases expire at various dates through March, 2019. Lease expense for the years ended December 31, 2016 and 2015 were $15,981 and $13,950, respectively.

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

Years Ending December 31,		
2017	$	15,981
2018		14,961
2019		3,230
	$	34,172

NOTE 10 – ECONOMIC DEPENDENCY

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

NOTE 11 – CONTINGENT LIABILITIES

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

NOTE 12 – PRIOR YEAR ADJUSTMENT

GASB Statement 65, *Items Previously Reported as Assets and Liabilities,* requires debt issuance costs to be recognized as an expense in the period incurred. This Statement was effective for financial statements for periods beginning after December 15, 2012 and was to be applied retroactively by restating financial statements for all periods presented. The cumulative effect of applying the provision of GASB Statement 65 has been reported as a restatement of beginning net position for the years ended December 31, 2016 and 2015 in accordance with the Statement.

Arbitrage requirements arising from the IRC and U.S. Treasury regulations generally require governments to rebate the excess investment earnings to the federal government. Arbitrage requirements provide guidance with respect to various aspects of the calculation of an arbitrage rebate liability. Excess earnings are required to be rebated every five years or upon maturity of the bonds, whichever is earlier. Governments generally should calculate the arbitrage rebate liability annually to determine if the amount is material and thus should be reported in the financial statements. The cumulative effect of calculating the arbitrage rebate liability has been reported as a restatement of beginning net position for the years ended December 31, 2016 and 2015.

Accordingly, beginning net position on the Statement of Revenue, Expenses, and Changes in Net Position has been restated for the changes mentioned above as follows:

	Year Ended December 31 2015
Beginning Net Position	$ 167,598,384
Implementation of GASB Statement 65	(790,806)
Recording of Arbitrage Rebate Liability	(533,951)
Restated Net Position	$ 166,273,627

NOTE 13 – SUBSEQUENT EVENTS

Effective in January, 2017 there was a phase in increase in rates and charges at various amounts depending on consumption. Effective in January, 2017, these rates will be fully phased in.

In March, 2017, the District issued a Revenue Bond Anticipate Note (BAN), Series 2017, for up to $26,000,000.

The District has evaluated subsequent events through June 22, 2017, which is the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHERN KENTUCKY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET TO ACTUAL
YEAR ENDED DECEMBER 31, 2016

	Original and Final Budget	Actual	Variance (Unfavorable) Favorable
Operating Revenues			
Water Sales	$ 51,167,619	$ 50,977,140	$ (190,479)
Forfeited Discounts	838,168	851,525	13,357
Rents From Property	478,000	480,041	2,041
Other Water Revenues	343,860	305,176	(38,684)
Total Operating Revenues	52,827,647	52,613,882	(213,765)
Operating Expenses			
Operation and Maintenance Expense	27,904,899	24,250,515	3,654,384
Depreciation Expense	-	11,490,107	(11,490,107)
Total Operating Expenses	27,904,899	35,740,622	(7,835,723)
Net Operating Income	24,922,748	16,873,260	(8,049,488)
Non-operating Income (Expense)			
Investment Income	788,000	803,196	15,196
Miscellaneous Non-Operating Expense	164,864	(570,370)	(735,234)
Interest on Long-Term Debt	(9,186,354)	(7,896,934)	1,289,420
Amortization of Debt Discount and Expense	-	496,128	496,128
Pension Expense	-	(1,046,797)	(1,046,797)
Arbitrage Expense	-	(318,638)	(318,638)
Gain on Sale of Capital Assets	-	842,199	842,199
Total Non-Operating Expense	(8,233,490)	(7,691,216)	542,274
Change in Net Position Before Capital Contributions	16,689,258	9,182,044	(7,507,214)
Capital Contributions	-	1,671,668	1,671,668
Change in Net Position	$ 16,689,258	$ 10,853,712	$ (5,835,546)

NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
DECEMBER 31, 2016

County Employees Retirement System

	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset) - Non Hazardous	0.33520%	0.34412%	0.33360%
Total District's Proportionate Share of the Net Pension Liability (Asset)	$ 16,504,154	$ 14,819,690	$ 11,002,199
District's Covered - Employee Payroll	$ 7,925,067	$ 7,972,340	$ 7,931,952
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	208.25%	185.89%	138.71%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability - Non Hazardous	59.97%	59.97%	66.80%

NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
DECEMBER 31, 2016

County Employees Retirement System
Last 3 Fiscal Years

Nonhazardous	2016	2015	2014
Contractually Required Contribution	$ 1,045,628	$ 1,429,517	$ 1,483,609
Contributions in Relation to the Contractually Required Contribution	(1,045,628)	(1,429,517)	(1,483,609)
Contribution Deficiency (Excess)	$ -	$ -	$ -
District's Covered-Employee Payroll	$ 7,925,067	$ 7,972,340	$ 7,931,952
Contributions as a Percentage of Covered-Employee Payroll	13.19%	17.93%	18.70%

OTHER SUPPLEMENTARY INFORMATION

NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF WATER OPERATING REVENUE

	Years Ended December 31, 2016	2015
Operating Revenues		
Metered Sales		
Sales to Residential Customers	$ 31,146,733	$ 29,945,579
Sales to Commercial Customers	7,246,450	7,060,233
Sales to Industrial Customers	3,966,911	3,724,937
Sales to Public Authorities	2,461,814	2,348,548
Sales to Multiple Family Dwellings	4,413,247	4,141,377
Sales Through Bulk Loading Stations	73,067	68,116
Total Metered Sales	49,308,222	47,288,790
Fire Protection Revenue	64,879	43,397
Sales For Resale	1,604,039	1,444,117
Total Sales of Water	50,977,140	48,776,304
Other Revenue	1,636,742	1,779,025
Total Operating Revenues	$ 52,613,882	$ 50,555,329

NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF COMBINED OPERATION AND MAINTENANCE EXPENSES

	Years Ended December 31, 2016	2015
Operating and Maintenance Expenses		
Salaries and Wages	$ 7,837,625	$ 7,972,340
Employee Pensions and Benefits	4,427,673	4,280,014
Taxes Other Than Income Taxes	556,931	566,732
Purchased Power	2,499,258	2,491,367
Chemicals	2,308,355	2,844,729
Materials and Supplies	1,854,457	2,303,921
Contractual Services	2,969,792	3,227,497
Transportation Expenses	502,261	585,911
Insurance	540,144	507,786
Bad Debt Expense	354,106	363,373
Miscellaneous Expense	279,829	344,025
Regulatory Commission Assessment	120,084	113,384
Total Operating and Maintenance Expenses	$ 24,250,515	$ 25,601,079

NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF INSURANCE COVERAGES
December 31, 2016

Company	Policy Number	Description of Coverage		Amount of Coverage	Effective Period From	Effective Period To
Travelers Insurance	ZLP14T8065316	General Liability	$	1,000,000	1/1/2016	1/1/2017
	ZUP14T8066516	Umbrella		19,000,000		
	ZLP14T8065316	Public Officials		1,000,000		
	H8102721X112COF16	Automobile Liability		1,000,000		
	H6302721X112TIL16	Property - Including Equipment Equipment Breakdown		259,331,338		
	H6302721X112TIL16	Employee Dishonesty		500,000		
	ZPL14P0759916	Cyber Liability		2,000,000		
Kentucky Employers Mutual Insurance	WC 338786	Worker's Compensation		1,000,000	1/1/2016	1/1/2017
Cincinnati Insurance	8877071	Fidelity Bond		Per Application	8/20/2015	12/31/2016
Great American Insurance	PEL1093742	Pollution Liability		15,000,000	1/1/2016	1/1/2019

NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF RATES, RULES AND REGULATIONS
DECEMBER 31, 2016

RETAIL WATER RATES

1. Monthly Service Rate

First	1,500 Cubic Feet	\$4.39 per 100 Cubic Feet
Next	163,500 Cubic Feet	\$3.74 per 100 Cubic Feet
Over	165,000 Cubic Feet	\$2.80 per 100 Cubic Feet

Sub District A shall be assessed a monthly surcharge in the amount of \$7.71
Sub District B shall be assessed a monthly surcharge in the amount of \$13.21
Sub District C shall be assessed a monthly surcharge in the amount of \$12.20
Sub District D shall be assessed a monthly surcharge in the amount of \$30.00
Sub District E shall be assessed a monthly surcharge in the amount of \$30.00
Sub District F shall be assessed a monthly surcharge in the amount of \$20.65
Sub District G shall be assessed a monthly surcharge in the amount of \$24.46
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 \$8.00
Sub District M shall be assessed a monthly surcharge in the amount of \$30.00
Sub District R shall be assessed a monthly surcharge in the amount of \$19.00
Sub District RF shall be assessed a monthly surcharge in the amount of \$23.00
Sub District RL shall be assessed a monthly surcharge in the amount of \$24.29

2. Quarterly Rates

First	4,500 Cubic Feet	\$4.39 per 100 Cubic Feet
Next	490,500 Cubic Feet	\$3.74 per 100 Cubic Feet
Next	495,000 Cubic Feet	\$2.80 per 100 Cubic Feet

3. Fixed Service Charge

Meter Size	Monthly	Quarterly
5/8”	\$ 15.30	\$ 30.60
3/4”	15.70	32.15
1”	17.20	36.90
1½”	19.40	43.60
2”	24.50	61.20
3”	59.10	190.45
4”	74.10	238.65
6”	109.70	352.70
8”	148.10	481.95
10” and Larger	196.90	629.25

WHOLESALE WATER RATES

Bullock Pen Water District	$3.42 per 1,000 Gallons (or) $2.56 per 100 Cubic Feet
City of Walton	$3.42 per 1,000 Gallons (or) $2.56 per 100 Cubic Feet
Pendleton County	$3.42 per 1,000 Gallons (or) $2.56 per 100 Cubic Feet

MISCELLANEOUS SERVICE FEES

Service Area Non-Recurring Charges

Returned Check Charge	$ 20.00
Water Hauling Station	$ 5.87 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, 2016

COMMISSIONERS	TERM EXPIRES
Fred A. Macke, Jr., Chair	August 26, 2020
Clyde Cunningham, Vice-Chair	August 28, 2019
Douglas C Wagner, CDT, Treasurer	August 26, 2017
David M. Spaulding, Esq., Secretary	August 28, 2019
Joseph J. Koester	July 31, 2020
Dr. Patricia Sommercamp	August 28, 2017

ADMINISTRATIVE STAFF

C. Ronald Lovan, PE, President/CEO

Lindsey Rechtin, CPA, Vice President of Finance and Support Services

Amy Kramer, PE, Vice President of Engineering, Production, and Distribution

REQUIRED REGULATORY INFORMATION

NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2016

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Environmental Protection Agency				
Passed Through Kentucky Infrastructure Authority				
Kenton and Campbell County Water Main Projects				
Capitalization Grants for Drinking Water State Revolving Funds (ARRA)	66.468	F13-012	$ -	$ 19,463
	66.468	F14-015	-	762,350
	66.468	F15-001	-	1,690,007
Total Environmental Protection Agency			-	2,471,820
Department of Agriculture				
Water and Waste Disposal Loans and Grants (Section 306C)	10.770		-	32,091
Total Expenditures of Federal Awards			$ -	$ 2,503,911

See accompanying notes to the schedule of federal awards.

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

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal awards (the “Schedule”) include the federal award activity of the Northern Kentucky Water District under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Northern Kentucky Water District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Northern Kentucky Water District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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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, 2016 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 22, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 may exist that have not been identified.

Compliance and Other Matters

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

VonLehman & Company Inc. Kentucky Ohio Indiana 800.887.0437 vlcpa.com
810 Wright's Summit Parkway, Suite 300 Fort Wright, KY 41011 859.331.3300 F 859.331.4358

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 22, 2017

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

Board of Commissioners
Northern Kentucky Water District
Erlanger, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Northern Kentucky Water District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

VonLehman & Company Inc. Kentucky Ohio Indiana 800.887.0437 vlcpa.com
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Report on Internal Control over Compliance

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

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

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

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

VonLehman & Company Inc.

Fort Wright, Kentucky
June 22, 2017

NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2016

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

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

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters to be reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters to be reported.

NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

PRIOR YEAR – FINANCIAL STATEMENT FINDINGS

No matters were reported.

PRIOR YEAR – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.