

NORTHERN KENTUCKY WATER DISTRICT

December 31, 2020

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

**NORTHERN KENTUCKY WATER DISTRICT
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Northern Kentucky Water District
Erlanger, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Northern Kentucky Water District (the District), as of and for the years ended December 31, 2020 and 2019 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Northern Kentucky Water District as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the District's proportionate share of the net pension liability, schedule of the District's pension contributions, schedule of the District's proportionate share of the net OPEB liability, and schedule of the District's OPEB contributions on pages 1 – 6 and 52 – 55, 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 other supplementary information is 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 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated April 15, 2021, on our consideration of the Northern Kentucky Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Northern Kentucky Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Northern Kentucky Water District's internal control over financial reporting and compliance.

VonLehman & Company Inc.

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

Our discussion and analysis of Northern Kentucky Water District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2020. 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 \$223,957,521 (net position). This was an increase of \$13,367,262 in comparison to the prior year.

- Operating revenues increased \$3,183,762 or 5.5% from 2019.
- The debt coverage ratio increased from 1.70 in 2019 to 1.99 in 2020.

Overview of the Financial Statements

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

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

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

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

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

Basis of Accounting

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

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

Overview of Annual Financial Report

Table 1 provides a summary of the District's net position for 2020 compared to 2019.

**Table 1
Net Position**

	December 31,	
	2020	2019
Assets		
Current Assets	\$ 64,887,811	\$ 53,909,267
Restricted Assets Noncurrent	38,901,855	44,662,876
Miscellaneous Deferred Charges	4,136,001	4,480,782
Capital Assets	<u>341,687,056</u>	<u>343,654,137</u>
 Total Assets	 <u>449,612,723</u>	 <u>446,707,062</u>
 Deferred Outflows of Resources	 <u>11,359,648</u>	 <u>10,676,186</u>
Liabilities		
Current Liabilities	19,358,024	20,614,679
Restricted Liabilities Noncurrent	1,024,188	1,220,428
Other Noncurrent Liabilities	<u>215,106,931</u>	<u>222,172,952</u>
 Total Liabilities	 <u>235,489,143</u>	 <u>244,008,059</u>
 Deferred Inflows of Resources	 <u>1,525,707</u>	 <u>2,784,930</u>
Net Position		
Net Investment in Capital Assets	151,974,245	140,884,382
Restricted	37,877,667	43,442,448
Unrestricted	<u>34,105,609</u>	<u>26,263,429</u>
 Total Net Position	 <u>\$ 223,957,521</u>	 <u>\$ 210,590,259</u>

The District's net position for 2020 increased 6.35% to \$223,957,521 compared to \$210,590,259 for 2019. The increase was mainly attributable to the Phase II rate adjustment that was approved by the Kentucky Public Service Commission in Case No. 2018-00291.

A portion of the District's net position (16.9%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

An additional portion of the District's net position (67.9%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment); less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

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

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

- Cash and cash equivalents increased \$7,516,216 from the previous year due to reduced spending because of the pandemic, in addition to cash conservation for new projects that are expected to begin in the upcoming year.
- Accounts receivable, net increased \$1,634,349 from the previous year due to slower payments resulting from the temporary suspension of water turn offs because of the pandemic. Additionally, the second phase of rate increases went into effect in March 2020.
- Capital assets, net of accumulated depreciation decreased \$1,967,081 from the previous year due to continued depreciation expense incurred on capital assets.
- Bond indebtedness decreased \$12,414,016 from the previous year due to continued payments on outstanding bonds. Additionally, the District issued Refunding Revenue Bonds, Series 2020 for \$22,325,000 during 2020 to refund the District's outstanding Revenue Bonds Series 2011 and Rural Development Loan 91-02 at a lower interest rate.
- Net pension liability increased \$2,786,289 and net OPEB liability increased \$2,637,180 as a result of an overall increase in the net pension and net OPEB liability of the Kentucky Retirement System's non-hazardous plan. Additionally, the District had an increase in their proportionate share percentage in the current year.

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

Table 2 shows the changes in net assets for 2020, as well as revenue and expense comparisons to 2019.

**Table 2
Changes in Net Position**

	Years Ended December 31,	
	2020	2019
Operating Revenues		
Water Sales	\$ 59,767,687	\$ 55,764,229
Forfeited Discounts	237,109	830,599
Rents From Property	548,933	385,845
Other Water Revenues	197,927	587,221
Total Operating Revenues	<u>60,751,656</u>	<u>57,567,894</u>
Operating Expenses		
Operating and Maintenance Expense	28,706,549	28,738,889
Depreciation Expense	12,301,512	12,179,078
Total Operating Expenses	<u>41,008,061</u>	<u>40,917,967</u>
Net Operating Income	<u>19,743,595</u>	<u>16,649,927</u>
Non-Operating Income (Expense)		
Investment Income	688,108	1,881,532
Miscellaneous Non-Operating Income	112,631	494,748
Loss on Abandonment of Mains	(264,847)	(532,386)
Interest on Long-Term Debt and Customer Deposits	(6,555,100)	(7,075,292)
Amortization of Debt Premiums and Defeasance Costs	851,294	887,155
Bond Issuance Costs	(226,603)	(103,192)
Pension Expense	(2,604,502)	(2,476,972)
Other Post Employment Benefit Expense	(564,502)	(97,596)
Arbitrage Expense	27,184	(178,770)
Gain on Sale of Capital Assets	60,861	48,374
Total Non-Operating Expenses	<u>(8,475,476)</u>	<u>(7,152,399)</u>
Change in Net Position Before Capital Contributions	11,268,119	9,497,528
Capital Contributions	<u>2,099,143</u>	<u>1,551,675</u>
Change in Net Position	<u>\$ 13,367,262</u>	<u>\$ 11,049,203</u>

In reviewing income before capital contributions, the financial statements showed net income for the year of \$11,268,119. Operating revenues increased 5.5% mainly as a result of the Phase II rate adjustment that was implemented March 25, 2020. Operating expenses (including depreciation) increased 0.2% and overall remained comparable to the previous year. Non-Operating Income (Expense) decreased \$1,323,077 due to increased pension and OPEB expense as a result of changes in the District's proportionate share of the Kentucky Retirement Systems' non-hazardous plan's net pension and OPEB liabilities. Capital contributions increased by \$547,468 (35.3%) primarily due to the increase of mains constructed by other entities and contributed to the District.

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

The District budgeted for \$58,097,724 in operating revenues. Actual revenues were \$60,751,656, a difference of \$2,653,932. The largest differences were due to water sales being overbudget by \$3,238,963 and forfeited discounts being underbudget by \$583,991. The water sales were overbudget primarily due to conservative budgeting practices, while forfeited discounts were underbudget due to temporary suspension of penalties because of the pandemic. Operation, maintenance, and administration expenses were budgeted at \$31,169,960. Actual expenses were \$28,706,549, a difference of \$2,463,411. The largest portion of this difference was related to salaries and wages, and employee pension and benefits having a total combined budget of \$16,007,761, while actual expenses totaled \$14,549,045. The District budgeted for an increase in CERS contribution rates, however during the 2020 regular session, Senate Bill 249 froze the CERS employer rate phase-in for one year. Additionally, the District's salary expense was lower than budgeted due to various full-time budgeted positions remaining vacant at various times throughout the year and also as a result of the reduced need for part-time staff to perform disconnections since water service disconnections for non-payments were suspended during the pandemic.

Capital Assets

At December 31, 2020, the capital assets reported were \$341,687,056 including land, buildings, water systems, equipment, and vehicles. This represents a net decrease of \$1,974,481, or (0.6%), over last year due. Additional information on the District's capital assets can be found in Note 6 of this report.

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

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Not Being Depreciated		
Land	\$ 3,267,226	\$ 3,267,226
Construction in Progress	9,363,904	13,054,992
Plant Acquisition Adjustment	5,516,136	5,516,136
Other Capital Assets		
Utility Plants		
Transmission and Distribution, Source of Supply, Pumping System, Power Generation, Water Treatment, and General Plant and Equipment	<u>508,590,398</u>	<u>495,430,358</u>
Subtotal	526,737,664	517,268,712
Less Accumulated Depreciation	<u>185,050,608</u>	<u>173,614,575</u>
Totals	\$ <u>341,687,056</u>	\$ <u>343,654,137</u>

Major capital additions during the year included adding mains for approximately \$8,803,408 and services for approximately \$1,802,607.

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

Long-Term Liabilities

Table 4 summarizes the District's long-term liabilities at the end of 2020 as compared to 2019.

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

	December 31,	
	2020	2019
Compensated Absences	\$ 1,369,138	\$ 1,005,126
Arbitrage Liability	295,084	734,477
Bond Indebtedness	161,365,097	173,779,113
Notes Payable	32,043,014	32,997,722
	\$ 195,072,333	\$ 208,516,438

At year-end, the District had \$193,408,111 in outstanding notes and bonds compared to \$206,776,835 last year. That is a decrease of 6.5% as shown in Table 4.

Economic Factors and Next Year's Budget

The District's budget for 2021 is allowing for a decrease in revenue from previously budgeted amounts due to the fact that no rate increase will go into effect in 2021 and due to uncertainty with respect to interest income in an unstable market. A modest increase is anticipated for operating expenses as a result of the modest increase in employee related expenses along with projected increases in materials and supplies, contractual services, insurance, bad debt expense, and competitively bid chemicals, along with a slight decrease in transportation expenses.

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

Contacting the District's Financial Management

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

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

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31,	
	2020	2019
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and Cash Equivalents	\$ 39,074,049	\$ 31,557,833
Investments	3,884,495	2,341,386
Accounts Receivable		
Customers, Net	7,785,823	6,756,320
Unbilled Customers	7,460,000	6,500,000
Others	70,350	425,504
Assessments Receivable	165,091	155,813
Inventory Supplies for New Installation and Maintenance, at Cost	1,854,834	1,667,269
Prepaid Items	1,084,532	813,405
Restricted Assets - Cash and Cash Equivalents		
Bond Proceeds Fund	37,000	339,698
Debt Service Account	2,453,994	2,898,212
Improvement, Repair & Replacement	1,017,643	453,827
Total Current Assets	64,887,811	53,909,267
Non-current Assets		
Restricted Assets - Cash and Cash Equivalents		
Bond Proceeds Fund	674,652	2,960,095
Debt Service Account	18,091,707	20,021,398
Improvement, Repair and Replacement	164,656	689,509
Customer Deposits Fund	859,532	942,820
Restricted Assets - Investments		
Debt Service Reserve Account	19,111,308	20,049,054
Miscellaneous Deferred Charges	4,136,001	4,480,782
Capital Assets		
Land, System, Buildings and Equipment	517,373,760	504,213,720
Construction in Progress	9,363,904	13,054,992
Total Capital Assets	526,737,664	517,268,712
Less Accumulated Depreciation	185,050,608	173,614,575
Total Capital Assets, Net of Accumulated Depreciation	341,687,056	343,654,137
Total Noncurrent Assets	384,724,912	392,797,795
Total Assets	449,612,723	446,707,062
Deferred Outflows of Resources		
Deferred Outflows Related to Pension	4,066,559	4,558,221
Deferred Outflows Related to Other Postemployment Benefits	3,597,789	2,110,885
Deferred Loss on Refundings	3,695,300	4,007,080
Total Deferred Outflows of Resources	11,359,648	10,676,186
Total Assets and Deferred Outflows of Resources	\$ 460,972,371	\$ 457,383,248

See accompanying notes.

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

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	December 31,	
	2020	2019
Liabilities and Deferred Inflows of Resources		
Current Liabilities		
Bonded Indebtedness	\$ 12,401,280	\$ 12,966,128
Notes Payable	1,720,459	1,690,053
Accounts Payable	942,005	1,011,597
Accrued Payroll and Taxes	396,705	457,014
Compensated Absences	99,611	107,575
Arbitrage Liability	-	412,209
Other Accrued Liabilities	289,327	278,366
Liabilities Payable - Restricted Assets		
Accrued Interest Payable	2,453,994	2,898,212
Accounts Payable	1,054,643	793,525
	19,358,024	20,614,679
Non-current Liabilities		
Liabilities Payable - Restricted Assets		
Accounts Payable	164,656	277,608
Customer Deposits	859,532	942,820
Compensated Absences	1,269,527	897,551
Arbitrage Liability	295,084	322,268
Bond Indebtedness	148,963,817	160,812,985
Notes Payable	30,322,555	31,307,669
Net Pension Liability	26,055,399	23,269,110
Net Other Postemployment Benefits Liability	8,200,549	5,563,369
	216,131,119	223,393,380
Total Long-Term Liabilities	216,131,119	223,393,380
Total Liabilities	235,489,143	244,008,059
Deferred Inflows of Resources		
Deferred Inflows Related to Pension	53,168	726,617
Deferred Inflows Related to Other Postemployment Benefits	1,472,539	2,058,313
	1,525,707	2,784,930
Total Deferred Inflows of Resources	1,525,707	2,784,930
Total Liabilities and Deferred Inflows of Resources	237,014,850	246,792,989
Net Position		
Net Investment in Capital Assets	151,974,245	140,884,382
Restricted For Debt Service Funds	37,203,015	40,070,452
Restricted For Capital Improvement Projects	674,652	3,371,996
Unrestricted	34,105,609	26,263,429
	223,957,521	210,590,259
Total Net Position	223,957,521	210,590,259
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 460,972,371	\$ 457,383,248

See accompanying notes.

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

	Years Ended December 31,	
	2020	2019
Operating Revenues		
Water Sales	\$ 59,767,687	\$ 55,764,229
Forfeited Discounts	237,109	830,599
Rents From Property	548,933	385,845
Other Water Revenues	197,927	587,221
	<u>60,751,656</u>	<u>57,567,894</u>
Operating Expenses		
Operating and Maintenance Expense	28,706,549	28,738,889
Depreciation Expense	12,301,512	12,179,078
	<u>41,008,061</u>	<u>40,917,967</u>
Net Operating Income	<u>19,743,595</u>	<u>16,649,927</u>
Non-Operating Income (Expense)		
Investment Income	688,108	1,881,532
Miscellaneous Non-Operating Income	112,631	494,748
Loss on Abandonment of Mains	(264,847)	(532,386)
Interest on Long-Term Debt and Customer Deposits	(6,555,100)	(7,075,292)
Amortization of Debt Premiums and Defeasance Costs	851,294	887,155
Bond Issuance Costs	(226,603)	(103,192)
Pension Expense	(2,604,502)	(2,476,972)
Other Post Employment Benefit Expense	(564,502)	(97,596)
Arbitrage Rebate (Expense)	27,184	(178,770)
Gain on Sale of Capital Assets	60,861	48,374
	<u>(8,475,476)</u>	<u>(7,152,399)</u>
Change in Net Position Before Capital Contributions	11,268,119	9,497,528
Capital Contributions	<u>2,099,143</u>	<u>1,551,675</u>
Change in Net Position	13,367,262	11,049,203
Net Position - Beginning of Year	<u>210,590,259</u>	<u>199,541,056</u>
Net Position - End of Year	<u>\$ 223,957,521</u>	<u>\$ 210,590,259</u>

See accompanying notes.

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

	Years Ended December 31,	
	2020	2019
Cash Flows From Operating Activities		
Received From Customers	\$ 59,024,741	\$ 55,410,698
Received for Miscellaneous Non-Operating Income	112,631	-
Paid to Suppliers for Goods and Services	(14,181,880)	(13,748,106)
Paid to or on Behalf of Employees for Services	(14,245,342)	(14,172,043)
Net Cash Provided by Operating Activities	30,710,150	27,490,549
Cash Flows From Investing Activities		
Purchase of Investments	(53,241,616)	(65,223,668)
Proceeds From Sale of Investments	52,656,436	64,516,409
Investment Income	667,923	132,255
Net Cash Provided (Used) by Investing Activities	82,743	(575,004)
Cash Flows From Capital and Related Financing Activities		
Principal Paid on Debt	(13,442,555)	(12,309,207)
Debt Proceeds	735,347	2,174,496
Interest Paid on Bonds and Notes	(6,724,363)	(7,261,207)
Acquisition and Construction of Capital Assets	(8,531,994)	(9,857,174)
Proceeds on Sale of Capital Assets	92,722	(52,661)
Payment on Arbitrage Liability	(412,209)	-
Miscellaneous Non-Operating Income	-	521,552
Net Cash Used by Capital and Related Financing Activities	(28,283,052)	(26,784,201)
Net Change in Cash	2,509,841	131,344
Cash and Cash Equivalents Beginning of Year	59,863,392	59,732,048
Cash and Cash Equivalents End of Year	\$ 62,373,233	\$ 59,863,392
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Net Operating Income	\$ 19,743,595	\$ 16,649,927
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Depreciation	12,301,512	12,179,078
Miscellaneous Non-Operating Income	112,631	-
Change in Assets and Liabilities		
Accounts Receivable, Net	(1,634,349)	(2,059,124)
Assessments Receivable	(9,278)	(8,740)
Inventory Supplies	(187,565)	(97,235)
Prepaid Expenses	(271,127)	(340,291)
Miscellaneous Deferred Charges	344,781	417,582
Accounts Payable	78,574	402,831
Accrued Payroll and Taxes	(60,309)	67,566
Accrued Compensated Absences	364,012	342,206
Other Accrued Liabilities	10,961	26,081
Customer Deposits	(83,288)	(89,332)
Net Cash Provided by Operating Activities	\$ 30,710,150	\$ 27,490,549

See accompanying notes.

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

	<u>Years Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Supplemental Schedule of Noncash Capital and Related Financing Activities		
Change in Fair Value of Investments	\$ <u>(1,673,767)</u>	\$ <u>(1,139,986)</u>
Contributions of Capital Assets	\$ <u>2,099,143</u>	\$ <u>1,551,675</u>
Current Refunding of Revenue Bonds, Series 2011	\$ <u>22,587,779</u>	\$ <u>-</u>
Retirement of Rural Development Loan 91-02 through Refunding Revenue Bonds, Series 2020	\$ <u>1,641,000</u>	\$ <u>-</u>
Accrued Interest on Refunding	\$ <u>274,955</u>	\$ <u>-</u>
Bond Issuance Costs on Refunding	\$ <u>226,603</u>	\$ <u>-</u>
Deferred Loss on Refunding	\$ <u>76,496</u>	\$ <u>-</u>
Bond Anticipation Note Retired through Bond Issuance	\$ <u>-</u>	\$ <u>17,325,000</u>
Pension Expense	\$ <u>(2,604,502)</u>	\$ <u>(2,476,972)</u>
Other Post Employment Benefit Expense	\$ <u>(564,502)</u>	\$ <u>(97,596)</u>
Amortization Expense	\$ <u>(851,294)</u>	\$ <u>(886,538)</u>
Reconciliations of Cash and Cash Equivalents to the Statement of Net Position		
Cash and Cash Equivalents - Current	\$ 39,074,049	\$ 31,557,833
Cash and Cash Equivalents - Restricted	<u>23,299,184</u>	<u>28,305,559</u>
Total Cash and Cash Equivalents	\$ <u>62,373,233</u>	\$ <u>59,863,392</u>

See accompanying notes.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Presentation, Basis of Accounting, and Measurement Focus

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

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

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

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

Use of Estimates

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

Operating Revenues and Expenses

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

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

Investments

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

Accounts Receivable - Customers

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

Accounts receivable are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of an account has not been paid in full within the contractual terms of the account. The District begins to assess its ability to collect receivables that are over 90 days past due and provides for an adequate allowance for doubtful accounts based on the District's collection history, the financial stability and recent payment history of the customer, and other pertinent factors. Receivables are written off as uncollectible after the District has used reasonable collection efforts and deems them uncollectible. Based on these criteria, the District has estimated an allowance for doubtful accounts of \$470,000 and \$35,000 at December 31, 2020 and 2019, respectively.

Assessments Receivable

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

Inventory

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

Deferred Inflows and Outflows of Resources

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

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

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

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

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

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

Construction in Progress

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

Capital Contributions

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

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

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

Employees of the District are entitled to paid vacation and sick depending on length of service and other factors. The amounts recorded for accumulated vacation and sick for the years ended December 31, 2020 and 2019 were \$1,369,138 and \$1,005,126, respectively.

Net Position

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

Bond Premiums and Issue Costs

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

Adoption of New Accounting Standards*Certain Disclosures Related to Debt*

GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, was issued to improve the information that is disclosed in notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of GASB Statement No. 88 are effective for reporting periods beginning after June 15, 2019. The impact of GASB Statement No. 88 has been implemented in the Long-Term Debt note to the financial statements.

Recently Issued Significant Accounting Standards*Lease Accounting Standard*

GASB Statement No. 87, *Leases*, was issued to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of GASB Statement No. 87 are effective for fiscal years beginning after June 15, 2021. The District is currently evaluating the impact GASB Statement No. 87 may have on its financial statements.

Conduit Debt Obligations

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Omnibus 2020

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

Replacement of Interbank Offered Rates

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, was issued to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). The requirements of GASB Statement No. 93, except paragraphs 11b, 13, and 14 are effective for reporting periods beginning after June 15, 2020. The requirements in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal year periods beginning after June 15, 2021. The District is currently evaluating the impact GASB Statement No. 93 may have on its financial statements.

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

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

Subscription-Based Information Technology Arrangements

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

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

Investment Policy

General Policy

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

Authorized Investment Instruments

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

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Deposits and Investments

The District had investments in certificates of deposit as of December 31, 2020 and 2019 in the amounts of \$3,884,495 and \$2,341,386, 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, 2020 and 2019, 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, 2020 and 2019.

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

NOTE 3 – RESTRICTED ASSETS

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

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

	December 31	
	2020	2019
Cash and Cash Equivalents	\$ 711,652	\$ 3,299,793

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

Cash and Cash Equivalents	\$ 12,378,350	\$ 10,199,049
Purchase and Resale Agreements	732,136	2,003,619
FAMC and FHLB Discount Notes	4,076,931	4,118,452
United States Treasuries	1,871,691	3,093,614
FNMA	-	499,645
Accrued Interest Receivable and CD Market Change	52,200	134,675
	<u>\$ 19,111,308</u>	<u>\$ 20,049,054</u>

NOTE 3 – RESTRICTED ASSETS (Continued)

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

	December 31	
	2020	2019
Cash and Cash Equivalents	\$ 20,545,701	\$ 22,919,610

Improvement, Repair, and Replacement – These assets are available to make major repairs and replacements and to pay the cost of construction of additions, extensions and improvements to the water system. The account assets are:

Cash and Cash Equivalents	\$ 1,182,299	\$ 1,143,336
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Customer Deposits – These assets are available to secure deposits paid by customers that have been collected in accordance with the District’s tariff. When services are terminated, the deposit, plus interest, is applied to any unpaid bills or refunded to the customer if all billings have been paid. The account assets are:

Cash and Cash Equivalents	\$ 859,532	\$ 942,820
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NOTE 4 – ACCOUNTS RECEIVABLE

Accounts Receivable Arising From Billings of Metered Water Sales, Net of Allowance	\$ 7,785,823	\$ 6,756,320
Accrual for Estimated Unbilled Water Revenue	7,460,000	6,500,000
Other	70,350	425,504
Total	\$ 15,316,173	\$ 13,681,824

NOTE 5 – FAIR VALUE MEASUREMENT

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

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

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

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

NOTE 5 – FAIR VALUE MEASUREMENT (Continued)

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

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

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

	Level 1	Level 2	Level 3	Total
<i>Restricted Assets</i>				
Purchase and Resale Agreements	\$ -	\$ 732,136	\$ -	\$ 732,136
FAMC and FHLB Discount Notes	-	4,076,931	-	4,076,931
United States Treasuries	-	1,871,691	-	1,871,691
Total Restricted Assets at Fair Value	\$ -	\$ 6,680,758	\$ -	\$ 6,680,758

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

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

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the District for the year ended December 31, 2020, was as follows:

	Balance December 31, 2019	Additions	Deductions	Balance December 31, 2020
Land, System, Buildings and Equipment				
Land and Land Rights	\$ 3,267,226	\$ -	\$ -	\$ 3,267,226
Structures and Improvements	127,650,495	1,305,882	(7,589)	128,948,788
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	11,920,406	61,860	-	11,982,266
Water Treatment Equipment	30,195,064	58,202	-	30,253,266
Distribution Reservoirs and Standpipes	11,414,093	-	(60,000)	11,354,093
Transmissions and Distribution Mains	221,336,326	8,803,408	(397,539)	229,742,195
Services	32,900,511	1,802,607	(219,601)	34,483,517
Meters and Meter Installations Hydrants	20,158,876	500,049	(108,534)	20,550,391
10,379,057	430,690	(31,031)	10,778,716	
Other Plant and Miscellaneous Equipment	3,419,128	-	-	3,419,128
Office Furniture and Equipment	4,086,335	169,021	(41,227)	4,214,129
Transportation Equipment	4,327,386	1,032,182	(290,446)	5,069,122
Tools, Shop, and Garage Equipment	860,258	132,837	(2,079)	991,016
Laboratory Equipment	821,248	6,430	-	827,678
Power Operated Equipment	1,272,390	7,675	(4,139)	1,275,926
Communication Equipment	6,287,274	-	-	6,287,274
Miscellaneous Equipment	581,124	11,382	-	592,506
Utility Plant Acquisition Adjustment	545,925	-	-	545,925
Acquisition Adjustment - Newport	4,970,211	-	-	4,970,211
Total Land, System, Buildings and Equipment	504,213,720	14,322,225	(1,162,185)	517,373,760
Construction in Progress	13,054,992	6,463,851	(10,154,939)	9,363,904
Total Capital Assets	517,268,712	20,786,076	(11,317,124)	526,737,664
Less Accumulated Depreciation	173,614,575	12,301,512	(865,479)	185,050,608
Capital Assets - Net	\$ 343,654,137	\$ 8,484,564	\$ (10,451,645)	\$ 341,687,056

NOTE 7 – ARBITRAGE

The Tax Reform Act of 1986 (Act) substantially revised the treatment to be afforded to earnings on the proceeds of tax-exempt debt, and requires the District to calculate and remit rebatable arbitrage earnings to the Internal Revenue Service. Certain of the District's debt and interest earned on the proceeds thereof are subject to the requirements of the Act. The District has accrued a liability for estimated rebatable arbitrage earnings and has set aside such earnings as restricted cash. At December 31, 2020 and 2019, the arbitrage rebate liability was \$295,084 and \$734,477, respectively.

Rebate calculations are prepared annually. However, any liability due is only required to be paid every 5 years from the original date of the bond. During the year ended December 31, 2020, the District paid \$412,209. In the upcoming year, no payment is due and therefore no current portion is accrued for.

NOTE 8 – LONG-TERM DEBT

Revenue Bonds

Water District Revenue Bonds, Series 2011

In May 2011, the District sold \$30,830,000 of its Revenue Bonds in order to fund various construction projects. The bonds were refunded in October 2020 by the Refunding Revenue Bonds, Series 2020

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:

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2021	5.00%	\$ 4,365,000	\$ 1,574,625	\$ 5,939,625
2022	5.00%	4,590,000	1,350,750	5,940,750
2023	5.00%	4,720,000	1,118,000	5,838,000
2024	5.00%	4,970,000	875,750	5,845,750
2025	5.00%	5,220,000	621,000	5,841,000
2026-2027	5.00%	9,810,000	461,000	10,271,000
Total		\$ <u>33,675,000</u>	\$ <u>6,001,125</u>	\$ <u>39,676,125</u>

NOTE 8 – LONG-TERM DEBT (Continued)

Water District Revenue Bonds, Series 2013A

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

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

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2021	5.00%	\$ 795,000	\$ 932,401	\$ 1,727,401
2022	5.00%	835,000	891,651	1,726,651
2023	5.00%	880,000	848,776	1,728,776
2024	5.00%	925,000	803,651	1,728,651
2025	5.00%	970,000	756,276	1,726,276
2026-2030	4.00-5.00%	5,560,000	3,076,430	8,636,430
2031-2035	4.13-4.50%	6,855,000	1,781,822	8,636,822
2036-2038	4.13-4.25%	4,865,000	314,911	5,179,911
Total		<u>\$ 21,685,000</u>	<u>\$ 9,405,918</u>	<u>\$ 31,090,918</u>

Water District Refunding Revenue Bonds, Series 2013B

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

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

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

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2021	5.00%	\$ 1,355,000	\$ 559,075	\$ 1,914,075
2022	5.00%	1,430,000	489,450	1,919,450
2023	5.00%	1,500,000	416,200	1,916,200
2024	4.00%	1,570,000	347,300	1,917,300
2025	4.00%	1,635,000	283,200	1,918,200
2026-2028	4.00-5.00%	5,350,000	401,250	5,751,250
Total		<u>\$ 12,840,000</u>	<u>\$ 2,496,475</u>	<u>\$ 15,336,475</u>

NOTE 8 – LONG-TERM DEBT (Continued)

Water District Refunding Revenue Bonds, Series 2014B

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

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

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

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2021	5.00%	\$ 440,000	\$ 157,888	\$ 597,888
2022	5.00%	465,000	135,263	600,263
2023	3.00%	485,000	116,363	601,363
2024	3.00%	495,000	101,663	596,663
2025	4.00%	515,000	83,938	598,938
2026-2029	3.00-4.00%	<u>2,250,000</u>	<u>142,833</u>	<u>2,392,833</u>
Total		<u>\$ 4,650,000</u>	<u>\$ 737,948</u>	<u>\$ 5,387,948</u>

Water District Refunding Revenue Bonds, Series 2016A

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

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

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

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2021	5.00%	\$ 2,325,000	\$ 1,355,275	\$ 3,680,275
2022	5.00%	2,450,000	1,235,900	3,685,900
2023	5.00%	2,685,000	1,107,525	3,792,525
2024	5.00%	2,715,000	972,525	3,687,525
2025	5.00%	2,865,000	833,025	3,698,025
2026-2030	3.00-5.00%	16,455,000	2,067,700	18,522,700
2031	3.00%	<u>3,660,000</u>	<u>54,900</u>	<u>3,714,900</u>
Total		<u>\$ 33,155,000</u>	<u>\$ 7,626,850</u>	<u>\$ 40,781,850</u>

NOTE 8 – LONG-TERM DEBT (Continued)

Water District Refunding Revenue Bonds, Series 2019

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

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

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2021	3.00%	\$ 455,000	\$ 574,625	\$ 1,029,625
2022	3.00%	470,000	560,750	1,030,750
2023	4.00%	485,000	544,000	1,029,000
2024	4.00%	505,000	524,200	1,029,200
2025	5.00%	530,000	500,850	1,030,850
2026-2030	3.00-5.00%	3,070,000	2,084,075	5,154,075
2031-2035	3.00%	3,660,000	1,501,200	5,161,200
2036-2040	3.00%	4,250,000	909,000	5,159,000
2041-2044	3.00%	<u>3,885,000</u>	<u>237,375</u>	<u>4,122,375</u>
Total		\$ <u>17,310,000</u>	\$ <u>7,436,075</u>	\$ <u>24,746,075</u>

Water District Refunding Revenue Bonds, Series 2020

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

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

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

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2021	5.00%	\$ 1,270,000	\$ 587,587	\$ 1,857,587
2022	5.00%	1,110,000	746,950	1,856,950
2023	5.00%	1,165,000	690,075	1,855,075
2024	5.00%	1,225,000	630,325	1,855,325
2025	5.00%	1,290,000	567,450	1,857,450
2026-2030	3.00-5.00%	7,470,000	1,815,975	9,285,975
2031-2035	2.00-3.00%	<u>8,795,000</u>	<u>482,075</u>	<u>9,277,075</u>
Total		\$ <u>22,325,000</u>	\$ <u>5,520,437</u>	\$ <u>27,845,437</u>

NOTE 8 – LONG-TERM DEBT (Continued)

Rural Development Loan 91-02

In August 2000, the District closed on a loan agreement with the Department of Agriculture for the Sub District C Construction project. The amount of the loan was \$2,287,000 with an annual interest rate of 5.00%. The remaining balance of this loan was paid in full in October 2020 through the Refunding Revenue Bonds, Series 2020.

Rural Development Loan 91-03

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

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

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2021	\$ 27,000	\$ 46,557	\$ 73,557
2022	28,000	45,801	73,801
2023	28,500	45,024	73,524
2024	29,500	44,227	73,727
2025	30,500	43,402	73,902
2026-2030	164,000	203,871	367,871
2031-2035	187,500	179,746	367,246
2036-2040	215,500	152,069	367,569
2041-2045	246,500	120,377	366,877
2046-2050	282,500	84,047	366,547
2051-2055	323,500	42,480	365,980
2056-2057	143,500	3,995	147,495
Total	<u>\$ 1,706,500</u>	<u>\$ 1,011,596</u>	<u>\$ 2,718,096</u>

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

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

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

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

NOTE 8 – LONG-TERM DEBT (Continued)

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

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

Notes from Direct Borrowings

Fiscal Court of Kenton District, Kentucky

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

Kentucky Infrastructure Authority Loan F08-07

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

NOTE 8 – LONG-TERM DEBT (Continued)

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

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2021	\$ 196,704	\$ 30,575	\$ 227,279
2022	198,676	28,110	226,786
2023	200,668	25,620	226,288
2024	202,680	23,106	225,786
2025	204,711	20,566	225,277
2026-2030	1,054,757	63,832	1,118,589
2031-2032	<u>436,852</u>	<u>6,843</u>	<u>443,695</u>
Total	<u>\$ 2,495,048</u>	<u>\$ 198,652</u>	<u>\$ 2,693,700</u>

Kentucky Infrastructure Authority Loan F09-02

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

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

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2021	\$ 1,145,619	\$ 355,782	\$ 1,501,401
2022	1,168,646	329,876	1,498,522
2023	1,192,135	303,450	1,495,585
2024	1,216,098	276,493	1,492,591
2025	1,240,541	248,994	1,489,535
2026-2030	6,586,904	812,745	7,399,649
2031-2033	<u>3,547,538</u>	<u>120,524</u>	<u>3,668,062</u>
Total	<u>\$ 16,097,481</u>	<u>\$ 2,447,864</u>	<u>\$ 18,545,345</u>

Kentucky Infrastructure Authority Loan F13-012

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

Kentucky Infrastructure Authority Loan F14-015

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

NOTE 8 – LONG-TERM DEBT (Continued)

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

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2021	\$ 156,149	\$ 62,567	\$ 218,716
2022	158,893	59,431	218,324
2023	161,686	56,239	217,925
2024	164,529	52,991	217,520
2025	167,420	49,686	217,106
2026-2030	882,286	196,787	1,079,073
2031-2035	962,598	105,002	1,067,600
2036-2038	<u>513,676</u>	<u>15,501</u>	<u>529,177</u>
Total	<u>\$ 3,167,237</u>	<u>\$ 598,204</u>	<u>\$ 3,765,441</u>

Kentucky Infrastructure Authority Loan F15-011

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

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

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2021	\$ 155,672	\$ 62,377	\$ 218,049
2022	158,409	59,249	217,658
2023	161,193	56,067	217,260
2024	164,026	52,829	216,855
2025	166,909	49,535	216,444
2026-2030	879,596	196,187	1,075,783
2031-2035	959,663	104,683	1,064,346
2036-2038	<u>512,108</u>	<u>15,452</u>	<u>527,560</u>
Total	<u>\$ 3,157,576</u>	<u>\$ 596,379</u>	<u>\$ 3,753,955</u>

NOTE 8 – LONG-TERM DEBT (Continued)

Kentucky Infrastructure Authority Loan B15-003

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

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

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2021	\$ 66,315	\$ 11,221	\$ 77,536
2022	66,814	10,590	77,404
2023	67,316	9,954	77,270
2024	67,822	9,314	77,136
2025	68,331	8,668	76,999
2026-2030	349,435	33,486	382,921
2031-2035	362,762	16,606	379,368
2036-2037	148,949	1,772	150,721
Total	<u>\$ 1,197,744</u>	<u>\$ 101,611</u>	<u>\$ 1,299,355</u>

Kentucky Infrastructure Authority Loan F16-027

In July 2017, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds is \$5,385,000 at an interest rate of 1.75%. As of December 31, 2020, \$1,304,928 has been received. Payments will not begin until one year after the initiation of operation of the project, and therefore a maturity date has not been determined.

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

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

NORTHERN KENTUCKY WATER DISTRICT

NOTE 8 – LONG-TERM DEBT (Continued)

Changes in long-term debt are as follows:

	Debt Outstanding December 31, 2019	Additions of New Debt	Retirements and Repayments	Debt Outstanding December 31, 2020	Amounts Due Within 1 Year
Bond Indebtedness					
Rural Development Loan 91-02	\$ 1,692,000	\$ -	\$ 1,692,000	\$ -	\$ -
Rural Development Loan 91-03	1,733,000	-	26,500	1,706,500	27,000
Series 2011	23,490,000	-	23,490,000	-	-
Series 2011 Bond Premium	160,949	-	160,949	-	-
Series 2012	37,825,000	-	4,150,000	33,675,000	4,365,000
Series 2012 Bond Premium	4,782,032	-	562,592	4,219,440	562,592
Series 2013 A	22,440,000	-	755,000	21,685,000	795,000
Series 2013 A Bond Premium	929,355	-	50,236	879,119	50,235
Series 2013 B	14,135,000	-	1,295,000	12,840,000	1,355,000
Series 2013 B Bond Premium	1,043,948	-	119,309	924,639	119,308
Series 2014 B	6,155,000	-	1,505,000	4,650,000	440,000
Series 2014 B Bond Premium	842,249	-	84,225	758,024	84,225
Series 2016	35,535,000	-	2,380,000	33,155,000	2,325,000
Series 2016 Bond Premium	4,100,131	-	344,067	3,756,064	344,067
Series 2019	17,845,000	-	535,000	17,310,000	455,000
Series 2019 Bond Premium	1,070,449	-	43,396	1,027,053	43,397
Series 2020	-	22,325,000	-	22,325,000	1,270,000
Series 2020 Bond Premium	-	2,481,834	27,576	2,454,258	165,456
Total Bond Indebtedness	173,779,113	24,806,834	37,220,850	161,365,097	12,401,280
Notes Payable - Direct Borrowings					
KIA Loan F08-07	2,689,800	-	194,752	2,495,048	196,704
KIA Loan F09-02	17,220,527	-	1,123,046	16,097,481	1,145,619
KIA Loan F13-012	4,523,000	-	-	4,523,000	-
KIA Loan F14-015	3,320,689	-	153,452	3,167,237	156,149
KIA Loan F15-011	3,310,559	-	152,983	3,157,576	155,672
KIA Loan B15-003	1,263,566	-	65,822	1,197,744	66,315
KIA Loan F16-027	569,581	735,347	-	1,304,928	-
Kenton County Fiscal Court	100,000	-	-	100,000	-
Total Notes Payable - Direct Borrowings	32,997,722	735,347	1,690,055	32,043,014	1,720,459
Arbitrage Liability	734,477	-	439,393	295,084	-
Compensated Absences	1,005,126	364,012	-	1,369,138	99,611
Total Long-Term Debt	\$ 208,516,438	\$ 25,906,193	\$ 39,350,298	\$ 195,072,333	\$ 14,221,350

NOTE 9 – PENSION PLAN

General Information about the Pension Plan

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

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

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

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

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

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

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

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

NOTE 9 – PENSION PLAN (Continued)

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

Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).

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

Benefit Formula for Tier 3				
Accumulate Account Balance / Actuarial Factor = Monthly Life Annuity				
Accumulate Account Balance				
Member Contributions	Employer Contributions	Base Annual Interest	Upside Sharing Interest (FY 2020)	Actuarial Factor
5.00%	4.00%	4.00%	0.97%	Various*

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

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

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

NOTE 9 – PENSION PLAN (Continued)

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

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

House Bill 271 passed during the 2020 legislative session which removed provisions that reduce the monthly payment to a surviving spouse of a member whose death was due to an in line of duty or duty-related injury upon remarriage of the surviving spouse. It also increased benefits for a very small number of surviving spouses and dependent children who did not initially elect the in line of duty or duty-related benefit. There were no other material benefit provision changes since the prior valuation.

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

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

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

The employer contribution rates are set by the KRS Board under Kentucky Revised Statute 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly. SB 249 (passed during the 2020 legislative session) froze the contribution rates for one year so that the rates for fiscal year ended June 30, 2021 were equal to the rates for fiscal year ended June 30, 2020. For the fiscal years ended June 30, 2021, 2020, and 2019, participating employers contributed 24.06% (19.30% pension fund and 4.76% insurance fund), 24.06% (19.30% pension fund and 4.76% insurance fund), and 21.48% (16.22% pension fund and 5.26% 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 \$1,723,667 and \$1,557,127 for the years ended December 31, 2020 and 2019, respectively.

NOTE 9 – PENSION PLAN (Continued)

Plan Information for December 31, 2020 Financial Statements

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

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

For the year ended December 31, 2020, the District recognized pension expense of \$2,604,502. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 652,004	\$ -
Difference between expected and actual experience	649,739	-
Changes of assumptions	1,017,419	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	862,116	53,168
District contributions after measurement date	<u>885,281</u>	<u>-</u>
Total	<u>\$ 4,066,559</u>	<u>\$ 53,168</u>

The \$885,281 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

NOTE 9 – PENSION PLAN (Continued)

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

Valuation Date	June 30, 2019
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay Amortization Method
Remaining Amortization Period	30 years, closed
Asset Valuation Method	20% of the Difference Between the Market Value of Assets and the Expected Actuarial Value of Assets is Recognized
Inflation	2.30%
Payroll Growth Rate	2.00%
Salary Increase	3.30% to 10.30%, Varies by Service
Investment Rate of Return	6.25% Net of Pension Plan Investment Expense, Including Inflation

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

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

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

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

NOTE 9 – PENSION PLAN (Continued)

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

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

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

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Non-Hazardous	\$ 32,131,977	\$ 26,055,399	\$ 21,023,762

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

NOTE 9 – PENSION PLAN (Continued)

Plan Information for December 31, 2019 Financial Statements

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

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

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

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

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

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

NOTE 9 – PENSION PLAN (Continued)

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

Valuation Date	June 30, 2018
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay Amortization Method
Remaining Amortization Period	24 Years, Closed
Asset Valuation Method	20% of the Difference Between the Market Value of Assets and the Expected Actuarial Value of Assets is Recognized
Inflation	2.30%
Payroll Growth Rate	2.00%
Salary Increase	3.30% to 10.30%, Varies by Service
Investment Rate of Return	6.25% Net of Pension Plan Investment Expense, Including Inflation

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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

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

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

NOTE 9 – PENSION PLAN (Continued)

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

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

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

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

Other Information about the Pension Plan

Payable to the pension plan: At December 31, 2020 and 2019, the District reported a payable of \$167,861 and \$130,935 for the outstanding amount of contributions to the pension plan required for the years ended December 31, 2020 and 2019, 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 10 – OPEB PLAN

General Information about the OPEB Plan

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

NOTE 10 – OPEB PLAN (Continued)

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

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

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

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

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

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

NOTE 10 – OPEB PLAN (Continued)

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

The employer contribution rates are set by the KRS Board under Kentucky Revised Statute 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly. SB 249 (passed during the 2020 legislative session) froze the contribution rates for one year so that the rates for fiscal year ended June 30, 2021 were equal to the rates for fiscal year ended June 30, 2020. For the fiscal years ended June 30, 2021, 2020, and 2019, participating employers contributed 24.06% (19.30% pension fund and 4.76% insurance fund), 24.06% (19.30% pension fund and 4.76% insurance fund), and 21.48% (16.22% pension fund and 5.26% 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 \$425,112 and \$438,448 for the years ended December 31, 2020 and 2019, respectively.

Plan Information for December 31, 2020 Financial Statements

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

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

NOTE 10 – OPEB PLAN (Continued)

For the year ended December 31, 2020, the District recognized OPEB expense of \$564,502. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 272,567	\$ -
Difference between expected and actual experience	1,370,140	1,371,210
Changes of assumptions	1,426,411	8,674
Changes in proportion and difference between employer contributions and proportionate share of contributions	310,333	92,655
District contributions after measurement date	<u>218,338</u>	<u>-</u>
Total	<u>\$ 3,597,789</u>	<u>\$ 1,472,539</u>

The \$218,338 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Years Ending December 31,</u>	
2021	\$ 495,356
2022	576,020
2023	421,400
2024	420,964
2025	<u>(6,828)</u>
Total	<u>\$ 1,906,912</u>

NOTE 10 – OPEB PLAN (Continued)

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

Valuation Date	June 30, 2019
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay Amortization Method
Amortization Period	30 Years, Closed
Asset Valuation Method	20% of the Difference Between the Market Value of Assets and the Expected Actuarial Value of Assets is Recognized
Inflation	2.30%
Payroll Growth Rate	2.00%
Salary Increase	3.30% to 11.55%, Varies by Services
Investment Rate of Return	6.25%
Healthcare Cost Trend Rates (Pre-65)	Initial Trend Starting at 6.40% at January 1, 2022 and Gradually Decreasing to an Ultimate Trend Rate of 4.05% Over a Period of 14 Years.
Healthcare Cost Trend Rates (Post-65)	Initial Trend Starting at 2.90% at January 1, 2022, and Increasing to 6.30% in 2023, then Gradually Decreasing to an Ultimate Trend Rate of 4.05% Over a period of 14 Years.
Mortality	
Pre-retirement	PUB-2010 General Mortality Table, for the Non-Hazardous Systems, Projected with the Ultimate Rates from the MP-2014 Mortality Improvement Scale Using a Base Year of 2010
Post Retirement (non-disabled)	System-Specific Mortality Table Based on Mortality Experience from 2013-2018, Projected with the Ultimate Rates from MP-2014 Mortality Improvement Scale Using a Base Year of 2010.
Post Retirement (disabled)	PUB-2010 Disabled Mortality Table, with a 4-year Set-forward for both Male and Female Rates, Projected With the Ultimate Rates from the MP-2014 Mortality Improvement Scale Using a Base Year of 2010

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

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

NOTE 10 – OPEB PLAN (Continued)

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

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

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

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

NOTE 10 – OPEB PLAN (Continued)

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate: The following present's the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.34% for non-hazardous) or 1-percentage-point higher (6.34% for non-hazardous) than the current rate:

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

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

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

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

Plan Information for December 31, 2019 Financial Statements

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

At December 31, 2019, the District reported a liability of \$5,563,369 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2019, using generally accepted actuarial principles. The District's proportion of the net OPEB liability was based on the District's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2019, the District's proportion for the non-hazardous system was 0.330768%, which was an increase of 0.018493% from its proportion measured as of December 31, 2018.

NOTE 10 – OPEB PLAN (Continued)

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

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

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

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

NOTE 10 – OPEB PLAN (Continued)

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

Valuation Date	June 30, 2019
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percent of Pay Amortization Method
Amortization Period	24 Years, Closed
Asset Valuation Method	20% of the Difference Between the Market Value of Assets and the Expected Actuarial Value of Assets is Recognized
Inflation	2.00%
Payroll Growth Rate	2.30%
Salary Increase	3.30 to 10.30%, Varies by Service
Investment Rate of Return	6.25%
Healthcare Cost Trend Rates (Pre-65)	Initial Trend Starting at 7.00% at January 1, 2020 and Gradually Decreasing to an Ultimate Trend Rate of 4.05% Over a Period of 12 Years
Healthcare Cost Trend Rates (Post-65)	Initial trend starting at 5.00% at January 1, 2020 and 4.05% Over a Period of 10 Years.
Mortality	
Pre-retirement	PUB-2010 General Mortality Table, for the Non-Hazardous Systems, Projected with the Ultimate Rates from the MP-2014 Mortality Improvement Scale Using a Base Year of 2010
Post Retirement (non-disabled)	System-Specific Mortality Table Based on Mortality Experience from 2013-2018, Projected with the Ultimate Rates from MP-2014 Mortality Improvement Scale Using a Base Year of 2019.
Post Retirement (disabled)	PUB-2010 Disabled Mortality Table, with a 4-year Set-forward for both Male and Female Rates, Projected With the Ultimate Rates from the MP-2014 Mortality Improvement Scale Using a Base Year of 2010

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

NOTE 10 – OPEB PLAN (Continued)

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

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

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

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

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

NOTE 10 – OPEB PLAN (Continued)

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

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

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

Other Information about the OPEB Plan

Payable to the OPEB Plan: At December 31, 2020 and 2019, the District reported a payable of \$41,400 and \$32,293 for the outstanding amount of contributions to the OPEB plan required for the years ended December 31, 2020 and 2019, respectively.

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

NOTE 11 – OPERATING LEASES

The District is obligated under certain non-cancelable leases for equipment. The leases expire at various dates through June 2024. Lease expense for the years ended December 31, 2020 and 2019 were \$16,041 and \$11,312, respectively.

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

<u>Years Ending December 31,</u>	
2021	\$ 16,041
2022	16,041
2023	16,041
2024	<u>5,827</u>
	<u>\$ 53,950</u>

NOTE 12 – ECONOMIC DEPENDENCY

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

NOTE 13 – RISKS AND UNCERTAINTIES – COVID-19 OUTBREAK

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

NOTE 14 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through April 15, 2021, which is the date the financial statements were available to be issued.

In March 2021, the District issued \$24,685,000 of Revenue Bond Anticipation Notes, Series 2021A. The proceeds are to be used to finance the costs of additions and improvements to the District's public water system.

In February 2021, the Board of Commissioners of the District passed a resolution to authorize the issuance, sale, execution, and delivery of its Revenue Bonds, Series 2023A, in an approximate aggregate amount of \$27,000,000. The proceeds are to be used to discharge the Series 2021A Notes on their scheduled maturity date and to provide a permanent means of financing the costs of the additions and improvements to the public water system.

REQUIRED SUPPLEMENTARY INFORMATION

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
DECEMBER 31, 2020**

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's Proportion of the Net Pension Liability - Non-Hazardous	0.339709%	0.330854%	0.312275%	0.320590%	0.335200%	0.344120%	0.333600%
Total District's Proportionate Share of the Net Pension Liability	\$ <u>26,055,399</u>	\$ <u>23,269,110</u>	<u>19,018,499</u>	\$ <u>18,765,118</u>	\$ <u>16,504,154</u>	\$ <u>14,819,690</u>	\$ <u>11,002,199</u>
District's Covered Payroll	\$ <u>8,757,359</u>	\$ <u>8,040,890</u>	<u>7,779,594</u>	\$ <u>7,880,340</u>	\$ <u>7,925,067</u>	\$ <u>7,972,340</u>	\$ <u>7,931,952</u>
District's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	297.53%	289.38%	244.47%	238.13%	208.25%	185.89%	138.71%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability - Non-Hazardous	47.81%	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%

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

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS
DECEMBER 31, 2020**

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

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

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

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
DECEMBER 31, 2020**

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
District's Proportion of the Net OPEB Liability - Non-Hazardous	0.339610%	0.330768%	0.312275%	0.320590%	0.335200%
Total District's Proportionate Share of the Net OPEB Liability	\$ <u>8,200,549</u>	\$ <u>5,563,369</u>	\$ <u>5,544,345</u>	\$ <u>6,444,956</u>	\$ <u>5,055,231</u>
District's Covered Payroll	\$ <u>8,757,359</u>	\$ <u>8,040,890</u>	\$ <u>7,779,594</u>	\$ <u>7,880,340</u>	\$ <u>7,925,067</u>
District's Proportionate Share of the Net OPEB Liability as a Percentage of Its Covered Payroll	93.64%	69.19%	71.27%	81.79%	63.79%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability - Non-Hazardous	51.67%	60.44%	57.62%	52.39%	55.24%

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

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
DECEMBER 31, 2020**

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

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

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

OTHER SUPPLEMENTARY INFORMATION

**NORTHERN KENTUCKY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET TO ACTUAL
YEAR ENDED DECEMBER 31, 2020**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues			
Water Sales	\$ 56,528,724	\$ 59,767,687	\$ 3,238,963
Forfeited Discounts	821,100	237,109	(583,991)
Rents From Property	367,900	548,933	181,033
Other Water Revenues	<u>380,000</u>	<u>197,927</u>	<u>(182,073)</u>
Total Operating Revenues	<u>58,097,724</u>	<u>60,751,656</u>	<u>2,653,932</u>
Operating Expenses			
Operation and Maintenance Expense	31,169,960	28,706,549	2,463,411
Depreciation Expense	<u>11,952,000</u>	<u>12,301,512</u>	<u>(349,512)</u>
Total Operating Expenses	<u>43,121,960</u>	<u>41,008,061</u>	<u>2,113,899</u>
Net Operating Income	<u>14,975,764</u>	<u>19,743,595</u>	<u>4,767,831</u>
Non-Operating Income (Expense)			
Investment Income	1,506,800	688,108	(818,692)
Miscellaneous Non-Operating Income	120,400	112,631	(7,769)
Loss on Abandonment of Mains	-	(264,847)	(264,847)
Interest on Long-Term Debt and Customer Deposits	(7,437,585)	(6,555,100)	882,485
Amortization of Debt Premiums and Defeasance Costs	-	851,294	851,294
Bond Issuance Costs	-	(226,603)	(226,603)
Pension Expense	-	(2,604,502)	(2,604,502)
Other Post Employment Benefit Expense	-	(564,502)	(564,502)
Arbitrage Rebate	-	27,184	27,184
Gain on Sale of Capital Assets	<u>-</u>	<u>60,861</u>	<u>60,861</u>
Total Non-Operating Expense	<u>(5,810,385)</u>	<u>(8,475,476)</u>	<u>(2,665,091)</u>
Change in Net Position Before Capital Contributions	9,165,379	11,268,119	2,102,740
Capital Contributions	<u>-</u>	<u>2,099,143</u>	<u>2,099,143</u>
Change in Net Position	<u>\$ 9,165,379</u>	<u>\$ 13,367,262</u>	<u>\$ 4,201,883</u>

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

	Years Ended December 31,	
	2020	2019
Operating Revenues		
Metered Sales		
Sales to Residential Customers	\$ 37,580,425	\$ 34,204,142
Sales to Commercial Customers	7,564,583	7,752,357
Sales to Industrial Customers	4,697,395	4,239,685
Sales to Public Authorities	2,152,780	2,673,446
Sales to Multiple Family Dwellings	5,830,240	5,048,482
Sales Through Bulk Loading Stations	<u>72,063</u>	<u>66,697</u>
Total Metered Sales	57,897,486	53,984,809
Fire Protection Revenue	44,657	66,062
Sales For Resale	<u>1,825,544</u>	<u>1,713,358</u>
Total Sales of Water	59,767,687	55,764,229
Other Revenue	<u>983,969</u>	<u>1,803,665</u>
Total Operating Revenues	<u>\$ 60,751,656</u>	<u>\$ 57,567,894</u>

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

	Years Ended December 31,	
	2020	2019
Operating and Maintenance Expenses		
Salaries and Wages	\$ 9,222,495	\$ 9,158,236
Employee Pensions and Benefits	5,326,550	5,423,579
Taxes Other Than Income Taxes	651,852	648,930
Purchased Power	2,585,613	2,718,677
Chemicals	2,573,311	2,664,632
Materials and Supplies	2,413,632	2,375,356
Contractual Services	3,998,476	3,744,244
Transportation Expenses	506,318	605,498
Insurance	719,772	614,425
Bad Debt Expense	355,158	424,805
Miscellaneous Expense	209,775	228,075
Regulatory Commission Assessment	143,597	132,432
	<u>28,706,549</u>	<u>28,738,889</u>
Total Operating and Maintenance Expenses	\$ <u>28,706,549</u>	\$ <u>28,738,889</u>

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF INSURANCE COVERAGES
December 31, 2020**

<u>Company</u>	<u>Policy Number</u>	<u>Description of Coverage</u>	<u>Amount of Coverage</u>	<u>Effective Period</u>	
				<u>From</u>	<u>To</u>
Travelers Insurance	ZLP14T8065319	General Liability	\$ 1,000,000	1/1/2020	1/1/2021
Travelers Insurance	ZUP14T8066519	Umbrella	\$ 19,000,000	1/1/2020	1/1/2021
Travelers Insurance	ZLP14T8065319	Public Officials	\$ 1,000,000	1/1/2020	1/1/2021
Travelers Insurance	H8102721X112COF19	Business Auto	\$ 1,000,000	1/1/2020	1/1/2021
Travelers Insurance	H6302721X112TIL19	Property-Including Equipment	\$ 299,407,063	1/1/2020	1/1/2021
Travelers Insurance	H6302721X112TIL19	Employee Dishonesty	\$ 500,000	1/1/2020	1/1/2021
Travelers Insurance	ZPL14P0759919	Cyber Liability	\$ 2,000,000	1/1/2020	1/1/2021
Kentucky Employers Mutual Insurance	WC 338786	Worker's Compensation	\$ 1,000,000	7/1/2019	7/1/2020
Kentucky Employers Mutual Insurance	WC 338786	Worker's Compensation	\$ 1,000,000	7/1/2020	7/1/2021
Cincinnati Insurance	8877070	Fidelity Bond	Per Application	1/1/2020	12/31/2020
Great American Insurance	PEL1093742-02	Pollution Liability	\$ 15,000,000	1/1/2019	1/1/2022

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF RATES, RULES AND REGULATIONS
DECEMBER 31, 2020**

RETAIL WATER RATES

1. Monthly Service Rate

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

Sub District B shall be assessed a monthly surcharge in the amount of	\$	12.53
Sub District C shall be assessed a monthly surcharge in the amount of	\$	10.87
Sub District D shall be assessed a monthly surcharge in the amount of	\$	39.30
Sub District E shall be assessed a monthly surcharge in the amount of	\$	30.00
Sub District F shall be assessed a monthly surcharge in the amount of	\$	15.55
Sub District G shall be assessed a monthly surcharge in the amount of	\$	20.55
Sub District H shall be assessed a monthly surcharge in the amount of	\$	30.00
Sub District I shall be assessed a monthly surcharge in the amount of	\$	30.00
Sub District K shall be assessed a monthly surcharge in the amount of	\$	6.45
Sub District M shall be assessed a monthly surcharge in the amount of	\$	30.00
Sub District R shall be assessed a monthly surcharge in the amount of	\$	19.09
Sub District RF shall be assessed a monthly surcharge in the amount of	\$	21.61
Sub District RL shall be assessed a monthly surcharge in the amount of	\$	24.84

2. Quarterly Rates

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

3. Fixed Service Charge

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

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF RATES, RULES AND REGULATIONS
DECEMBER 31, 2020
(CONTINUED)**

WHOLESALE WATER RATES

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

MISCELLANEOUS SERVICE FEES

Service Area Non-Recurring Charges

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

**NORTHERN KENTUCKY WATER DISTRICT
MEMBERS OF THE COMMISSION AND ADMINISTRATIVE STAFF
DECEMBER 31, 2020**

<u>COMMISSIONERS</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Douglas C Wagner, CDT	Chair	August 26, 2021
Joseph J. Koester	Vice-Chair	July 31, 2024
Jody R. Lange, CPA, CGMA	Treasurer	August 28, 2023
Fred A. Macke, Jr.	Secretary	August 26, 2024
Clyde Cunningham		August 28, 2023
Dr. Patricia Sommercamp		August 28, 2021

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

**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, 2020 and the related notes to the financial statements, which collectively comprise the Northern Kentucky Water District's basic financial statements, and have issued our report thereon dated April 15, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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



Purpose of this Report

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

VonLehman & Company Inc.

Fort Wright, Kentucky
April 15, 2021