



CLARK SCHAEFER HACKETT
BUSINESS ADVISORS

TRANSIT AUTHORITY OF NORTHERN KENTUCKY

Financial Statements

June 30, 2021

(with Independent Auditors' Report)

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Transit Authority of Northern Kentucky
Ft. Wright, KY 41017

Report on the Financial Statements

We have audited the accompanying financial statements of the Transit Authority of Northern Kentucky (the "Authority"), as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Transit Authority of Northern Kentucky as of June 30, 2021, and the changes in its financial position and its cash flows for the year 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 management's discussion and analysis, the schedule of changes in the Authority's net pension liability, and the schedule of Authority's contributions, as listed in the table of contents, 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 Authority's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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, schedule of expenditures of federal awards 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 December 8, 2021 on our consideration of the Authority'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 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 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 Authority's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Ft. Mitchell, KY
December 8, 2021

This discussion and analysis provides key information from management highlighting the overall financial performance of the Transit Authority of Northern Kentucky (the "Authority" or "TANK") for the year ended June 30, 2021. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the financial statements as a whole.

Financial highlights

Major financial highlights for fiscal year 2021 are listed below:

- ✓ The Authority's total net position at the end of fiscal year 2021 was \$29,402,265, which represents an increase of \$5,495,859, or 23.0%, compared to the balance at end of the prior year.
- ✓ Operating revenue for the year was \$2,393,833, which represents a decrease of \$925,501, or 27.9%, from fiscal year 2020.
- ✓ Operating expenses for the year (excluding depreciation) were \$22,491,875 which represents a decrease of \$98,921, or 0.4%, under the prior year.
- ✓ Non-operating revenues, including federal, state and local reimbursements (excluding pass-through grants), were \$24,632,427 in fiscal year 2021, which represents an increase of \$3,449,678, or 16.3%, compared to fiscal year 2020.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which includes the basic financial statements and the notes to the financial statements.

Required Financial Statements

The financial statements of the Authority are designed to provide readers with a broad overview of the Authority's finances in a manner similar to private-sector business. The statement of net position presents financial information on all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference 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 Authority is improving or deteriorating. The statement of revenues, expenses and changes in net position presents information about how the Authority's net position changed during the fiscal year. All changes in net position are reported as soon as the event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave). The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, capital, and financing activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Net Position for the years ending June 30, 2021 and 2020:

The following is a summary of the major components of net position of the Authority as of and for the years ended June 30:

		Net Position	
		As of June 30	
		2021	2020
Current assets	\$	6,412,791	6,284,700
Noncurrent assets:			
Investments		5,105,473	2,554,910
Capital assets (net of depreciation)		35,762,464	34,657,849
		47,280,728	43,497,459
Deferred outflows of resources		1,690,679	1,720,560
Current liabilities		2,944,647	3,249,766
Noncurrent liabilities:			
Net pension liability		14,231,321	14,235,222
		17,175,968	17,484,988
Deferred inflows of resources		2,393,174	3,826,625
Net position:			
Net investment in capital assets		35,762,464	34,657,849
Unrestricted		(6,360,199)	(10,751,443)
	\$	29,402,265	23,906,406

As noted earlier, net position over time may serve as a useful indicator of the Authority's financial position. As of June 30, 2021, the Authority's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$29,402,265, which is an increase in net position of \$5,495,859, or 23.0%, from fiscal year 2020.

The largest portion of the Authority's net position is its investment in capital assets. Capital assets include land and land improvements, revenue producing and service equipment, buildings and structures, shop equipment, office furnishings and computer equipment. The Authority uses these capital assets to provide public transportation service in Northern Kentucky and Downtown Cincinnati. These assets are not available to liquidate liabilities or for other spending. The Authority's investment in capital assets as of June 30, 2021, amounts to \$35,762,464, net of accumulated depreciation, which is an increase of \$1,104,615, or 3.2%, from fiscal year 2020. Major capital asset additions during fiscal year 2021 included the purchase of 9 new 40-foot, low floor buses, 7 new RAMP vehicles, a wireless router system for each revenue vehicle, new FRT scheduling software, as well as miscellaneous shop equipment. Total acquisitions for the year, approximately \$6,150,000. These additions were offset by depreciation expense for the year of \$5,150,673.

Transit Authority of Northern Kentucky
Management's Discussion and Analysis
For the Year Ended June 30, 2021
(Unaudited)

Operating Results
For the Year Ended June 30

	2021	2020
Operating revenues	\$ 2,393,833	3,319,334
Operating expenses other than depreciation	22,491,875	22,590,796
Depreciation	5,150,673	5,158,856
Total operating expenses	27,642,548	27,749,652
Operating loss	(25,248,715)	(24,430,318)
Nonoperating revenues, net	24,632,427	21,182,749
Net Loss before capital grant activity	(616,288)	(3,247,569)
Capital grant revenue	6,112,147	5,657,191
Change in net position	5,495,859	2,409,622
Net position - beginning of year	23,906,406	21,496,784
Net position - end of year	\$ 29,402,265	23,906,406

Operating Revenues

The Authority's operating revenues were \$2,393,833 in fiscal year 2021, which represents a decrease of \$925,501, or 27.9%, compared to fiscal year 2020. Overall ridership demand significantly decreased due to the COVID-19 pandemic. In March of 2020, the Authority began operating on a reduced schedule and stopped collecting fares from riders until August of 2020, as result the pandemic.

Operating Expenses

The Authority's operating expenses other than depreciation were \$22,491,875 in fiscal year 2021, which was comparable to the prior and represents only a small decrease of \$98,921, or 0.4%, compared to fiscal year 2020.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, significantly revised accounting for pension costs and liabilities. GASB Statement No. 68 dictates the net pension liability of Authority equals the present value of estimated future pension benefits attributable to active and inactive employees' past service minus pension plan assets available to pay these benefits.

GASB notes pension obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit for the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Authority is not responsible for certain key factors affecting the balance of this liability. The contributions to and benefits paid by the pension plan are negotiated with the employee bargaining unit, and extended to exempt employees. Employees share the obligation of funding pension benefits with the Authority. The annual contribution amount by the Authority to the pension plan is established within the negotiated agreement and no other provisions exist which would require the Authority to provide additional contributions. The responsibility for management of the pension fund rests exclusively with the pension committee.

Nonoperating Revenues

In fiscal year 2021, nonoperating revenues were \$24,632,427 which represents an increase of \$3,449,678 or 16.3%, from fiscal year 2020 primarily due to additional federal and local grant reimbursements received during the year, per the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020.

Statement of Cash Flows

Another way to assess the financial health of the Authority is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also helps users assess an entity’s ability to generate future net cash flows, its ability to meet its obligations as they come due and its need for external financing.

A comparative summary of the Authority’s cash flows are as follows:

Cash Flows		
For the Year Ended June 30		
	2021	(Revised) 2020
Net cash from:		
Operating activities	\$ (21,229,959)	(20,984,852)
Noncapital financing activities	25,311,724	20,240,522
Capital and related financing activities	(142,399)	119,868
Investing activities	(1,058,862)	710,006
Change in cash and cash equivalents	2,880,504	85,544
Cash and cash equivalents - beginning of year	1,928,553	1,843,009
Cash and cash equivalents - end of year	\$ 4,809,057	1,928,553

Operating activities decreased due to a significant drop of \$799,700, or 35.8%, in passenger fares collected during 2021 of as result of the COVID-19 pandemic discussed earlier. The increase in noncapital financing activities was due to the additional federal funding received through the Federal CARES Act. The increase in capital and related financing activities is associated with additional federal grant revenues used for vehicle purchases made during fiscal year 2021 compared to 2020. The decrease in investing activities is due to the Authority’s significant purchases of long-term investments during fiscal year 2021.

Capital assets

At June 30, 2021, the Authority had \$83.1 million invested in capital assets, net of accumulated depreciation of \$47.4 million. Depreciation charges totaled \$5.2 million for the current fiscal year. A comparative summary of these assets is as follows:

Capital Assets, Net of Accumulated Depreciation
As of June 30

	2021	2020
Land	\$ 2,252,930	2,252,930
Construction in progress	152,272	-
Buildings and improvements	3,648,143	4,044,196
Revenue vehicles	26,970,947	25,320,358
Transportation equipment	362,625	390,719
General equipment	2,375,547	2,649,646
	\$ 35,762,464	34,657,849

More detailed information about the Authority's capital assets is presented in note 4 to the financial statements.

Economic factors that will affect the future

Despite the uncertain general economic outlook (due to COVID concerns), and the unclear impact of TANK's newly redesigned route system (based on changes in employment and population patterns), TANK expects only minor changes in net position over the next 12 to 24 months. This is due to the availability of CARES Act funding, and incremental changes to County funding levels required to meet upcoming operating expenses. On the capital side, TANK's Transit Asset Management Plan (TAM) calls for the continued routine replacement of vehicles and equipment, along with budgeted capital projects related to the rehabilitation of the Ft. Wright facilities.

Request for Additional Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the TANK's finances and to show TANK's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Transit Authority of Northern Kentucky, 3375 Madison Pike, Ft. Wright, Kentucky, 41017.

Transit Authority of Northern Kentucky
Statement of Net Position
June 30, 2021

Assets

Current assets

Cash and cash equivalents	\$	4,791,359
Investments		731,855
Receivables:		
Trade		12,244
Grants and reimbursements		75,014
Capital assistance		25,038
Materials and supplies inventory		666,300
Prepaid items		93,283
Board designated assets:		
Cash and cash equivalents		<u>17,698</u>
Total current assets		<u>6,412,791</u>

Noncurrent assets

Investments		4,791,689
Board designated assets:		
Investments		313,784
Capital Assets:		
Capital assets not being depreciated		2,405,202
Capital assets being depreciated, net		<u>33,357,262</u>
Capital assets, net		<u>35,762,464</u>
Total noncurrent assets		<u>40,867,937</u>
Total assets		<u>47,280,728</u>

Deferred Outflows of Resources

Pensions		<u>1,690,679</u>
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Liabilities

Current liabilities

Advances from state governments		973,076
Accounts payable		287,026
Accrued payroll and payroll taxes		543,906
Other accrued expenditures		979,639
Accrued liability for accident claims		<u>161,000</u>
Total current liabilities		<u>2,944,647</u>

Noncurrent liabilities

Net pension liability		<u>14,231,321</u>
Total liabilities		<u>17,175,968</u>

Deferred Inflows of Resources

Pensions		<u>2,393,174</u>
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Net Position

Net investment in capital assets		35,762,464
Unrestricted		<u>(6,360,199)</u>
Total net position	\$	<u><u>29,402,265</u></u>

See accompanying notes to the basic financial statements.

Transit Authority of Northern Kentucky
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2021

Operating revenues:	
Passenger fares	\$ 1,433,614
Special transit fares	646,571
Advertising revenue	<u>313,648</u>
Total operating revenues	<u>2,393,833</u>
Operating expenses:	
Labor	11,752,479
Employee benefits	5,311,818
Materials and supplies	2,872,058
Services	848,341
Utilities	301,428
Casualty and liability insurance	814,651
Leases and rentals	169,770
Fuel taxes	182,899
Miscellaneous	<u>238,431</u>
Total operating expenses	<u>22,491,875</u>
Operating loss before depreciation	<u>(20,098,042)</u>
Depreciation expense:	
On assets acquired with capital grants	<u>5,150,673</u>
Operating loss	<u>(25,248,715)</u>
Nonoperating revenues:	
Federal grants and reimbursements	6,783,327
Commonwealth of Kentucky grants and reimbursements	357,044
Local grants	17,456,987
Investment income	31,320
Other nonoperating revenue	<u>3,749</u>
Total nonoperating revenues	<u>24,632,427</u>
Loss before other revenues, expenses, gains or losses	(616,288)
Capital grant revenue	<u>6,112,147</u>
Change in net position	5,495,859
Net position - beginning of year	<u>23,906,406</u>
Net position - end of year	\$ <u><u>29,402,265</u></u>

See accompanying notes to the basic financial statements.

Transit Authority of Northern Kentucky
Statement of Cash Flows
Year Ended June 30, 2021

Cash flows from operating activities:	
Cash received from customers	\$ 2,410,178
Cash payments to suppliers for goods services	(5,271,834)
Cash payments to employees for services	(11,569,913)
Cash payments for employee benefits	<u>(6,798,390)</u>
Net cash used by operating activities	<u>(21,229,959)</u>
Cash flows from noncapital financing activities:	
Operating grants received	25,307,975
Other	<u>3,749</u>
Net cash provided by noncapital financing activities	<u>25,311,724</u>
Cash flows from capital and related financing activities:	
Capital grants received:	
Federal	5,593,466
State	519,423
Proceeds from sale of capital assets	41,704
Capital asset purchases	<u>(6,296,992)</u>
Net used by capital and related financing activities	<u>(142,399)</u>
Cash flows from investing activities:	
Investment income	31,320
Purchases of investments	(3,240,000)
Proceeds from sale of investments	<u>2,149,818</u>
Net cash used by investing activities	<u>(1,058,862)</u>
Change in cash and cash equivalents	2,880,504
Cash and cash equivalents - beginning of year	<u>1,928,553</u>
Cash and cash equivalents - end of year	\$ <u><u>4,809,057</u></u>
Reconciliation of cash and cash equivalents to the statement of net position:	
Cash and cash equivalents - current	\$ 4,791,359
Cash and cash equivalents - board designated	<u>17,698</u>
Cash and cash equivalents on statement of cash flows	\$ <u><u>4,809,057</u></u>

See accompanying notes to the basic financial statements.

Transit Authority of Northern Kentucky
Statement of Cash Flows (Continued)
Year Ended June 30, 2021

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (25,248,715)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	5,150,673
Changes in assets and liabilities:	
Accounts receivable - trade	16,345
Materials and supplies inventory	215,599
Prepaid items	(10,863)
Deferred outflows of resources	29,881
Accounts payable	(43,992)
Accrued payroll and payroll taxes	182,566
Other accrued expenditures	(79,101)
Accrued liability for accident claims	(5,000)
Net pension liability	(3,901)
Deferred inflows of resources	<u>(1,433,451)</u>
Net cash used by operating activities	\$ <u>(21,229,959)</u>

See accompanying notes to the basic financial statements.

1. ORGANIZATION AND DEFINITION OF THE ENTITY

The Transit Authority of Northern Kentucky (the "Authority" or "TANK") was created pursuant to section 96A of the Kentucky Revised Statute for the purpose of providing the public transportation in Boone, Campbell and Kenton Counties. As a political subdivision, it is distinct from, and is not an agency of the State of Kentucky, or any other local governmental unit. The Authority is not subject to federal or state income taxes.

The Authority has adopted the provisions of Statement No. 14 of the Governmental Accounting Standards Board ("GASB"), "The Financial Reporting Entity, as amended by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement No. 14). Accordingly, the accompanying financial statements include only the accounts and transactions of the Authority. Under the criteria specified in Statement No. 14 and 39, the Authority has no component units nor is it considered a component unit of any other governmental entity. The Authority is, however, considered to be a related organization to the counties of Boone, Campbell and Kenton (collectively the "Counties") by virtue of the County/TANK agreements (see Notes 2 and 5) and the fact that the Authority's Board of Directors is appointed by the Judge Executives of their respective county.

These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The Authority is not financially accountable for any other organization nor are the Counties accountable for the Authority. This is evidenced by the fact that the Authority is a legally and fiscally separate and distinct organization under the provisions of the Kentucky Revised Statute.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. All transactions are accounted for in a single enterprise fund.

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles.

Budgetary Basis of Accounting

The Authority prepares an annual budget for internal use covering the period July 1 through June 30. A significant funding source of the Authority is federal and local grants that have grant periods that may or may not coincide with TANK's fiscal year. These grants normally are for a twelve-month period; however, they can be awarded for periods shorter or longer than twelve months. The TANK's Board of Directors formally approves the annual budget with emphasis on complying with grant budgets, terms and conditions on a grant-by-grant basis. These terms and conditions usually specify the period during which costs may be incurred and outline budget restrictions or allowances. Although the annual budget is reviewed and approved by the Authority, it is not a legally adopted budget.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid investments (including restricted assets) with maturity, at the date of purchase, of three months or less to be cash equivalents.

Fair Value Measurement

GAAP has a three-level hierarchy for fair value measurements based on transparency of valuation inputs as of the measurement date. The hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows: Level 1 inputs are unadjusted quoted prices for identical assets in active markets; Level 2 inputs are observable quoted prices for similar assets in active markets; Level 3 inputs are unobservable and reflect management's best estimate of what market participants would use as fair value.

Prepaid Items

Prepaid items consist of normal operating expenses for which payment is due in advance such as insurance and are expensed when the benefit is received.

Materials and Supplies Inventory

Materials and supplies inventory are stated at cost using the average cost method. Inventory generally consists of maintenance parts and supplies for rolling stock, other transportation equipment and fuel.

Board Designated Assets

These assets are designated for the payment of accident claims under the Authority's self-insurance Program.

Capital Assets

Property, facilities and equipment are stated at historical cost. The cost of normal maintenance and repairs is charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related properties.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective capital assets, as follows:

Buildings and improvements	20 – 40 years
Transportation equipment	5 – 12 years
General equipment	3 – 15 years
Revenue vehicles	5 – 12 years

Recognition of Revenue, Receivables and Advances from Governments

The Authority considers passenger fares, special transit and bus advertising revenues as operating revenues. Non-operating revenues are subsidies received from federal, state and local sources. Expenses incurred for the daily operations of the transit system are considered operating expenses. Passenger fares are recorded as revenue at the time services are performed and revenues pass through the farebox.

The Authority grants credit to advertising customers and passenger groups. The Authority considers all accounts receivable to be collectible; therefore, an allowance for doubtful accounts is not considered necessary by management. Accounts are charged to bad debt expense at the time they are determined to be uncollectible.

The Federal Transit Administration ("FTA") provides financial assistance and makes grants directly to the Authority for operation and acquisition of property, facilities and equipment. The Kentucky Transportation Cabinet ("Cabinet") provides reimbursement for a portion of the fuel tax paid by the Authority and provides grants for the acquisition of property, facilities and equipment. Operating grant awards made on the basis of entitlement periods are recorded as grant receivables and revenues over the entitlement period. Cabinet grants for the acquisition of property, facilities and equipment (reimbursement type grants) are recorded as grants receivable and credited to contributed capital when the related qualified capital outlay are incurred.

Historically, differences between capital outlay incurred and amounts received have been insignificant. Accordingly, no provision for uncollectible amounts is considered necessary by management. Capital assistance receivable from the local counties is adjusted for any differences determined to be uncollectible and charged to bad debt expense. For the year ended June 30, 2021, all receivables were deemed collectible and there was no bad debt expense.

Compensated Absences

The Authority accrues vacation as earned by its employees. Because rights to sick pay do not vest, TANK recognizes such costs when they are incurred.

Pension

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 Transit Authority of Northern Kentucky Disability and Retirement Allowance Plan (the “Plan”) and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources and liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Passenger Fares

Passenger fares are recorded as revenue at the time services are performed.

Advertising Costs

Advertising and sales promotion costs are expensed as incurred. Advertising expense totaled \$103,693 for the year ended June 30, 2021, and is included in miscellaneous operating expenses in the statement of activities.

Nonexchange Transactions

Nonexchange transactions, in which the Authority receives value without directly giving equal value in return, primarily include reimbursement-type grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

Net Position

Net position classifications are defined as follows:

Investment in capital assets – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Unrestricted – This consists of net position that does not meet the definition of “investment in capital assets”.

Adoption of New Accounting Pronouncements

For the fiscal year ended June 30, 2021, the Authority implemented GASB Statement No. 84, *Fiduciary Activities* and GASB Statement No. 90, *Majority Equity Interests—An Amendment of GASB Statements No. 14 And No. 61*.

GASB Statement No. 84 establishes criteria for identifying fiduciary activities. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. GASB Statement No. 84 did not impact the Authority’s financial statements since the Authority does not have any material fiduciary relationships that meet the criteria of this statement.

GASB Statement No. 90 defines specific reporting and disclosure requirements related to the presentation of majority equity interests in legally separate organizations. In addition, this Statement sets forth specific reporting requirements for component units if a government acquires a 100 percent equity interest. This statement had no effect on beginning net position.

3. CASH AND INVESTMENTS

A summary of cash and investments at June 30, 2021 is as follows:

Operating Accounts:	
Cash and cash equivalents	\$ 1,066,207
U.S. Government money market	<u>3,742,850</u>
Total cash and cash equivalents	4,809,057
Municipal bonds	2,093,126
Certificates of deposit	<u>3,744,202</u>
Total investments	<u>5,837,328</u>
Total	<u>\$ 10,646,385</u>

The bank balance of cash and cash equivalents as of June 30, 2021 was \$4,744,552. The difference representing outstanding checks and deposits. In addition, the Authority had \$500 of cash on hand.

Custodial Credit Risk: Custodial credit risk for deposits and investments is the risk that, in the event of failure by a financial institution, the Authority may not be able to recover the value of its deposits and investment or collateral securities that are in the possession of the financial institution. The Authority's investment policy dictates that all cash and investments maintained in any financial institution named as a depository be collateralized and the collateral held in the name of the Authority. The Authority cash deposits at June 30, 2021 were entirely covered by FDIC insurance or by pledged collateral held by the Authority's agent bank in the Authority's name.

Investment Policy: Statutes authorize the Authority to invest in various instruments. These are obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, obligations of any corporation of the United States government, collateralized and uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency, Commercial Paper rated in the highest category by a nationally recognized rating agency, bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities, and securities issued by a state or local government in the United States rated in one of the three highest categories by a nationally recognized rating.

The Authority's investments in negotiable certificates of deposits (CDs) are held in the Authority's name by the Trustees and are fully covered by FDIC.

Interest Rate Risk: Interest rate risk is the risk that the fair value of an investment may decline based on changes in market interest rates. This risk can be reduced, but not eliminated, through the use of common portfolio strategies such as structure (maintaining laddered maturity dates) and diversification (by type of investment, by issuer or by maturity date). Generally, the Authority utilizes a strategy of diversifying its investments while maintaining sufficient liquidity to cover anticipated operating expenses. The KRS limits the investment options for all Kentucky public entities, including TANK.

The following table presents the Authority's investments as of June 30, 2021, by length of maturity.

Investment Type	Fair Value	Rating*	Less			
			than 1 year	1 to 3 years	3 to 5 years	Thereafter
Municipal bonds	\$ 2,093,126	AA	-	660,128	420,932	1,012,066
Negotiable certificates of deposit	3,744,202	N/A	731,855	1,774,085	1,238,262	-
Total investments	\$ 5,837,328		731,855	2,434,213	1,659,194	1,012,066

* Ratings per Standard and Poors' and negotiable CD's are fully insured by FDIC.

Fair value hierarchy is based on valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs such as quoted prices for similar assets in active markets. Level 3 inputs are significantly unobservable inputs. At June 30, 2021, the Authority categorized fair value measurements of its municipal bonds and negotiable CDs totaling \$5,837,328 as Level 2 inputs as fair value measures were obtained from trustees who use various pricing services.

Investment income includes all realized and unrealized gains and losses. Investment income was \$31,320 for the year ended June 30, 2021.

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2021 was as follows:

	Balance July 1, 2020	Additions	Transfers/ Disposals	Balance June 30, 2021
Capital assets not being depreciated:				
Land	\$ 2,252,930	-	-	2,252,930
Construction in progress	-	152,272	-	152,272
Subtotal	2,252,930	152,272	-	2,405,202
Capital assets being depreciated:				
Building improvements	13,599,328	6,840	9,090	13,597,078
Revenue vehicles	53,123,361	5,534,630	5,973,785	52,684,206
Transportation equipment	3,364,412	89,364	92,166	3,361,610
General equipment	10,592,621	513,886	31,877	11,074,630
Subtotal	80,679,722	6,144,720	6,106,918	80,717,524
Accumulated depreciation				
Building improvements	9,555,132	402,893	9,090	9,948,935
Revenue vehicles	27,803,003	3,842,337	5,932,081	25,713,259
Transportation equipment	2,973,693	117,458	92,166	2,998,985
General equipment	7,942,975	787,985	31,877	8,699,083
Subtotal	48,274,803	5,150,673	6,065,214	47,360,262
Net capital assets being depreciated	32,404,919	994,047	41,704	33,357,262
Net capital assets	\$ 34,657,849	1,146,319	41,704	35,762,464

5. FUNDING FROM LOCAL GOVERNMENTS

Boone, Campbell and Kenton counties provide capital and operating assistance annually to the Authority. Boone County funds its assistance from its general fund. Campbell and Kenton counties fund their portion from revenues of a payroll tax. Operating assistance is provided in an amount equal to the Authority's budgeted net loss before such assistance, excluding depreciation and losses (as defined) on the disposal of assets purchased with capital grants. As the year progresses, the operating assistance is allocated to cover the actual financial deficit of the Authority's operations during the year. Since the level of funding provided for any particular year is based on anticipated results, at the end of any particular year, the actual amount allocated may be more or less than the operating assistance provided for that year by the counties.

At June 30, 2021, unallocated operating assistance provided by each of the participating counties was as follows:

County:	
Boone	\$ 1,733,382
Campbell	2,812,240
Kenton	<u>3,389,277</u>
Total	<u>\$ 7,934,899</u>

6. DEFINED BENEFIT PENSION PLAN

Plan description. The Transit Authority of Northern Kentucky Disability and Retirement Allowance Plan (the "Plan") is a single employer defined benefit plan covering all employees of the Authority. The Plan was established in 1977 and is administered through a trust agreement with U.S. Bank. The Plan is administered by the Pension Committee, comprised of 4 members serving 4-year terms; 2 members appointed by Amalgamated Transit Union Local No. 628 and 2 members appointed by the Authority. The Plan issues a stand-alone financial report that can be obtained by contacting the Transit Authority of Northern Kentucky, 3375 Madison Pike, Fort Wright, Kentucky 41017.

Benefits provided. The Plan provides retirement, disability and death benefits. Employees are entitled to pension benefits beginning at normal retirement age (65). The pension benefit is equal to 1.4% or 0.9% (depending on the option chosen by the employee) of the highest monthly wage paid under the terms of the labor contract in effect in the year of retirement, multiplied by the number of years of service. The hourly pay rate used in the calculation for technical employees has been frozen at \$19.63, which was the rate in effect at December 31, 2007. The Plan permits early retirement at age 62, or age 55 with the completion of at least 30 years of service for employees hired prior to June 25, 2015.

No member, or beneficiary, entitled to a refund of contributions as stipulated under the Plan's provisions, shall in any way claim or have refunded any contribution made by the Authority into the Plan, such contributions of the Authority insuring to the benefit of the remaining participating members.

Upon leaving the service of the Authority for any cause (other than retirement or disability retirement), a member shall be paid a refund equal to 100% of contributions made, plus 6% interest.

Active employees who become totally disabled after 10 years of continuous service receive monthly disability benefits equal to normal retirement benefits. Upon death of a member, prior to their benefit commencement date, the estate shall be paid an amount equal to 100% of employee contributions, plus interest of 6%. With respect to a member who has a non-forfeitable right to their accrued benefit in accordance with Plan provisions, who dies prior to their commencement date, and has a surviving spouse, the surviving spouse shall be entitled to a survivor annuity for the life of the surviving spouse.

All employees who become members on or after January 1, 2008, at any age, will be required at least 10 years of service credit to have their pension benefits vested. Retirees who are rehired by the Authority on or after January 1, 2008 will be required to earn an additional 10 years of service in order to have additional pension benefits vested.

Plan membership. At December 31, 2020, Plan membership consisted of the following:

Vested and non-vested current employees	240
Retirees and beneficiaries currently receiving benefits	166
Terminated employees entitled to but not yet receiving benefits	15
	421
	421

Contributions. Employees who have not elected to contribute to the Kentucky Deferred Compensation Program are required to make weekly contributions to the Plan. Contribution requirements are established, and may be amended, by a collective bargaining agreement.

Plan members contributed 5.30% of the highest paid senior maintenance employee’s weekly wages for full-time employees, or 2.65% for part-time employees. The Authority contributed 6.10% of the highest paid senior maintenance employee’s weekly wages for each full-time member who has made their required mandatory contributions for the week; and 3.05% of the highest paid senior maintenance employee’s weekly wages for each part-time work list member and part-time maintenance member who has made their required mandatory contributions for the week. The Authority contributed \$707,322 and employees contributed \$613,342 to the Plan for the year ended December 31, 2020.

Net Pension Liability

The Authority’s net pension liability was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability in the December 31, 2020 actuarial valuation was determined using the entry age normal actuarial cost method, an investment rate of return of 5.92% (a increase from the prior measurement date rate of 5.69%), retirement ages based on experienced-based tables that are specific to the type of eligibility, and no future cost of living increases. The retirement rates, termination rates, discount rate and mortality projection scale assumptions were changed from the prior actuarial valuation.

Mortality rates were based on Pub-2010 tables, using generational projections using Scale MP-2020.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate Return
Fixed Income	36%	1.59%
Equity Funds	61%	8.45%
Real Assets	3%	6.38%
	100%	5.92%

Transit Authority of Northern Kentucky
Notes to the Basic Financial Statements
For the Year Ended June 30, 2021

Discount rate. The discount rate used to measure the total pension liability was 5.92% (an increase from the prior measurement date rate of 5.69%). The fiduciary net position is projected to be available to make all projected future benefit payments as of December 31, 2020. Therefore, the long-term expected rate of return on plan assets of 5.92% was used to measure the total pension liability.

Changes in the net pension liability.

	Increase (Decrease)		
	Plan		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2019	\$26,781,218	\$12,545,996	\$14,235,222
Changes for the fiscal year:			
Service cost	647,105	-	647,105
Interest	1,471,034	-	1,471,034
Differences between expected and actual experience	(25,743)	-	(25,743)
Change in assumptions	795,199	-	795,199
Employer contributions	-	707,322	(707,322)
Employee contributions	-	613,342	(613,342)
Net investment income	-	1,620,603	(1,620,603)
Benefit payments, including refunds	(1,882,506)	(1,882,506)	-
Administrative expenses	-	(49,771)	49,771
Net changes	<u>1,005,089</u>	<u>1,008,990</u>	<u>(3,901)</u>
Balances at December 31, 2020	<u>\$ 27,786,307</u>	<u>\$ 13,554,986</u>	<u>\$ 14,231,321</u>

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the Authority, calculated using the discount rate of 5.92%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1% lower (4.92%) or 1% higher (6.92%) than the current rate:

	1% Decrease (4.92%)	Current Discount Rate (5.92%)	1% Increase (6.92%)
Authority's net pension liability	\$ 17,328,438	\$ 14,231,321	\$ 11,624,724

Pension plan fiduciary net position. Detailed information about the Plan's fiduciary net position is available in the Plan's separately issued financial report.

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

For the year ended June 30, 2021, the Authority recognized negative pension expense of \$1,109,517. At June 30, 2021, the Authority reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 260,892
Change in assumptions	1,392,725	944,070
Difference between projected and actual investment earnings	-	1,188,212
Contributions subsequent to the measurement date	297,954	-
	\$ 1,690,679	\$ 2,393,174

\$297,954 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and inflows of resources will be recognized in pension expense as follows:

Year Ended June 30:	
2022	\$ (835,122)
2023	338,249
2024	(327,547)
2025	(176,029)
	\$ (1,000,449)

7. RISK MANAGEMENT

The Authority is exposed to various risks related to accident claims and has designated funds to finance portions of its uninsured risks of loss. The Authority is self-insured up to predetermined limits: individual accident claims up to \$100,000 and amounts in excess of \$1,000,000 per accident. The Authority carries commercial insurance coverage for damage to Authority property as well as workers' compensation benefits and public officials' and employees' liability exposure. Claim expenses and liabilities are recorded when it is probable that a loss has occurred and the amount of that loss is reasonably estimated.

The liability recorded includes the estimated incremental expenses to be incurred to settle the claims. Claims liabilities are based on evaluations of individual claims and a review of the experience with respect to the probable number and nature of claims arising from losses that have been incurred but have not yet been reported. The claims liabilities represent the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors. Estimated future recoveries on settled and unsettled claims, such as subrogation's, if any, are evaluated in terms of their estimated realizable value and deducted from the liabilities for unpaid claims. Any adjustments resulting from the actual settlement of the claims are reflected in earnings at the time the adjustments are determined.

The changes in the liabilities for accident claims for the years ended June 30, 2021 and 2020 are as follows:

Balance, June 30, 2019	\$	292,500
Claims, net of changes in estimates		(34,663)
Payments		(91,837)
Balance, June 30, 2020		166,000
Claims, net of changes in estimates		113,477
Payments		(118,477)
Balance, June 30, 2021	\$	161,000

8. FEDERAL, STATE AND LOCAL GRANTS

Grants, reimbursements and special fare assistance in the statements of activities for the year ended June 30, 2021 consist of the following:

Federal:		
FTA operating assistance	\$	2,487,546
Coronavirus Aid, Relief, and Economic Security Act		4,295,781
Total Federal	\$	6,783,327
Commonwealth of Kentucky:		
Cabinet fuel tax reimbursement	\$	123,938
State operating assistance		233,106
Total Commonwealth of Kentucky	\$	357,044
Local:		
Boone	\$	5,180,205
Campbell		4,197,841
Kenton		8,078,941
Total Local	\$	17,456,987

9. OPERATING LEASES AND MANAGEMENT SERVICE CONTRACT

The Authority has cancelable operating leases executed in one-year intervals for office space and a non-cancelable operating lease for bus tires that expires in September 2023. Future minimum lease payments for bus tires are based on type of vehicle and number of miles driven. Total rental expense for all operating leases was \$169,770 for the year ended June 30, 2021.

10. COMMITMENTS AND CONTINGENCIES

Federal, State and Local Grants

Under the terms of the various grants, periodic audits are required where certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2021 there were no significant questioned costs that had not been resolved with the applicable federal, state and local agencies. Questioned costs could still be identified during the audits to be conducted in the future. In the opinion of the Authority's management, no material grant expenditures will be disallowed.

Legal Proceedings

The Authority has been named as a defendant in certain legal proceedings. Although the eventual outcome of these matters cannot be predicted, it is the opinion of management, based on the advice of legal counsel, that the ultimate liability is not expected to have a material effect on the Authority's financial position.

COVID-19 Pandemic

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the Authority. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

TRANSIT AUTHORITY OF NORTHERN KENTUCKY

**Schedule of Required Supplementary Information
Schedule of Changes in the Authority's Net Pension Liability
Last Five Measurement Years (1)(2)**

	Calendar Year Ended December 31,				
	2020	2019	2018	2017	2016
Total pension liability					
Service cost	\$ 647,105	\$ 551,318	\$ 844,495	\$ 803,844	\$ 821,316
Interest	1,471,034	1,594,918	1,578,036	1,611,692	1,556,727
Differences between expected and actual experience	(25,743)	(189,794)	(586,875)	(600,442)	-
Changes in assumptions	795,199	1,584,275	(5,664,414)	747,664	-
Benefit payments	(1,586,183)	(1,507,913)	(1,422,096)	(1,344,128)	(1,231,378)
Refunds of contributions	(296,323)	(169,072)	(167,255)	(140,865)	(96,208)
Net change in total pension liability	1,005,089	1,863,732	(5,418,109)	1,077,765	1,050,457
Total pension liability-beginning	<u>26,781,218</u>	<u>24,917,486</u>	<u>30,335,595</u>	<u>29,257,830</u>	<u>28,207,373</u>
Total pension liability-ending (a)	<u>\$ 27,786,307</u>	<u>\$ 26,781,218</u>	<u>\$ 24,917,486</u>	<u>\$ 30,335,595</u>	<u>\$ 29,257,830</u>
Plan fiduciary net position					
Contributions-employer	\$ 707,322	\$ 680,819	\$ 656,248	\$ 654,481	\$ 617,230
Contributions-employee	613,342	588,320	565,469	562,649	535,200
Net investment income	1,620,603	2,146,862	(758,356)	1,725,241	709,461
Benefit payments	(1,586,183)	(1,507,913)	(1,422,096)	(1,344,128)	(1,231,378)
Refunds of contributions	(296,323)	(169,072)	(167,255)	(140,865)	(96,208)
Administrative expense	(49,771)	(54,938)	(49,450)	(57,119)	(43,906)
Net change in plan fiduciary net position	1,008,990	1,684,078	(1,175,440)	1,400,259	490,399
Plan fiduciary net position-beginning	<u>12,545,996</u>	<u>10,861,918</u>	<u>12,037,358</u>	<u>10,637,099</u>	<u>10,146,700</u>
Plan fiduciary net position-ending (b)	<u>\$ 13,554,986</u>	<u>\$ 12,545,996</u>	<u>\$ 10,861,918</u>	<u>\$ 12,037,358</u>	<u>\$ 10,637,099</u>
Authority's net pension liability-ending (a) - (b)	<u>\$ 14,231,321</u>	<u>\$ 14,235,222</u>	<u>\$ 14,055,568</u>	<u>\$ 18,298,237</u>	<u>\$ 18,620,731</u>
Plan fiduciary net position as a percentage of the total pension liability	48.78%	46.85%	43.59%	39.68%	36.36%
Covered payroll	\$ 12,782,255	\$ 13,481,665	\$ 12,858,457	\$ 13,639,903	\$ 13,394,200
Authority's net pension liability as a percentage of covered payroll	111.34%	105.59%	109.31%	134.15%	139.02%

(1) Information prior to 2016 was not available. The Authority will continue to present information for years available until a full ten-year trend is compiled.

(2) The amounts presented for each fiscal year were determined as of 12/31.

TRANSIT AUTHORITY OF NORTHERN KENTUCKY

**Schedule of Required Supplementary Information
Schedule of Authority Contributions
Last Five Fiscal Years (1)**

	Fiscal Year Ended June 30,				
	2021	2020	2019	2018	2017 (2)
Actuarially determined contributions (3)	\$ 1,736,905	\$ 1,701,333	\$ 1,722,674	\$ 1,744,015	\$ 1,744,015
Contributions in relation to the actuarial determined contributions	<u>595,372</u>	<u>611,963</u>	<u>618,610</u>	<u>652,343</u>	<u>648,447</u>
Contribution deficiency (excess)	<u>\$ 1,141,533</u>	<u>\$ 1,089,370</u>	<u>\$ 1,104,064</u>	<u>\$ 1,091,672</u>	<u>\$ 1,095,568</u>
Covered payroll (4)	\$ 11,293,558	\$ 11,654,531	\$ 11,776,713	\$ 11,183,707	\$ 11,233,124
Contributions as a percentage of covered payroll	5.27%	5.25%	5.25%	5.83%	5.77%

(1) Information prior to 2017 was not available. The Authority will continue to present information for years available until a full ten-year trend is compiled.

(2) Amounts were restated to present information as of the Authority's fiscal year end.

(3) 2017 and 2018 actuarially determined contributions were revised based on additional information.

(4) 2017 and 2018 covered payroll amounts were revised to report only pensionable wages.

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of December 31.

Methods and assumptions used to determine contributions rates:

Actuarial cost method	Entry age normal cost
Amortization method	Level percentage of payroll
Asset valuation method	Market value of plan assets
Investment rate of return	5.92% per year, compounded annually
Retirement age	Experience-based tables that are specific to the type of eligibility
Mortality	Pub-2010 tables, projected generationally using Scale MP-2020
Cost of living adjustments	No increases

Change in assumptions:

In the 2017 valuation, the discount rate was decreased from 7.48% to 6.38%.

In the 2018 valuation, the retirement rates, termination rates, discount rate and mortality projection scale were changed.

In the 2019 valuation, the discount rate and mortality projection scale was updated.

In the 2020 valuation, the discount rate and mortality projection scale was updated.

Change in benefit terms:

In the 2018 valuation, the pay rate defining employee and employer contribution amounts were changed and the percentages of employee and employer contributions were increased.

In the 2020 valuation, the pay rate defining employee and employer contribution amounts were changed and the percentages of employee and employer contributions were increased.

**OTHER
INFORMATION**

TRANSIT AUTHORITY OF NORTHERN KENTUCKY

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021**

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	Assistance Listing Number	Award Number	Federal Expenditures
<u>U. S. Department of Transportation</u>			
Federal Transit Cluster (Direct Program):			
Federal Transit Administration (FTA):			
COVID-19 - Federal Transit—Formula Grants	20.507	KY-2020-022	\$ 4,248,040
Federal Transit—Formula Grants	20.507	KY-2017-006	2,552,831
	20.507	KY-2020-002	4,430,176
	20.507	KY-2016-005	361,190
	20.507	KY-2020-015	258,262
	20.507	KY-90-X225	73,053
			<u>11,923,552</u>
Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526	KY-2020-002	<u>376,263</u>
Total Federal Transit Cluster			<u>12,299,815</u>
Transit Services Programs Cluster (Direct Program):			
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	KY-2017-011	8,266
	20.513	KY-2020-021	<u>45,457</u>
Total Transit Services Programs Cluster			<u>53,723</u>
Total U. S. Department of Transportation			<u>12,353,538</u>
Total Expenditure of Federal Awards			\$ <u><u>12,353,538</u></u>

The accompanying notes are an integral part of this schedule.

TRANSIT AUTHORITY OF NORTHERN KENTUCKY

Notes to the Schedule of Expenditures of Federal Awards Year Ended June 30, 2021

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards ("Schedule") presents the activity of all federal financial assistance programs of Transit Authority of Northern Kentucky (the "Authority"). The Authority's reporting entity is defined in Note 1 to the Authority's financial statements.

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to, and does not, present the financial position, activities and cash flows of the Authority for the year ended June 30, 2021.

2. BASIS OF ACCOUNTING

The accompanying Schedule is presented using the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Authority has elected not to use the 10 percent de minimus indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

The Authority did not pass-through any federal awards to subreipients during the year ended June 30, 2021.

3. MATCHING REQUIREMENTS

Certain federal programs require the Authority to contribute non-federal funds (matching funds) to support federally-funded programs. The Authority has complied with the matching requirements. The expenditures of non-federal (matching) funds are not included on the Schedule.

4. RELATIONSHIP OF FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying Schedule agree with the amounts reported in the related federal financial reports.

**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 Directors
Transit Authority of Northern Kentucky
Ft. Wright, KY 41017

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 Transit Authority of Northern Kentucky (the "Authority"), which comprise the statement of net position as of June 30, 2021 and the related statement of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 8, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Ft. Mitchell, KY
December 8, 2021

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

Board of Directors
Transit Authority of Northern Kentucky
Ft. Wright, KY 41017

Report on Compliance for Each Major Federal Program

We have audited the Transit Authority of Northern Kentucky's (the "Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2021. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

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

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

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

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

Clark, Schaefer, Hackett & Co.

Ft. Mitchell, KY
December 8, 2021

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	None noted
Noncompliance material to financial statements noted?	None noted

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	None noted
Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)?	None noted

Identification of major programs:

Federal Transit Cluster:

- ALN 20.507 – Federal Transit - Formula Grants
- ALN 20.507 – COVID-19 - Federal Transit - Formula Grants
- ALN 20.526 – Buses and Bus Facilities Formula, Competitive, And Low or No Emissions Programs

Dollar threshold to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

None noted

Section III – Federal Awards Findings and Questioned Costs

None noted

Section IV – Summary of Prior Audit Findings and Questioned Costs

None noted