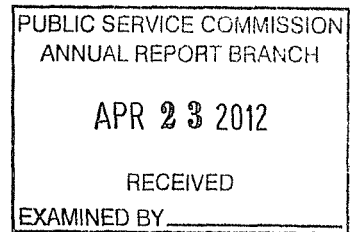


**NORTHERN KENTUCKY  
WATER DISTRICT**

***FINANCIAL STATEMENTS***

**December 31, 2011 and 2010**



# **NORTHERN KENTUCKY WATER DISTRICT**

## ***FINANCIAL STATEMENTS***

**December 31, 2011 and 2010**

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**RANKIN, RANKIN & COMPANY**  
*Certified Public Accountants*

■ Lookout Corporate Center  
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Ft. Wright, Kentucky 41011

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## **INDEPENDENT AUDITOR'S REPORT**

**To the Board of Commissioners  
Northern Kentucky Water District  
Erlanger, Kentucky 41018**

We have audited the accompanying balance sheets of the Northern Kentucky Water District, as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and of cash flows for the years then ended, which collectively comprise the District's basic financial statements. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northern Kentucky Water District as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 9, 2012 on our consideration of the 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 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.

Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements of the Northern Kentucky Water District taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of federal awards and supplemental information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly state in all material respects in relation to the financial statements as a whole.

**RANKIN, RANKIN, & COMPANY**

A handwritten signature in cursive script that reads 'Rankin, Rankin &amp; Company'.

**Ft. Wright, Kentucky  
March 9, 2012**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2011. This information is presented in conjunction with the audited financial statements that follow this section.

### **Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the most recent year by \$151,401,467 (net assets). This was an increase of \$6,918,270 in comparison to the prior year.
- Operating revenues increased \$732,295 or 1.7% over 2010.
- The debt coverage ratio decreased from 1.46 in 2010 to 1.35 in 2011, due to the issuance of new debt in 2011.

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

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

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

### **The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets**

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

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

## Overview of Annual Financial Report

Table 1 provides a summary of the District's net assets for 2011 compared to 2010.

**Table 1**  
**Net Assets**

	2011	2010
Current assets	\$ 26,769,984	24,259,690
Restricted assets	68,677,903	56,465,908
Noncurrent assets	326,237,980	298,126,673
Total assets	421,685,867	378,852,271
Current liabilities	11,372,329	39,437,568
Liabilities payable from restricted assets	9,840,163	6,681,531
Long term liabilities	249,071,908	188,249,975
Total liabilities	270,284,400	234,369,074
Net assets:		
Invested in capital assets, net of related debt	61,629,133	65,384,945
Restricted	58,837,740	49,784,377
Unrestricted	30,934,594	29,313,875
Total net assets	\$ 151,401,467	144,483,197

The District's net assets for 2011 increased 4.8%, as compared to the previous year. This increase was mainly attributable to additional capital assets acquired from new construction and an increase in operating revenue. The largest portion of the District's net assets (41%) 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.

An additional portion of the District's net assets (39%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The unrestricted net assets (20%) may be used to meet the District's ongoing obligations to customers and creditors.



Table 2 shows the changes in net assets for 2011, as well as revenue and expense comparisons to 2010.

**Table 2**  
**Changes in Net Assets**

	2011	2010
Operating Revenues:		
Water Sales	\$ 42,826,733	\$ 42,118,806
Forfeited discounts	740,506	765,655
Rents from property	533,666	525,784
Other water revenue	370,150	328,515
Total operating revenues	<u>44,471,055</u>	<u>43,738,760</u>
Operating Expenses:		
Operations, maintenance and administration expenses	23,003,045	23,751,578
Depreciation	9,498,005	8,688,797
Total operating expenses	<u>32,501,050</u>	<u>32,440,375</u>
Net Operating Income	<u>11,970,005</u>	<u>11,298,385</u>
Non-operating Income (Expenses)		
Investment income	811,145	955,195
Miscellaneous non-operating income (expense)	(239,673)	(144,026)
Interest on long-term debt	(7,746,446)	(7,514,523)
Amortization of bond discount and expense	(702,930)	(725,050)
Gain/(loss) on disposition of assets	(35,597)	-
Net Non-operating income (expenses)	<u>(7,913,501)</u>	<u>(7,428,404)</u>
Income Before Capital Contributions	4,056,504	3,869,981
Capital Contributions	<u>2,861,766</u>	<u>1,068,804</u>
Change in net assets	6,918,270	4,938,785
Net assets - January 1	<u>144,483,197</u>	<u>139,544,412</u>
Net assets - December 31	<u>\$ 151,401,467</u>	<u>\$ 144,483,197</u>

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

In reviewing income before capital contributions, the financial statements showed net income for the year of \$4,056,504. Operating revenues increased 1.67% due to the increase from the March, 2011 rate implementation. Weather conditions that provided for a wetter summer and fall reduced water consumption. Operating expenses (including depreciation) increased by less than 1%. Increases are primarily due to the continued escalation in power, chemical, and fuel costs.

## Debt and Capital Asset Administration

Table 3 summarizes the District's outstanding debt at the end of 2011 as compared to 2010.

**Table 3**  
**Outstanding Debt at Year End**

	2011	2010
Bond payable obligations	\$ 202,386,000	\$ 178,439,000
Notes payable	55,538,471	46,711,799
Totals	<u>\$ 257,924,471</u>	<u>\$ 225,150,799</u>

At year-end, the District had \$257,924,471 in outstanding notes and bonds compared to \$225,150,799 last year. That is an increase of 14.5% as shown in the Table 3. The District did issue new debt during the current year for the provision for various capital improvement projects.

## Capital Assets

At December 31, 2011, the capital assets reported amounted to \$319,553,604 invested in capital assets including land, buildings, water systems, equipment, and vehicles. This represents a net increase of \$29,017,860, or 10%, over last year due to the District's investment in distribution and treatment projects, and vehicle and equipment purchases during the year.

**Table 4**  
**Capital Assets, Net of Depreciation**

	2011	2010
Not being depreciated:		
Land	\$ 3,291,127	\$ 3,187,997
Construction in progress	58,207,358	37,881,689
Plant Acquisition Adjustment	5,516,136	5,516,136
Other capital assets:		
Utility plants:		
Transmission & Distribution system plant and equipment	214,907,500	203,434,090
Source of Supply & Pumping system plant and equipment	34,952,612	32,763,195
Power Generation Plant	3,491,523	3,491,523
Water Treatment plant and equipment	61,328,226	57,881,870
General plant and equipment	<u>30,586,342</u>	<u>30,745,848</u>
Subtotal	412,280,824	374,902,348
Accumulated depreciation	<u>(92,727,220)</u>	<u>(84,366,604)</u>
TOTALS	<u>\$ 319,553,604</u>	<u>\$ 290,535,744</u>

### **Economic Factors And Next Year's Budget**

The District's budget for 2012 projects a moderate increase in water revenue due to a phased rate increase in 2012. A modest increase is planned for operating expenses as a result of increases in fuel, chemical and power costs.

### **Contacting The District's Financial Management**

This financial 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 ASSETS****December 31, 2011 and 2010**

	2011	2010
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 14,822,171	\$ 11,835,530
Accounts receivable		
Customers	4,899,742	5,097,814
Unbilled customers	5,400,000	5,400,000
Others	70,793	47,853
Assessments receivable	98,760	92,634
Inventory supplies for new installation and maintenance, at cost	1,198,490	1,343,411
Prepaid items	280,028	442,448
<b>TOTAL CURRENT ASSETS</b>	<b>26,769,984</b>	<b>24,259,690</b>
<b>RESTRICTED ASSETS</b>		
Boone Florence Settlement	1,613,621	1,601,840
Bond Proceeds Fund	26,460,229	21,540,563
Debt Service Reserve Account	17,557,818	15,577,413
Debt Service Account	12,768,211	10,871,257
Improvement, Repair & Replacement	10,278,024	6,874,835
<b>TOTAL RESTRICTED ASSETS</b>	<b>68,677,903</b>	<b>56,465,908</b>
<b>NONCURRENT ASSETS</b>		
Miscellaneous deferred charges	6,684,376	7,590,929
Capital assets:		
Land, system, buildings and equipment	354,073,466	337,020,659
Construction in progress	58,207,358	37,881,689
Total capital assets before accumulated depreciation	412,280,824	374,902,348
Less accumulated depreciation	92,727,220	84,366,604
Total capital assets, net of accumulated depreciation	319,553,604	290,535,744
<b>TOTAL NONCURRENT ASSETS</b>	<b>326,237,980</b>	<b>298,126,673</b>
<b>TOTAL ASSETS</b>	<b>\$ 421,685,867</b>	<b>\$ 378,852,271</b>

**NORTHERN KENTUCKY WATER DISTRICT**  
**STATEMENTS OF NET ASSETS**  
**December 31, 2011 and 2010**

	2011	2010
<b>LIABILITIES AND RETAINED EARNINGS</b>		
<b>CURRENT LIABILITIES</b>		
Bonded indebtedness	\$ 7,974,000	\$ 6,883,000
Notes payable	878,563	30,017,824
Accounts payable	1,959,482	1,988,566
Accrued payroll and taxes	347,903	329,191
Other accrued liabilities	212,381	218,987
<b>TOTAL CURRENT LIABILITIES</b>	<b>11,372,329</b>	<b>39,437,568</b>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Accounts payable	5,846,148	3,188,628
Accrued interest payable	3,994,015	3,492,903
<b>TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>	<b>9,840,163</b>	<b>6,681,531</b>
<b>LONG-TERM DEBT</b>		
Bonded indebtedness	194,412,000	171,556,000
Notes payable	54,659,908	16,693,975
<b>TOTAL LONG-TERM DEBT</b>	<b>249,071,908</b>	<b>188,249,975</b>
<b>TOTAL LIABILITIES</b>	<b>270,284,400</b>	<b>234,369,074</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related liabilities	61,629,133	65,384,945
Restricted	58,837,740	49,784,377
Unrestricted	30,934,594	29,313,875
<b>TOTAL NET ASSETS</b>	<b>151,401,467</b>	<b>144,483,197</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 421,685,867</b>	<b>\$ 378,852,271</b>

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

Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Water sales	\$ 42,826,733	\$ 42,118,806
Forfeited discounts	740,506	765,655
Rents from property	533,666	525,784
Other water revenues	370,150	328,515
TOTAL OPERATING REVENUES	44,471,055	43,738,760
OPERATING EXPENSES		
Operating and maintenance expense	23,003,045	23,751,578
Depreciation expense	9,498,005	8,688,797
TOTAL OPERATING EXPENSES	32,501,050	32,440,375
NET OPERATING INCOME	11,970,005	11,298,385
NONOPERATING INCOME (EXPENSES)		
Investment income	811,145	955,195
Miscellaneous non-operating income/(expense)	(239,673)	(144,026)
Interest on long-term debt	(7,746,446)	(7,514,523)
Amortization of debt discount and expense	(702,930)	(725,050)
Gain/(loss) on disposition of assets	(35,597)	-
NET NONOPERATING INCOME (EXPENSES)	(7,913,501)	(7,428,404)
INCOME BEFORE CONTRIBUTIONS	4,056,504	3,869,981
CAPITAL CONTRIBUTIONS	2,861,766	1,068,804
CHANGE IN NET ASSETS	6,918,270	4,938,785
NET ASSETS - BEGINNING OF YEAR	144,483,197	139,544,412
NET ASSETS - ENDING OF YEAR	\$ 151,401,467	\$ 144,483,197

**NORTHERN KENTUCKY WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2011 and 2010**

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 44,640,061	\$ 42,554,000
Paid to suppliers for goods and services	(11,178,635)	(12,026,693)
Paid to or on behalf of employees for services	(11,534,047)	(11,926,421)
Net Cash Flows From Operating Activities	<u>21,927,379</u>	<u>18,600,886</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	811,145	955,195
Net Cash Flows From Investing Activities	<u>811,145</u>	<u>955,195</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on capital debt	(36,900,824)	(6,956,737)
Debt proceeds	69,674,496	5,493,468
Interest paid on bonds and notes, net of capitalized interest	(7,245,334)	(7,601,273)
Change in deferred assets, other than amortization	203,623	173,020
Acquisition and construction of fixed assets	(35,654,099)	(22,245,507)
(Increase) decrease in restricted funds		
Boone Florence Settlement	(11,781)	396,047
Bond Proceeds Fund	(4,919,666)	6,376,982
Debt Service Reserve and Debt Service Account	(3,877,359)	(796,734)
Improvement, Repair and Replacement Fund	(3,403,189)	4,435,878
Payment of restricted liabilities	2,657,520	(212,704)
Miscellaneous non-operating income	(275,270)	243,531
Net Cash Flows From Capital and Related Financing Activities	<u>(19,751,883)</u>	<u>(20,694,029)</u>
<b>Net Change in Cash and Cash Equivalents</b>	2,986,641	(1,137,948)
CASH AND CASH EQUIVALENTS-Beginning of Year	<u>11,835,530</u>	<u>12,973,478</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 14,822,171</u>	<u>\$ 11,835,530</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income	\$ 11,970,005	\$ 11,298,385
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation	9,498,005	8,688,797
(Increase) decrease in assessments receivable	(6,126)	(5,312)
(Increase) decrease in accounts receivable	175,132	(1,179,448)
(Increase) decrease in inventory supplies	144,921	(91,522)
(Increase) decrease in prepaid expenses	162,420	(290,179)
Increase (decrease) in accounts payable	(29,084)	109,545
Increase (decrease) in accrued payroll and taxes	18,712	51,012
Increase (decrease) in other accrued liabilities	(6,606)	19,608
	<u>\$ 21,927,379</u>	<u>\$ 18,600,886</u>

# **NORTHERN KENTUCKY WATER DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**December 31, 2011 and 2010**

### **NOTE 1 – REPORTING ENTITY**

#### *Description of Entity*

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

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

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

#### *Basis of Accounting and Presentation*

The District's financial statements are presented on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into "invested in capital assets, net of related liabilities"; "restricted"; and "unrestricted" components.

#### *Fund Structure*

The activities of the accounts included in the accompanying financial statements are summarized below.

#### *General Revenue Account*

All monies received by the District as Pledged Receipts and income from the Debt Service Reserve Account are deposited in the General Revenue Account. Transfers from the General Revenue Account to other designated accounts follow the requirements of the General Bond Resolution.



<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2011 and 2010</b>
--

*Operation and Maintenance Account*

The Operation and Maintenance Account is used to pay operating and maintenance costs of the District in accordance with the Annual Budget.

*Boone Florence Settlement*

This fund contains the settlement funds related to the early termination of water contracts with the City of Florence, Kentucky and the Boone County Water District. By direction of the Public Service Commission of the Commonwealth of Kentucky, the District holds these funds in a restricted account and moves \$438,589 to an unrestricted account each year. The fund assets are:

	2011	2010
Cash and Cash Equivalents	\$ <u>1,613,621</u>	\$ <u>1,601,840</u>

*Bond Proceeds Fund*

This fund contains 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.

*Debt Service Reserve Account*

The Debt Service Reserve Account holds 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:

	2011	2010
Cash and Cash Equivalents	\$ 10,123,465	\$ 8,137,261
FNMA Discount Notes	7,316,990	7,322,452
Accrued Interest Receivable	<u>117,363</u>	<u>117,700</u>
Total	\$ <u>17,557,818</u>	\$ <u>15,577,413</u>

Maximum annual debt service is \$16,998,163 of senior debt.

*Debt Service Account*

The Debt Service Account accumulates 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:

	2011	2010
Cash and Cash Equivalents	\$ <u>12,768,211</u>	\$ <u>10,871,257</u>
Total	\$ <u>12,768,211</u>	\$ <u>10,871,257</u>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2011 and 2010</b>
--

*Improvement, Repair and Replacement Account*

The Improvement, Repair and Replacement Account 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:

		2011	2010
Cash		\$ 10,278,024	\$ 6,874,835
	Total	\$ 10,278,024	\$ 6,874,835

*Plant Account*

The Plant Account records the utility plant, related accumulated depreciation, funds available for plant additions and the long-term indebtedness of the District.

*Summary of Significant Accounting Policies:*

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

Investment Policy

*General Policy*

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

*Authorized Investment Instruments*

1. Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2011 and 2010</b>
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2. Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency.
3. Obligations of any corporation of the United States government.
4. Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by Section 41.240(4) of the Kentucky Revised Statutes.

*Limitations of Investment Transaction*

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

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

Deposits and Investments

*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, 2011, 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, 2011.

*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.

Supplemental Disclosure of Cash Flow Information

Cash Paid For Interest During the Year	2011	2010
Expensed	\$ 7,746,446	\$ 7,514,523
Capitalized	1,172,557	1,961,401
Total	\$ <u>8,919,003</u>	\$ <u>9,475,924</u>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2011 and 2010</b>
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The District had the following non-cash capital and related financing activities:

	<u>2011</u>	<u>2010</u>
Refunding of Series 2009 Bond Anticipation Notes	\$ <u>29,160,000</u>	\$ <u>-</u>

#### Accounts Receivable - Customers

The District follows a quarterly cycle billing procedure with approximately one-third of the meters read and billed each month. When meter reading is delayed, estimated bills are rendered 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. Based on these criteria, the District has estimated no allowance for doubtful accounts at December 31, 2011 because it expects no material losses.

#### 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 cost using the moving average method. Inventories consist of expendable supplies held for new water line installations and maintenance and are charged to expenditures on an "as used" basis.

#### Capital Assets

Prior to 1978, utility plant assets were recorded as expenditures at the time of purchase and capitalized to the Plant Fund. No depreciation was provided on utility plant 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.

Utility plant assets are stated at cost or appraised value. Interest related to the financing of projects under construction is capitalized as part of the projects' basis in connection with the various construction projects in progress. In 2011, interest in the amount of \$1,172,557 has been capitalized. The cost of current repairs and maintenance is charged to expense, while the cost of replacements or betterments is capitalized.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2011 and 2010</b>
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Depreciation of the utility plant is computed on the straight-line method over the estimated useful lives of the assets. Useful lives range from:

Water lines and plant	20 to 75 years
Pumping equipment	20 to 35 years
Vehicles and other equipment	4 to 10 years

#### Miscellaneous Deferred Charges

The bond discounts, premiums, costs of issuance and gains or losses on advance refundings and defeasances are deferred and amortized over the life of the related bonds.

#### 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 utility plant.

#### 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.

#### Restricted Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets. Restricted net assets consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net assets consists of all other net assets not included in the above categories.

Included in restricted net assets at December 31,

	2011	2010
Boone Florence Settlement	\$ 1,613,621	\$ 1,601,840
Bond Proceeds Fund	26,460,229	21,540,563
Debt Service Reserve Account	17,557,818	15,577,413
Debt Service Account	12,768,211	10,871,257
Improvement, Repair & Replacement	10,278,024	6,874,835
Total Restricted Assets	68,677,903	56,465,908
Less: Restricted Liabilities	(9,840,164)	6,681,531
Total Restricted Net Assets	\$ 58,837,739	\$ 49,784,377

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

December 31, 2011 and 2010

**NOTE 3 - ACCOUNTS RECEIVABLE**

	2011	2010
Accounts receivable arising from billings of metered water sales	\$ 4,899,742	\$ 5,097,814
Accrual for estimated unbilled water revenue	5,400,000	5,400,000
Other	70,793	47,853
Total net accounts receivable	\$ <u>10,370,535</u>	\$ <u>10,545,667</u>

**NOTE 4 - BONDED INDEBTEDNESS***Fiscal Court of Kenton County, Kentucky*

The Kenton County Water District received a \$100,000 deferred payment loan at 3%. This loan was required as a local match to qualify for a \$750,000 Community Development Block Grant for Phase I of a water project in southern Kenton County. This loan will become due and payable only after sufficient customers in southern Kenton County are obtained in order to reduce the user rates, including surcharges, to approximately \$26.00 per month.

*Water District Refunding Revenue Bonds, Series 1997*

On October 22, 1997, Water Refunding Revenue Bonds were issued by the Northern Kentucky Water District with a face value of \$11,225,000 pursuant to the 1985 General Bond Resolution as amended by a First Supplemental General Bond Resolution adopted November 17, 1987.

The purpose of the bond issue was to redeem all the \$1,600,000 Northern Kentucky Water District Water District Revenue Bond Anticipation Note, dated April 1, 1997 and to discharge and defease all of the currently outstanding i) Campbell County Kentucky Water District Revenue Refunding Bonds, 1989 Series A dated May 1, 1989; ii) Campbell County Kentucky Water District Revenue Bonds, Series 1991 dated December 1, 1991; and, iii) Campbell County Kentucky Water District Revenue Bonds, Series 1992 dated August 1, 1992.

The Water District Revenue Bonds, Series 1997, are scheduled to mature as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2012	4.75%	\$ 60,000	\$ 38,000	\$ 98,000
2013	4.75%	60,000	35,150	95,150
2014	4.75%	65,000	32,181	97,181
2015	4.75%	70,000	28,975	98,975
2016	4.75%	70,000	25,650	95,650
2017 -2021	4.75%	410,000	72,916	482,916
2022	4.75%	95,000	2,256	97,256
Totals		\$ <u>830,000</u>	\$ <u>235,128</u>	\$ <u>1,065,128</u>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2011 and 2010</b>
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*Water District Revenue Bonds, Series 1998*

In December 1998, the Northern Kentucky Water District sold \$11,355,000 of its Revenue Bonds for the purpose of paying costs of acquiring and construction of various water district projects.

The Water District Revenue Bonds, Series 1998, are scheduled to mature as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2012	4.75%	\$ 325,000	\$ 387,380	\$ 712,380
2013	4.80%	340,000	371,501	711,501
2014	4.85%	360,000	354,611	714,611
2015	4.875%	375,000	336,741	711,741
2016	4.875%	395,000	317,972	712,972
2017-2021	4.875%	2,290,000	1,273,595	3,563,595
2022-2026	4.875%	2,925,000	640,939	3,565,939
2027-2029	4.875%	1,110,000	48,262	1,158,262
Totals		\$ 8,120,000	\$ 3,731,001	\$ 11,851,001

*Water District Revenue Bonds, Series 2001*

In October 2001, the Northern Kentucky Water District sold \$16,325,000 of its Revenue Bonds for the purpose of paying costs of acquiring and construction of various water district projects and to redeem the Series 2000 Bond Anticipation Note.

The Water District Revenue Bonds, Series 2001, are scheduled to mature as follows:

Year	Interest Rate	Principal Amount	Interest Amount	Total Debt Service
2012	4.30%	\$ 80,000	\$ 692,105	\$ 772,105
2013	4.30%	735,000	674,583	1,409,583
2014	4.40%	770,000	641,840	1,411,840
2015	4.50%	810,000	606,675	1,416,675
2016	4.50%	845,000	569,438	1,414,438
2017-2021	4.75-5.00%	4,910,000	2,190,515	7,100,515
2022-2026	5.00%	6,290,000	818,250	7,108,250
Totals		\$ 14,440,000	\$ 6,193,406	\$ 20,633,406

*Rural Development Loan*

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

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2011 and 2010</b>
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The following is a schedule of future debt service requirements to maturity:

Year	Principal Amount	Interest Amount	Total Debt Service
2012	\$ 34,000	\$ 100,200	\$ 134,200
2013	36,000	98,450	134,450
2014	38,000	96,600	134,600
2015	40,000	94,650	134,650
2016	42,000	92,600	134,600
2017-2021	244,000	428,500	672,500
2022-2026	310,000	359,500	669,500
2027-2031	396,000	271,650	667,650
2032-2036	509,000	159,175	668,175
2037-2039	372,000	28,500	400,500
Total	\$ 2,021,000	\$ 1,729,825	\$ 3,750,825

*Water District Refunding and Revenue Bonds, Series 2002 A*

In February 2002, the Northern Kentucky Water District sold \$45,485,000 of its Refunding and Revenue Bonds for the purpose of refunding in advance of maturity the Water District's outstanding Refunding and Revenue Bonds dated March 1, 1992 in the principal amount of \$26,565,000. Additional proceeds were used to purchase the City of Newport Waterworks system.

The Water District Revenue Bonds, Series 2002 A, are scheduled to mature as follows:

Year	Interest Rate	Principal Amount	Interest Amount	Total Debt Service
2012	4.50%	\$ 1,530,000	\$ 2,022,640	\$ 3,552,640
2013	4.50%	950,000	1,966,840	2,916,840
2014	4.50%	990,000	1,923,190	2,913,190
2015	4.65%	1,035,000	1,876,851	2,911,851
2016	4.75%	1,100,000	1,826,663	2,926,663
2017 - 2021	4.75-5.00%	13,105,000	7,610,894	20,715,894
2022 - 2026	5.00%	18,870,000	3,547,000	22,417,000
2027 - 2028	5.00%	4,375,000	109,375	4,484,375
Totals		\$ 41,955,000	\$ 20,883,453	\$ 62,838,453

*Water District Revenue Bonds, Series 2002 B*

In December 2002, the Northern Kentucky Water District sold \$10,575,000 of its Refunding Revenue Bonds for the purpose of refunding in advance of maturity the Water District's outstanding Refunding and Revenue Bonds dated December 1, 1992 in the principal amount of \$9,945,000.



<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2011 and 2010</b>
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The Water District Revenue Bonds, Series 2002B, are scheduled to mature as follows:

Year	Interest Rate	Principal Amount	Interest Amount	Total Debt Service
2012	4.00%	\$ 835,000	\$ 187,244	\$ 1,022,244
2013	4.00%	870,000	153,144	1,023,144
2014	4.00%	900,000	117,744	1,017,744
2015	4.00%	930,000	81,144	1,011,144
2016	4.125%	965,000	42,641	1,007,641
2017	4.250%	535,000	11,369	546,369
Totals		\$ 5,035,000	\$ 593,286	\$ 5,628,286

*Water District Refunding Revenue Bonds, Series 2003 A*

In March 2003, the Northern Kentucky Water District sold \$1,615,000 of its Revenue Bonds in order to redeem the Revenue Bonds, Series 1995C. The bonds maturing on or after February 1, 2014 are subject to redemption, in whole or in part, on any date, on or after February 1, 2013 at a redemption price of 100%.

The Water District Refunding Revenue Bonds, Series 2003 A, are scheduled to mature as follows:

Year	Interest Rate	Principal Amount	Interest Amount	Total Debt Service
2012	3.70%	\$ 40,000	\$ 57,865	\$ 97,865
2013	3.85%	45,000	56,259	101,259
2014	3.95%	45,000	54,504	99,504
2015	4.05%	45,000	52,704	97,704
2016	4.15%	50,000	50,755	100,755
2017 - 2021	4.25-4.50%	280,000	218,774	498,774
2022 - 2026	4.50-4.55%	350,000	147,912	497,912
2027 - 2031	4.55-4.60%	435,000	58,515	493,515
2032	4.60%	30,000	690	30,690
Totals		\$ 1,320,000	\$ 697,978	\$ 2,017,978

*Water District Revenue Bonds, Series 2003 B*

In June 2003, the Northern Kentucky Water District issued \$30,270,000 of its Revenue Bonds in order to redeem Bond Anticipation Renewal Notes, Series 2003A, that had been issued in January 2003 for the purpose of paying off two series of bond anticipation notes that had been issued in 2001 and, also, to fund certain construction projects of the District. The bonds maturing on or after February 1, 2014 are subject to redemption, in whole or in part, on any date, on or after August 1, 2013 at a redemption price of 100%.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2011 and 2010</b>
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The Water District Revenue Bonds, Series 2003 B, are scheduled to mature as follows:

Year	Interest Rate	Principal Amount	Interest Amount	Total Debt Service
2012	3.125%	\$ 995,000	\$ 887,066	\$ 1,882,066
2013	3.125%	1,030,000	855,425	1,885,425
2014	3.125%	1,060,000	822,769	1,882,769
2015	3.250%	1,095,000	788,413	1,883,413
2016	3.500%	1,135,000	750,756	1,885,756
2017 - 2021	4.000-4.125%	6,380,000	3,033,523	9,413,523
2022 - 2026	4.125%	7,835,000	1,580,391	9,415,391
2027 - 2028	4.125%	3,615,000	150,665	3,765,665
Totals		\$ 23,145,000	\$ 8,869,008	\$ 32,014,008

*Water District Refunding Revenue Bonds, Series 2003 C*

In December 2003, the Northern Kentucky Water District issued \$23,790,000 of its Refunding Revenue Bonds for the purpose of refunding in advance of maturity the Water District's outstanding Revenue Bonds Series 1993A, Series 1995A, and Series 1995B in the principal amount of \$21,290,000. The bonds maturing on or after February 1, 2015 are subject to redemption, in whole or in part, on any date, on or after February 1, 2014 at a redemption price of 100%.

The Water District Revenue Bonds, Series 2003C, are scheduled to mature as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2012	3.50%	\$ 1,395,000	\$ 512,169	\$ 1,907,169
2013	3.50%	1,445,000	462,469	1,907,469
2014	4.00%	1,505,000	407,081	1,912,081
2015	4.00%	1,565,000	345,681	1,910,681
2016	4.00%	1,625,000	281,882	1,906,882
2017 - 2020	4.00-4.25%	6,110,000	473,755	6,583,755
Totals		\$ 13,645,000	\$ 2,483,037	\$ 16,128,037

*Water District Revenue Bonds, Series 2004*

In November 2004, the Northern Kentucky Water District sold \$10,455,000 of its Revenue Bonds in order to fund various construction projects. The bonds maturing on or after February 1, 2015 are subject to redemption, in whole or in part beginning August 1, 2014 at a redemption price of 100%.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2011 and 2010</b>
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The Water District Refunding Revenue Bonds, Series 2004, are scheduled to mature as follows:

Year	Interest Rate	Principal Amount	Interest Amount	Total Debt Service
2012	3.25%	\$ 325,000	\$ 352,563	\$ 677,563
2013	3.375%	335,000	341,628	676,628
2014	3.50%	345,000	329,938	674,938
2015	4.00%	360,000	316,700	676,700
2016	4.00%	375,000	302,000	677,000
2017 - 2021	4.00-4.50%	2,120,000	1,263,050	3,383,050
2022 - 2026	4.50%	2,655,000	738,115	3,393,115
2027 - 2029	4.50%	1,905,000	131,289	2,036,289
Totals		\$ 8,420,000	\$ 3,775,283	\$ 12,195,283

*Taylor Mill Purchase Financing*

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

Year	Principal Amount
2012	\$ 175,000
2013	175,000
2014	175,000
2015	175,000
2016	175,000
2017 - 2018	225,000
Totals	\$ 1,100,000

*Water District Revenue Bonds, Series 2006*

In September 2006, the Northern Kentucky Water District sold \$29,000,000 of its Revenue Bonds to refund the Water District Bond Anticipation Notes, Series 2005 and 2004 and in order to fund various construction projects. The bonds maturing on or after February 1, 2031 are subject to redemption, in whole or in part beginning August 1, 2016 at a redemption price of 100%.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2011 and 2010</b>
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The Water District Refunding Revenue Bonds, Series 2006, 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>
2012	4.00%	\$ 835,000	\$ 1,049,188	\$ 1,884,188
2013	4.00%	870,000	1,015,088	1,885,088
2014	4.00%	900,000	979,688	1,879,688
2015	4.00%	940,000	942,888	1,882,888
2016	4.00%	980,000	904,488	1,884,488
2017 - 2021	4.00-4.125%	5,525,000	3,897,512	9,422,512
2022 - 2026	4.125%	6,995,000	2,602,805	9,597,805
2027 - 2031	4.125-4.250%	8,605,000	965,649	9,570,649
Totals		\$ <u>25,650,000</u>	\$ <u>12,357,306</u>	\$ <u>38,007,306</u>

*Kentucky Infrastructure Authority Loan F06-03*

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

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2012	\$ 165,293	\$ 102,864	\$ 268,157
2013	170,289	97,868	268,157
2014	175,436	92,721	268,157
2015	180,738	87,418	268,156
2016	186,201	81,955	268,156
2017 - 2021	1,018,904	321,877	1,340,781
2022 - 2026	1,182,479	158,302	1,340,781
2027 - 2028	390,462	11,772	402,234
Totals	\$ <u>3,469,802</u>	\$ <u>954,777</u>	\$ <u>4,424,579</u>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2011 and 2010</b>
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*Water District Revenue Bonds, Series 2009*

In January, 2009, the Northern Kentucky Water District sold \$29,290,000 of its Revenue Bonds to refund the Water District Bond Anticipation Notes, Series 2007 and in order to fund various construction projects. The bonds maturing on or after February 1, 2033 are subject to redemption, in whole or in part beginning August 1, 2019 at a redemption price of 100%.

The Water District Refunding Revenue Bonds, Series 2009, 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>
2012	3.75%	\$ 695,000	\$ 1,481,694	\$ 2,176,694
2013	3.75%	720,000	1,455,162	2,175,162
2014	4.00%	750,000	1,426,662	2,176,662
2015	4.13%	780,000	1,395,575	2,175,575
2016	4.250%	815,000	1,362,169	2,177,169
2017-2021	4.250 - 5.250%	4,715,000	6,165,031	10,880,031
2022-2026	5.250 - 5.75%	6,160,000	4,721,356	10,881,356
2027-2031	5.75 - 6.00%	8,255,000	2,624,975	10,879,975
2032-2033	6.00 - 6.50%	<u>4,085,000</u>	<u>269,913</u>	<u>4,354,913</u>
Totals		\$ <u>26,975,000</u>	\$ <u>20,902,537</u>	\$ <u>47,877,537</u>

*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, 2011, \$3,776,051 - has been received. Payments will not begin until one year after initiation of operation of the project, and therefore a maturity date has not been determined.

*Kentucky Infrastructure Authority Loan C08-01*

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

**NORTHERN KENTUCKY WATER DISTRICT****NOTES TO FINANCIAL STATEMENTS****December 31, 2011 and 2010**

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

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2012	\$ 538,270	\$ 156,967	\$ 695,237
2013	554,642	140,595	695,237
2014	571,512	123,725	695,237
2015	588,895	106,342	695,237
2016	606,807	88,431	695,238
2017 - 2020	<u>2,617,493</u>	<u>226,949</u>	<u>2,844,442</u>
Totals	\$ <u>5,477,619</u>	\$ <u>843,009</u>	\$ <u>6,320,628</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 has been increased to \$24,000,000 at an interest rate of 2.0%. As of December 31, 2011, \$16,000,000 has been received. Payments will not begin until one year after initiation of operation of the project, and therefore a maturity date has not been determined.

*Water District Bond Anticipation Notes, Series 2011*

In September, 2011, the Northern Kentucky Water District sold \$25,615,000 of Revenue Bond Anticipation Notes, Series 2011 for the purpose of paying the cost of constructing various projects to the District's water system.

The notes are scheduled to mature September 1, 2013.

<u>Years</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2012	2.00%	\$ -	\$ 482,416	\$ 482,416
2013	2.00%	<u>25,615,000</u>	<u>512,300</u>	<u>26,127,300</u>
Totals		\$ <u>25,615,000</u>	\$ <u>994,716</u>	\$ <u>26,609,716</u>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2011 and 2010</b>
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*Water District Revenue Bonds, Series 2011*

In May, 2011, the Northern Kentucky Water District sold \$30,830,000 of its Revenue Bonds in order to fund various construction projects. The bonds maturing on or after February 1, 2035 are subject to redemption, in whole or in part, beginning February 1, 2021.

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

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2012	3.000%	\$ 825,000	\$ 1,251,587	\$ 2,076,587
2013	3.000%	850,000	1,226,463	2,076,463
2014	3.000%	875,000	1,200,587	2,075,587
2015	3.000%	900,000	1,173,963	2,073,963
2016	3.000%	930,000	1,146,512	2,076,512
2017-2021	3.000-4.000%	5,110,000	5,268,463	10,378,463
2022-2026	4.000-4.125%	6,185,000	4,189,475	10,374,475
2027-2031	4.250-4.500%	7,625,000	2,753,294	10,378,294
2032-2035	5.000%	<u>7,530,000</u>	<u>776,250</u>	<u>8,306,250</u>
Totals		\$ <u>30,830,000</u>	\$ <u>18,986,594</u>	\$ <u>49,816,594</u>

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

**NORTHERN KENTUCKY WATER DISTRICT****NOTES TO FINANCIAL STATEMENTS****December 31, 2011 and 2010**

Changes in long-term debt are as follows:

	December 31, 2010	Additions	Retirements	December 31, 2011
Bond indebtedness				
Series 1997	\$ 1,855,000	-	1,025,000	\$ 830,000
Series 1998	8,430,000	-	310,000	8,120,000
Series 2001	14,520,000	-	80,000	14,440,000
Series 2002 A	42,440,000	-	485,000	41,955,000
Series 2002 B	5,840,000	-	805,000	5,035,000
Series 2003 A	1,360,000	-	40,000	1,320,000
Series 2003 B	24,110,000	-	965,000	23,145,000
Series 2003 C	14,995,000	-	1,350,000	13,645,000
Series 2004	8,735,000	-	315,000	8,420,000
Series 2006	26,455,000	-	805,000	25,650,000
Series 2009	27,645,000	-	670,000	26,975,000
Series 2011	-	30,830,000	-	30,830,000
Rural Development Loan	2,054,000	-	33,000	2,021,000
Total bond indebtedness	178,439,000	30,830,000	6,883,000	202,386,000
Taylor Mill purchase note	1,275,000	-	175,000	1,100,000
2009 Bond anticipation notes	29,160,000	-	29,160,000	-
2011 Bond Anticipation Notes	-	25,615,000	-	25,615,000
KIA Loan F06-03	3,630,244	-	160,443	3,469,801
KIA Loan F08-07	3,067,770	708,281	-	3,776,051
KIA Loan C08-01	6,000,000	-	522,381	5,477,619
KIA Loan F09-02	3,478,785	12,521,215	-	16,000,000
Deferred Note Payable	100,000	-	-	100,000
Total long-term debt	225,150,799	\$ 69,674,496	\$ 36,900,824	257,924,471
Less Current Portion	(36,900,824)			(8,852,563)
Total long-term debt				
Less Current Portion	\$ 188,249,975			\$ 249,071,908

**NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS***County Employees Retirement System (CERS)*

Water District employees who work at least 100 hours per month participate in the County Employees Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retire-



<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2011 and 2010</b>
--

ment, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the state legislature.

Non-hazardous Contributions – For the year ended December 31, 2011, plan members were required to contribute 5% (6% for members with a participation date on or after September 1, 2008) of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended December 31, 2011, participating employers contributed 18.96%/16.93% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended December 31, 2011 was 16.93% through June 30, 2011 and 18.96% after June 30, 2011 of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution and the actual percentage contributed for the District for the current year and the prior two years is as follows:

<u>Year</u>		<u>Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$	1,412,439	100%
2010	\$	1,367,473	100%
2009	\$	1,242,744	100%

#### *401(k) Plan and 457 Plan*

The District also permits employees to participate in a voluntary 401(k) or 457 plan. The District matched the employees' contribution up to 2.4% on a sliding scale. The District discontinued the match as of January 1, 2011. The District recognized expenses of \$105,399 for the year ended December 31, 2010.

#### **NOTE 6 – OPERATING LEASES**

The District is obligated under certain non-cancelable leases for equipment. The leases expire at various dates through April, 2014. Lease expense for both the years ended December 31, 2011 and 2010 were \$20,175 and \$24,564, respectively.

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011 and 2010**

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2011 are:

Years Ending December 31,	
2012	\$ 17,040
2013	17,040
2014	<u>4,260</u>
Total	\$ <u>38,340</u>

**NOTE 7-CHANGES IN UTILITY PLANT IN SERVICE**

The changes in utility plant in service are as follows:

	December 31, 2010	Additions	Retirements	December 31, 2011
Land and land rights	3,187,997 \$	103,130 \$	-	3,291,127 \$
Structures and improvements	84,266,302	414,610	213,716	84,467,196
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	11,174,297	9,850	-	11,184,147
Water treatment equipment	12,353,577	2,442,088	9,649	14,786,016
Distribution reservoirs and standpipes	9,643,680	6,325	82,134	9,567,871
Transmissions and distribution mains	137,642,407	15,444,557	2,362,233	150,724,731
Services	23,907,899	743,652	222,939	24,428,612
Meters and meter installations	16,317,321	737,035	303,839	16,750,517
Hydrants	6,807,396	937,873	402,947	7,342,322
Other plant and miscellaneous equipment	3,429,290	-	13,494	3,415,796
Office furniture and equipment	3,442,633	96,463	104,507	3,434,589
Transportation equipment	2,903,750	7,824	24,599	2,886,975
Tools, shop and garage equipment	545,120	30,185	25,369	549,936
Laboratory equipment	143,733	38,278	-	182,011
Power operated equipment	924,440	43,676	6,899	961,217
Other tangible plant	6,994,294	-	230,414	6,763,880
Construction in progress	37,881,689	20,325,669	-	58,207,358
Cost of utility plant excess of book value-Newport	4,970,211	-	-	4,970,211
Cost of utility plant excess of book value	545,925	-	-	545,925
Total	374,902,348 \$	41,381,215 \$	4,002,739	412,280,824
Less: accumulated depreciation	(84,366,604)			(92,727,220)
Net utility plant in service	\$ <u>290,535,744</u>			\$ <u>319,553,604</u>

#### **NOTE 8 - ECONOMIC DEPENDENCY**

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

#### **NOTE 9 – CONTINGENT LIABILITIES**

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

#### **NOTE 10 – SUBSEQUENT EVENTS**

Effective in January, 2011 there was a phase in increase in rates and charges at various amounts depending on consumption. Effective in January, 2012, these rates will be fully phased in.

The date to which events occurring after December 31, 2011, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is March 9, 2012, which is the date on which the financial statements were available to be issued.

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**SUPPLEMENTAL SCHEDULES**

**NORTHERN KENTUCKY WATER DISTRICT**  
**STATEMENT OF COMPARISON OF BUDGET TO ACTUAL**  
**Year Ended December 31, 2011**

	2011	
	Budget	Actual
OPERATING REVENUES		
Water sales	\$ 43,271,005	\$ 42,826,733
Forfeited discounts	754,000	740,506
Rents from property	490,000	533,666
Other water revenues	321,920	370,150
TOTAL OPERATING REVENUES	44,836,925	44,471,055
OPERATING EXPENSES		
Operation maintenance and administration	24,542,474	23,003,045
Depreciation	-	9,498,005
TOTAL OPERATING EXPENSES	24,542,474	32,501,050
NET OPERATING INCOME	20,294,451	11,970,005
NONOPERATING INCOME (EXPENSES)		
Investment income	882,000	811,145
Miscellaneous non-operating income (expense)	192,336	(239,673)
Interest on long-term debt	(9,233,734)	(7,746,446)
Amortization of debt discount and expense	-	(702,930)
Gain/(loss) on disposition of assets	-	(35,597)
NET NONOPERATING INCOME (EXPENSES)	(8,159,398)	(7,913,501)
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	12,135,053	4,056,504
CAPITAL CONTRIBUTIONS	-	2,861,766
CHANGE IN NET ASSETS	\$ 12,135,053	\$ 6,918,270

**NORTHERN KENTUCKY WATER DISTRICT**  
**STATEMENTS OF WATER OPERATING REVENUE**  
**Years Ended December 31, 2011 and 2010**

	2011	2010
OPERATING REVENUES		
Metered sales		
Sales to residential customers	\$ 25,830,125	\$ 25,358,536
Sales to commercial customers	6,480,434	6,333,852
Sales to industrial customers	3,340,091	3,387,672
Sales to public authorities	2,204,488	2,169,474
Sales to multiple family dwellings	3,554,109	3,365,435
Sales through bulk loading stations	62,114	85,092
Total metered sales	41,471,361	40,700,061
Fire protection revenue	30,695	67,256
Sales for resale	1,324,677	1,351,489
Total sales of water	42,826,733	42,118,806
Other water revenue	1,644,322	1,619,954
TOTAL OPERATING REVENUES	\$ 44,471,055	\$ 43,738,760

**NORTHERN KENTUCKY WATER DISTRICT**  
**STATEMENTS OF COMBINED OPERATION AND MAINTENANCE EXPENSES**  
**Years Ended December 31, 2011 and 2010**

	2011	2010
OPERATION AND MAINTENANCE EXPENSES		
Salaries and wages	\$ 7,850,528	\$ 8,236,586
Employee pensions and benefits	3,702,231	3,740,847
Taxes other than income taxes	564,871	597,489
Purchased power	2,335,556	2,434,987
Chemicals	1,859,499	1,796,456
Materials and supplies	1,764,422	1,969,743
Contractual services	2,971,873	3,050,854
Transportation expenses	612,541	544,359
Insurance	541,654	469,243
Bad debt expense	506,851	575,520
Miscellaneous expense	187,419	233,466
Regulatory Commission assessment	105,600	102,028
TOTAL OPERATION AND MAINTENANCE EXPENSES	\$ 23,003,045	\$ 23,751,578



**NORTHERN KENTUCKY WATER DISTRICT**  
**SCHEDULE OF INSURANCE COVERAGES**  
**December 31, 2011**

Company	Policy Number	Description of Coverage	Amount of Coverage	Effective Period	
				From	To
Travelers Insurance	GP09313655	General Liability	\$ 1,000,000	1/1/2011	1/1/2012
	GP09313655	Umbrella	19,000,000		
	GP09313655	Public Officials	1,000,000		
	GP09313655	Automobile Liability	1,000,000		
	GP09313655	Property	160,200,941		
	GP09313655	Boiler machinery	160,200,941		
	GP09313655	Bonds	Per Application		
	GP09313655	Employee Dishonesty	500,000		
Kentucky Employers Mutual Insurance	WC 477448320404	Worker's Compensation	1,000,000	7/1/2011	7/1/2012
Cincinnati Insurance		Fidelity Bond	Per Application		
Westchester Surplus Lines Ins. Company	G23800585002	Pollution	15,000,000	1/1/2010	1/1/2013

# NORTHERN KENTUCKY WATER DISTRICT

## RATES, RULES AND REGULATIONS

December 31, 2011

### RETAIL WATER RATES

#### 1. Monthly Service Rate

First	1,500 cubic feet	\$3.67 per 100 cubic feet
Next	163,500 cubic feet	\$3.08 per 100 cubic feet
Over	165,000 cubic feet	\$2.57 per 100 cubic feet

Sub district A shall be assessed a monthly surcharge in the amount of \$8.55  
 Sub district B shall be assessed a monthly surcharge in the amount of \$17.92  
 Sub district C shall be assessed a monthly surcharge in the amount of \$18.48  
 Sub district D shall be assessed a monthly surcharge in the amount of \$30.00  
 Sub district R shall be assessed a monthly surcharge in the amount of \$18.73  
 Sub district RL shall be assessed a monthly surcharge in the amount of \$36.22  
 Sub district E shall be assessed a monthly surcharge in the amount of \$30.00

Bromley Crs. Spgs/St. Johns, Whitaker/McDonald, Fiskburg Road (KY 17 to 1.2 mi),  
 Oliver Road – McCullum to Harris. Phase 2; Ky 177, Bethel Grove, Brandy Lane,  
 Vise's Train, Licking Sta. Road. Phase 3; Ky 177, Kenton Station (Rector to Ky 177),  
 and Ishmael Road (Ky 177 to 1000 ft).

Sub district RF shall be assessed a monthly surcharge in the amount of \$21.61

KY 177 to Decoursey, Porter Road, Tecumseh Lane, and Short Marshall

Sub District F shall be assessed a monthly surcharge in the amount of \$30.00

Sub District G. 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 \$13.65

#### 2. Quarterly Rates

	<u>Monthly Block</u>	<u>Quarterly Block</u>	<u>Rate</u>
First	1,500 cubic feet	4,500 cubic feet	\$3.67 per 100 cubic feet
Next	163,500 cubic feet	490,500 cubic feet	\$3.08 per 100 cubic feet
Over	165,000 cubic feet	495,000 cubic feet	\$2.57 per 100 cubic feet

#### 3. Fixed Service Charge

<u>Meter Size</u>		<u>Monthly</u>		<u>Quarterly</u>
5/8"	\$	12.77	\$	22.49
3/4"	\$	13.20	\$	23.70
1"	\$	14.41	\$	27.24
1 1/2"	\$	16.22	\$	32.10
2"	\$	20.50	\$	45.13
3"	\$	49.50	\$	140.40
4"	\$	62.01	\$	175.96
6"	\$	91.82	\$	260.10
8"	\$	123.99	\$	355.34
10" and larger	\$	164.88	\$	464.01

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b><i>RATES, RULES AND REGULATIONS</i></b> <b>December 31, 2011</b>
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WHOLESALE WATER RATES

Bullock Pen Water District	\$3.05 per 1,000 gallons (or) \$2.28 per 100 cubic feet
City of Walton	\$3.05 per 1,000 gallons (or) \$2.28 per 100 cubic feet
Pendleton County	\$3.05 per 1,000 gallons (or) \$2.28 per 100 cubic feet

MISCELLANEOUS SERVICE FEES

**Service Area Non-Recurring Charges:**

Returned Check Charge	\$ 20.00
Water Hauling Station	\$ 4.90 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, 2011**

**COMMISSIONERS**

**TERM EXPIRES**

Douglas C. Wagner, Chairman	August 26, 2013
Fred A. Macke, Jr., Vice-Chairman	August 26, 2012
David M. Spaulding, Esq., Treasurer	August 28, 2015
Joseph J. Koester, Secretary	July 26, 2012
Clyde Cunningham	August 28, 2015
Dr. Patricia Sommerkamp	August 21, 2013

**ADMINISTRATIVE STAFF**

C. Ronald Lovan, PE, President/CEO

Jack Bragg, CPA., MBA, Vice President of Finance and Support Services

Richard B. Harrison, PE, Vice President of Engineering, Water Quality and Production

**LEGAL COUNSEL**

Hemmer DeFrank, PLLC

**NORTHERN KENTUCKY WATER DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended December 31, 2011**

Federal Grants/Pass-Through Grantor;Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
Passed through State of Kentucky Infrastructure Authority Capitalization Grant for Drinking Water State Revolving Funds	66.468		<u>19,163,363</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 19,163,363</u>

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**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 41018**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Northern Kentucky Water District as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 9, 2012. 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.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the Northern Kentucky Water District's internal control over financial reporting as a basis for designing our auditing procedures 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 Northern Kentucky Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Northern Kentucky Water District's internal control over financial reporting.

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 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.

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Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### *Compliance and Other Matters*

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

This report is intended solely for the information and use of management, others within the organization, Board of Commissioners, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

#### **RANKIN, RANKIN & COMPANY**

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**Ft. Wright, Kentucky  
March 9, 2012**

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

**Board of Commissioners  
Northern Kentucky Water District  
Erlanger, Kentucky 41018**

*Compliance*

We have audited Northern Kentucky Water District's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. Northern Kentucky Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Northern Kentucky Water District's management. Our responsibility is to express an opinion on Northern Kentucky Water District's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Northern Kentucky Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Northern Kentucky Water District's compliance with those requirements.

In our opinion, The Northern Kentucky Water District complied, in all material respects, with the 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, 2011. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are to be reported in the accompanying schedule of findings and questioned costs.

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### *Internal Control Over Compliance*

Management of Northern Kentucky Water District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Northern Kentucky Water District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report internal control over compliance in accordance with OMB Circular A-133, 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 Board'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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, specified legislative or regulatory bodies, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**RANKIN, RANKIN & COMPANY**

A handwritten signature in black ink that reads 'Rankin, Rankin &amp; Company'. The signature is written in a cursive, flowing style.

**Ft. Wright, Kentucky  
March 9, 2012**

**NORTHERN KENTUCKY WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECMEBER 31, 2011**

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

<b>FINANCIAL STATEMENTS</b>	
Type of Financial Statement Opinion	Unqualified
Was there any significant deficiencies in internal control reported at the financial statements level (GAGAS)?	No
Were there any material weaknesses reported at the financial statement level (GAGAS)?	No
<b>FEDERAL AWARDS</b>	
Was there any material internal control weakness conditions reported for major federal programs?	No
Were there any other reportable conditions identified, not considered to be material weaknesses reported for major programs?	No
Type of Major Programs Compliance Opinion	Unqualified
Is there any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510?	No
Major Programs (list):	Drinking Water State Revolving Fund (CFDA #66.468)
Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: > all others
Low Risk Auditee?	Yes

**SECTION II – FINANCIAL STATEMENT FINDINGS**

No matters to be reported.

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

No matters to be reported.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b><i>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND</i></b> <b><i>QUESTIONED COSTS</i></b> <b>Year Ended December 31, 2011</b>
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<p>PRIOR YEAR - FINANCIAL STATEMENT FINDINGS</p>
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<p>No matters were reported.</p>
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<p>PRIOR YEAR - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS</p>
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<p>No matters were reported.</p>
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