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PUBLIC SERVICE
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**NORTHERN KENTUCKY
WATER DISTRICT**

FINANCIAL STATEMENTS

December 31, 2012 and 2011



RANKIN, RANKIN & COMPANY

Certified Public Accountants

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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 sheet of the Northern Kentucky Water District, as of December 31, 2012 and 2011, and the related statements of revenues, expenses and change in net assets, and of cash flows for the years then ended, which collectively comprise the District's basic financial statements.

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.

Auditor's Responsibility

Our responsibility is to express opinions 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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Northern Kentucky Water District, as of December 31, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

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 stated 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 & Company'.

**Ft. Wright, Kentucky
March 14, 2013**

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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, 2012. 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 \$161,434,815 (net assets). This was an increase of \$10,033,348 in comparison to the prior year.
- Operating revenues increased \$4,538,626 or 10.2% over 2011.
- The debt coverage ratio increased from 1.35 in 2011 to 1.62 in 2012, due to the 2012 change in net assets and refinancing four bond issues at reduced interest rates.

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 2012 compared to 2011.

Table 1
Net Assets

	2012	2011
Current assets	\$ 31,279,684	26,769,984
Restricted assets	57,109,581	68,677,903
Noncurrent assets	330,896,924	326,237,980
Total assets	419,286,189	421,685,867
Current liabilities	37,028,422	11,372,329
Liabilities payable from		
restricted assets	4,788,181	9,840,163
Long term liabilities	216,034,771	249,071,908
Total liabilities	257,851,374	270,284,400
Net assets:		
Invested in capital assets,		
net of related debt	82,611,067	61,629,133
Restricted	52,321,400	58,837,740
Unrestricted	26,502,348	30,934,594
Total net assets	\$ 161,434,815	151,401,467

The District's net assets for 2012 increased 6.6%, 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 (51%) 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 (32%) 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 (17%) may be used to meet the District's ongoing obligations to customers and creditors.

Table 2 shows the changes in net assets for 2012, as well as revenue and expense comparisons to 2011.

Table 2
Changes in Net Assets

	2012	2011
Operating Revenues:		
Water Sales	\$ 47,243,674	\$ 42,826,733
Forfeited discounts	837,746	740,506
Rents from property	562,966	533,666
Other water revenue	365,295	370,150
Total operating revenues	<u>49,009,681</u>	<u>44,471,055</u>
Operating Expenses:		
Operations, maintenance and administration expenses	24,384,581	23,003,045
Depreciation	10,010,201	9,498,005
Total operating expenses	<u>34,394,782</u>	<u>32,501,050</u>
Net Operating Income	<u>14,614,899</u>	<u>11,970,005</u>
Non-operating Income (Expenses)		
Investment income	831,929	811,145
Miscellaneous non-operating income (expense)	(384,846)	(239,673)
Interest on long-term debt	(7,933,311)	(7,746,446)
Amortization of bond discount and expense	(183,292)	(702,930)
Gain/(loss) on disposition of assets	8,459	(35,597)
Net Non-operating income (expenses)	<u>(7,661,061)</u>	<u>(7,913,501)</u>
Income Before Capital Contributions	6,953,838	4,056,504
Capital Contributions	<u>3,079,510</u>	<u>2,861,766</u>
Change in net assets	10,033,348	6,918,270
Net assets - January 1	<u>151,401,467</u>	<u>144,483,197</u>
Net assets - December 31	<u>\$ 161,434,815</u>	<u>\$ 151,401,467</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 \$6,953,838. Operating revenues increased 10.21% due to the increase from the March, 2012 rate implementation. Operating expenses (including depreciation) increased by less than 6%. 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 2012 as compared to 2011.

Table 3
Outstanding Debt at Year End

	<u>2012</u>	<u>2011</u>
Bond payable obligations	\$ 185,902,000	\$ 202,386,000
Notes payable	62,383,857	55,538,471
Totals	<u>\$ 248,285,857</u>	<u>\$ 257,924,471</u>

At year-end, the District had \$248,285,857 in outstanding notes and bonds compared to \$257,924,471 last year. That is a decrease of 3.7% as shown in the Table 3. The District did issue new refunding debt during the current year.

Capital Assets

At December 31, 2012, the capital assets reported amounted to \$432,348,757 invested in capital assets including land, buildings, water systems, equipment, and vehicles. This represents a net increase of \$20,067,933, or 5%, 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

	<u>2012</u>	<u>2011</u>
Not being depreciated:		
Land	\$ 3,291,127	\$ 3,291,127
Construction in progress	43,776,830	58,207,358
Plant Acquisition Adjustment	5,516,136	5,516,136
Other capital assets:		
Utility plants:	379,764,664	345,266,203
Transmission & Distribution, Source of Supply, Pumping system, Power Generation, Water Treatment and General plant and equipment		
Subtotal	<u>432,348,757</u>	<u>412,280,824</u>
Accumulated depreciation	<u>(101,451,833)</u>	<u>(92,727,220)</u>
TOTALS	<u>\$ 330,896,924</u>	<u>\$ 319,553,604</u>

Economic Factors And Next Year's Budget

The District's budget for 2013 projects a moderate increase in water revenue due to a phased rate increase in 2013. A modest increase is anticipated for operating expenses as a result of chemical cost increases due to utilization of the new Granular Activated Carbon process.

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, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 18,846,682	\$ 14,822,171
Accounts receivable		
Customers	5,240,846	4,899,742
Unbilled customers	5,500,000	5,400,000
Others	113,889	70,793
Assessments receivable	104,778	98,760
Inventory supplies for new installation and maintenance, at cost	1,241,516	1,198,490
Prepaid items	231,973	280,028
TOTAL CURRENT ASSETS	<u>31,279,684</u>	<u>26,769,984</u>
RESTRICTED ASSETS		
Boone Florence Settlement	743,592	1,613,621
Bond Proceeds Fund	14,761,474	26,460,229
Debt Service Reserve Account	16,727,770	17,557,818
Debt Service Account	13,258,210	12,768,211
Improvement, Repair & Replacement	11,618,535	10,278,024
TOTAL RESTRICTED ASSETS	<u>57,109,581</u>	<u>68,677,903</u>
NONCURRENT ASSETS		
Miscellaneous deferred charges	-	6,684,376
Capital assets:		
Land, system, buildings and equipment	388,571,927	354,073,466
Construction in progress	43,776,830	58,207,358
Total capital assets before accumulated depreciation	432,348,757	412,280,824
Less accumulated depreciation	(101,451,833)	92,727,220
Total capital assets, net of accumulated depreciation	330,896,924	319,553,604
TOTAL NONCURRENT ASSETS	<u>330,896,924</u>	<u>326,237,980</u>
TOTAL ASSETS	<u>\$ 419,286,189</u>	<u>\$ 421,685,867</u>

NORTHERN KENTUCKY WATER DISTRICT

STATEMENTS OF NET ASSETS

December 31, 2012 and 2011

	2012	2011
LIABILITIES AND RETAINED EARNINGS		
CURRENT LIABILITIES		
Bonded indebtedness	\$ 7,926,000	\$ 7,974,000
Notes payable	26,696,548	878,563
Accounts payable	1,813,604	1,959,482
Accrued payroll and taxes	366,801	347,903
Other accrued liabilities	225,469	212,381
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	37,028,422	11,372,329
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts payable	1,084,940	5,846,148
Accrued interest payable	3,703,241	3,994,015
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	4,788,181	9,840,163
LONG-TERM DEBT		
Bonded indebtedness	177,976,000	194,412,000
Notes payable	35,687,309	54,659,908
	<hr/>	<hr/>
TOTAL LONG-TERM DEBT	213,663,309	249,071,908
NON CURRENT LIABILITIES		
Miscellaneous deferred charges	2,371,462	-
	<hr/>	<hr/>
TOTAL LIABILITIES	257,851,374	270,284,400
NET ASSETS		
Invested in capital assets, net of related liabilities	82,611,067	61,629,133
Restricted	52,321,400	58,837,740
Unrestricted	26,502,348	30,934,594
	<hr/>	<hr/>
TOTAL NET ASSETS	161,434,815	151,401,467
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 419,286,189	\$ 421,685,867
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See accompanying notes.

NORTHERN KENTUCKY WATER DISTRICT**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS****Years Ended December 31, 2012 and 2011**

	2012	2011
OPERATING REVENUES		
Water sales	\$ 47,243,674	\$ 42,826,733
Forfeited discounts	837,746	740,506
Rents from property	562,966	533,666
Other water revenues	365,295	370,150
TOTAL OPERATING REVENUES	49,009,681	44,471,055
OPERATING EXPENSES		
Operating and maintenance expense	24,384,581	23,003,045
Depreciation expense	10,010,201	9,498,005
TOTAL OPERATING EXPENSES	34,394,782	32,501,050
NET OPERATING INCOME	14,614,899	11,970,005
NONOPERATING INCOME (EXPENSES)		
Investment income	831,929	811,145
Miscellaneous non-operating income/(expense)	(384,846)	(239,673)
Interest on long-term debt	(7,933,311)	(7,746,446)
Amortization of debt discount and expense	(183,292)	(702,930)
Gain/(loss) on disposition of assets	8,459	(35,597)
NET NONOPERATING INCOME (EXPENSES)	(7,661,061)	(7,913,501)
INCOME BEFORE CONTRIBUTIONS	6,953,838	4,056,504
CAPITAL CONTRIBUTIONS	3,079,510	2,861,766
CHANGE IN NET ASSETS	10,033,348	6,918,270
NET ASSETS - BEGINNING OF YEAR	151,401,467	144,483,197
NET ASSETS - ENDING OF YEAR	\$ 161,434,815	\$ 151,401,467

NORTHERN KENTUCKY WATER DISTRICT

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 48,519,463	\$ 44,640,061
Paid to suppliers for goods and services	(12,682,767)	(11,178,635)
Paid to or on behalf of employees for services	(11,810,677)	(11,534,047)
Net Cash Flows From Operating Activities	<u>24,026,019</u>	<u>21,927,379</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	831,929	811,145
Net Cash Flows From Investing Activities	<u>831,929</u>	<u>811,145</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on capital debt	(72,202,563)	(36,900,824)
Debt proceeds	62,563,949	69,674,496
Interest paid on bonds and notes, net of capitalized interest	(8,224,085)	(7,245,334)
Change in deferred assets, other than amortization	8,872,547	203,623
Acquisition and construction of fixed assets	(18,274,012)	(35,654,099)
(Increase) decrease in restricted funds		
Boone Florence Settlement	870,029	(11,781)
Bond Proceeds Fund	11,698,755	(4,919,666)
Debt Service Reserve and Debt Service Account	340,049	(3,877,359)
Improvement, Repair and Replacement Fund	(1,340,511)	(3,403,189)
Payment of restricted liabilities	(4,761,208)	2,657,520
Miscellaneous non-operating income	(376,387)	(275,270)
Net Cash Flows From Capital and Related Financing Activities	<u>(20,833,437)</u>	<u>(19,751,883)</u>
Net Change in Cash and Cash Equivalents	4,024,511	2,986,641
CASH AND CASH EQUIVALENTS-Beginning of Year	<u>14,822,171</u>	<u>11,835,530</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 18,846,682</u>	<u>\$ 14,822,171</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ 14,614,899	\$ 11,970,005
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation	10,010,201	9,498,005
(Increase) decrease in assessments receivable	(6,018)	(6,126)
(Increase) decrease in accounts receivable	(484,200)	175,132
(Increase) decrease in inventory supplies	(43,026)	144,921
(Increase) decrease in prepaid expenses	48,055	162,420
Increase (decrease) in accounts payable	(145,878)	(29,084)
Increase (decrease) in accrued payroll and taxes	18,898	18,712
Increase (decrease) in other accrued liabilities	13,088	(6,606)
	<u>\$ 24,026,019</u>	<u>\$ 21,927,379</u>

NORTHERN KENTUCKY WATER DISTRICT NOTES TO FINANCIAL STATEMENTS December 31, 2012 and 2011
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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.

NORTHERN KENTUCKY WATER DISTRICT NOTES TO FINANCIAL STATEMENTS December 31, 2012 and 2011
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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:

	2012	2011
Cash and Cash Equivalents	\$ <u>743,592</u>	\$ <u>1,613,621</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:

	2012	2011
Cash and Cash Equivalents	\$ 8,907,541	\$ 10,123,465
FNMA Discount Notes	7,538,048	7,316,990
Accrued Interest Receivable	<u>112,229</u>	<u>117,363</u>
Total	\$ <u>16,557,818</u>	\$ <u>17,557,818</u>

Maximum annual debt service is \$16,227,814 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:

	2012	2011
Cash and Cash Equivalents	\$ <u>13,258,210</u>	\$ <u>12,768,211</u>
Total	\$ <u>13,258,210</u>	\$ <u>12,768,211</u>

NORTHERN KENTUCKY WATER DISTRICT NOTES TO FINANCIAL STATEMENTS December 31, 2012 and 2011
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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:

		2012	2011
Cash		\$ 11,618,535	\$ 10,278,024
	Total	\$ 11,618,535	\$ 10,278,024

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.

NORTHERN KENTUCKY WATER DISTRICT NOTES TO FINANCIAL STATEMENTS December 31, 2012 and 2011
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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, 2012, 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, 2012.

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	2012	2011
Expensed	\$ 7,933,311	\$ 7,746,446
Capitalized	1,321,854	1,172,557
Total	\$ <u>9,255,165</u>	\$ <u>8,919,003</u>

NORTHERN KENTUCKY WATER DISTRICT NOTES TO FINANCIAL STATEMENTS December 31, 2012 and 2011
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The District had the following non-cash capital and related financing activities:

	2012	2011
Refunding of Series 1997, 1998, 2001 and 2002A bonds	\$ 63,350,000	\$ -
Refunding of Series 2009 Bond Anticipation Notes	\$ -	\$ 29,160,000

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, 2012 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 2012, interest in the amount of \$1,321,854 has been capitalized. The cost of current repairs and maintenance is charged to expense, while the cost of replacements or betterments is capitalized.

NORTHERN KENTUCKY WATER DISTRICT NOTES TO FINANCIAL STATEMENTS December 31, 2012 and 2011
--

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,

	2012	2011
Boone Florence Settlement	\$ 743,592	\$ 1,613,621
Bond Proceeds Fund	14,761,474	26,460,229
Debt Service Reserve Account	16,727,770	17,557,818
Debt Service Account	13,258,210	12,768,211
Improvement, Repair & Replacement	11,618,535	10,278,024
Total Restricted Assets	57,109,581	68,677,903
Less: Restricted Liabilities	(4,788,181)	(9,840,164)
Total Restricted Net Assets	\$ 52,321,400	\$ 58,837,739

NORTHERN KENTUCKY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 3 - ACCOUNTS RECEIVABLE

	<u>2012</u>	<u>2011</u>
Accounts receivable arising from billings of metered water sales	\$ 5,240,846	\$ 4,899,742
Accrual for estimated unbilled water revenue	5,500,000	5,400,000
Other	<u>113,889</u>	<u>70,793</u>
Total net accounts receivable	\$ <u>10,854,735</u>	\$ <u>10,370,535</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.

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.

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

Year	Principal Amount	Interest Amount	Total Debt Service
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	44,000	90,450	134,450
2018-2022	256,000	416,000	672,000
2023-2027	326,000	343,600	669,600
2028-2032	416,000	251,350	667,350
2033-2037	535,000	133,075	668,075
2038-2039	<u>254,000</u>	<u>12,850</u>	<u>266,850</u>
Total	\$ <u>1,987,000</u>	\$ <u>1,629,625</u>	\$ <u>3,616,625</u>

NORTHERN KENTUCKY WATER DISTRICT NOTES TO FINANCIAL STATEMENTS December 31, 2012 and 2011
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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.

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

Year	Interest Rate	Principal Amount	Interest Amount	Total Debt Service
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		\$ 4,200,000	\$ 406,042	\$ 4,606,042

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
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	4.25%	50,000	48,655	98,655
2018 - 2022	4.25-4.50%	295,000	205,899	500,899
2023 - 2027	4.50-4.55%	365,000	131,662	496,662
2028 - 2031	4.55-4.60%	385,000	39,675	424,675
Totals		\$ 1,280,000	\$ 640,113	\$ 1,920,113

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%.

NORTHERN KENTUCKY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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

Year	Interest Rate	Principal Amount	Interest Amount	Total Debt Service
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	4.000%	1,175,000	707,394	1,882,394
2018 - 2022	4.000-4.125%	6,645,000	2,768,741	9,413,741
2023 - 2027	4.125%	8,165,000	1,250,391	9,415,391
2028	4.125%	1,845,000	38,053	1,883,053
Totals		\$ 22,150,000	\$ 7,981,942	\$ 30,131,942

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
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	4.00%	1,690,000	215,582	1,905,582
2018 - 2020	4.00-4.25%	4,420,000	258,173	4,678,173
Totals		\$ 12,250,000	\$ 1,970,868	\$ 14,220,868

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%.

NORTHERN KENTUCKY WATER DISTRICT NOTES TO FINANCIAL STATEMENTS December 31, 2012 and 2011
--

The Water District Refunding Revenue Bonds, Series 2004, are scheduled to mature as follows:

Year	Interest Rate	Principal Amount	Interest Amount	Total Debt Service
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	4.00%	390,000	286,700	676,700
2018 - 2022	4.00-4.50%	2,215,000	1,170,638	3,385,638
2023 - 2027	4.50%	2,775,000	615,940	3,390,940
2028 - 2029	4.50%	1,300,000	59,176	1,359,176
Totals		\$ 8,095,000	\$ 3,422,720	\$ 11,517,720

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
2013	\$ 175,000
2014	175,000
2015	175,000
2016	175,000
2017 - 2018	225,000
Totals	\$ 925,000

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%.

NORTHERN KENTUCKY WATER DISTRICT**NOTES TO FINANCIAL STATEMENTS****December 31, 2012 and 2011**

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>
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	4.00%	1,020,000	864,488	1,884,488
2018 - 2022	4.00-4.125%	5,760,000	3,667,871	9,427,871
2023 - 2027	4.125%	7,310,000	2,304,902	9,614,902
2028 - 2031	4.125-4.250%	7,035,000	628,705	7,663,705
Totals		\$ <u>24,815,000</u>	\$ <u>11,308,118</u>	\$ <u>36,123,118</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>
2013	\$ 170,289	\$ 106,024	\$ 276,313
2014	175,436	100,447	275,883
2015	180,738	94,703	275,441
2016	186,201	88,785	274,986
2017	191,828	82,688	274,516
2018 - 2022	1,049,700	315,338	1,365,038
2023 - 2027	1,218,219	132,775	1,350,994
2028	132,097	2,147	134,244
Totals	\$ <u>3,304,508</u>	\$ <u>922,907</u>	\$ <u>4,227,415</u>

NORTHERN KENTUCKY WATER DISTRICT NOTES TO FINANCIAL STATEMENTS December 31, 2012 and 2011
--

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>
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	4.250%	850,000	1,324,663	2,174,663
2018-2022	4.250 -5.250%	4,965,000	5,918,097	10,883,097
2023-2027	5.250 -5.75%	6,520,000	4,360,558	10,880,558
2028-2032	5.75 - 6.00%	8,770,000	2,109,292	10,879,292
2033	6.00 - 6.50%	2,110,000	68,575	2,178,575
Totals		\$ <u>26,280,000</u>	\$ <u>19,420,753</u>	\$ <u>45,700,753</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, 2012, \$4,000,000 - 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.

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, 2012 and 2011
--

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>
2013	\$ 554,642	\$ 149,969	\$ 704,611
2014	571,512	132,277	703,789
2015	588,895	113,431	702,326
2016	606,807	94,325	701,132
2017	625,264	74,639	699,903
2018 - 2020	<u>1,992,231</u>	<u>99,685</u>	<u>2,091,916</u>
Totals	\$ <u>4,939,351</u>	\$ <u>664,326</u>	\$ <u>5,603,677</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, 2012, \$23,500,000 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>
2013	2.00%	\$ <u>25,615,000</u>	\$ <u>512,300</u>	\$ <u>26,127,300</u>
Totals		\$ <u>25,615,000</u>	\$ <u>512,300</u>	\$ <u>26,127,300</u>

NORTHERN KENTUCKY WATER DISTRICT NOTES TO FINANCIAL STATEMENTS December 31, 2012 and 2011
--

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>
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	3.000%	960,000	1,118,162	2,078,162
2018-2022	3.000-4.000%	5,290,000	5,085,260	10,375,260
2023-2027	4.000-4.125%	6,440,000	3,933,555	10,373,555
2028-2032	4.250-4.500%	7,975,000	2,407,125	10,382,125
2033-2035	5.000%	5,785,000	443,375	6,228,375
Totals		\$ <u>30,005,000</u>	\$ <u>17,735,002</u>	\$ <u>47,740,002</u>

Water District Refunding Revenue Bonds, Series 2012

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

The reacquisition price exceeded the net carrying amount of the refunded debt by \$360,333. This amount is netted against the new debt and amortized over the remaining life of the new debt. The refunding reduces its total debt service over 16 years by \$13,320,886 and obtains an economic gain (difference between the present values of the old and new debt service) of \$10,938,593.

NORTHERN KENTUCKY WATER DISTRICT NOTES TO FINANCIAL STATEMENTS December 31, 2012 and 2011
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<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2013	4.00%	\$ 1,725,000	\$ 2,633,900	\$ 4,358,900
2014	4.00%	1,800,000	2,563,400	4,363,400
2015	4.00%	1,875,000	2,489,900	4,364,900
2016	4.00%	1,960,000	2,413,200	4,373,200
2017	5.00%	2,530,000	2,310,750	4,840,750
2018-2022	5.00%	20,230,000	8,856,000	29,086,000
2023-2027	5.00%	<u>24,720,000</u>	<u>3,075,750</u>	<u>27,795,750</u>
		\$ <u>54,840,000</u>	\$ <u>24,342,900</u>	\$ <u>79,182,900</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, 2012 and 2011

Changes in long-term debt are as follows:

	December 31, 2011	Additions	Retirements	December 31, 2012
Bond indebtedness				
Series 1997	\$ 830,000	-	830,000	\$ -
Series 1998	8,120,000	-	8,120,000	-
Series 2001	14,440,000	-	14,440,000	-
Series 2002 A	41,955,000	-	41,955,000	-
Series 2002 B	5,035,000	-	835,000	4,200,000
Series 2003 A	1,320,000	-	40,000	1,280,000
Series 2003 B	23,145,000	-	995,000	22,150,000
Series 2003 C	13,645,000	-	1,395,000	12,250,000
Series 2004	8,420,000	-	325,000	8,095,000
Series 2006	25,650,000	-	835,000	24,815,000
Series 2009	26,975,000	-	695,000	26,280,000
Series 2011	30,830,000	-	825,000	30,005,000
Series 2012	-	54,840,000	-	54,840,000
Rural Development Loan	2,021,000	-	34,000	1,987,000
Total bond indebtedness	202,386,000	54,840,000	71,324,000	185,902,000
Taylor Mill purchase note	1,100,000	-	175,000	925,000
2011 Bond Anticipation Notes	25,615,000	-	-	25,615,000
KIA Loan F06-03	3,469,801	-	165,293	3,304,508
KIA Loan F08-07	3,776,051	223,949	-	4,000,000
KIA Loan C08-01	5,477,619	-	538,270	4,939,349
KIA Loan F09-02	16,000,000	7,500,000	-	23,500,000
Deferred Note Payable	100,000	-	-	100,000
Total long-term debt	257,924,471	\$ 62,563,949	\$ 72,202,563	\$ 248,285,857
Less Current Portion	(8,852,563)			(34,622,548)
Total long-term debt				
Less Current Portion	\$ 249,071,908			\$ 213,663,309

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-

NORTHERN KENTUCKY WATER DISTRICT NOTES TO FINANCIAL STATEMENTS December 31, 2012 and 2011
--

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, 2012, 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, 2012, participating employers contributed 18.96%/19.55% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended December 31, 2012 was 18.96% through June 30, 2012 and 19.55% after June 30, 2012 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>
2012	\$	1,510,110	100%
2011	\$	1,412,439	100%
2010	\$	1,367,473	100%

401(k) Plan and 457 Plan

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

NOTE 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, 2012 and 2011 were \$17,040 and \$20,175 respectively.

NORTHERN KENTUCKY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2012 are:

<u>Years Ending December 31,</u>	
2013	\$ 17,040
2014	<u>4,260</u>
Total	<u>\$ 21,300</u>

NOTE 7-CHANGES IN UTILITY PLANT IN SERVICE

The changes in utility plant in service are as follows:

	<u>December 31, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2012</u>
Land and land rights	3,291,127 \$	- \$	- \$	3,291,127 \$
Structures and improvements	84,467,196	524,667	-	84,991,863
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	11,184,147	117,204	12,198	11,289,153
Water treatment equipment	14,786,016	14,835,506	12,272	29,609,250
Distribution reservoirs and standpipes	9,567,871	-	-	9,567,871
Transmissions and distribution mains	150,724,731	17,452,042	1,031,359	167,145,414
Services	24,428,612	1,600,353	281,775	25,747,190
Meters and meter installations	16,750,517	593,386	186,273	17,157,630
Hydrants	7,342,322	636,590	59,250	7,919,662
Other plant and miscellaneous equipment	3,415,796	13,993	-	3,429,789
Office furniture and equipment	3,434,589	143,220	65,246	3,512,563
Transportation equipment	2,886,975	236,766	179,197	2,944,544
Tools, shop and garage equipment	549,936	32,447	3,358	579,025
Laboratory equipment	182,011	15,498	2,530	194,979
Power operated equipment	961,217	103,873	3,200	1,061,890
Other tangible plant	6,763,880	31,737	2,163	6,793,454
Construction in progress	58,207,358	-	14,430,528	43,776,830
Cost of utility plant excess of book value-Newport	4,970,211	-	-	4,970,211
Cost of utility plant excess of book value	<u>545,925</u>	<u>-</u>	<u>-</u>	<u>545,925</u>
Total	412,280,824 \$	<u>36,337,282</u> \$	<u>16,269,349</u>	432,348,757
Less: accumulated depreciation	<u>(92,727,220)</u>			<u>(101,451,832)</u>
Net utility plant in service	\$ <u>319,553,604</u>			\$ <u>330,896,925</u>

NORTHERN KENTUCKY WATER DISTRICT**NOTES TO FINANCIAL STATEMENTS****December 31, 2012 and 2011****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 were fully phased in.

The date to which events occurring after December 31, 2012, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is March 14, 2013, which is the date on which the financial statements were available to be issued.

SUPPLEMENTAL SCHEDULES

NORTHERN KENTUCKY WATER DISTRICT
STATEMENT OF COMPARISON OF BUDGET TO ACTUAL
Year Ended December 31, 2012

	2012	
	Budget	Actual
OPERATING REVENUES		
Water sales	\$ 46,197,940	\$ 47,243,674
Forfeited discounts	731,800	837,746
Rents from property	515,000	562,966
Other water revenues	331,860	365,295
TOTAL OPERATING REVENUES	47,776,600	49,009,681
OPERATING EXPENSES		
Operation maintenance and administration	24,538,602	24,384,581
Depreciation	-	10,010,201
TOTAL OPERATING EXPENSES	24,538,602	34,394,782
NET OPERATING INCOME	23,237,998	14,614,899
NONOPERATING INCOME (EXPENSES)		
Investment income	777,000	831,929
Miscellaneous non-operating income (expense)	182,052	(384,846)
Interest on long-term debt	(9,148,296)	(7,933,311)
Amortization of debt discount and expense	-	(183,292)
Gain/(loss) on disposition of assets	-	8,459
NET NONOPERATING INCOME (EXPENSES)	(8,189,244)	(7,661,061)
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	15,048,754	6,953,838
CAPITAL CONTRIBUTIONS	-	3,079,510
CHANGE IN NET ASSETS	\$ 15,048,754	\$ 10,033,348

The Budget was not amended for 2012. Depreciation and capital contributions are not budgeted.
The District budget is for planning purposes and is not a required legally adopted process.

NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF WATER OPERATING REVENUE
Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Metered sales		
Sales to residential customers	\$ 29,194,599	\$ 25,830,125
Sales to commercial customers	7,185,168	6,480,434
Sales to industrial customers	3,388,320	3,340,091
Sales to public authorities	2,251,014	2,204,488
Sales to multiple family dwellings	3,812,372	3,554,109
Sales through bulk loading stations	86,443	62,114
Total metered sales	45,917,916	41,471,361
Fire protection revenue	42,468	30,695
Sales for resale	1,283,290	1,324,677
Total sales of water	47,243,674	42,826,733
Other water revenue	1,766,007	1,644,322
TOTAL OPERATING REVENUES	\$ 49,009,681	\$ 44,471,055

NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF COMBINED OPERATION AND MAINTENANCE EXPENSES
Years Ended December 31, 2012 and 2011

	2012	2011
OPERATION AND MAINTENANCE EXPENSES		
Salaries and wages	\$ 7,959,135	\$ 7,850,528
Employee pensions and benefits	3,870,440	3,702,231
Taxes other than income taxes	564,698	564,871
Purchased power	2,508,909	2,335,556
Chemicals	1,493,552	1,859,499
Materials and supplies	2,036,342	1,764,422
Contractual services	3,154,747	2,971,873
Transportation expenses	578,956	612,541
Insurance	541,177	541,654
Bad debt expense	552,926	506,851
Miscellaneous expense	1,011,587	187,419
Regulatory Commission assessment	112,112	105,600
TOTAL OPERATION AND MAINTENANCE EXPENSES	\$ 24,384,581	\$ 23,003,045

NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF INSURANCE COVERAGES
December 31, 2012

Company	Policy Number	Description of Coverage	Amount of Coverage	Effective Period	
				From	To
Travelers Insurance	ZPP14P0745812	General Liability	\$ 1,000,000	1/1/2012	1/1/2013
	ZUP14P0746A12	Umbrella	19,000,000		
	ZPP14P0745812	Public Officials	1,000,000		
	H8102721X112CO	Automobile Liability	1,000,000		
	H6302721X112TIL	Property	160,200,941		
	H6302721X112TIL	Boiler machinery	160,200,941		
	H6302721X112TIL	Bonds	Per Application		
		Employee Dishonesty	500,000		
Kentucky Employers Mutual Insurance	WC 477448320404	Worker's Compensation	1,000,000	7/1/2012	7/1/2013
Cincinnati Insurance		Fidelity Bond	Per Application	8/20/2012	8/20/2013
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, 2012

RETAIL WATER RATES

1. Monthly Service Rate

First	1,500 cubic feet	\$4.02 per 100 cubic feet
Next	163,500 cubic feet	\$3.27 per 100 cubic feet
Over	165,000 cubic feet	\$2.58 per 100 cubic feet

Sub district A shall be assessed a monthly surcharge in the amount of \$8.58

Sub district B shall be assessed a monthly surcharge in the amount of \$17.16

Sub district C shall be assessed a monthly surcharge in the amount of \$18.17

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 \$18.05

Sub district RL shall be assessed a monthly surcharge in the amount of \$31.22

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 \$23.77

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 \$11.60

2. Quarterly Rates

	<u>Monthly Block</u>	<u>Quarterly Block</u>	<u>Rate</u>
First	1,500 cubic feet	4,500 cubic feet	\$4.02 per 100 cubic feet
Next	163,500 cubic feet	490,500 cubic feet	\$3.27 per 100 cubic feet
Over	165,000 cubic feet	495,000 cubic feet	\$2.58 per 100 cubic feet

3. Fixed Service Charge

<u>Meter Size</u>		<u>Monthly</u>		<u>Quarterly</u>
5/8"	\$	13.00	\$	26.60
3/4"	\$	13.44	\$	27.40
1"	\$	14.67	\$	31.50
1 1/2"	\$	16.51	\$	37.12
2"	\$	20.87	\$	52.18
3"	\$	50.39	\$	162.35
4"	\$	63.12	\$	203.46
6"	\$	93.47	\$	300.76
8"	\$	126.22	\$	410.89
10" and larger	\$	167.85	\$	536.54

NORTHERN KENTUCKY WATER DISTRICT <i>RATES, RULES AND REGULATIONS</i> December 31, 2012

WHOLESALE WATER RATES

Bullock Pen Water District	\$3.13 per 1,000 gallons (or) \$2.34 per 100 cubic feet
City of Walton	\$3.13 per 1,000 gallons (or) \$2.34 per 100 cubic feet
Pendleton County	\$3.13 per 1,000 gallons (or) \$2.34 per 100 cubic feet

MISCELLANEOUS SERVICE FEES

Service Area Non-Recurring Charges:

Returned Check Charge	\$ 20.00
Water Hauling Station	\$ 5.40 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, 2012**

COMMISSIONERS

TERM EXPIRES

Douglas C. Wagner, Chairman	August 26, 2013
Fred A. Macke, Jr., Vice-Chairman	August 26, 2016
David M. Spaulding, Esq., Treasurer	August 28, 2015
Clyde Cunningham, Secretary	August 28, 2015
Dr. Patricia Sommerkamp	August 21, 2013
Andrew Collins	July 31, 2016

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, 2012

Federal Grants/Pass-Through Grantor;Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
Environmental Protection Agency			
Passed through State of Kentucky Infrastructure			
Authority Capitalization Grant for Drinking Water	66,468	F-09-02	\$ 2,126,944
State Revolving Funds	66.468	F-08-07	163,138
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 2,290,082

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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**

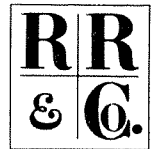
We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Northern Kentucky Water District as of and for the year ended December 31, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 14, 2013. 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 14, 2013**

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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, 2012. 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 December 31, 2012. 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 cursive script that reads "Rankin, Rankin & Company".

**Ft. Wright, Kentucky
March 14, 2013**

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECMEBER 31, 2012**

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
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
FEDERAL AWARDS	
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.

NORTHERN KENTUCKY WATER DISTRICT <i>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND</i> <i>QUESTIONED COSTS</i> Year Ended December 31, 2012
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<p>PRIOR YEAR - FINANCIAL STATEMENT FINDINGS</p>
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<p>No matters were reported.</p>

<p>PRIOR YEAR - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS</p>

<p>No matters were reported.</p>
