

**NORTHERN KENTUCKY  
WATER DISTRICT**

***FINANCIAL STATEMENTS***

**December 31, 2013 and 2012**

**NORTHERN KENTUCKY  
WATER DISTRICT**

***FINANCIAL STATEMENTS***

**December 31, 2013 and 2012**

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## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Northern Kentucky Water District, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Northern Kentucky Water District, as of December 31, 2013 and 2012, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 and 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Northern Kentucky Water District's basic financial statements. The other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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



### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2014, on our consideration of the Northern Kentucky Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northern Kentucky Water District's internal control over financial reporting and compliance.

**RANKIN, RANKIN & COMPANY**

A handwritten signature in cursive script that reads "Rankin, Rankin & Company".

**Ft. Wright, Kentucky**

**March 11, 2014**

## **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, 2013. 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 \$170,491,017 (net assets). This was an increase of \$9,056,202 in comparison to the prior year.
- Operating revenues decreased \$411,650 or 0.8% from 2012.
- The debt coverage ratio decreased from 1.62 in 2012 to 1.59 in 2013, due to the 2013 change in net assets and an increase in principal and interest payments as a result of the issuance of the 2013 bond.

### **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 position, statements of revenues, expenses and changes in net position 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 Position and the Statement of Revenues, Expenses and Changes in Net Position**

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

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

## Overview of Annual Financial Report

Table 1 provides a summary of the District's net position for 2013 compared to 2012.

**Table 1**  
**Net Position**

	2013	2012
Current assets	\$ 34,274,761	\$ 31,279,684
Restricted assets	55,016,947	57,109,581
Noncurrent assets	331,889,436	330,896,924
Total assets	<u>421,181,144</u>	<u>419,286,189</u>
Current liabilities	13,738,228	37,028,422
Liabilities payable from restricted assets	4,991,803	4,788,181
Long term liabilities	231,960,097	216,034,771
Total liabilities	<u>250,690,128</u>	<u>257,851,374</u>
Net position:		
Invested in capital assets, net of related debt	93,382,061	82,611,067
Restricted	50,025,144	52,321,400
Unrestricted	27,083,811	26,502,348
Total net position	<u>\$ 170,491,016</u>	<u>\$ 161,434,815</u>

The District's net position for 2013 increased 5.6%, 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 position (55%) 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 position (29%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The unrestricted net position (16%) may be used to meet the District's ongoing obligations to customers and creditors.

Table 2 shows the changes in net position for 2013, as well as revenue and expense comparisons to 2012.

**Table 2**  
**Changes in Net Position**

	2013	2012
Operating Revenues:		
Water Sales	\$ 46,919,118	\$ 47,243,674
Forfeited discounts	765,860	837,746
Rents from property	564,867	562,966
Other water revenue	348,185	365,295
Total operating revenues	<u>48,598,030</u>	<u>49,009,681</u>
Operating Expenses:		
Operations, maintenance and administration expenses	23,227,312	24,384,581
Depreciation	11,101,626	10,010,201
Total operating expenses	<u>34,328,938</u>	<u>34,394,782</u>
Net Operating Income	<u>14,269,092</u>	<u>14,614,899</u>
Non-operating Income (Expenses)		
Investment income	807,778	831,929
Miscellaneous non-operating income (expense)	(256,650)	(384,846)
Interest on long-term debt	(8,414,274)	(7,933,311)
Amortization of bond discount and expense	231,801	(183,292)
Gain/(loss) on disposition of assets	(1,054)	8,459
Net Non-operating income (expenses)	<u>(7,632,399)</u>	<u>(7,661,061)</u>
Income Before Capital Contributions	6,636,693	6,953,838
Capital Contributions	<u>2,419,508</u>	<u>3,079,510</u>
Change in net position	9,056,201	10,033,348
Net position - January 1	<u>161,434,815</u>	<u>151,401,467</u>
Net position - December 31	<u>\$ 170,491,016</u>	<u>\$ 161,434,815</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 \$6,636,693. Operating revenues decreased 4.56% due to the slight decrease in water sales, and increase in interest on long-term debt. Operating expenses (including depreciation) remained relatively flat and decreased by less than 0.19%.

## Debt and Capital Asset Administration

Table 3 summarizes the District's outstanding debt at the end of 2013 as compared to 2012.

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

	<u>2013</u>	<u>2012</u>
Bond payable obligations	\$ 202,811,000	\$ 185,902,000
Notes payable	35,696,405	62,383,857
Totals	<u>\$ 238,507,405</u>	<u>\$ 248,285,857</u>

At year-end, the District had \$238,507,405 in outstanding notes and bonds compared to \$248,285,857 last year. That is a decrease of 3.9% as shown in the Table 3. The District did issue new refunding debt during the current year.

## Capital Assets

At December 31, 2013, the capital assets reported amounted to \$443,020,050 invested in capital assets including land, buildings, water systems, equipment, and vehicles. This represents a net increase of \$10,671,293, or 2%, 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>2013</u>	<u>2012</u>
Not being depreciated:		
Land	\$ 3,291,127	\$ 3,291,127
Construction in progress	14,441,478	43,776,830
Plant Acquisition Adjustment	5,516,136	5,516,136
Other capital assets:		
Utility plants:	419,771,309	379,764,664
Transmission & Distribution, Source of Supply, Pumping system, Power Generation, Water Treatment and General plant and equipment		
Subtotal	<u>443,020,050</u>	<u>432,348,757</u>
Accumulated depreciation	<u>(111,130,615)</u>	<u>(101,451,833)</u>
TOTALS	<u>\$ 331,889,435</u>	<u>\$ 330,896,924</u>

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

The District's budget for 2014 projects a moderate increase in water revenue due to a phased rate increase in 2014. 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 POSITION**  
**December 31, 2013 and 2012**

	2013	2012
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 21,351,218	\$ 18,846,682
Accounts receivable		
Customers	5,119,191	5,240,846
Unbilled customers	5,700,000	5,500,000
Others	73,361	113,889
Assessments receivable	110,953	104,778
Inventory supplies for new installation and maintenance, at cost	1,537,704	1,241,516
Prepaid items	382,334	231,973
<b>TOTAL CURRENT ASSETS</b>	<b>34,274,761</b>	<b>31,279,684</b>
<b>RESTRICTED ASSETS</b>		
Boone Florence Settlement	307,729	743,592
Bond Proceeds Fund	8,728,696	14,761,474
Debt Service Reserve Account	18,403,286	16,727,770
Debt Service Account	14,751,172	13,258,210
Improvement, Repair & Replacement	12,826,064	11,618,535
<b>TOTAL RESTRICTED ASSETS</b>	<b>55,016,947</b>	<b>57,109,581</b>
<b>NONCURRENT ASSETS</b>		
Miscellaneous deferred charges	-	-
Capital assets:		
Land, system, buildings and equipment	428,578,572	388,571,927
Construction in progress	14,441,479	43,776,830
Total capital assets before accumulated depreciation	443,020,051	432,348,757
Less accumulated depreciation	(111,130,615)	(101,451,833)
Total capital assets, net of accumulated depreciation	331,889,436	330,896,924
<b>TOTAL NONCURRENT ASSETS</b>	<b>331,889,436</b>	<b>330,896,924</b>
<b>TOTAL ASSETS</b>	<b>\$ 421,181,144</b>	<b>\$ 419,286,189</b>

**NORTHERN KENTUCKY WATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**December 31, 2013 and 2012**

	2013	2012
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Bonded indebtedness	\$ 8,828,000	\$ 7,926,000
Notes payable	2,102,031	26,696,548
Accounts payable	1,806,803	1,813,604
Accrued payroll and taxes	366,970	366,801
Other accrued liabilities	230,196	225,469
Customer deposits	404,228	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>13,738,228</b>	<b>37,028,422</b>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Accounts payable	1,176,843	1,084,940
Accrued interest payable	3,814,960	3,703,241
<b>TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>	<b>4,991,803</b>	<b>4,788,181</b>
<b>LONG-TERM DEBT</b>		
Bonded indebtedness	193,983,000	177,976,000
Notes payable	33,594,344	35,687,309
<b>TOTAL LONG-TERM DEBT</b>	<b>227,577,344</b>	<b>213,663,309</b>
<b>NON CURRENT LIABILITIES</b>		
Miscellaneous deferred charges	4,382,753	2,371,462
<b>TOTAL LIABILITIES</b>	<b>250,690,128</b>	<b>257,851,374</b>
<b>NET POSITION</b>		
Net investment in capital assets	93,382,061	82,611,067
Restricted	50,025,144	52,321,400
Unrestricted	27,083,811	26,502,348
<b>TOTAL NET POSITION</b>	<b>170,491,016</b>	<b>161,434,815</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 421,181,144</b>	<b>\$ 419,286,189</b>

**NORTHERN KENTUCKY WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**Years Ended December 31, 2013 and 2012**

	2013	2012
OPERATING REVENUES		
Water sales	\$ 46,919,118	\$ 47,243,674
Forfeited discounts	765,860	837,746
Rents from property	564,867	562,966
Other water revenues	348,185	365,295
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	48,598,030	49,009,681
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OPERATING EXPENSES		
Operating and maintenance expense	23,227,312	24,384,581
Depreciation expense	11,101,626	10,010,201
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TOTAL OPERATING EXPENSES	34,328,938	34,394,782
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NET OPERATING INCOME	14,269,092	14,614,899
	<hr/>	<hr/>
NONOPERATING INCOME (EXPENSES)		
Investment income	807,778	831,929
Miscellaneous non-operating income/(expense)	(256,650)	(384,846)
Interest on long-term debt	(8,414,274)	(7,933,311)
Amortization of debt discount and expense	231,801	(183,292)
Gain/(loss) on disposition of assets	(1,054)	8,459
	<hr/>	<hr/>
NET NONOPERATING INCOME (EXPENSES)	(7,632,399)	(7,661,061)
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INCOME BEFORE CONTRIBUTIONS	6,636,693	6,953,838
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CAPITAL CONTRIBUTIONS	2,419,508	3,079,510
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CHANGE IN NET POSITION	9,056,201	10,033,348
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NET POSITION - BEGINNING OF YEAR	161,434,815	151,401,467
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NET POSITION - ENDING OF YEAR	\$ 170,491,016	\$ 161,434,815
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**NORTHERN KENTUCKY WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
Years Ended December 31, 2013 and 2012

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Customer deposits	\$ 404,228	\$ -
Received from customers	48,554,038	48,519,463
Paid to suppliers for goods and services	(12,067,093)	(12,682,767)
Paid to or on behalf of employees for services	(11,608,673)	(11,810,677)
Net Cash Flows From Operating Activities	25,282,500	24,026,019
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	807,778	831,929
Net Cash Flows From Investing Activities	807,778	831,929
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on capital debt	(60,798,482)	(72,202,563)
Debt proceeds	51,020,000	62,563,949
Interest paid on bonds and notes, net of capitalized interest	(8,302,555)	(8,224,085)
Change in deferred assets, other than amortization	2,243,092	8,872,547
Acquisition and construction of fixed assets	(9,674,630)	(18,274,012)
(Increase) decrease in restricted funds		
Boone Florence Settlement	435,863	870,029
Bond Proceeds Fund	6,032,778	11,698,755
Debt Service Reserve and Debt Service Account	(3,168,478)	340,049
Improvement, Repair and Replacement Fund	(1,207,529)	(1,340,511)
Payment of restricted liabilities	91,903	(4,761,208)
Miscellaneous non-operating income (expense)	(257,704)	(376,387)
Net Cash Flows From Capital and Related Financing Activities	(23,585,742)	(20,833,437)
<b>Net Change in Cash and Cash Equivalents</b>	2,504,536	4,024,511
CASH AND CASH EQUIVALENTS-Beginning of Year	18,846,682	14,822,171
<b>CASH AND CASH EQUIVALENTS-END OF YEAR</b>	<b>\$ 21,351,218</b>	<b>\$ 18,846,682</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income	\$ 14,269,092	\$ 14,614,899
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation	11,101,626	10,010,201
(Increase) decrease in assessments receivable	(6,175)	(6,018)
(Increase) decrease in accounts receivable	(37,817)	(484,200)
(Increase) decrease in inventory supplies	(296,188)	(43,026)
(Increase) decrease in prepaid expenses	(150,361)	48,055
Increase (decrease) in accounts payable	(6,801)	(145,878)
Increase (decrease) in accrued payroll and taxes	169	18,898
Increase (decrease) in other accrued liabilities	4,727	13,088
Increase (decrease) in customer deposits	404,228	-
	<b>\$ 25,282,500</b>	<b>\$ 24,026,019</b>

See accompanying notes.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2013 and 2012</b>
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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, 2013 and 2012**

*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:

	2013	2012
Cash and Cash Equivalents	\$ <u>307,729</u>	\$ <u>743,592</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:

	2013	2012
Cash and Cash Equivalents	\$ <u>10,990,801</u>	\$ <u>8,907,541</u>
FNMA Discount Notes	<u>7,300,861</u>	<u>7,538,048</u>
Accrued Interest Receivable	<u>111,624</u>	<u>112,229</u>
Total	\$ <u>18,403,286</u>	\$ <u>16,557,818</u>

Maximum annual debt service is \$17,888,352 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:

	2013	2012
Cash and Cash Equivalents	\$ <u>14,751,172</u>	\$ <u>13,258,210</u>
Total	\$ <u>14,751,172</u>	\$ <u>13,258,210</u>

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

*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:

		2013	2012
Cash		\$ 12,826,064	\$ 11,618,535
	Total	<u>\$ 12,826,064</u>	<u>\$ 11,618,535</u>

*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.

**NORTHERN KENTUCKY WATER DISTRICT**  
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*Authorized Investment Instruments*

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

*Limitations of Investment 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, 2013, 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, 2013.

*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.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2013 and 2012</b>
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Supplemental Disclosure of Cash Flow Information

<u>Cash Paid For Interest During the Year</u>	<u>2013</u>	<u>2012</u>
Expensed	\$ 8,814,274	\$ 7,933,311
Capitalized	<u>889,053</u>	<u>1,321,854</u>
Total	\$ <u>9,703,327</u>	\$ <u>9,255,165</u>

The District had the following non-cash capital and related financing activities:

	<u>2013</u>	<u>2012</u>
Refunding of Series 2002B, 2003A and 2003B (2013) and Series 1997, 1998, 2001 and 2002A (2012)	\$ <u>24,120,000</u>	\$ <u>63,350,000</u>
Refunding of Series 2011 Bond Anticipation Notes	\$ <u>26,400,000</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, 2013 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.

# **NORTHERN KENTUCKY WATER DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**December 31, 2013 and 2012**

### 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 2013, interest in the amount of \$889,053 has been capitalized. The cost of current repairs and maintenance is charged to expense, while the cost of replacements or betterments is capitalized.

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 Position

Net position comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position 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 position consists of net position for which constraints are place thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net assets not included in the above categories.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2013 and 2012</b>
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Included in restricted net position at December 31,

	2013	2012
Boone Florence Settlement	\$ 307,729	\$ 743,592
Bond Proceeds Fund	8,728,696	14,761,474
Debt Service Reserve Account	18,403,286	16,727,770
Debt Service Account	14,751,172	13,258,210
Improvement, Repair & Replacement	<u>12,826,063</u>	<u>11,618,535</u>
 Total Restricted Assets	 55,016,946	 57,109,581
Less: Restricted Liabilities	<u>(4,991,803)</u>	<u>(4,788,181)</u>
 Total Restricted Net Position	 \$ <u>50,025,143</u>	 \$ <u>52,321,400</u>

### NOTE 3 - ACCOUNTS RECEIVABLE

	2013	2012
Accounts receivable arising from billings of metered water sales	\$ 5,119,191	\$ 5,240,846
Accrual for estimated unbilled water revenue	5,700,000	5,500,000
Other	<u>73,361</u>	<u>113,889</u>
 Total net accounts receivable	 \$ <u>10,892,552</u>	 \$ <u>10,854,735</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.

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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The following is a schedule of future debt service requirements to maturity:

Year	Principal Amount	Interest Amount	Total Debt Service
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	46,000	88,200	134,200
2019-2023	269,000	402,875	671,875
2024-2028	342,000	326,900	668,900
2029-2033	437,000	230,025	667,025
2034-2038	563,000	105,625	668,625
2039	130,000	3,250	133,250
Total	\$ 1,951,000	\$ 1,531,175	\$ 3,482,175

*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 Refunding Revenue Bonds, Series 2003C, are scheduled to mature as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2014	4.00%	\$ 1,505,000	\$ 407,082	\$ 1,912,082
2015	4.00%	1,565,000	345,682	1,910,682
2016	4.00%	1,625,000	281,882	1,906,882
2017	4.00%	1,690,000	215,582	1,905,582
2018	4.00%	1,595,000	149,881	1,744,881
2019 - 2020	4.00-4.25%	2,825,000	108,292	2,933,292
Totals		\$ 10,805,000	\$ 1,508,401	\$ 12,313,401

*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, 2013 and 2012</b>
--

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

Year	Interest Rate	Principal Amount	Interest Amount	Total Debt Service
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	4.00%	405,000	270,800	675,800
2019 - 2023	4.00-4.50%	2,315,000	1,071,851	3,386,851
2024 - 2028	4.50%	2,905,000	488,140	3,393,140
2029	4.50%	665,000	14,963	679,963
Totals		\$ 7,760,000	\$ 3,081,092	\$ 10,841,092

*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
2014	\$ 175,000
2015	175,000
2016	175,000
2017	175,000
2018	50,000
Totals	\$ 750,000

*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, 2016 are subject to redemption, in whole or in part beginning August 1, 2016 at a redemption price of 100%.

**NORTHERN KENTUCKY WATER DISTRICT**  
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The Water District 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>
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	4.00%	970,000	824,688	1,794,688
2019 - 2023	4.00-4.125%	6,210,000	3,422,858	9,632,858
2024 - 2028	4.125%	7,530,000	1,993,959	9,523,959
2029 - 2031	4.125-4.250%	5,395,000	359,973	5,754,973
Totals		\$ <u>23,945,000</u>	\$ <u>10,293,030</u>	\$ <u>34,238,030</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>
2014	\$ 175,436	\$ 100,447	\$ 275,883
2015	180,738	94,692	275,430
2016	186,201	88,785	274,986
2017	191,828	82,688	274,516
2018	197,627	76,406	274,033
2019 - 2023	1,081,427	280,986	1,362,413
2024 - 2028	1,120,962	92,886	1,213,848
Totals	\$ <u>3,134,219</u>	\$ <u>816,890</u>	\$ <u>3,951,109</u>

*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, 2019 are subject to redemption, in whole or in part beginning August 1, 2019 at a redemption price of 100%.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2013 and 2012</b>
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The Water District Revenue Bonds, Series 2009, are scheduled to mature as follows:

Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
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	4.250%	895,000	1,282,101	2,177,101
2019-2023	4.250 -5.250%	5,230,000	5,652,358	10,882,358
2024-2028	5.250 -5.75%	6,910,000	3,970,922	10,880,922
2029-2033	5.75 - 6.00%	9,330,000	1,551,141	10,881,141
Totals		\$ 25,560,000	\$ 17,965,591	\$ 43,525,591

*Kentucky Infrastructure Authority Loan C08-01*

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

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

Years	Principal Amount	Interest Amount	Total Debt Service
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	644,281	54,323	698,604
2019 - 2020	1,347,951	45,362	1,393,313
Totals	\$ 4,384,710	\$ 514,357	\$ 4,899,067

*Kentucky Infrastructure Authority Loan C08-07*

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

**NORTHERN KENTUCKY WATER DISTRICT**  
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The Kentucky Infrastructure Authority Loan C08-07 is scheduled to mature as follows:

<u>Years</u>	<u>Amount</u>	<u>Amount</u>	<u>Service</u>
2014	\$ 183,438	\$ 47,158	\$ 230,596
2015	185,277	44,859	230,136
2016	187,134	42,538	229,672
2017	189,010	40,193	229,203
2018	190,905	37,824	228,729
2019 - 2023	983,619	152,752	1,136,371
2024-2028	1,033,921	89,874	1,123,795
2029-2032	865,079	24,472	889,551
Totals	\$ <u>3,818,383</u>	\$ <u>479,670</u>	\$ <u>4,298,053</u>

*Kentucky Infrastructure Authority Loan F09-02*

In October, 2010, the District entered into an agreement with the Kentucky Infrastructure Authority (KIA) for a reimbursement loan for the cost of constructing various projects to the District's water system. The full amount of allowable funds is \$24,000,000 at an interest rate of 2.0%. As of December 31, 2013 all funds have been received.

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

<u>Years</u>	<u>Amount</u>	<u>Amount</u>	<u>Service</u>
2014	\$ 996,646	\$ 523,376	\$ 1,520,022
2015	1,016,678	500,839	1,517,517
2016	1,037,113	477,850	1,514,963
2017	1,057,960	454,397	1,512,357
2018	1,079,225	430,474	1,509,699
2019 - 2023	5,730,362	1,776,354	7,506,716
2024-2028	6,329,885	1,101,891	7,431,776
2029-2033	6,261,197	356,865	6,618,062
Totals	\$ <u>23,509,066</u>	\$ <u>5,622,046</u>	\$ <u>29,131,112</u>

*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, 2021 are subject to redemption, in whole or in part, beginning February 1, 2021.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2013 and 2012</b>
--

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

Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
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	3.000%	985,000	1,088,987	2,073,987
2019-2023	3.000-4.000%	5,490,000	4,884,735	10,374,735
2024-2028	4.000-4.125%	6,715,000	3,663,468	10,378,468
2029-2033	4.250-4.500%	8,350,000	2,032,125	10,382,125
2034-2035	5.000%	3,950,000	200,000	4,150,000
Totals		\$ 29,155,000	\$ 16,508,539	\$ 45,663,539

*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%.

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
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	5.00%	3,475,000	2,160,625	5,635,625
2019-2023	5.00%	21,475,000	7,813,375	29,288,375
2024-2027	5.00%	20,000,000	1,957,750	21,957,750
		\$ 53,115,000	\$ 21,709,000	\$ 74,824,000

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2013 and 2012</b>
--

*Water District Revenue Bonds, Series 2013*

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

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

Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2014	2.000%	\$ 615,000	\$ 1,111,475	\$ 1,726,475
2015	2.000%	630,000	1,099,025	1,729,025
2016	3.000%	645,000	1,083,050	1,728,050
2017	3.000%	665,000	1,063,400	1,728,400
2018	4.000%	685,000	1,039,725	1,724,725
2019-2023	5.000%	3,985,000	4,652,000	8,637,000
2024-2028	4.000-5.000%	5,095,000	3,542,100	8,637,100
2029-2033	4.000-4.500%	7,725,000	2,343,853	10,068,853
2034-2038	4.125-4.250%	6,355,000	847,128	7,202,128
		<u>\$ 26,400,000</u>	<u>\$ 16,781,756</u>	<u>\$ 43,181,756</u>

*Water District Refunding Revenue Bonds, Series 2013B*

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

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

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2013 and 2012</b>
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Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2014	4.00%	\$ 2,000,000	\$ 933,408	\$ 2,933,408
2015	4.00%	1,920,000	1,008,950	2,928,950
2016	4.00%	2,020,000	910,450	2,930,450
2017	5.00%	1,645,000	818,825	2,463,825
2018	5.00%	1,170,000	748,450	1,918,450
2019-2023	5.00%	6,810,000	2,778,500	9,588,500
2024-2028	5.00%	<u>8,555,000</u>	<u>1,031,750</u>	<u>9,586,750</u>
		\$ <u>24,120,000</u>	\$ <u>8,230,333</u>	\$ <u>32,350,333</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**  
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Changes in long-term debt are as follows:

	December 31, 2012	Additions	Retirements	December 31, 2013
Bond indebtedness				
Series 2002 B	\$ 4,200,000	\$ -	\$ 4,200,000	\$ -
Series 2003 A	1,280,000	-	1,280,000	-
Series 2003 B	22,150,000	-	22,150,000	-
Series 2003 C	12,250,000	-	1,445,000	10,805,000
Series 2004	8,095,000	-	335,000	7,760,000
Series 2006	24,815,000	-	870,000	23,945,000
Series 2009	26,280,000	-	720,000	25,560,000
Series 2011	30,005,000	-	850,000	29,155,000
Series 2012	54,840,000	-	1,725,000	53,115,000
Series 2013A	-	26,400,000	-	26,400,000
Series 2013B	-	24,120,000	-	24,120,000
Rural Development Loan	1,987,000	-	36,000	1,951,000
Total bond indebtedness	185,902,000	50,520,000	33,611,000	202,811,000
Taylor Mill purchase note	925,000	-	175,000	750,000
2011 Bond Anticipation Notes	25,615,000	-	25,615,000	-
KIA Loan F06-03	3,304,508	-	170,289	3,134,219
KIA Loan F08-07	4,000,000	-	181,617	3,818,383
KIA Loan C08-01	4,939,349	-	554,642	4,384,707
KIA Loan F09-02	23,500,000	500,000	490,934	23,509,066
Deferred Note Payable	100,000	-	-	100,000
Total long-term debt	248,285,857	\$ 51,020,000	\$ 60,798,482	\$ 238,507,375
Less Current Portion	(34,622,548)			(10,930,031)
Total long-term debt				
Less Current Portion	\$ 213,663,309			\$ 227,577,344

**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, 2013 and 2012

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, 2013, 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, 2013, participating employers contributed 19.55%/18.89% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended December 31, 2013 was 19.55% through June 30, 2013 and 18.89% after June 30, 2013 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:

Year	Contribution	Contributed
2013	\$ 1,467,384	100%
2012	\$ 1,510,110	100%
2011	\$ 1,412,439	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, 2013 and 2012 was \$17,040.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2013 are:

Years Ending December 31,	
2014	\$ 4,260
Total	\$ 4,260

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013 and 2012**

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

The changes in utility plant in service are as follows:

	December 31, 2012	Additions	Retirements	December 31, 2013
Land and land rights	3,291,127 \$	- \$	- \$	3,291,127
Structures and improvements	84,991,863	31,296,008	-	116,287,871
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	11,289,153	65,866	-	11,355,019
Water treatment equipment	29,609,250	254,019	2,130	29,861,139
Distribution reservoirs and standpipes	9,567,871	-	-	9,567,871
Transmissions and distribution mains	167,145,414	7,586,811	967,363	173,764,862
Services	25,747,190	1,471,809	398,650	26,820,349
Meters and meter installations	17,157,630	473,440	230,288	17,400,782
Hydrants	7,919,662	481,562	58,500	8,342,724
Other plant and miscellaneous equipment	3,429,789	52,699	2,382	3,480,106
Office furniture and equipment	3,512,563	98,738	62,540	3,548,761
Transportation equipment	2,944,544	127,083	221,274	2,850,353
Tools, shop and garage equipment	579,025	20,716	5,846	593,895
Laboratory equipment	194,979	56,672	-	251,651
Power operated equipment	1,061,890	24,300	53,119	1,033,071
Communication equipment	6,216,535	-	986	6,215,549
Miscellaneous equipment	576,919	-	-	576,919
Utility plant acquisition adjustment	545,925	-	-	545,925
Acquisition adjustment-Newport	4,970,211	-	-	4,970,211
Total depreciable utility plant assets	388,571,927	42,009,723	2,003,078 \$	428,578,572
Construction in progress	43,776,830	-	29,335,352	14,441,478
Total	432,348,757 \$	42,009,723 \$	31,338,430	443,020,050
Less: accumulated depreciation	(101,451,832)			(111,130,615)
Net utility plant in service	\$ 330,896,925			\$ 331,889,435

**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, 2013 there was a phase in increase in rates and charges at various amounts depending on consumption. Effective in January, 2014, these rates were fully phased in.

The date to which events occurring after December 31, 2013, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is March 11, 2014, which is the date on which the financial statements were available to be issued.

**NORTHERN KENTUCKY WATER DISTRICT**  
**STATEMENT OF COMPARISON OF BUDGET TO ACTUAL**  
**Year Ended December 31, 2013**

	2013	
	Budget	Actual
<b>OPERATING REVENUES</b>		
Water sales	\$ 48,190,289	\$ 46,919,118
Forfeited discounts	779,780	765,860
Rents from property	525,000	564,867
Other water revenues	331,340	348,185
<b>TOTAL OPERATING REVENUES</b>	<b>49,826,409</b>	<b>48,598,030</b>
<b>OPERATING EXPENSES</b>		
Operation maintenance and administration	25,831,322	23,227,312
Depreciation	-	11,101,626
<b>TOTAL OPERATING EXPENSES</b>	<b>25,831,322</b>	<b>34,328,938</b>
<b>NET OPERATING INCOME</b>	<b>23,995,087</b>	<b>14,269,092</b>
<b>NON-OPERATING INCOME (EXPENSES)</b>		
Investment income	758,000	807,778
Miscellaneous non-operating income (expense)	136,625	(256,650)
Interest on long-term debt	(8,449,466)	(8,414,274)
Amortization of debt discount and expense	-	231,801
Gain/(loss) on disposition of assets	-	(1,054)
<b>NET NON-OPERATING INCOME (EXPENSES)</b>	<b>(7,554,841)</b>	<b>(7,632,399)</b>
<b>CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS</b>	<b>16,440,246</b>	<b>6,636,693</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>-</b>	<b>2,419,508</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ 16,440,246</b>	<b>\$ 9,056,201</b>

The Budget was not amended for 2013. 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, 2013 and 2012**

	2013	2012
OPERATING REVENUES		
Metered sales		
Sales to residential customers	\$ 29,109,641	\$ 29,194,599
Sales to commercial customers	6,936,632	7,185,168
Sales to industrial customers	3,364,182	3,388,320
Sales to public authorities	2,150,119	2,251,014
Sales to multiple family dwellings	3,895,898	3,812,372
Sales through bulk loading stations	63,667	86,443
Total metered sales	45,520,139	45,917,916
Fire protection revenue	44,868	42,468
Sales for resale	1,354,111	1,283,290
Total sales of water	46,919,118	47,243,674
Other water revenue	1,678,912	1,766,007
TOTAL OPERATING REVENUES	\$ 48,598,030	\$ 49,009,681

**NORTHERN KENTUCKY WATER DISTRICT**  
**STATEMENTS OF COMBINED OPERATION AND MAINTENANCE EXPENSES**  
**Years Ended December 31, 2013 and 2012**

	2013	2012
OPERATION AND MAINTENANCE EXPENSES		
Salaries and wages	\$ 7,750,910	\$ 7,959,135
Employee pensions and benefits	3,857,932	3,870,440
Taxes other than income taxes	552,997	564,698
Purchased power	2,621,830	2,508,909
Chemicals	1,420,351	1,493,552
Materials and supplies	1,804,914	2,036,342
Contractual services	3,044,672	3,154,747
Transportation expenses	583,539	578,956
Insurance	577,759	541,177
Bad debt expense	511,395	552,926
Miscellaneous expense	360,993	1,011,587
Regulatory Commission assessment	140,020	112,112
<b>TOTAL OPERATION AND MAINTENANCE EXPENSES</b>	<b>\$ 23,227,312</b>	<b>\$ 24,384,581</b>

**NORTHERN KENTUCKY WATER DISTRICT**  
**SCHEDULE OF INSURANCE COVERAGES**  
**December 31, 2013**

Company	Policy Number	Description of Coverage	Amount of Coverage	Effective Period	
				From	To
Travelers Insurance	ZLP14T8065314	General Liability	\$ 1,000,000	1/1/2013	1/1/2014
	ZUP14T8066514	Umbrella	19,000,000		
	ZLP14T8065314	Public Officials	1,000,000		
	H8102721X112CO	Automobile Liability	1,000,000		
	H6302721X112TIL	Property	259,473,732		
	H6302721X112TIL	Boiler machinery	259,473,732		
	H6302721X112TIL	Employee Dishonesty	500,000		
Kentucky Employers Mutual Insurance	ZPL14P0759914	Cyber Liability	2,000,000	7/1/2013	7/1/2014
	WC 9668494	Worker's Compensation	1,000,000		
Cincinnati Insurance	8877071	Fidelity Bond	Per Application	8/20/2013	8/20/2014
Great American Insurance	PEL1093742	Pollution Liability	15,000,000	1/1/2013	1/1/2014

# NORTHERN KENTUCKY WATER DISTRICT

## RATES, RULES AND REGULATIONS

December 31, 2013

### RETAIL WATER RATES

#### 1. Monthly Service Rate

First	1,500 cubic feet	\$4.14 per 100 cubic feet
Next	163,500 cubic feet	\$3.40 per 100 cubic feet
Over	165,000 cubic feet	\$2.65 per 100 cubic feet

Sub district A shall be assessed a monthly surcharge in the amount of \$8.36

Sub district B shall be assessed a monthly surcharge in the amount of \$16.87

Sub district C shall be assessed a monthly surcharge in the amount of \$17.73

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 \$19.65

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 \$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 \$28.83

Sub District G. shall be assessed a monthly surcharge in the amount of \$29.19

Sub District K. shall be assessed a monthly surcharge in the amount of \$11.23

#### 2. Quarterly Rates

	<u>Monthly Block</u>	<u>Quarterly Block</u>	<u>Rate</u>
First	1,500 cubic feet	4,500 cubic feet	\$4.14 per 100 cubic feet
Next	163,500 cubic feet	490,500 cubic feet	\$3.40 per 100 cubic feet
Over	165,000 cubic feet	495,000 cubic feet	\$2.65 per 100 cubic feet

#### 3. Fixed Service Charge

<u>Meter Size</u>		<u>Monthly</u>		<u>Quarterly</u>
5/8"	\$	13.60	\$	27.20
3/4"	\$	14.00	\$	28.65
1"	\$	15.30	\$	32.90
1 1/2"	\$	17.30	\$	38.81
2"	\$	21.80	\$	54.54
3"	\$	52.60	\$	169.68
4"	\$	66.00	\$	212.63
6"	\$	97.70	\$	314.28
8"	\$	131.90	\$	429.40
10" and larger	\$	175.40	\$	560.67

# **NORTHERN KENTUCKY WATER DISTRICT**

## ***RATES, RULES AND REGULATIONS***

**December 31, 2013**

### **WHOLESALE WATER RATES**

Bullock Pen Water District	\$3.20 per 1,000 gallons (or) \$2.39 per 100 cubic feet
City of Walton	\$3.20 per 1,000 gallons (or) \$2.39 per 100 cubic feet
Pendleton County	\$3.20 per 1,000 gallons (or) \$2.39 per 100 cubic feet

### **MISCELLANEOUS SERVICE FEES**

#### **Service Area Non-Recurring Charges:**

Returned Check Charge	\$ 20.00
Water Hauling Station	\$ 5.53 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, 2013**

**COMMISSIONERS**

**TERM EXPIRES**

Douglas C. Wagner, Chairman	August 26, 2017
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 28, 2017
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



## **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**

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

We have audited, 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, the financial statements of the business-type activities of the Northern Kentucky Water District, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Northern Kentucky Water District's basic financial statements and have issued our report thereon dated March 11, 2014.

### **Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to not be material weaknesses.



A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Northern Kentucky Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

### **Northern Kentucky Water District's Response to Findings**

The Northern Kentucky Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Northern Kentucky Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

**RANKIN, RANKIN & COMPANY**

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

**Ft. Wright, Kentucky  
March 11, 2014**

# **NORTHERN KENTUCKY WATER DISTRICT**

## ***Schedule of Findings and Responses***

**Year Ended December 31, 2013**

### **Finding 2013 – 1: Unauthorized Use of Gas Card**

During 2013, the District discovered that an employee had been misusing a District gas card to fill a personal vehicle. The employee was able to obtain the card without the District's knowledge. Obtaining the card for unauthorized use is against District policy. However, an effective control was not in place to prevent the employee from obtaining the card for personal use.

It is our understanding that the District has enhanced its internal controls over the use of District gas cards. We recommend that the District, after several months of implementation, evaluate the new policy's effectiveness.

#### **Management's Response:**

The District's accounting staff during 2013 discovered a discrepancy in the use of a gas card when some suspicious activity was noted after the card was missing from its assigned vehicle. This was disclosed to the independent auditor in our initial meeting at the beginning of the audit. After extensive investigation, it was discovered that the employee who had access to the fuel card and the keys to the vehicles had been making unauthorized purchases for personal benefit that was corroborated through video evidence obtained by the HR department and a subsequent interview with the employee. The investigation indicated that the employee had used the card in the amount of \$13,947.83. This amount was recovered from the employee and the individual was terminated from the District.

As a result of this incident, the District has reviewed the controls in place at the time of the incident and has made changes to its policy and procedures. A revised Standard Operating Guideline was developed that addressed the factors contributing to the misuse and a change in procedure to alleviate the possibility of the situation in the future. An agreement was also developed that is required to be signed by every District employee spelling out the parameters and conditions of the proper use of District Fuel and Purchasing cards and the penalties that are possible if the conditions are not followed.

Other procedural changes have been instituted including the following:

The keys to pool vehicles (those not assigned to particular individual or crew) and the fuel card are held by Finance or other responsible party and must be checked out and returned upon completion of use with any receipt for fuel purchase.

Finance is sorting every receipt for fuel and reconciling them to the statement investigating any usage on weekends or other unusual activity by checking with the employee's supervisor to corroborate that they were on authorized District business.

Every employee has signed the fuel/purchasing card agreement spelling out every individual's responsibility as it relates to card usage and what will happen if they do not follow the prescribed policy.

## **NORTHERN KENTUCKY WATER DISTRICT**

### ***Schedule of Findings and Responses***

**Year Ended December 31, 2013**

The District is in the process of writing a Request for Proposal to obtain fuel cards requiring each employee to have a unique PIN number and enhanced reporting capabilities for better tracking and control.

The District will continue to monitor closely the use of the cards and look for procedures to assure their proper usage.