

**NORTHERN KENTUCKY
WATER DISTRICT**

FINANCIAL STATEMENTS

December 31, 2014 and 2013



RANKIN, RANKIN & COMPANY

Certified Public Accountants

**NORTHERN KENTUCKY
WATER DISTRICT**

FINANCIAL STATEMENTS

December 31, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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 on page 5 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 13, 2015, 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 13, 2015**

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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, 2014. 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 \$178,600,583 (net position). This was an increase of \$8,109,567 in comparison to the prior year.
- Operating revenues increased \$2,266,997 or 4.7% from 2013.
- The debt coverage ratio increased from 1.51 in 2013 to 1.52 in 2014, due to the 2014 change in net assets and an increase in principal and interest payments as a result of the issuance of the 2014 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 2014 compared to 2013.

Table 1
Net Position

	2014	2013
Current assets	\$ 34,810,480	\$ 34,274,761
Restricted assets	43,013,195	55,016,947
Noncurrent assets	339,557,570	331,889,436
Total assets	<u>417,381,245</u>	<u>421,181,144</u>
Current liabilities	14,369,968	13,738,228
Liabilities payable from restricted assets	5,130,235	4,991,803
Long term liabilities	219,280,459	231,960,097
Total liabilities	<u>238,780,662</u>	<u>250,690,128</u>
Net position:		
Invested in capital assets, net of related debt	112,890,227	93,382,061
Restricted	37,882,960	50,025,144
Unrestricted	27,827,396	27,083,811
Total net position	<u>\$ 178,600,583</u>	<u>\$ 170,491,016</u>

The District's net position for 2014 increased 4.8%, as compared to the previous year. This increase was mainly attributable to additional capital assets acquired from new construction and an increase in operating revenue. The largest portion of the District's net position (63%) 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 (21%) 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 2014, as well as revenue and expense comparisons to 2013.

Table 2
Changes in Net Position

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Water Sales	\$ 49,108,156	\$ 46,919,118
Forfeited discounts	859,283	765,860
Rents from property	557,728	564,867
Other water revenue	339,860	348,185
Total operating revenues	<u>50,865,027</u>	<u>48,598,030</u>
Operating Expenses:		
Operations, maintenance and administration expenses	25,369,579	23,227,312
Depreciation	11,207,665	11,101,626
Total operating expenses	<u>36,577,244</u>	<u>34,328,938</u>
Net Operating Income	<u>14,287,783</u>	<u>14,269,092</u>
Non-operating Income (Expenses)		
Investment income	797,246	807,778
Miscellaneous non-operating income (expense)	(462,913)	(256,650)
Interest on long-term debt	(8,980,047)	(8,414,274)
Amortization of bond discount and expense	361,178	231,801
Gain/(loss) on disposition of assets	(59,840)	(1,054)
Net Non-operating income (expenses)	<u>(8,344,376)</u>	<u>(7,632,399)</u>
Income Before Capital Contributions	5,943,407	6,636,693
Capital Contributions	<u>2,166,160</u>	<u>2,419,508</u>
Change in net position	8,109,567	9,056,201
Net position - January 1	<u>170,491,016</u>	<u>161,434,815</u>
Net position - December 31	<u>\$ 178,600,583</u>	<u>\$ 170,491,016</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 \$5,943,407. Operating revenues increased 4.66% due to the slight increase in water sales. Operating expenses (including depreciation) increased by 6.55%.

Debt and Capital Asset Administration

Table 3 summarizes the District's outstanding debt at the end of 2014 as compared to 2013.

Table 3
Outstanding Debt at Year End

	<u>2014</u>	<u>2013</u>
Bond payable obligations	\$ 193,073,000	\$ 202,811,000
Notes payable	33,594,344	35,696,405
Totals	<u>\$ 226,667,344</u>	<u>\$ 238,507,405</u>

At year-end, the District had \$226,667,344 in outstanding notes and bonds compared to \$238,507,405 last year. That is a decrease of 5.0% as shown in the Table 3. The District did issue new refunding debt during the current year.

Capital Assets

At December 31, 2014, the capital assets reported amounted to \$460,503,544 invested in capital assets including land, buildings, water systems, equipment, and vehicles. This represents a net increase of \$17,483,494, or 4%, 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>2014</u>	<u>2013</u>
Not being depreciated:		
Land	\$ 3,291,127	\$ 3,291,127
Construction in progress	22,260,422	14,441,478
Plant Acquisition Adjustment	5,516,136	5,516,136
Other capital assets:		
Utility plants:	429,435,859	419,771,309
Transmission & Distribution, Source of Supply, Pumping system, Power Generation, Water Treatment and General plant and equipment		
Subtotal	<u>460,503,544</u>	<u>443,020,050</u>
Accumulated depreciation	<u>(120,945,977)</u>	<u>(111,130,615)</u>
TOTALS	<u>\$ 339,557,567</u>	<u>\$ 331,889,435</u>

Economic Factors and Next Year's Budget

The District's budget for 2015 projects a flat water revenue due to no rate increase in 2015. 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, 2014 and 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 20,796,630	\$ 21,351,218
Accounts receivable		
Customers	5,558,817	5,119,191
Unbilled customers	5,900,000	5,700,000
Others	88,762	73,361
Assessments receivable	117,464	110,953
Inventory supplies for new installation and maintenance, at cost	1,631,421	1,537,704
Prepaid items	717,386	382,334
TOTAL CURRENT ASSETS	<u>34,810,480</u>	<u>34,274,761</u>
RESTRICTED ASSETS		
Boone Florence Settlement	308,392	307,729
Bond Proceeds Fund	5,289,663	8,728,696
Debt Service Reserve Account	18,466,115	18,403,286
Debt Service Account	15,679,859	14,751,172
Improvement, Repair & Replacement	3,269,166	12,826,064
TOTAL RESTRICTED ASSETS	<u>43,013,195</u>	<u>55,016,947</u>
NONCURRENT ASSETS		
Miscellaneous deferred charges	-	-
Capital assets:		
Land, system, buildings and equipment	438,243,125	428,578,572
Construction in progress	22,260,422	14,441,479
Total capital assets before accumulated depreciation	460,503,547	443,020,051
Less accumulated depreciation	(120,945,977)	(111,130,615)
Total capital assets, net of accumulated depreciation	<u>339,557,570</u>	<u>331,889,436</u>
TOTAL NONCURRENT ASSETS	<u>339,557,570</u>	<u>331,889,436</u>
TOTAL ASSETS	<u>\$ 417,381,245</u>	<u>\$ 421,181,144</u>

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

December 31, 2014 and 2013

	2014	2013
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Bonded indebtedness	\$ 9,085,000	\$ 8,828,000
Notes payable	2,146,588	2,102,031
Accounts payable	1,834,714	1,806,803
Accrued payroll and taxes	402,917	366,970
Other accrued liabilities	233,274	230,196
Customer deposits	667,475	404,228
TOTAL CURRENT LIABILITIES	14,369,968	13,738,228
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts payable	1,548,495	1,176,843
Accrued interest payable	3,581,740	3,814,960
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	5,130,235	4,991,803
LONG-TERM DEBT		
Bonded indebtedness	183,988,000	193,983,000
Notes payable	31,447,755	33,594,344
TOTAL LONG-TERM DEBT	215,435,755	227,577,344
NON CURRENT LIABILITIES		
Miscellaneous deferred charges	3,844,704	4,382,753
TOTAL LIABILITIES	238,780,662	250,690,128
NET POSITION		
Net investment in capital assets	112,890,227	93,382,061
Restricted	37,882,960	50,025,144
Unrestricted	27,827,396	27,083,811
TOTAL NET POSITION	178,600,583	170,491,016
TOTAL LIABILITIES AND NET POSITION	\$ 417,381,245	\$ 421,181,144

See accompanying notes.

NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years Ended December 31, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Water sales	\$ 49,108,156	\$ 46,919,118
Forfeited discounts	859,283	765,860
Rents from property	557,728	564,867
Other water revenues	339,860	348,185
TOTAL OPERATING REVENUES	<u>50,865,027</u>	<u>48,598,030</u>
OPERATING EXPENSES		
Operating and maintenance expense	25,369,579	23,227,312
Depreciation expense	11,207,665	11,101,626
TOTAL OPERATING EXPENSES	<u>36,577,244</u>	<u>34,328,938</u>
NET OPERATING INCOME	<u>14,287,783</u>	<u>14,269,092</u>
NONOPERATING INCOME (EXPENSES)		
Investment income	797,246	807,778
Miscellaneous non-operating income/(expense)	(462,913)	(256,650)
Interest on long-term debt	(8,980,047)	(8,414,274)
Amortization of debt discount and expense	361,178	231,801
Gain/(loss) on disposition of assets	(59,840)	(1,054)
NET NONOPERATING INCOME (EXPENSES)	<u>(8,344,376)</u>	<u>(7,632,399)</u>
INCOME BEFORE CONTRIBUTIONS	5,943,407	6,636,693
CAPITAL CONTRIBUTIONS	<u>2,166,160</u>	<u>2,419,508</u>
CHANGE IN NET POSITION	8,109,567	9,056,201
NET POSITION - BEGINNING OF YEAR	<u>170,491,016</u>	<u>161,434,815</u>
NET POSITION - ENDING OF YEAR	<u>\$ 178,600,583</u>	<u>\$ 170,491,016</u>

NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Customer deposits	\$ 263,247	\$ 404,228
Received from customers	50,203,490	48,554,038
Paid to suppliers for goods and services	(13,754,455)	(12,067,093)
Paid to or on behalf of employees for services	(11,976,957)	(11,608,673)
Net Cash Flows From Operating Activities	<u>24,735,325</u>	<u>25,282,500</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	797,246	807,778
Net Cash Flows From Investing Activities	<u>797,246</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on capital debt	(27,645,031)	(60,798,482)
Debt proceeds	15,805,000	51,020,000
Interest paid on bonds and notes, net of capitalized interest	(9,213,267)	(8,302,555)
Change in deferred assets, other than amortization	(176,871)	2,243,092
Acquisition and construction of fixed assets	(16,709,641)	(9,674,630)
(Increase) decrease in restricted funds		
Boone Florence Settlement	(663)	435,863
Bond Proceeds Fund	3,439,033	6,032,778
Debt Service Reserve and Debt Service Account	(991,516)	(3,168,478)
Improvement, Repair and Replacement Fund	9,556,898	(1,207,529)
Payment of restricted liabilities	371,652	91,903
Miscellaneous non-operating income (expense)	(522,753)	(257,704)
Net Cash Flows From Capital and Related Financing Activities	<u>(26,087,159)</u>	<u>(23,585,742)</u>
Net Change in Cash and Cash Equivalents	(554,588)	2,504,536
CASH AND CASH EQUIVALENTS-Beginning of Year	<u>21,351,218</u>	<u>18,846,682</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 20,796,630</u>	<u>\$ 21,351,218</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ 14,287,783	\$ 14,269,092
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation	11,207,665	11,101,626
(Increase) decrease in assessments receivable	(6,511)	(6,175)
(Increase) decrease in accounts receivable	(655,026)	(37,817)
(Increase) decrease in inventory supplies	(93,717)	(296,188)
(Increase) decrease in prepaid expenses	(335,052)	(150,361)
Increase (decrease) in accounts payable	27,911	(6,801)
Increase (decrease) in accrued payroll and taxes	35,947	169
Increase (decrease) in other accrued liabilities	3,078	4,727
Increase (decrease) in customer deposits	263,247	404,228
	<u>\$ 24,735,325</u>	<u>\$ 25,282,500</u>

See accompanying notes.

NORTHERN KENTUCKY WATER DISTRICT NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013
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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, 2014 and 2013

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 will move the remaining balance for the final year of the settlement into an unrestricted account in 2015. The fund assets are:

		2014		2013
Cash and Cash Equivalents	\$	<u>308,392</u>	\$	<u>307,729</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:

		2014		2013
Cash and Cash Equivalents	\$	<u>10,987,986</u>	\$	<u>10,990,801</u>
FNMA Discount Notes		7,366,530		7,300,861
Accrued Interest Receivable		<u>111,599</u>		<u>111,624</u>
Total	\$	<u>18,466,115</u>	\$	<u>18,403,286</u>

Maximum annual debt service is \$17,742,493 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:

		2014		2013
Cash and Cash Equivalents	\$	<u>15,679,859</u>	\$	<u>14,751,172</u>
Total	\$	<u>15,679,859</u>	\$	<u>14,751,172</u>

NORTHERN KENTUCKY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

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:

			2014		2013
Cash		\$	3,269,166	\$	12,826,064
	Total	\$	3,269,166	\$	12,826,064

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
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

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, 2014, 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, 2014.

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.

NORTHERN KENTUCKY WATER DISTRICT
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Supplemental Disclosure of Cash Flow Information

Cash Paid For Interest During the Year	2014	2013
Expensed	\$ 8,980,047	\$ 8,814,274
Capitalized	285,882	889,053
Total	\$ 9,265,929	\$ 9,703,327

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

	2014	2013
Refunding of Series 2002B, 2003A and 2003B (2013) and Series 2003C and 2004 (2014)	\$ 16,715,000	\$ 24,120,000
Refunding of Series 2011 Bond Anticipation Notes	\$ -	\$ 26,400,000

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, 2014 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
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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. 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.

NORTHERN KENTUCKY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
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Included in restricted net position at December 31,

	2014	2013
Boone Florence Settlement	\$ 308,392	\$ 307,729
Bond Proceeds Fund	5,289,663	8,728,696
Debt Service Reserve Account	18,466,115	18,403,286
Debt Service Account	15,679,859	14,751,172
Improvement, Repair & Replacement	<u>3,269,166</u>	<u>12,826,063</u>
Total Restricted Assets	43,013,195	55,016,946
Less: Restricted Liabilities	<u>(5,130,235)</u>	<u>(4,991,803)</u>
Total Restricted Net Position	<u>\$ 37,882,960</u>	<u>\$ 50,025,143</u>

NOTE 3 - ACCOUNTS RECEIVABLE

	2014	2013
Accounts receivable arising from billings of metered water sales	\$ 5,558,816	\$ 5,119,191
Accrual for estimated unbilled water revenue	5,900,000	5,700,000
Other	<u>88,762</u>	<u>73,361</u>
Total net accounts receivable	<u>\$ 11,547,578</u>	<u>\$ 10,892,552</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
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	49,000	85,825	134,825
2020-2024	282,000	389,100	671,100
2025-2029	359,000	309,375	668,375
2030-2034	460,000	207,600	667,600
2035-2039	591,000	76,775	667,775
Total	\$ 1,913,000	\$ 1,434,575	\$ 3,347,575

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
2015	\$ 175,000
2016	175,000
2017	175,000
2018	50,000
Totals	\$ 575,000

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
NOTES TO FINANCIAL STATEMENTS
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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>
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	4.00%	1,010,000	785,088	1,795,088
2020-2024	4.00-4.125%	6,575,000	3,159,798	9,734,798
2025-2029	4.125%	7,875,000	1,669,263	9,544,263
2030-2031	4.125-4.250%	3,675,000	162,641	3,837,641
Totals		\$ <u>23,045,000</u>	\$ <u>9,313,342</u>	\$ <u>32,358,342</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>
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	203,600	69,956	273,556
2020-2024	1,114,114	245,555	1,359,669
2025-2028	884,675	58,361	943,036
Totals	\$ <u>2,958,783</u>	\$ <u>716,443</u>	\$ <u>3,675,226</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%.

NORTHERN KENTUCKY WATER DISTRICT
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The Water District 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>
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	4.250%	940,000	1,236,226	2,176,226
2020-2024	4.250 -5.250%	5,515,000	5,365,682	10,880,682
2025-2029	5.250 -5.75%	7,330,000	3,552,248	10,882,248
2030-2033	5.75 - 6.00%	7,685,000	1,020,265	8,705,265
Totals		\$ <u>24,810,000</u>	\$ <u>16,538,929</u>	\$ <u>41,348,929</u>

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:

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
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	663,879	33,450	697,329
2020	684,072	11,912	695,984
Totals	\$ <u>3,813,198</u>	\$ <u>382,080</u>	\$ <u>4,195,278</u>

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.

NORTHERN KENTUCKY WATER DISTRICT NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013
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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.

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>
2015	\$ 185,276	\$ 44,859	\$ 230,135
2016	187,134	42,538	229,672
2017	189,010	40,193	229,203
2018	190,905	37,824	228,729
2019	192,819	35,431	228,250
2020-2024	993,480	140,426	1,133,906
2025-2029	1,044,286	76,918	1,121,204
2030-2032	652,035	14,323	666,358
Totals	\$ <u>3,634,945</u>	\$ <u>432,512</u>	\$ <u>4,067,457</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>
2015	\$ 1,016,678	\$ 500,839	\$ 1,517,517
2016	1,037,114	477,849	1,514,963
2017	1,057,960	454,397	1,512,357
2018	1,079,225	430,474	1,509,699
2019	1,100,917	406,071	1,506,988
2020-2024	5,845,543	1,646,777	7,492,320
2025-2029	6,457,116	958,757	7,415,873
2030-2033	4,917,867	223,506	5,141,373
Totals	\$ <u>22,512,420</u>	\$ <u>5,098,670</u>	\$ <u>27,611,090</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.

NORTHERN KENTUCKY WATER DISTRICT
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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>
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	3.000%	1,015,000	1,058,987	2,073,987
2020-2024	3.000-4.000%	5,710,000	4,665,810	10,375,810
2025-2029	4.000-4.125%	7,000,000	3,378,456	10,378,456
2030-2034	4.250-4.500%	8,755,000	1,626,450	10,381,450
2035	5.000%	2,025,000	50,625	2,075,625
Totals		\$ <u>28,280,000</u>	\$ <u>15,307,952</u>	\$ <u>43,587,952</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%.

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
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	5.00%	3,650,000	1,982,500	5,632,500
2020-2024	5.00%	22,795,000	6,706,625	29,501,625
2025-2027	5.00%	15,030,000	1,082,000	16,112,000
		\$ <u>51,315,000</u>	\$ <u>19,145,600</u>	\$ <u>70,460,600</u>

NORTHERN KENTUCKY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
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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:

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
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	4.000%	720,000	1,008,026	1,728,026
2020-2024	5.000%	4,190,000	4,447,630	8,637,630
2025-2029	4.000-5.000%	5,325,000	3,309,180	8,634,180
2030-2034	4.000-4.500%	6,570,000	2,069,798	8,639,798
2035-2038	4.125-4.250%	6,355,000	550,461	6,905,461
		<u>\$ 25,785,000</u>	<u>\$ 15,670,295</u>	<u>\$ 41,455,295</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.

NORTHERN KENTUCKY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
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	5.00%	1,230,000	688,450	1,918,450
2020-2024	5.00%	7,150,000	2,437,350	9,587,350
2025-2028	5.00%	6,985,000	684,450	7,669,450
		<u>\$ 22,120,000</u>	<u>\$ 7,296,925</u>	<u>\$ 29,416,925</u>

Water District Refunding Revenue Bonds, Series 2014B

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2015	5.000%	\$ 2,000,000	\$ 390,019	\$ 2,390,019
2016	5.000%	1,850,000	580,388	2,430,388
2017	5.000%	1,940,000	485,637	2,425,637
2018	5.000%	1,880,000	390,138	2,270,138
2019	5.000%	1,980,000	293,637	2,273,637
2020-2024	3.000-5.000%	3,390,000	616,025	4,006,025
2025-2028	3.000-4.000%	2,765,000	328,431	3,093,431
		<u>\$ 15,805,000</u>	<u>\$ 3,084,275</u>	<u>\$ 18,889,275</u>

NORTHERN KENTUCKY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
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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.

Changes in long-term debt are as follows:

	December 31, 2013	Additions	Retirements	December 31, 2014
Bond indebtedness				
Series 2003 C	10,805,000	-	10,805,000	-
Series 2004	7,760,000	-	7,760,000	-
Series 2006	23,945,000	-	900,000	23,045,000
Series 2009	25,560,000	-	750,000	24,810,000
Series 2011	29,155,000	-	875,000	28,280,000
Series 2012	53,115,000	-	1,800,000	51,315,000
Series 2013A	26,400,000	-	615,000	25,785,000
Series 2013B	24,120,000	-	2,000,000	22,120,000
Series 2014B	-	15,805,000	-	15,805,000
Rural Development Loan	1,951,000	-	38,000	1,913,000
Total bond indebtedness	202,811,000	15,805,000	25,543,000	193,073,000
Taylor Mill purchase note	750,000	-	175,000	575,000
KIA Loan F06-03	3,134,219	-	175,435	2,958,784
KIA Loan F08-07	3,818,383	-	183,438	3,634,945
KIA Loan C08-01	4,384,707	-	571,512	3,813,195
KIA Loan F09-02	23,509,066	-	996,646	22,512,420
Deferred Note Payable	100,000	-	-	100,000
Total long-term debt	238,507,375	\$ 15,805,000	\$ 27,645,031	\$ 226,667,344
Less Current Portion	(10,930,031)			(11,231,588)
Total long-term debt				
Less Current Portion				
Total long-term debt				
Less Current Portion	\$ 227,577,344			\$ 215,435,756

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

NORTHERN KENTUCKY WATER DISTRICT
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any additional eligible local agencies electing to participate in the System. The plan provides for retirement, 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, 2014, 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, 2014, participating employers contributed 18.89%/17.67% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended December 31, 2014 was 18.89% through June 30, 2014 and 17.67% after June 30, 2014 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
2014	\$ 1,483,609	100%
2013	\$ 1,467,384	100%
2012	\$ 1,510,110	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, 2019. Lease expense for the years ended December 31, 2013 and 2014 was \$17,040 and \$13,950.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2014 are:

NORTHERN KENTUCKY WATER DISTRICT
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Years Ending December 31,		
2015	\$	12,920
2016		12,920
2017		12,920
2018		12,920
2019		<u>3,230</u>
Total	\$	<u>54,910</u>

NOTE 7-CHANGES IN UTILITY PLANT IN SERVICE

The changes in utility plant in service are as follows:

	December 31, 2013	Additions	Retirements	December 31, 2014
Land and land rights	3,291,127	-	-	3,291,127
Structures and improvements	116,287,871	970,026	236,262	117,021,635
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	11,355,019	30,234	-	11,385,253
Water treatment equipment	29,861,139	113,059	66,462	29,907,736
Distribution reservoirs and standpipes	9,567,871	-	-	9,567,871
Transmissions and distribution mains	173,764,862	7,451,193	959,814	180,256,241
Services	26,820,349	1,126,539	534,535	27,412,353
Meters and meter installations	17,400,782	504,065	143,824	17,761,023
Hydrants	8,342,724	260,774	61,446	8,542,052
Other plant and miscellaneous equipment	3,480,106	39,961	650	3,519,417
Office furniture and equipment	3,548,761	113,127	7,422	3,654,466
Transportation equipment	2,850,353	604,900	38,089	3,417,164
Tools, shop and garage equipment	593,895	15,579	2,144	607,330
Laboratory equipment	251,651	204,311	1,992	453,970
Power operated equipment	1,033,071	215,761	-	1,248,832
Communication equipment	6,215,549	67,661	-	6,283,210
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	428,578,572	11,717,190	2,052,640	438,243,122
Construction in progress	14,441,478	7,818,944	-	22,260,422
Total	443,020,050	19,536,134	2,052,640	460,503,544
Less: accumulated depreciation	(111,130,615)			(120,945,977)
Net utility plant in service	\$ 331,889,435			\$ 339,557,567

NORTHERN KENTUCKY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

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, 2014, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is March 13, 2015, which is the date on which the financial statements were available to be issued.

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SUPPLEMENTAL SCHEDULES

NORTHERN KENTUCKY WATER DISTRICT
STATEMENT OF COMPARISON OF BUDGET TO ACTUAL
Year Ended December 31, 2014

	2014	
	Budget	Actual
OPERATING REVENUES		
Water sales	\$ 49,727,301	\$ 49,108,156
Forfeited discounts	784,356	859,283
Rents from property	540,000	557,728
Other water revenues	335,660	339,860
TOTAL OPERATING REVENUES	51,387,317	50,865,027
OPERATING EXPENSES		
Operation maintenance and administration	26,689,942	25,369,579
Depreciation	-	11,207,665
TOTAL OPERATING EXPENSES	26,689,942	36,577,244
NET OPERATING INCOME	24,697,375	14,287,783
NON-OPERATING INCOME (EXPENSES)		
Investment income	760,000	797,246
Miscellaneous non-operating income (expense)	171,274	(462,913)
Interest on long-term debt	(9,197,957)	(8,980,047)
Amortization of debt discount and expense	-	361,178
Gain/(loss) on disposition of assets	-	(59,840)
NET NON-OPERATING INCOME (EXPENSES)	(8,266,683)	(8,344,376)
CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	16,430,692	5,943,407
CAPITAL CONTRIBUTIONS	-	2,166,160
CHANGE IN NET POSITION	\$ 16,430,692	\$ 8,109,567

The Budget was not amended for 2014. 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, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Metered sales		
Sales to residential customers	\$ 30,212,926	\$ 29,109,641
Sales to commercial customers	7,188,701	6,936,632
Sales to industrial customers	3,756,997	3,364,182
Sales to public authorities	2,265,395	2,150,119
Sales to multiple family dwellings	4,112,073	3,895,898
Sales through bulk loading stations	81,604	63,667
Total metered sales	47,617,696	45,520,139
Fire protection revenue	52,747	44,868
Sales for resale	1,437,713	1,354,111
Total sales of water	49,108,156	46,919,118
Other water revenue	1,756,871	1,678,912
TOTAL OPERATING REVENUES	\$ 50,865,027	\$ 48,598,030

NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF COMBINED OPERATION AND MAINTENANCE EXPENSES
Years Ended December 31, 2014 and 2013

	2014	2013
OPERATION AND MAINTENANCE EXPENSES		
Salaries and wages	\$ 7,931,952	\$ 7,750,910
Employee pensions and benefits	4,080,952	3,857,932
Taxes other than income taxes	566,125	552,997
Purchased power	2,834,628	2,621,830
Chemicals	2,170,435	1,420,351
Materials and supplies	2,453,643	1,804,914
Contractual services	3,165,151	3,044,672
Transportation expenses	668,840	583,539
Insurance	654,119	577,759
Bad debt expense	417,320	511,395
Miscellaneous expense	317,636	360,993
Regulatory Commission assessment	108,778	140,020
TOTAL OPERATION AND MAINTENANCE EXPENSES	\$ 25,369,579	\$ 23,227,312

NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF INSURANCE COVERAGES
December 31, 2014

Company	Policy Number	Description of Coverage	Amount of Coverage	Effective Period	
				From	To
Travelers Insurance	ZLP14T8065314	General Liability	\$ 1,000,000	1/1/2014	1/1/2015
	ZUP14T8066514	Umbrella	19,000,000		
	ZLP14T8065314	Public Officials	1,000,000		
	H8102721X112CO	Automobile Liability	1,000,000		
	H6302721X112TIL	Property	268,166,889		
	H6302721X112TIL	Boiler machinery	268,166,889		
	H6302721X112TIL	Employee Dishonesty	500,000		
Kentucky Employers Mutual Insurance	ZPL14P0759914	Cyber Liability	2,000,000	7/1/2014	7/1/2015
	WC 338786	Worker's Compensation	1,000,000		
Cincinnati Insurance	8877071	Fidelity Bond	Per Application	8/20/2014	8/20/2015
Great American Insurance	PEL1093742	Pollution Liability	15,000,000	1/1/2013	1/1/2016

NORTHERN KENTUCKY WATER DISTRICT
RATES, RULES AND REGULATIONS
December 31, 2014

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, 2014

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, 2014**

COMMISSIONERS

TERM EXPIRES

Douglas C. Wagner	August 26, 2017
Fred A. Macke, Jr., Secretary	August 26, 2016
David M. Spaulding, Esq., Vice-Chairman	August 28, 2015
Clyde Cunningham, Treasurer	August 28, 2015
Dr. Patricia Sommerkamp, Chairperson	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

NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
Department of Housing and Urban Development Community Development Block Grants/Entitlement Grants Passed Through Kentucky Department of Local Government and Passed Through Kenton County Fiscal Court Kenton County Unserved Water Project 2012	14.218	12-056	900,000
Environmental Protection Agency Capitalization Grants for Drinking Water State Revolving Funds/ American Recovery and Reinvestment Act Passed Through Kentucky Infrastructure Authority Kenton and Campbell County Water Main Projects	66.468	F13-012	1,822,190
U.S. Department of Agriculture, Rural Utilities Service	10.770		1,169,274

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, therefore, some amounts presented in this Schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Note 2 - Outstanding Notes

Total Kentucky Infrastructure Authority loans outstanding at December 31, 2014 totaled \$32,919,344.



**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, 2014 and 2013, 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 13, 2015.

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.

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.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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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*.

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 & Company".

**Ft. Wright, Kentucky
March 13, 2015**

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITORS' REPORT

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

Report on Compliance for Each Major Federal Program

We have audited the 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 the District's major federal programs for the year ended December 31, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issue 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstance.

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, that are required to be reported in accordance with OMB Circular A-133. Our opinion on each major federal program is not modified with respect to this matter.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 District's internal control over compliance.

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

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



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

RANKIN, RANKIN & COMPANY

Rankin, Rankin & Company

**Ft. Wright, Kentucky
March 13, 2015**

<p>NORTHERN KENTUCKY WATER DISTRICT <i>Schedule of Findings and Questioned Costs</i> Year Ended December 31, 2014</p>
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Section I – Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	None
• Significant deficiency(ies) identified not considered to be material weaknesses?	None
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings that are required to be Reported in accordance with 510(a) of Circular A-133?	None

Identification of major programs:

- CFDA 14.218 Community Development Block Grant
- CFDA 66.468 Capitalization Grants for Drinking Water
- CFDA 10.770 Rural Utilities Service

Dollar threshold to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

No matters to be reported.

NORTHERN KENTUCKY WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2014

PRIOR YEAR - FINANCIAL STATEMENT FINDINGS

No matters were reported.

PRIOR YEAR - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.