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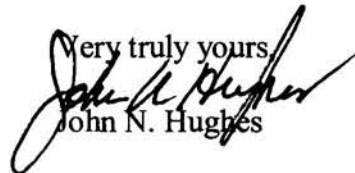
June 14, 2010

Mr. Jeff Derouen
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

Case No. 2010-00094

Dear Mr. Derouen:

Northern Kentucky Water District submits the supplemental information and supporting documents requested by the staff. In accordance with the Commission's orders in this case, I certify that the electronically filed documents are a true representation of the original documents.

Very truly yours,

John N. Hughes

Attorney for Northern Kentucky
Water District

CC: Attorney General

Response to Deficiency Letter:

It does not contain a reconciliation of the rate base and capital used to determine revenue requirements.

Answer: Not applicable, Revenue Requirement based on debt service.

It lacks the number of customers to be added to the test period end level of customers and the related revenue requirements impact for all pro forma adjustments with the complete details and supporting work papers.

Answer: The new plant does not provide for the addition of new customers.

It fails to contain an estimate of the effect that new rates will have on revenues including. At a minimum, total revenues resulting from increase and percentage of increase>

Answer: See Schedule G of the Cost of Service Study Exhibit N

It does not contain a summary of determination of revenue requirements based on debt service coverage with supporting schedules.

Answer: See Schedule B of the Cost of Service Study Exhibit N

It does not contain the prospectus of the most recent bond offerings.

Answer: See Attached Official Statement

It does not contain a detailed income statement and balance sheet reflecting the impact of all proposed adjustments more specifically adjustments to depreciation and interest expense.

Answer: See attached statement and Exhibit K

It does not contain an operating budget for each month of the period encompassing the pro forma adjustments.

See attached schedule and Exhibit I

In the opinion of Bond Counsel, based upon an analysis of laws, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants made by the District, and subject to the conditions and limitations set forth herein under the caption "TAX EXEMPTION," interest on the Series 2009 Bonds (defined below) is excludable from gross income for Federal income tax purposes and is not a specific item of tax preference for purposes of the Federal individual or corporate alternative minimum taxes. Interest on the Series 2009 Bonds is exempt from Kentucky income tax and the Series 2009 Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions. See "TAX EXEMPTION" herein.

\$29,290,000

**NORTHERN KENTUCKY WATER DISTRICT
REVENUE BONDS, SERIES 2009**

Dated: January 1, 2009**Due Date: February 1, as shown below**

The Bonds captioned above (the "Series 2009 Bonds") are issued pursuant to an Amended and Restated General Bond Resolution adopted by the Board of Commissioners of the Northern Kentucky Water District (the "District") on November 19, 1985 as amended by the First Supplemental General Bond Resolution adopted November 17, 1987 (the "General Bond Resolution"), and a Series 2009 Bond Resolution (the "Series 2009 Bond Resolution") adopted by the Board of Commissioners of the District on March 14, 2007 (collectively, the "Resolution"). The holders of the Series 2009 Bonds shall, on a parity basis with the holders of all bonds outstanding under the Resolution (the "Bonds"), have a priority lien on and security interest in the Pledged Receipts of the District and other special funds derived from the operations of the works and facilities of the District (the "System"). The District reserves the right to issue additional Bonds on a parity with the outstanding Bonds, subject to satisfaction of the conditions set forth in the Resolution. See "SECURITY FOR THE SERIES 2009 BONDS" herein.

The Series 2009 Bonds will be fully registered bonds in denominations of \$5,000 or any integral multiple thereof without coupons. The Series 2009 Bonds will be issuable under a book entry system, registered in the name of The Depository Trust Company ("DTC") or its nominee. There will be no distribution of the Series 2009 Bonds to the ultimate purchasers. See "Book Entry" herein. Principal and interest on the Series 2009 Bonds is payable at the principal office of The Bank of New York Mellon Trust Company, N.A., Cincinnati, Ohio, as Paying Agent and Bond Registrar. The Series 2009 Bonds are subject to optional redemption prior to maturity as described herein.

Interest on the Series 2009 Bonds is payable from their dated date on each February 1 and August 1, beginning February 1, 2009. The Series 2009 Bonds will mature on February 1 of the years, in the amounts, bear interest at the annual rates, have the yields and CUSIP numbers, as follows:

Year (February 1)	Amount	Interest Rate	Yield	CUSIP	Year (February 1)	Amount	Interest Rate	Yield	CUSIP
2009	\$1,000,000	3.750%	2.000%	665306 HC3	2018	\$895,000	5.000%	4.600%	665306 HM1
2010	645,000	3.750	2.350	665306 HD1	2019	940,000	5.000	5.000	665306 HN9
2011	670,000	3.750	2.600	665306 HE9	2020	990,000	5.125	5.200	665306 HP4
2012	695,000	3.750	3.050	665306 HF6	2021	1,040,000	5.250	5.340	665306 HQ2
2013	720,000	3.750	3.300	665306 HG4	2022	1,100,000	5.375	5.500	665306 HR0
2014	750,000	4.000	3.550	665306 HH2	2023	1,160,000	5.500	5.600	665306 HS8
2015	780,000	4.125	3.730	665306 HJ8	2024	1,225,000	5.700	5.700	665306 HT6
2016	815,000	4.250	4.020	665306 HK5	2025	1,300,000	5.750	5.800	665306 HU3
2017	850,000	4.750	4.300	665306 HL3	2026	1,375,000	5.750	5.900	665306 HV1

\$3,010,000, 6.000% Term Bonds due February 1, 2028, yield 6.070%, 665306 HX7
 \$5,245,000, 6.000% Term Bonds due February 1, 2031, yield 6.150%, 665306 JA5
 \$4,085,000, 6.500% Term Bonds due February 1, 2033, yield 6.150%, 665306 JC1

The Series 2009 Bonds are subject to redemption prior to maturity as described herein.

The Series 2009 Bonds are special and limited obligations of the District and do not constitute a debt, liability or general obligation of the District within the meaning of the Constitution and laws of the Commonwealth of Kentucky, or a pledge of the faith and credit or the taxing power of the District. See "SECURITY FOR THE SERIES 2009 BONDS" herein.

The scheduled payment of principal of and interest on the Series 2009 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2009 Bonds by Financial Security Assurance Inc.



The District deems this Official Statement to be final for purposes of Security and Exchange Commission Rule 15c2-12.

The Series 2009 Bonds are offered when, as and if issued, subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Bond Counsel, Covington, Kentucky. Certain legal matters have been passed upon for the District by Hemmer Pangburn DeFrank PLLC, General Counsel to the District. The Series 2009 Bonds are expected to be available for delivery on or about January 6, 2009.

Robert W. Baird & Co., Inc.

J.J.B. Hilliard, W.L. Lyons, LLC
 Davenport & Co. L.L.C.
 Hutchinson, Shockey, Erley & Co.

Ross, Sinclair & Associates, LLC
 Stifel, Nicolaus & Company, Inc.
 Loop Capital Markets
 William Blair & Company, L.L.C.

Duncan-Williams, Inc.
 Coastal Securities, Inc.
 C.L. King & Associates

NORTHERN KENTUCKY WATER DISTRICT

Chairman
Fred Macke

Board of Commissioners
Andrew C. Collins
Douglas C. Wagner
Joseph J. Koester, Jr.
Frank E. Jackson
Patricia J. Sommerkamp

President/CEO
C. Ronald Lovan, P.E.

Vice President of Finance
Jack Bragg

GENERAL COUNSEL

Hemmer Pangburn DeFrank PLLC
Covington, Kentucky

BOND COUNSEL

Peck, Shaffer & Williams LLP
Covington, Kentucky

FINANCIAL ADVISOR

Ross, Sinclaire & Associates, LLC
Frankfort, Kentucky

BOND PAYING AGENT AND REGISTRAR

The Bank of New York Mellon Trust Company, N.A.
Cincinnati, Ohio

REGARDING THIS OFFICIAL STATEMENT

This Official Statement, which includes the cover page, has been prepared by officials of the Northern Kentucky Water District (the "District") in connection with the sale by the District of \$29,290,000 aggregate principal amount of Revenue Bonds, Series 2009 of the District. Certain information concerning the authorization, purpose, terms, conditions of sale and sources of payment of, and security for, the Series 2009 Bonds are described herein. Insofar as such information embodies statements of opinion, or estimates, even if not so labeled, it should be regarded as suggesting independent investigation or consultation of other sources prior to making investment decisions. Certain information may not be the most current that is available; however, attempts were made to date and document sources of information.

No dealer, broker, salesman or other person has been authorized by the District to give any information or to make any representation, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been given by the District. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2009 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof.

Neither this Official Statement nor any verbal or written representations by or on behalf of the District before sale of the Series 2009 Bonds should be regarded as part of the contract with the holders from time to time of the District's Series 2009 Bonds.

All financial and other information presented herein has been provided by the District from its records, except for information expressly attributed to other sources. It is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as might be shown by such financial and other information, will necessarily continue or be repeated in the future.

References herein to provisions of Kentucky law, whether codified in the Kentucky Revised Statutes ("KRS") or uncodified, or of the Kentucky Constitution, are references to such provisions as they presently exist. Any of those provisions may from time to time be amended, repealed or supplemented.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and Appendix F specimen "Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2009 Bonds; or (iii) the tax exempt status of the interest on the Series 2009 Bonds.

As used in this Official Statement, "debt service" means principal of and interest on the obligations referred to, and "Commonwealth" or "Kentucky" means the Commonwealth of Kentucky.

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\$29,290,000
NORTHERN KENTUCKY WATER DISTRICT
REVENUE BONDS, SERIES 2009

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to provide certain information with respect to the issuance of the Series 2009 Bonds.

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Series 2009 Bonds to potential investors is made only by means of the entire Official Statement.

The District

The Series 2009 Bonds are being issued by the Northern Kentucky Water District (the "District"), a public body corporate and politic and a political subdivision of the Commonwealth of Kentucky.

Sources of Payment and Security for the Series 2009 Bonds

Pursuant to District's Amended and Restated General Bond Resolution adopted by the Board of Commissioners of the District on November 19, 1985 as amended by the First Supplemental General Bond Resolution adopted November 17, 1987 (the "General Bond Resolution"), and a Series 2009 Bond Resolution (the "Series 2009 Bond Resolution") adopted by the Board of Commissioners of the District on March 14, 2007 (collectively, the "Resolution"), the District has pledged (i) the proceeds of the District's Water District Revenue Bonds, Series 2009 (the "Series 2009 Bonds") authorized and directed to be issued under the Series 2009 Bond Resolution (except for amounts used to refund the Prior Obligations, hereinafter defined), (ii) any Investment Obligations, as hereinafter defined (except for any Investment Obligations related to the refunding of the Prior Obligations), purchased with the proceeds of the Series 2009 Bonds, and (iii) a priority lien granted to the holders of the District's outstanding Revenue Bonds, including the Series 2009 Bonds, and any additional obligations issued on a parity therewith in accordance with the terms of the General Bond Resolution, the revenues from the operation of the facilities of the District (the "System"), to the payment of the principal of, premium, if any, and interest on the Series 2009 Bonds as and when same shall become due and payable.

THE SERIES 2009 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE DISTRICT WITHIN THE MEANING OF THE CONSTITUTION OF THE COMMONWEALTH OF KENTUCKY. THE SERIES 2009 BONDS ARE PAYABLE SOLELY FROM THE REVENUES OF THE SYSTEM AND THE ASSETS AND REVENUES PLEDGED THEREFORE UNDER THE ORDINANCE, AND ARE SECURED BY A STATUTORY MORTGAGE LIEN ON ALL OF THE PROPERTIES OF THE SYSTEM. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT, THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION OR TAXING AUTHORITY THEREOF, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE SERIES 2009 BONDS.

The scheduled payment of principal of and interest on the Series 2009 Bonds, when due, will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2009 Bonds by Financial Security Assurance Inc. (See "BOND INSURANCE," herein).

Purpose of the Series 2009 Bonds

The proceeds of the Series 2009 Bonds will be used to: (i) refund and retire the District's outstanding \$27,165,000 Revenue Bond Anticipation Notes, Series 2007 (the "Prior Obligations") which were issued to provide funds used for paying the costs of various capital projects of the System and to pay interest on the Prior Obligations through their maturity; (ii) make a deposit to the Series 2009 Bonds Cost of Issuance Account to pay the costs of issuing the Series 2009 Bonds; and (iii) make a deposit to the Debt Service Reserve Fund.

Description of the Series 2009 Bonds

Redemption. The Series 2009 Bonds are subject to redemption prior to their maturity (see "THE SERIES 2009 BONDS – Redemption," herein).

Denominations. The Series 2009 Bonds will be issued in principal amounts of \$5,000 and integral multiples thereof.

Book Entry. The Series 2009 Bonds are issuable only as fully registered Series 2009 Bonds, without coupons. The Series 2009 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Series 2009 Bonds. Purchasers will not receive certificates representing their ownership interest in the Series 2009 Bonds purchased. So long as DTC or its nominee is the registered owner of the Series 2009 Bonds, payments of the principal of and interest due on the Series 2009 Bonds will be made directly to DTC. Principal of, redemption premium, if any, and interest on the Series 2009 Bonds will be paid directly to DTC by The Bank of New York Mellon Trust Company, N.A., Cincinnati, Ohio, as Paying Agent and Registrar (the "Paying Agent" and "Registrar"). See "BOOK-ENTRY SYSTEM" herein.

Interest. The Series 2009 Bonds will bear interest at the rates set forth on the cover hereof, payable semi-annually on February 1 and August 1, beginning February 1, 2009.

Notices. In the event any Series 2009 Bonds are called for redemption, notice shall be given by mailing a copy of the redemption notice by registered mail not less than thirty days prior to the date fixed for redemption to the registered owner of each Series 2009 Bond to be redeemed.

Tax Exemption

Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest, including original issue discount, if any, on the Series 2009 Bonds is excludible from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2009 Bonds will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. In rendering the opinions in this paragraph regarding the Series 2009 Bonds, Bond Counsel has assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. Bond Counsel expresses no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Series 2009 Bonds. Interest on the Series 2009 Bonds is exempt from income taxation and the Series 2009 Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

The District has not designated the Series 2009 Bonds as "qualified tax exempt obligations" with respect to certain financial institutions under Section 265 of the Code. See Appendix E hereto for the form of the opinion Bond Counsel proposes to deliver in connection with the Series 2009 Bonds.

Parties to the Issuance of the Series 2009 Bonds

The Paying Agent and Registrar for the Series 2009 Bonds is The Bank of New York Mellon Trust Company, N.A., Cincinnati, Ohio. Legal matters incidence to the issuance of the Series 2009 Bonds and with regard to the tax-exempt status of the interest thereon are subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. The financial advisor to the District with regard to the issuance of the Series 2009 Bonds is Ross, Sinclaire & Associates, LLC, Frankfort, Kentucky.

Authority for Issuance

Authority for the issuance of the Series 2009 Bonds is provided by Chapter 58 and Chapter 74 of the Kentucky Revised Statutes (collectively, the "Act") and the Resolution. Approval was received from the Kentucky Public Service Commission in the matter of Case No. 2007-00135 to issue the Series 2009 Bonds on December 21, 2007.

Offering and Delivery of the Series 2009 Bonds

The Series 2009 Bonds are offered when, as and if issued by the District. The Series 2009 Bonds will be delivered on or about January 6, 2009 in New York, New York through the Depository Trust Company (DTC).

Disclosure Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Official Statement and continuing disclosure documents of the District are intended to be made available through one or more repositories. Copies of the basic documentation relating to the Series 2009 Bonds, including the Resolution and the bond form, are available from the District.

The District has deemed this Official Statement to be final for the purposes of Securities and Exchange Commission Rule 15c2-12, except for certain information on the cover page hereof and certain pages herein which has been omitted in accordance with the Rule and will be provided with the final Official Statement

Additional Information

Additional information concerning this Official Statement, as well as copies of the basic documentation relating to the Series 2009 Bonds, is available from Ross, Sinclaire & Associates, LLC, 400 Democrat Drive, Frankfort, Kentucky 40601, Attention Mr. Ryan Barrow.

Brief descriptions of the Series 2009 Bonds, security for the Series 2009 Bonds, the District, the System and the Resolution are included in this Official Statement. Certain information with respect to the District is included in Appendices hereto. Capitalized terms not otherwise defined herein shall have the meanings assigned to them in the Resolution. All summaries herein of documents and agreements are qualified in their entirety by reference to such documents and agreements, copies of which are available at the office of the District.

THE DISTRICT AND AUTHORITY

The District is the lawful successor to the Campbell County, Kentucky Water District and the Kenton County Water District No. 1 (collectively the "Prior Districts"). On May 24, 1996, the Prior Districts petitioned the Commonwealth of Kentucky Public Service Commission (the "PSC") for approval to merge and operate as the Northern Kentucky Water District. On August 28, 1996, the PSC by Order

Case #96-234 approved the merger of the Prior Districts. The rates, rules and regulations of the Prior Districts were adopted by the District.

The Series 2009 Bonds are being issued under Section 510(2) of the General Bond Resolution and the Series 2009 Bond Resolution. The Series 2009 Bonds rank on a parity with the Outstanding Bonds of the District and any other Parity Bonds that may be issued in the future, and are collectively referred to as the "Bonds." All Bonds are issued under the Act. Approval was received from the Kentucky Public Service Commission in the matter of Case No. 2007-00135 to issue the Series 2009 Bonds on December 21, 2007.

THE SERIES 2009 BONDS

General

The Series 2009 Bonds are to be issued only as fully registered Bonds in denominations of \$5,000 or any integral multiple thereof without coupons. The Series 2009 Bonds will be dated January 1, 2009, will bear interest from that date as described herein, payable semi-annually on February 1 and August 1 of each year commencing February 1, 2009 (each an "Interest Payment Date"), and will mature on February 1, in the years and in the principal amounts set forth on the cover page of this Official Statement.

The Series 2009 Bonds shall be payable at the principal office of the Paying Agent and Registrar with respect to principal or premium, if any, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public or private debts. All interest payments shall be payable by check or draft mailed to the record date registered Bondholders. The record dates for February 1 and August 1 interest payment dates shall be the preceding January 15 and July 15, respectively.

Each registered Series 2009 Bond shall be transferable only upon the books of the Registrar, at the request of the registered owner thereof or by his authorized Attorney upon surrender thereof together with an assignment satisfactory to the appropriate Registrar duly executed by the registered owner or his duly authorized Attorney. Upon the transfer of any such Series 2009 Bond, the District shall issue in the name of the transferee a new registered Series 2009 Bond or Bonds of the same aggregate principal amount, series and maturity as the surrendered Series 2009 Bond. If any Series 2009 Bond is mutilated, lost, stolen or destroyed, the District will execute and deliver a new Series 2009 Bond in accordance with the General Bond Resolution.

Redemption

Optional Redemption. The Series 2009 Bonds maturing on or after February 1, 2019 are subject to optional redemption, in whole or in part, on any date beginning August 1, 2018, at a redemption price equal to the principal amount to be redeemed, plus interest accrued to the date of redemption, without premium.

Mandatory Sinking Fund Redemption

The Series 2009 Bonds maturing on February 1, 2028, February 1, 2031 and February 1, 2033 are subject to mandatory sinking fund redemption on the dates and at the redemption price of par plus accrued interest to the Redemption Date as set forth below:

<u>Maturing February 1, 2028</u>		<u>Maturing February 1, 2031</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
February 1, 2027	\$1,460,000	February 1, 2029	\$1,645,000
February 1, 2028*	1,550,000	February 1, 2030	1,745,000
		February 1, 2031*	1,855,000

<u>Maturing February 1, 2033</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>
February 1, 2032	\$1,975,000
February 1, 2033*	2,110,000

* Maturity

Selection of Bonds to be Redeemed. In the event of redemption of less than all the outstanding Series 2009 Bonds of the same maturity, the District shall assign to each such outstanding Series 2009 Bond a distinctive number for each \$5,000 of the principal amount of such Series 2009 Bond and shall select by lot, using such method of selection as it shall deem proper in its discretion, as many numbers as, at \$5,000 for each number shall equal the principal amount of such Series 2009 Bonds to be redeemed. The Series 2009 Bonds to be redeemed shall be the Series 2009 Bonds to which were assigned numbers so selected; provided, however, that only so much of the principal amount of each such Series 2009 Bond of a denomination of more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected.

Notice of Redemption. The District shall give notice in the name of the District of the redemption of Series 2009 Bonds determined by the District to be redeemed, which notice shall specify the maturities of the Series 2009 Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Series 2009 Bonds of the same maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Series 2009 Bonds so to be redeemed and, in the case of Series 2009 Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Series 2009 Bond to be redeemed the redemption price thereof, or the redemption price of the specified portions of the principal thereof of Series 2009 Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such Redemption Date interest thereon shall cease to accrue and be payable. The District shall mail a copy of such notice, postage prepaid, registered mail, not less than ten (10) days before the Redemption Date to the registered owners of any Series 2009 Bonds or portions of Series 2009 Bonds which are to be redeemed, at their last addresses, appearing upon the registry books.

Book Entry System

The Series 2009 Bonds initially will be issued solely in book-entry form to be held in the book-entry only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of Series 2009 Bonds and, except as otherwise provided herein with respect to tenders by beneficial owners of beneficial ownership interests, beneficial owners will not be or be considered to be, and will not have any rights as, owners or holders of the Series 2009 Bonds under the Resolution.

The following information about the book-entry only system applicable to the Series 2009 Bonds has been supplied by DTC. Neither the District nor the Paying Agent and Registrar makes any representations, warranties or guarantees with respect to its accuracy or completeness.

DTC will act as securities depository for the Series 2009 Bonds. The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such

other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued in the aggregate principal amount of the Series 2009 Bonds and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2009 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2009 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2009 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase. Beneficial owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2009 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in Series 2009 Bonds, except in the event that use of the book-entry system for the Series 2009 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2009 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2009 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the Series 2009 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2009 Bonds are credited, which may or may not be the beneficial owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial owners of Series 2009 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the

Series 2009 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2009 Bond documents. For example, beneficial owners of Series 2009 Bonds may wish to ascertain that the nominee holding the Series 2009 Bonds for their benefit has agreed to obtain and transmit notices to beneficial owners. In the alternative, beneficial owners may wish to provide their names and addresses to the Paying Agent and Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2009 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2009 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2009 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Series 2009 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent and Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with Series 2009 Bonds held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC or its nominee, the Paying Agent and Registrar or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent and Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the beneficial owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2009 Bonds at any time by giving reasonable notice to the District or the Paying Agent and Registrar. Under such circumstances, in the event that a successor depository is not obtained, the Series 2009 Bond certificate is required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2009 Bond certificate will be printed and delivered.

NEITHER THE DISTRICT NOR THE PAYING AGENT AND REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE PAYING AGENT AND REGISTRAR AS BEING A HOLDER WITH RESPECT TO: (1) THE SERIES 2009 BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PURCHASE PRICE OF TENDERED SERIES 2009 BONDS OR THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2009 BONDS; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO

HOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2009 BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

Each Beneficial Owner for whom a Direct Participant or Indirect Participant acquires an interest in the Series 2009 Bonds, as nominee, may desire to make arrangements with such Direct Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, to have all notices of redemption, elections to tender Series 2009 Bonds or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such Direct Participant or Indirect Participant, and to have notification made of all debt service payments.

Beneficial owners may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the Series 2009 Bonds.

The District cannot and does not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the Series 2009 Bonds made to DTC or its nominee as the registered owner, or any redemption or other notices, to the beneficial owners, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE DISTRICT BELIEVES TO BE RELIABLE, BUT THE DISTRICT TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

SECURITY FOR THE SERIES 2009 BONDS

Security for the Series 2009 Bonds

All the Bonds issued under the Resolution of the District (the "Outstanding Bonds") are issued and secured pursuant to the Resolution. For a more complete description of the terms and provisions of the Resolution, including the Funds and Accounts to be maintained by the District, the limitations on the issuance of additional Bonds and requirements as to rates and charges for water service, see Appendix B "SUMMARY OF THE GENERAL BOND RESOLUTION." See "INTRODUCTION" as to the availability of copies of the Resolution.

Source of Payment. The interest and principal payments of the Series 2009 Bonds are payable from and secured by a pledge of District Revenues, as determined in accordance with generally accepted accounting principles. District Revenues are defined in the General Bond Resolution as "the totality of all water service rates, rentals and charges of any and all types and varieties imposed, enforced and collected by the District for any services rendered by the works and facilities of the District, together with other income received by the District, if any, from any agency of government, both federal and state, as representing income or operating subsidies, as distinguished from capital grants, to the extent not otherwise required to be treated and applied."

Rate Covenant. The District has covenanted, that it will at all times establish, enforce and collect rates, rentals, and charges for services rendered and facilities constituting the System (subject to such regulatory approval as may be required by law), in an amount, after accumulation of all reserves required by the Resolution and allowances for all operation and maintenance costs (but not including depreciation), of 1.20 times the annual principal, interest and sinking fund requirements on all Bonds that are Outstanding under the Resolution.

Debt Service Reserve. A Debt Service Reserve has been established for the Bonds. The District is required to maintain on deposit in the Debt Service Reserve an amount that is no less than the maximum principal, interest and sinking fund requirements in any future Bond Fiscal Year on all Bonds that are Outstanding under the Resolution.

Mortgage Lien. The Bonds are further secured by a statutory mortgage lien on all properties of the District, granted to and in favor of the registered owners of the Bonds and said properties shall remain subject to the lien until the e Series 2009 Bonds are no longer Outstanding under the Resolution.

Bond Insurance. The scheduled payment of principal of and interest on the Series 2009 Bonds, when due, will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2009 Bonds by Financial Security Assurance Inc. (See "BOND INSURANCE," herein).

BOND INSURANCE

The following information has been furnished by Financial Security Assurance Inc. ("Financial Security") for use in this Official Statement. Reference is made to Appendix F for a specimen of Financial Security's policy.

The Bond Insurance Policy

Concurrently with the issuance of the Series 2009 Bonds, Financial Security will issue its Municipal Bond Insurance Policy for the Series 2009 Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Series 2009 Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A. ("Dexia"), a publicly held Belgian corporation, and of Dexia Credit Local S.A., a direct wholly-owned subsidiary of Dexia. Dexia, through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

For a description of recent events relating to a potential change in ownership of Holdings, please refer to the caption below entitled "Recent Events Regarding Financial Security's Ratings and Ownership of Holdings".

At September 30, 2008, Financial Security's consolidated policyholders' surplus and contingency reserves were approximately \$2,635,095,361 and its total net unearned premium reserve was approximately \$2,657,570,765 in accordance with statutory accounting principles. At September 30, 2008, Financial Security's consolidated shareholder's equity was approximately \$2,715,608,321 and its total net unearned premium reserve was approximately \$2,117,731,661 in accordance with accounting principles generally accepted in the United States of America.

Portions of the following documents filed by Holdings with the Securities and Exchange Commission ("SEC") that relate to Financial Security are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) Annual Report of Holdings on Form 10-K for the year ended December 31, 2007,
- (ii) Quarterly Report of Holdings on Form 10-Q for the quarter ended March 31, 2008,
- (iii) Quarterly Report of Holdings on Form 10-Q for the quarter ended June 30, 2008,
- (iv) Current Report of Holdings on Form 8-K filed on November 14, 2008, and
- (v) Quarterly Report of Holdings on Form 10-Q for the quarter ended September 30, 2008.

All information relating to Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the filing of the last document referred to above and before the termination of the offering of the Series 2009 Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov> or at Holding's website at <http://www.fsa.com> or will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding Financial Security included herein under the captions "BOND INSURANCE – Financial Security Assurance Inc." and " – Recent Events Regarding Financial Security's Ratings and Ownership of Holdings" or included in a document incorporated by reference herein (collectively, the "Financial Security Information") shall be modified or superseded to the extent that any subsequently included Financial Security Information (either directly or through incorporation by reference) modifies or supersedes such previously included Financial Security Information. Any Financial Security Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

The Policy does not protect investors against changes in market value of the Series 2009 Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Series 2009 Bonds or the advisability of investing in the Series 2009 Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

Recent Events Regarding Financial Security's Ratings and Ownership of Holdings

On November 21, 2008, Moody's Investors Service, Inc. downgraded to "Aa3" (with developing outlook) from "Aaa" the insurance financial strength rating of Financial Security.

On October 8, 2008, Standard & Poor's Ratings Services placed Financial Security's "AAA" financial strength rating on Credit Watch with negative implications.

On October 9, 2008, Fitch Ratings placed Financial Security's "AAA" insurer financial strength rating on Rating Watch Negative.

These ratings reflect only the views of the respective rating agencies, are not recommendations to buy, sell or hold securities and are subject to revision or withdrawal at any time by those rating agencies. See "RATINGS" herein.

On November 14, 2008, Holdings announced that, subject to relevant regulatory and other approvals, its parent Dexia and Assured Guaranty Ltd. ("Assured Guaranty") have entered into an agreement for Assured Guaranty to acquire all of Dexia's shares of Holdings.

PLAN OF FINANCE

The District has previously issued the Prior Obligations, maturing April 1, 2009, in the aggregate principal amount of \$27,165,000. The Prior Obligations will be discharged by depositing an amount of proceeds of the Series 2009 Bonds in a note payment fund that will be used to redeem all the Prior Obligations on January 6, 2009. The remaining proceeds from the sale of the Series 2009 Bonds will be (i) deposited in the Debt Service Reserve Fund in order to meet the debt service reserve requirements as provided in the General Bond Resolution, and (ii) used to pay the costs of issuing the Bonds (see "SOURCES AND USES OF FUNDS" herein. Any unspent proceeds of the Prior Obligations will remain in the Construction Fund established by the Resolution and used to pay costs of the Project.

SOURCES AND USES OF FUNDS

Sources

Principal Amount of Series 2009 Bonds	\$29,290,000.00
Plus Original Issue Premium	64,180.20
Accrued Interest	21,965.80
Cash Contribution of the District	<u>720,000.00</u>
TOTAL	\$30,096,146.00

Uses

Deposit to Series 2007 Note Payment Fund	\$27,430,236.04
Deposit to Series 2009 Bond Payment Fund	21,965.80
Deposit to Debt Service Reserve Fund	2,100,000.00
Costs of Issuance	137,794.04
Underwriter's Discount (Includes Bond Insurance Premium)	<u>406,148.12</u>
TOTAL	\$30,096,144.00

PLANS TO ISSUE ADDITIONAL DEBT - FIVE YEAR CAPITAL PLAN

The District over the years has acquired or consolidated several systems located in the older river cities located within the current boundaries of the District. Significant portions of the infrastructure of these systems are in need of repair or replacement. The District prioritizes all of these needs in order to use capital dollars in the most effective and efficient manner possible.

The District continues to face the challenges of meeting the 2012 Water Quality Standards imposed by the Environmental Protection Agency and the replacement of aging infrastructure both at its production facilities and in its transmission and distribution system. This is reflected in the Five Year Capital Budget for the period 2008 through 2012 that totals approximately \$212 million. Water Quality and Production issues account for approximately \$144 million (67.9%) of this total while Distribution issues represent approximately \$59 million (27.7%) and the Customer Service issues represent approximately \$9 million (4.4%).

The 2012 EPA standards are a huge driver of this capital effort in order to provide water to the region that meets these very stringent standards. Of the \$144 million in Water Quality and Production projects, the implementation of Granular Activated Carbon Systems and Ultraviolet Treatment Systems at the District's three production facilities account for approximately \$91 million of the necessary capital investment.

GENERAL LEGAL MATTERS

The issuance of the Series 2009 Bonds and certain legal matters incident to compliance by the District with Sections 103(b)(2) and 148 of the Code, and regulations thereunder relating to "arbitrage bonds" are subject to the approval of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel, whose approving opinion will be delivered with the Series 2009 Bonds. Certain legal matters will be passed upon for the District by its counsel, Hemmer Pangburn DeFrank PLLC.

Bond Counsel has reviewed legal matters incident to those sections of the Official Statement entitled "The Series 2009 Bonds," "Security for the Bonds," "Summary of General Bond Resolution," and "Tax Exemption," and is of the opinion that the statements contained in such identified sections are, as to law and legal conclusions, correct and that such sections fairly summarize the contents of documents therein described. Bond Counsel assumes no responsibility for the accuracy or completeness of other statements or financial information contained in this Official Statement.

LITIGATION INVOLVING DISTRICT

There is no controversy or litigation of any nature now pending or threatened, restraining or enjoining the issuance, sale, execution or delivery of the Series 2009 Bonds, or in any way contesting or affecting the validity of such Series 2009 Bonds, or any proceedings of the District taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of such Series 2009 Bonds, or the due existence or powers of the District.

TAX EXEMPTION

General. In the opinion of Bond Counsel for the Series 2009 Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Series 2009 Bonds is excludible from gross income for Federal income tax purposes and interest on the Series 2009 Bonds is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes. Furthermore, Bond Counsel for the Series 2009 Bonds is of the opinion that interest on the Series 2009 Bonds is exempt from taxation, including personal income taxation, by the Commonwealth of Kentucky and its political subdivisions.

A copy of the opinion of Bond Counsel for the Series 2009 Bonds is set forth in Appendix E, attached hereto.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Series 2009 Bonds. The District has covenanted to comply with certain restrictions designed to ensure that interest on the related issues of Series 2009 Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Series 2009 Bonds being includable in income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Series 2009 Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2009 Bonds may adversely affect the tax status of the interest on the Series 2009 Bonds.

Certain requirements and procedures contained or referred to in the Resolution and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series 2009 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series 2009 Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams LLP.

Although Bond Counsel for the Series 2009 Bonds is of the opinion that interest on the Series 2009 Bonds will be excludible from gross income for Federal and Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2009 Bonds may otherwise affect a Bondholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Series 2009 Bonds on the tax liabilities of the individual or entity.

For example, although Bond Counsel for the Series 2009 Bonds is of the opinion that interest on the Series 2009 Bonds will not be a specific item of tax preference for the alternative minimum tax, corporations are required to include all tax-exempt interest in determining "adjusted current earnings" under Section 56(c) of the Code, which may increase the amount of any alternative minimum tax owed. Receipt of tax-exempt interest, ownership or disposition of the Series 2009 Bonds may result in other collateral Federal, state or local tax consequence for certain taxpayers, including, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, increasing the federal tax liability of certain individual recipients of Social Security or Railroad Retirement benefits under Section 86 of the Code and limiting the use of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any Series 2009 Bonds may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of Series 2009 Bonds in a state other than Kentucky or being subject to tax in a state other than Kentucky, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Series 2009 Bonds.

The District has not designated the Series 2009 Bonds as "qualified tax-exempt obligations" within the meaning of Section 265 of the Code.

Premium. "Acquisition Premium" is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. The Series 2009 Bonds having a yield that is lower than their stated interest rate, as shown on the cover page hereto (the "Premium Bonds"), are being initially offered and sold to the public at an Acquisition Premium. For federal income tax purposes, the amount of Acquisition Premium on each bond the interest on which is excludable from gross income for federal income tax purposes ("tax-exempt bonds") must be amortized and will reduce the bondholder's adjusted basis in that bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining bondholder's taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Bonds, or on any of the Series 2009 Bonds, that must be amortized during any period will be based on the "constant yield" method, using the original bondholder's basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

Holders of any Series 2009 Bonds, including any Premium Bonds, purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

Original Issue Discount. Series 2009 Bonds having a yield that is higher than their stated interest rate, as shown on the cover page hereto (the "Discount Bonds"), are being offered and sold to the public at an original issue discount ("OID") from the amounts payable at maturity thereon. OID is the excess of

the stated redemption price of a bond at maturity (the face amount) over the "issue price" of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond, and for the Discount Bonds, the amount of accretion will be based on a single rate of interest, compounded semiannually (the "yield to maturity"). The amount of OID that accrues during each semi-annual period will do so ratably over that period on a daily basis. With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OID that accrues during the period that such purchaser owns the Discount Bond is added to such purchaser's tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Discount Bond and thus, in practical effect, is treated as stated interest, which is excludable from gross income for federal income tax purposes.

Holders of Discount Bonds should consult their own tax advisors as to the treatment of OID and the tax consequences of the purchase of such Discount Bonds other than at the issue price during the initial public offering and as to the treatment of OID for state tax purposes.

RATINGS

As noted on the cover page of this Official Statement, Moody's Investors Service ("Moody's") is expected to assign its municipal bond rating of "Aa3" (with developing outlook) to this issue of Series 2009 Bonds, with the understanding that upon delivery of the Series 2009 Bonds, the Bond Insurance Policy will be issued by Financial Security. Moody's has assigned an underlying rating of "A2" to the Series 2009 Bonds.

Such rating reflects only the view of said organization. Any explanation of the significance of such rating may only be obtained from Moody's at the following address: 7 World Trade Center, 250 Greenwich Street, New York, New York 10007.

There can be no assurance that a rating when assigned will continue for any given period of time or that it will not be lowered or withdrawn entirely by the rating agency if in its judgment circumstances so warrant. Any such downward change in or withdrawal of a rating may have an adverse effect on the marketability and/or market price of the Bonds

UNDERWRITING

The Series 2009 Bonds are being purchased for reoffering by Robert W. Baird & Co., Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Series 2009 Bonds at an aggregate purchase price of \$28,969,997.88 (reflecting the par amount of the Series 2009 Bonds, plus premium of \$64,180.20, plus accrued interest of \$21,965.80, less underwriter's discount (including Bond Insurance Premium) of \$406,148.12). The initial public offering prices, which produce the yields set forth on the cover page of this Official Statement, may be changed by the Underwriter and the Underwriter may offer and sell the Series 2009 Bonds to certain dealers (including dealers depositing Series 2009 Bonds into investment trusts) and others at prices lower than the offering prices which produce the yields set forth on the cover page.

FINANCIAL ADVISOR

Ross, Sinclaire & Associates, LLC is employed as Financial Advisor to the District in connection with the issuance of the Series 2009 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2009 Bonds is contingent upon the issuance and delivery of the Series 2009 Bonds.

CONTINUING DISCLOSURE

In accordance with Securities and Exchange Commission Rule 15c2-12 (the "Rule"), the District will agree, pursuant to a Continuing Disclosure Agreement dated as of January 1, 2009 (the "Disclosure Agreement"), to be delivered on the date of delivery of the Series 2009 Bonds, to cause the following information to be provided:

- (i) to each nationally recognized municipal securities information repository ("NRMSIR") and, if one is established for the Commonwealth, to its state information depository ("SID"), certain annual financial information and operating data, including audited financial statements prepared in accordance with generally accepted accounting principles as applied to governmental units, generally consistent with the information contained in Appendix B under the heading "The System" and in Appendix D; such information shall be provided on or before October 1 following the fiscal year ending on the preceding June 30, commencing with the fiscal year ended June 30, 2007;
- (ii) in a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB") and to the SID, notice of the occurrence of certain events, if material, with respect to the Series 2009 Bonds, which events are as follows:
 - (a) Principal and interest payment delinquencies;
 - (b) Non-payment related defaults;
 - (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
 - (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
 - (e) Substitution of credit or liquidity providers, or their failure to perform;
 - (f) Adverse tax opinions or events affecting the tax-exempt status of the security;
 - (g) Modifications to rights of security holders;
 - (h) Bond calls, except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event;
 - (i) Defeasances;
 - (j) Release, substitution or sale of property securing repayment of the securities;
 - (k) Rating changes; and
 - (l) The cure, in the manner provided under the Resolution, of any payment or nonpayment related default under the Resolution; and
- (iii) in a timely manner, to each NRMSIR or to the MSRB and to the SID, notice of a failure of the District to provide the required Annual Financial Information on or before the date specified in the Disclosure Agreement.

The Disclosure Agreement provides holders of the Series 2009 Bonds, including beneficial owners of the Series 2009 Bonds, with certain enforcement rights in the event of a failure by the District to comply with the terms thereof; however, a default under the Disclosure Agreement does not constitute an event of default under the Resolution. The Disclosure Agreement may also be amended or terminated under certain circumstances in accordance with the Rule as more fully described therein. Holders of the Series 2009 Bonds are advised that the Disclosure Agreement, the form of which is obtainable from the Financial Advisor, should be read in its entirety for more complete information regarding its contents.

CONCLUDING STATEMENT

The financial statements of the District have been examined to the extent set forth in the report of Rankin, Rankin & Company, Certified Public Accountants, Ft. Wright, Kentucky, independent certified public accountants, and are included in reliance upon the report of such firm and upon their authority as experts in auditing and accounting.

The foregoing summaries or descriptions of provisions in the Resolution and all references to other materials not purporting to be quoted in full, are only brief outlines of certain provisions thereof and do not purport to be complete statements of such documents and provisions. Reference is hereby made to the complete documents, copies of which will be furnished by the District upon request, for further information.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or holders of any of the Series 2009 Bonds.

This Official Statement has been approved by the District as of the date set forth on the cover hereof.

NORTHERN KENTUCKY WATER DISTRICT

By: /s/ Fred Macke
Chairman

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APPENDIX A

AGGREGATE DEBT SERVICE SCHEDULE

Northern Kentucky Water District
Summary of Outstanding Debt Obligations
(Gross Debt Service Structure Report)

Fiscal Year	Serial Number	Maturity Date	Interest		Mortgage		Sinking		Mortgage		Sinking		Total	Term
			Year	Amount	Year	Amount	Year	Amount	Year	Amount	Year	Amount		
2024	2024	12/1/2024	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2024	
2025	2025	12/1/2025	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2025	
2026	2026	12/1/2026	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2026	
2027	2027	12/1/2027	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2027	
2028	2028	12/1/2028	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2028	
2029	2029	12/1/2029	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2029	
2030	2030	12/1/2030	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2030	
2031	2031	12/1/2031	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2031	
2032	2032	12/1/2032	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2032	
2033	2033	12/1/2033	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2033	
2034	2034	12/1/2034	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2034	
2035	2035	12/1/2035	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2035	
2036	2036	12/1/2036	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2036	
2037	2037	12/1/2037	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2037	
2038	2038	12/1/2038	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2038	
2039	2039	12/1/2039	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2039	
2040	2040	12/1/2040	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2040	
2041	2041	12/1/2041	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2041	
2042	2042	12/1/2042	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2042	
2043	2043	12/1/2043	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2043	
2044	2044	12/1/2044	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2044	
2045	2045	12/1/2045	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2045	
2046	2046	12/1/2046	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2046	
2047	2047	12/1/2047	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2047	
2048	2048	12/1/2048	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2048	
2049	2049	12/1/2049	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2049	
2050	2050	12/1/2050	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	12/1/2050	

APPENDIX B

INFORMATION REGARDING THE DISTRICT AND THE SYSTEM

GENERAL INFORMATION CONCERNING THE DISTRICT AND THE SYSTEM

The Northern Kentucky Water District (the "District") is the lawful successor to the Campbell County Kentucky Water District (originally established in 1953) and the Kenton County Water District No. 1 (originally established in 1926). On May 24, 1996, the Prior Districts petitioned the PSC for approval to merge and operate as the Northern Kentucky Water District. On August 28, 1996 the PSC by Order Case #96-234 approved the merger of the Prior Districts. The rates, rules and regulations of the Prior Districts were adopted by the District. The District is governed by a Board of Commissioners appointed by the county judge/executives from the District's service area.

The District serves more than 80,000 customers in the northern Kentucky area. The District is the largest water service special district in the Commonwealth of Kentucky and the largest supplier of potable water outside of the major metropolitan areas of Lexington and Louisville, Kentucky. The District has the authority and duty to plan, design, finance, construct, install, operate, replace and maintain a waterworks and water distribution system within the service area approved by the PSC.

Service Area

Customers and Sales.

The District's service area lies within Campbell and Kenton County, Kentucky. The Service area is bound to the west by Boone County, to the south by Grant and Pendleton Counties and to the east by Bracken County. The Ohio River forms a natural boundary to the north. Kenton, Boone and Campbell counties in Kentucky, and three counties in Ohio, form the Cincinnati Standard Metropolitan Statistical Area (SMSA).

The following table and chart reflects the number of general service customers and water sales by each class served by the District at the beginning and end of calendar year 2007.

	2007				
	Beginning	2007 Year	Year End		Sales by
	Year	End	Customers	Sales	Class
	Customers	Customers	by Class		
Residential	73,012	73,361	91.26%	\$22,487,843	60.11%
Commercial	4,394	4,392	5.46%	6,124,182	16.37%
Industrial	113	111	0.14%	2,907,673	7.77%
Public Authorities	479	482	0.60%	2,042,905	5.46%
Multiple Family Dwellings	1,575	1,587	1.97%	2,756,075	7.37%
Bulk Loading Stations	0	0	0.00%	19,693	0.05%
Fire Protection	450	450	0.56%	48,646	0.13%
Wholesale Customers	2	3	0.00%	1,023,228	2.74%
Miscellaneous Sales	0	0	0.00%	0	0.00%
Total:	80,025	80,386	100.00%	\$37,410,245	100.00%

Wholesale Customers

At the end of calendar year 2007, the District served as a supplier to three (3) water distribution systems in the Northern Kentucky area (the "Resale Customers"). Resale Customers purchase treated water from the District for resale to their general customers. A wholesale rate, based on 1,000 gallon increments, is approved by the PSC for sale to the Resale Customers.

The following table shows the number of gallons sold and the amount billed to each of the three (3) water distribution systems at the end of calendar year 2007.

	<u>Gallons</u>	<u>% to total Wholesale Gallons</u>	<u>Sales</u>	<u>% to total Wholesale Sales</u>
Pendleton County Water	106,338,994	26.38%	\$270,326.00	26.43%
City of Walton	170,044,994	42.18%	430,833.00	42.12%
Bullock Pen Water District	126,767,113	31.44%	321,794.00	31.46%
Totals:	403,151,101	100.00%	\$1,022,953.00	100.00%

Change in Wholesale Water Contracts

During February 2001, the District amended its water purchase contracts with the City of Florence, Kentucky and the Boone County Water District. Both contracts were amended such that the City of Florence and the Boone County Water District have no further obligation to purchase treated water from the District, except in case of an emergency. Collectively, the City of Florence and the Boone County Water District paid to the District approximately \$3.5 million in order to amend the contracts. The amended contracts now provide that the City of Florence and the Boone County Water District will only purchase treated water from the District through December 31, 2003. Thereafter, except in case of an emergency, the City of Florence and the Boone County Water District has made plans to purchase their treated water from the City of Cincinnati, Ohio.

During 2000 and 2001, the District took over the management and operations of three waterworks systems. The District acquired for one dollar (\$1.00) each, the Winston Park Water District consisting of about 300 customers, the City of Ludlow, Kentucky waterworks system consisting of about 1,400 customers and the City of Brimley, Kentucky waterworks system consisting of about 350 customers. Additionally, the District has entered into a long-term supply contract with the Bullock Pen Water District.

On March 9, 2004, the District purchased the City of Taylor Mill waterworks system for three million dollars to be paid to the City of Taylor Mill over a fifteen (15) year period. The City of Taylor Mill waterworks system currently serves approximately 5,400 customers.

The Northern Kentucky Water District (NKWD) has recently updated two key wholesale agreements with its two largest wholesale customers. Key provisions include:

City of Walton

- The new agreement establishes a 40 year term and encompasses Walton's entire service area.
- The agreement gives the District the first right of refusal to purchase Walton's system in the event of merger or sale.
- The new agreement establishes the District as the City of Walton's exclusive supplier as compared to the old agreement that did not obligate the City of Walton to purchase any specific amount from the District. Walton could purchase any amount that they needed with no minimum under the provisions of the old agreement.

Bullock Pen Water District

- The new agreement expires in 2040.
- The new agreement doubles Bullock Pen's minimum purchase requirement from 150,000 gallons per day to 300,000 gallons per day as compared to the old agreement.
- The new agreement establishes NKWD as the Bullock Pen Water District's premier supplier and defines a service area within Grant County that will be exclusively served by the District or Bullock Pen's Treatment Plant which is near capacity. The old agreement did not establish any service area. This will increase the amount of water that the District sells to Bullock Pen in the future and also puts the District in position to provide additional service if Bullock Pen takes its plant out of service in the future.
- The new agreement contains provisions that require Bullock Pen to: 1) notify the District if it decides to sell any or all of its system, 2) sell any new lines extended in Kenton County at actual cost to the District if Bullock Pen does sell its system in the future to someone other than the District and 3) requires that the agreement would remain in force to any newly created merged District within Grant County.

City of Newport Waterworks Acquisition

On January 2, 2002, the District filed a second amendment and restated application to the PSC to issue approximately \$46,045,00 of its Series 2002A revenue and refunding bonds in connection with Case # 2001-198. In addition to refinancing its Series 1992A Bonds, the District in its application proposed to use \$17,100,000 of its Series 2002A Bond proceeds to refinance all of its then outstanding Bond Anticipation Notes; however, if the agreement to acquire the City of Newport, Kentucky Waterworks System was consummated prior to the discharging of the then outstanding Bond Anticipation Notes, the District requested that it be given the opportunity to petition the Commission for approval to use the Bond proceeds for the acquisition of the Newport facilities.

An Order of the PSC was granted on January 8, 2002 and the District acquired and took over the management and operations of the City of Newport, Kentucky waterworks system on June 13, 2002 at a cost of approximately \$17.1 million which was paid from a portion of the net proceeds of the Series 2002A Bonds.

Newport is a second class city located in Campbell County, Kentucky on the Ohio River. The City, founded in 1795, has a population of approximately 17,000 persons. In addition to the water mains and distribution lines and an elevated water tower storage system, its waterworks system primarily consists of an Ohio River pumping facility originally built in 1872 and a treatment facility originally built in 1962 that has had two major renovations since that time.

Major Customers

The ten largest customers of the District during calendar year 2007 were:

<u>Customer Name</u>	<u>Total Consumption - Gallons</u>	<u>Total Water Sales</u>
Kenton County Airport Board	166,691,800	\$488,418.00
Sara Lee Foods	134,251,788	403,622.00
Lafarge Gypsum	134,566,696	395,165.00
St Elizabeth Hospital	117,801,772	357,909.23
Club Chef LLC	105,729,800	311,132.00
Fidelity Investments	102,802,128	314,623.00
Schwan's Global Supply Chain	90,945,580	268,782.00
Trauth Dairy	78,896,796	235,702.00
Northern Kentucky University	77,252,692	207,944.00
Kenton County Golf Course	62,819,284	190,934.00
Totals:	1,071,758,336	\$3,174,231.23

Water Supply and Water Quality

The District obtains its raw water supply from the Ohio and Licking rivers. Treatment is provided at the Newport, Campbell County, Ft. Thomas and Taylor Mill water treatment plants. The total pumping capacity of all the District's plants is 64 mgd. The average daily demand is 32-34 million gallons per day or approximately 50% of capacity.

The Taylor Mill treatment plant serves as the central monitoring and control point for the entire distribution system. A Supervisory Control and Data Acquisition (SCADA) system is installed at the Taylor Mill plant. This system stores all operation and alarm data for generating daily, weekly and monthly operation reports. Plans are to install the SCADA system in all the System's water treatment plants.

The distribution system consists of more than 1,000 miles of water mains and distribution lines. The distribution main system is primarily constructed of cast or ductile iron with some of the larger mains constructed of concrete and the distribution lines are constructed of PVC piping.

According to the District, compliance is met with all requirements of the Safe Drinking Water Act of the Environmental Protection Agency and they are planning accordingly for increased monitoring and reporting requirements of the Act.

Water Rates

Current Rates.

PSC Order 20075-00135, dated December 21, 2007 (the "Order"), provides that the District is authorized, effective January 11, 2008 or March 3, 2008 to adjust certain rates charged by the System to its customers in order to produce additional revenues.

Each customer pays a minimum charge by meter size in addition to the cost of water usage as set forth below:

Effective March 3, 2008

<u>Meter Size</u>	<u>Monthly Charge</u>	<u>Quarterly Charge</u>
5/8 inch	\$12.54	\$18.97
3/4 inch	12.96	19.99
1 inch	14.15	22.98
1 1/2 inch	15.93	27.08
2 inch	20.13	38.07
3 inch	48.61	118.45
4 inch	60.89	148.45
6 inch	90.16	219.44
8 inch	21.75	299.79
10 inch and larger	161.91	391.47

In addition to the minimum charge shown above, all of the System customers, other than City of Newport customers, pay a consumption charge based on the schedule of charges set forth below:

	<u>Monthly Block</u>	<u>Quarterly Block</u>	<u>Rate</u>
First	1,500 cubic feet	4,500 cubic feet	\$3.31 per 100 cubic feet
Next	163,500 cubic feet	490,500 cubic feet	2.88 per 100 cubic feet
Over	165,000 cubic feet	495,000 cubic feet	2.55 per 100 cubic feet
Wholesale	\$2.22 per 100 cubic feet or \$2.97 per 1000 gallons		

Certain customers pay a surcharge that has been approved by the Kentucky Public Service Commission as set forth below:

Effective January 11, 2008

Sub-district Charges

- Sub-district A shall be assessed a monthly surcharge in the amount of \$ 9.03
- Sub-district B shall be assessed a monthly surcharge in the amount of \$18.36
- Sub-district C shall be assessed a monthly surcharge in the amount of \$19.44
- Sub-district D shall be assessed a monthly surcharge in the amount of \$30.00
- Sub-district E shall be assessed a monthly surcharge in the amount of \$30.00
- Sub-district F shall be assessed a monthly surcharge in the amount of \$30.00
- Sub-district G shall be assessed a monthly surcharge in the amount of \$30.00
- Sub-district K shall be assessed a monthly surcharge in the amount of \$21.09
- Sub-district R shall be assessed a monthly surcharge in the amount of \$18.50
- Sub-district RF shall be assessed a monthly surcharge in the amount of \$25.47
- Sub-district RL shall be assessed a monthly surcharge in the amount of \$36.22

District Production, Usage and Sales Trends

	2003	2004	2005	2006	2007
Customers					
Residential	64,010	71,414	72,563	73,012	73,361
Commercial	4,667	4,611	4,509	4,394	4,392
Industrial	109	123	116	113	111
Other	2184	2318	2497	2506	2522
Total	70,970	78,466	79,685	80,025	80,386
Water Sales					
Residential	\$15,002,900	\$19,120,614	\$20,045,989	\$19,257,247	\$22,487,843
Commercial	5,052,794	4,656,279	5,445,797	5,411,685	6,124,182
Industrial	1,623,704	2,128,080	2,472,461	2,617,798	2,907,673
Other	5,488,057	5,026,947	5,265,031	5,213,263	5,890,547
Total	\$27,167,455	\$30,931,920	\$33,229,278	\$32,499,993	\$37,410,245
Avg Monthly Bill by Customer					
Residential	\$19.53	\$22.31	\$23.02	\$21.98	\$25.54
Commercial	90.22	84.15	100.65	102.63	116.20
Industrial	1,241.36	1,441.79	1,776.19	1,930.53	2,182.94
Other	209.40	180.72	175.71	173.36	194.64
Line Loss					
(as % of Production)	11.24%	11.29%	13.65%	11.82%	11.26%

Outstanding Indebtedness

The District currently has outstanding one twelve (12) series of bonds with debt payments extending past December 31, 2008. The outstanding bonds (the "Outstanding Bonds") are reported in the table below:

<u>Bond Series</u>	<u>Original Par Amount</u>	<u>Amount Outstanding</u>	<u>Interest Rate Range</u>	<u>Final Maturity</u>	<u>Call Information</u>
1997-REF	\$11,225,000	\$3,760,000	4.700 - 4.750%	2/1/2022	Feb 2008 @ 101%
1998	11,355,000	9,005,000	4.750 - 4.875%	2/1/2028	Feb 2008 @ 102%
2000 USDA	2,287,000	2,115,000	5.000%	5/1/2039	N/A
2001	16,325,000	14,750,000	4.000 - 5.000%	2/1/2026	Feb 2012 @ 100%
2002A-REF	45,485,000	43,270,000	4.500 - 5.000%	2/1/2027	Feb 2012 @ 100%
2002B-REF	10,575,000	7,360,000	3.500 - 4.250%	2/1/2017	Feb 2013 @ 100%
2003A-REF	1,615,000	1,440,000	2.600 - 4.600%	2/1/2032	Feb 2013 @ 100%
2003B	30,270,000	25,965,000	2.000 - 4.125%	2/1/2028	Aug 2013 @ 100%
2003C-REF	23,790,000	17,570,000	2.500 - 4.250%	2/1/2020	Feb 2014 @ 100%
2004	10,455,000	9,335,000	2.375 - 4.500%	2/1/2029	Aug 2014 @ 100%
2006	29,000,000	27,980,000	4.000 - 4.375%	2/1/2031	Aug 2016 @ 100%
2007 BANs	<u>27,165,000</u>	<u>27,165,000</u>	3.700%	4/1/2009	Mar 2008 @ 100%
Totals:	\$219,547,000	\$189,715,000	---	---	---

APPENDIX C

5

NORTHERN KENTUCKY WATER DISTRICT AUDITED FINANCIAL STATEMENTS

NORTHERN KENTUCKY WATER DISTRICT

December 31, 2007

***FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'
REPORT***

**NORTHERN KENTUCKY WATER DISTRICT
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Northern Kentucky Water District
Erlanger, Kentucky 41018

We have audited the accompanying statement of net assets of Northern Kentucky Water District as of December 31, 2007 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended, which collectively comprise the District's basic financial statements. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Kentucky Water District as of December 31, 2007, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 1 through 5 and budgetary comparison information on page 25 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules included as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material aspects in relation to the basic financial statements taken as a whole.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
March 19, 2008

**NORTHERN KENTUCKY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Our discussion and analysis of Northern Kentucky Water District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2007. 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 \$123,619,162 (net assets). This was an increase of \$9,435,452 in comparison to the prior year.
- Operating revenues increased \$4,968,479 or 15% from 2006.
- The debt coverage ratio increased from 1.34 in 2006 to 1.50 in 2007.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the District as prescribed by GASB No. 34. The District's basic financial statements include the statements of net assets, statements of revenues, expenses and changes in net assets and statements of cash flows and the notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

Basis of Accounting

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

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

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

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

**NORTHERN KENTUCKY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)**

Overview of Annual Financial Report

Table 1 provides a summary of the District's net assets for 2007 compared to 2006.

**Table 1
Net Assets**

	<u>2007</u>	<u>2006</u>
Current Assets	\$ 21,552,154	\$ 15,545,662
Restricted Assets	47,993,461	38,976,469
Noncurrent Assets	<u>259,702,469</u>	<u>241,800,923</u>
Total Assets	<u>329,248,084</u>	<u>296,323,054</u>
Current Liabilities	8,219,795	8,329,545
Liabilities Payable From Restricted Assets	5,969,127	3,706,799
Long-Term Liabilities (Net of Current Portion)	<u>191,440,000</u>	<u>170,103,000</u>
Total Liabilities	<u>205,628,922</u>	<u>182,139,344</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	53,078,761	56,091,252
Restricted	42,024,334	35,269,670
Unrestricted	<u>28,516,067</u>	<u>22,822,788</u>
Total Net Assets	<u>\$ 123,619,162</u>	<u>\$ 114,183,710</u>

The District's net assets for 2007 increased 8% to \$123,619,162 in 2007 compared to \$114,183,710 for 2006. The increase was mainly attributable to additional capital assets acquired from new construction and an increase in water sales. The largest portion of the District's net assets (43%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment); less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets (34%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The Unrestricted net assets (23%) may be used to meet the District's ongoing obligations to customers and creditors.

**NORTHERN KENTUCKY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)**

Table 2 shows the changes in net assets for 2007, as well as revenue and expense comparisons to 2006.

**Table 2
Changes in Net Assets**

	2007	2006
Operating Revenues		
Water Sales	\$ 37,410,245	\$ 32,499,994
Forfeited Discounts	784,386	713,273
Rents from Property	527,552	493,795
Other Water Revenue	366,560	413,202
Total Operating Revenues	39,088,743	34,120,264
Operating Expenses		
Operations, Maintenance and Administration Expenses	23,782,968	20,831,914
Depreciation	5,916,329	5,814,572
Total Operating Expenses	29,699,297	26,646,486
Net Operating Income	9,389,446	7,473,778
Non-Operating Income (Expenses)		
Investment Income	2,506,262	2,227,971
Miscellaneous Non-Operating Income	152,913	(368,821)
Interest on Long-Term Debt	(6,957,720)	(6,404,374)
Amortization of Bond Discount and Expense	(575,605)	(585,345)
Net Non-Operating Expenses	(4,874,150)	(5,130,569)
Income Before Capital Contributions	4,515,296	2,343,209
Capital Contributions	4,920,156	3,873,140
Change in Net Assets	9,435,452	6,216,349
Net Assets – January 1	114,183,710	107,967,361
Net Assets – December 31	\$ 123,619,162	\$ 114,183,710

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

In reviewing income before capital contributions, the financial statements showed net income for the year of \$4,515,296. Operating revenues increased 15% due to the weather conditions that provided for a more dry summer. Operating expenses increased by 11%. Capital contributions increased by \$1,047,016 (27%) primarily due to the increase in subdivision contributions.

**NORTHERN KENTUCKY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)**

Debt and Capital Asset Administration

Table 3 summarizes the District's outstanding debt at the end of 2007 as compared to 2006.

**Table 3
Outstanding Debt at Year End**

	December 31,	
	2007	2006
Bond Payable Obligations	\$ 168,128,000	\$ 173,145,000
Notes Payable	29,140,000	2,225,000
Totals	\$ 197,268,000	\$ 175,370,000

At year-end, the District had \$197,268,000 in outstanding notes and bonds compared to \$175,370,000 last year. That is an increase of 12% as shown in Table 3. The District added new debt during the current year for various capital improvement projects.

Capital Assets

At December 31, 2007, the capital assets reported were \$250,346,761 including land, buildings, water systems, equipment, and vehicles. This represents a net increase of \$18,885,509, or 8%, over last year due to the District's investment in distribution and treatment projects, vehicles and equipment during the fiscal year.

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

	December 31,	
	2007	2006
Not Being Depreciated		
Land	\$ 2,868,437	\$ 2,908,416
Construction in Progress	30,336,979	11,907,816
Plant Acquisition Adjustment	5,516,136	5,516,136
Other Capital Assets		
Utility Plants		
Transmission and Distribution System Plant and Equipment	174,386,541	169,494,628
Source of Supply and Pumping System Plant and Equipment	30,910,972	30,844,733
Water Treatment Plant and Equipment	46,433,467	46,336,835
General Plant and Equipment	22,942,221	22,698,159
Subtotal	313,394,753	289,706,723
Less Accumulated Depreciation	63,047,992	58,245,471
Totals	\$ 250,346,761	\$ 231,461,252

**NORTHERN KENTUCKY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
(Continued)**

Economic Factors and Next Year's Budget

The Water District's budget for 2008 calls for an increase in estimated water revenues based on the rate increase of approximately 18% that will go into effect in the first quarter of 2008. The operating expenses reflect a general increase in items such as chemicals, electricity, fuel, wages, and materials.

Contacting the District's Financial Management

This 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
STATEMENT OF NET ASSETS**

ASSETS

	December 31,	
	2007	2006
Current Assets		
Cash and Cash Equivalents	\$ 10,205,218	\$ 5,326,214
Accounts Receivable		
Customers	5,469,998	4,170,658
Unbilled Customers	4,200,000	4,200,000
Others	62,585	65,519
Assessments Receivable	77,906	73,008
Inventory Supplies for New Installation and Maintenance, at Cost	1,289,824	1,245,380
Prepaid Items	246,623	464,883
Total Current Assets	21,552,154	15,545,662
Restricted Assets		
Boone Florence Settlement	2,771,076	3,023,965
Bond Proceeds Fund	19,167,438	13,149,342
Debt Service Reserve Account	14,173,637	13,157,181
Debt Service Account	8,549,511	7,713,194
Improvement, Repair & Replacement	3,331,799	1,932,787
Total Restricted Assets	47,993,461	38,976,469
Noncurrent Assets		
Miscellaneous Deferred Charges	9,355,708	10,339,671
Capital Assets:		
Land, System, Buildings and Equipment	283,057,774	277,798,907
Construction in Progress	30,336,979	11,907,816
Total Capital Assets	313,394,753	289,706,723
Less Accumulated Depreciation	63,047,992	58,245,471
Total Capital Assets, Net of Accumulated Depreciation	250,346,761	231,461,252
Total NonCurrent Assets	259,702,469	241,800,923
Total Assets	\$ 329,248,084	\$ 296,323,054

See Accountant's Report

LIABILITIES

	December 31,	
	2007	2006
Current Liabilities		
Bonded Indebtedness	\$ 5,578,000	\$ 5,017,000
Notes Payable	250,000	250,000
Accounts Payable	1,821,042	2,535,094
Accrued Payroll and Taxes	364,749	339,778
Other Accrued Liabilities	206,004	187,673
Total Current Liabilities	8,219,795	8,329,545
Liabilities Payable-Restricted Assets		
Accounts Payable	2,717,818	762,498
Accrued Interest Payable	3,251,309	2,944,301
Total Liabilities Payable From Restricted Assets	5,969,127	3,706,799
Long-Term Liabilities		
Bond Indebtedness	162,550,000	168,128,000
Notes Payable	28,890,000	1,975,000
Total Long-Term Liabilities	191,440,000	170,103,000
Total Liabilities	205,628,922	182,139,344
Net Assets		
Invested in Capital Assets, Net of Related Debt	53,078,761	56,091,252
Restricted, Net of Related Debt	42,024,334	35,269,670
Unrestricted	28,516,067	22,822,788
Total Net Assets	123,619,162	114,183,710
Total Liabilities and Net Assets	\$ 329,248,084	\$ 296,323,054

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

	Years Ended December 31,	
	2007	2006
Operating Revenues		
Water Sales	\$ 37,410,245	\$ 32,499,994
Forfeited Discounts	784,386	713,273
Rents From Property	527,552	493,795
Other Water Revenues	366,560	413,202
	<u>39,088,743</u>	<u>34,120,264</u>
Operating Expenses		
Operating and Maintenance Expense	23,782,968	20,831,914
Depreciation Expense	5,916,329	5,814,572
	<u>29,699,297</u>	<u>26,646,486</u>
Total Operating Expenses		
	<u>29,699,297</u>	<u>26,646,486</u>
Net Operating Income	<u>9,389,446</u>	<u>7,473,778</u>
Other Income (Expense)		
Investment Income	2,506,262	2,227,971
Miscellaneous Non-Operating Income (Expense)	152,913	(388,821)
Interest on Long-Term Debt	(6,957,720)	(6,404,374)
Amortization of Debt Discount and Expense	(575,605)	(585,345)
	<u>(4,874,150)</u>	<u>(5,130,569)</u>
Total Non-Operating Expenses		
	<u>(4,874,150)</u>	<u>(5,130,569)</u>
Change in Net Assets Before Capital Contributions	4,515,296	2,343,209
Capital Contributions	<u>4,920,156</u>	<u>3,873,140</u>
Change in Net Assets	9,435,452	6,216,349
Net Assets - Beginning of Year	<u>114,183,710</u>	<u>107,967,361</u>
Net Assets - End of Year	<u>\$ 123,619,162</u>	<u>\$ 114,183,710</u>

See Accountant's Report

**NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2007	2006
Cash Flows From Operating Activities		
Received from Customers	\$ 37,787,439	\$ 34,489,029
Paid to Suppliers for Goods and Services	(12,553,495)	(9,986,135)
Paid to or on Behalf of Employees for Services	<u>(11,726,407)</u>	<u>(10,576,129)</u>
Net Cash Provided by Operating Activities	<u>13,507,537</u>	<u>13,926,765</u>
Cash Flows From Investing Activities		
Investment Income	<u>2,506,262</u>	<u>2,227,971</u>
Cash Flows From Capital and Related Financing Activities		
Principal Paid on Capital Debt	(5,267,000)	(4,806,000)
Debt Proceeds	27,165,000	7,415,000
Interest Paid on Bonds and Notes, Net of Capitalized Interest	(6,650,712)	(6,197,170)
Change in Deferred Assets, Other Than Amortization	471,783	(712,543)
Bond Discount	(2,445)	(174,856)
Bond Issuance Costs	(60,980)	(216,000)
Acquisition and Construction of Fixed Assets	(20,415,417)	(15,006,109)
Proceeds from Sale of Fixed Assets	547,902	-
Decrease (Increase) in Restricted Funds		
Boone Florence Settlement	252,889	320,657
Bond Proceeds Fund	(6,018,096)	4,092,705
Debt Service Reserve and Debt Service Account	(1,852,773)	(1,849,870)
Improvement, Repair and Replacement Fund	(1,399,012)	1,141,315
Payment of Restricted Liabilities	1,955,320	(2,085,556)
Miscellaneous Non-Operating Income	<u>138,746</u>	<u>159,201</u>
Net Cash Used by Capital Financing Activities	<u>(11,134,795)</u>	<u>(17,919,226)</u>
Net Change in Cash	4,879,004	(1,764,490)
Cash and Cash Equivalents Beginning of Year	<u>5,326,214</u>	<u>7,090,704</u>
Cash and Cash Equivalents End of Year	<u>\$ 10,205,218</u>	<u>\$ 5,326,214</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Net Operating Income	\$ 9,389,446	\$ 7,473,778
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Depreciation	5,916,329	5,814,572
Change in Assets and Liabilities		
Accounts Receivable	(1,296,406)	404,006
Assessments Receivable	(4,898)	(35,241)
Inventory Supplies	(44,444)	(94,405)
Prepaid Expenses	218,280	(234,834)
Accounts Payable	(714,052)	507,262
Accrued Payroll and Taxes	24,971	65,911
Other Accrued Liabilities	<u>18,331</u>	<u>25,716</u>
Net Cash Provided by Operating Activities	<u>\$ 13,507,537</u>	<u>\$ 13,926,765</u>

See Accountant's Report

NORTHERN KENTUCKY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – REPORTING 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 full 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.

The District has adopted GASB Statements 33 through 38, and related interpretations issued through December 31, 2007. Statement No. 33 required capital contributions to be recorded in the statement of revenues, expenses and changes in net assets. Statement 34 and subsequent statements and interpretations required certain other changes in terminology, format and content, as well as inclusion of the management's discussion and analysis as required supplementary information.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Structure

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

1. General Revenue Account
2. Operation and Maintenance Account
3. Boone Florence Settlement
4. Bond Proceeds Fund
5. Debt Service Reserve Account
6. Debt Service Account
7. Improvement, Repair and Replacement Account
8. Plant Account

General Revenue Fund

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.

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:

	<u>2007</u>	<u>2006</u>
Cash and Cash Equivalents	\$ 1,630,909	\$ 667,611
FNMA and FHLMC	<u>1,140,167</u>	<u>2,356,354</u>
Total	<u>\$ 2,771,076</u>	<u>\$ 3,023,965</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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Service Reserve Account

This 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:

	2007	2006
Cash and Cash Equivalents	\$ 6,713,881	\$ 4,715,078
FNMA, FHLMC, and FHLBD	7,201,199	8,169,182
Accrued interest Receivable	258,557	272,921
Total	\$ 14,173,637	\$ 13,157,181

Maximum annual debt service is \$12,643,121.

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:

Cash and Cash Equivalents	\$ 8,549,511	\$ 7,713,194
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Improvement, Repair and Replacement Account

The Improvement, Repair and Replacement Account is 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:

Cash	\$ 3,331,799	\$ 1,932,787
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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.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures 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 issues by public housing authorities annual contribution contracts with the United States or by requisition or payment agreement with the United States.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Policy

General Policy

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

Authorized Investment Instruments

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

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, 2007, 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 custodial credit risk at December 31, 2007 of \$13,769,853. The related securities totaling this amount are uninsured, unregistered and held by bank trust departments.

Credit Risk – Investments. The District's investments are subject to minimal credit risk because they are invested in Federal Agency securities which are generally considered free of default risk due to the perceived stability of the U.S. Government.

Supplemental Disclosure of Cash Flow Information

<u>Cash Paid For</u> <u>Interest During the Year</u>	<u>2007</u>	<u>2006</u>
Expensed	\$ 6,957,720	\$ 6,404,374
Capitalized	<u>994,511</u>	<u>308,259</u>
Total	<u>\$ 7,952,231</u>	<u>\$ 6,712,633</u>

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	2007	2006
Refunding of Series 2005 Bond Anticipation Notes	\$ <u> -</u>	\$ <u>17,980,000</u>
Refunding of Series 2004 Bond Anticipation Notes	\$ <u> -</u>	\$ <u> 3,605,000</u>

Accounts Receivable-Customers

The District follows a quarterly cycle billing procedure with approximately one-third of the meter readings billed each month. When meter readings are delayed, bills are rendered based on estimated meter readings 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.

The District has estimated no allowance for doubtful accounts at December 31, 2007 and 2006 because management 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.

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

Utility Plant

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 2007, interest in the amount of \$994,511 has been capitalized. The cost of current repairs and maintenance is charged to expense, while the cost of replacements or betterments is capitalized.

NORTHERN KENTUCKY WATER DISTRICT

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 100 Years
Pumping Equipment	20 to 35 Years
Vehicles and Other Equipment	4 to 10 Years

The changes in utility plant in service are as follows:

	<u>December 31</u> <u>2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31</u> <u>2007</u>
Land and Land Rights	\$ 2,908,416	\$ 7,231	\$ 47,210	\$ 2,868,437
Structures and Improvements	72,983,511	383,008	687,268	72,679,251
Lake River and Other Intakes	1,463,171	-	-	1,463,171
Supply Mains	2,563,634	258,077	-	2,821,711
Pumping Equipment	9,514,956	65,238	12,806	9,567,388
Water Treatment Equipment	10,205,495	126,998	45,872	10,286,621
Distribution Reservoirs and Standpipes	7,500,741	-	-	7,500,741
Transmissions and Distribution Mains	120,833,261	4,283,473	592,984	124,523,750
Services	21,065,354	953,400	-	22,018,754
Meters and Meter Installations	7,512,455	378,809	153,450	7,737,814
Hydrants	5,311,575	223,440	6,000	5,529,015
Other Plant and				
Miscellaneous Equipment	3,394,887	-	53,997	3,340,890
Office Furniture and Equipment	2,232,075	186,832	23,648	2,395,259
Transportation Equipment	2,681,573	230,948	250,941	2,661,578
Tools, Shop and				
Garage Equipment	394,460	22,085	5,704	410,841
Laboratory Equipment	66,086	-	-	66,086
Power Operated Equipment	760,725	25,724	-	786,449
Other Tangible Plant	890,396	4,385	10,899	883,882
Construction in Progress	11,907,816	21,590,670	3,161,507	30,336,979
Cost of Utility Plant Excess of Book Value-Newport	4,970,211	-	-	4,970,211
Cost of Utility Plant Excess of Book Value	<u>545,925</u>	<u>-</u>	<u>-</u>	<u>545,925</u>
Total	289,706,723	\$ <u>28,740,316</u>	\$ <u>5,052,286</u>	313,394,753
Less Accumulated Depreciation	<u>(58,245,471)</u>			<u>(63,047,992)</u>
Net Utility Plant in Service	\$ <u>231,461,252</u>			\$ <u>250,346,761</u>

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Contributions

These contributions represent assessments/reimbursements to recover the costs of new services and extensions of the distribution system. The District does not include the amount of costs incurred and contributed by outside contractors for installation of distribution systems which the District absorbs and provides for their operations and maintenance.

Restricted Net Assets

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

Included in restricted net assets at December 31,

	2007	2006
Boone Florence Settlement	\$ 2,771,076	\$ 3,023,965
Bond Proceeds Fund	19,167,438	13,149,342
Debt Service Reserve Account	14,173,637	13,157,181
Debt Service Account	8,549,511	7,713,194
Improvement, Repair & Replacement	3,331,799	1,932,787
Total Restricted Assets	47,993,461	38,976,469
Less: Restricted Liabilities	5,969,127	3,706,799
Total Restricted Net Assets	\$ 42,024,334	\$ 35,269,670

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts Receivable Arising		
From Billings of Metered Water Sales	\$ 5,469,998	\$ 4,170,658
Accrual for Estimated Unbilled		
Water Revenue	4,200,000	4,200,000
Other	62,585	65,519
Total Net Accounts Receivable	\$ 9,732,583	\$ 8,436,177

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.

NOTE 4 – BONDED INDEBTEDNESS (Continued)

Water District Refunding Revenue Bonds, Series 1997

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

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

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2008	4.75%	\$ 890,000	\$ 199,737	\$ 1,089,737
2009	4.75%	930,000	156,512	1,086,512
2010	4.75%	975,000	111,269	1,086,269
2011	4.75%	1,025,000	63,769	1,088,769
2012	4.75%	60,000	38,000	98,000
2013-2017	4.75%	340,000	144,162	484,162
2018-2022	4.75%	<u>430,000</u>	<u>52,962</u>	<u>482,962</u>
Totals		\$ <u>4,650,000</u>	\$ <u>766,411</u>	\$ <u>5,416,411</u>

Water District Revenue Bonds, Series 1998

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

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2008	4.75%	\$ 280,000	\$ 443,786	\$ 723,786
2009	4.75%	280,000	430,486	710,486
2010	4.75%	295,000	416,830	711,830
2011	4.75%	310,000	402,461	712,461
2012	4.75%	325,000	387,380	712,380
2013-2017	4.80-4.875%	1,885,000	1,679,053	3,564,053
2018-2022	4.875-5.05%	2,405,000	1,159,153	3,564,153
2023-2027	5.05%	3,070,000	494,813	3,564,813
2028	5.08%	<u>435,000</u>	<u>10,603</u>	<u>445,603</u>
Totals		\$ <u>9,285,000</u>	\$ <u>5,424,565</u>	\$ <u>14,709,565</u>

NOTE 4 – BONDED INDEBTEDNESS (Continued)

Water District Revenue Bonds, Series 2001

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

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2008	3.88%	\$ 170,000	\$ 710,400	\$ 880,400
2009	4.00%	155,000	703,745	858,745
2010	4.20%	75,000	698,878	773,878
2011	4.30%	80,000	695,545	775,545
2012	4.30-4.50%	80,000	692,105	772,105
2013-2017	4.50-4.75%	4,050,000	3,021,822	7,071,822
2018-2022	4.75-5.00%	5,155,000	1,947,350	7,102,350
2023-2026	5.00%	<u>5,155,000</u>	<u>532,125</u>	<u>5,687,125</u>
Totals		\$ <u>14,920,000</u>	\$ <u>9,001,970</u>	\$ <u>23,921,970</u>

Rural Development Loan

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

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

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2008	\$ 28,000	\$ 106,450	\$ 134,450
2009	30,000	105,000	135,000
2010	31,000	103,475	134,475
2011	33,000	101,875	134,875
2012	34,000	100,200	134,200
2013-2017	200,000	472,750	672,750
2018-2022	256,000	416,000	672,000
2023-2027	326,000	343,600	669,600
2028-2032	416,000	251,350	667,350
2033-2037	535,000	133,075	668,075
2038-2039	<u>254,000</u>	<u>12,850</u>	<u>266,850</u>
Totals	\$ <u>2,143,000</u>	\$ <u>2,146,625</u>	\$ <u>4,289,625</u>

NOTE 4 – BONDED INDEBTEDNESS (Continued)

Water District Refunding and Revenue Bonds, Series 2002 A

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

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2008	4.50%	\$ 410,000	\$ 2,125,465	\$ 2,535,465
2009	4.50%	365,000	2,108,028	2,473,028
2010	4.50%	465,000	2,089,353	2,554,353
2011	4.50%	485,000	2,067,978	2,552,978
2012	4.50-4.65%	1,530,000	2,022,640	3,552,640
2013-2017	4.75-5.00%	5,700,000	9,355,488	15,055,488
2018-2022	5.00%	14,885,000	6,926,075	21,811,075
2023-2027	5.00%	<u>19,840,000</u>	<u>2,579,250</u>	<u>22,419,250</u>
Totals		\$ <u>43,680,000</u>	\$ <u>29,274,277</u>	\$ <u>72,954,277</u>

Water District Revenue Bonds, Series 2002 B

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

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2008	3.00%	\$ 625,000	\$ 302,219	\$ 927,219
2009	3.00%	745,000	278,244	1,023,244
2010	3.50%	775,000	250,675	1,025,675
2011	3.75%	805,000	220,044	1,025,044
2012	4.00%	835,000	187,244	1,022,244
2013-2017	4.00-4.25%	<u>4,200,000</u>	<u>406,041</u>	<u>4,606,041</u>
Totals		\$ <u>7,985,000</u>	\$ <u>1,644,467</u>	\$ <u>9,629,467</u>

NOTE 4 – BONDED INDEBTEDNESS (Continued)

Water District Refunding Revenue Bonds, Series 2003A

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

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2008	2.20%	\$ 35,000	\$ 63,000	\$ 98,000
2009	2.60%	40,000	61,945	101,945
2010	3.00%	40,000	60,685	100,685
2011	3.30%	40,000	59,315	99,315
2012	3.55%	40,000	57,865	97,865
2013-2017	3.55-4.05%	235,000	262,876	497,876
2018-2022	4.15-4.50%	295,000	205,900	500,900
2023-2027	4.50-4.55%	385,000	131,661	496,661
2028-2032	4.55-4.60%	385,000	39,675	424,675
Totals		\$ 1,475,000	\$ 942,922	\$ 2,417,922

Water District Revenue Bonds, Series 2003B

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

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2008	2.00%	\$ 895,000	\$ 986,950	\$ 1,881,950
2009	2.25%	915,000	967,706	1,882,706
2010	2.75%	940,000	944,488	1,884,488
2011	3.00%	965,000	917,088	1,882,088
2012	3.125%	995,000	887,066	1,882,066
2013-2017	3.125-4.00%	5,495,000	3,924,756	9,419,756
2018-2022	4.00-4.125%	6,645,000	2,768,741	9,413,741
2023-2027	4.125%	8,165,000	1,250,391	9,415,391
2028	4.125%	1,845,000	38,053	1,883,053
Totals		\$ 26,860,000	\$ 12,685,239	\$ 39,545,239

NOTE 4 – BONDED INDEBTEDNESS (Continued)

Water District Refunding Revenue Bonds, Series 2003C

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

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2008	2.50%	\$ 1,235,000	\$ 669,969	\$ 1,904,969
2009	2.75%	1,270,000	637,069	1,907,069
2010	3.00%	1,305,000	600,031	1,905,031
2011	3.25%	1,350,000	558,519	1,908,519
2012	3.50%	1,395,000	512,169	1,907,169
2013-2017	3.50-4.00%	7,830,000	1,712,694	9,542,694
2018-2020	4.00-4.25%	<u>4,420,000</u>	<u>258,172</u>	<u>4,678,172</u>
Totals		<u>\$ 18,805,000</u>	<u>\$ 4,948,623</u>	<u>\$ 23,753,623</u>

Water District Bond Anticipation Notes, Series 2004

In April 2004, The Northern Kentucky Water District sold \$3,605,000 of Bond Anticipation Notes for the purpose of purchasing a central facility for the District. The Bond Anticipation Notes were paid in full with the proceeds from the Water District Revenue Bond, Series 2006.

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%.

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2008	2.375%	\$ 290,000	\$ 387,831	\$ 677,831
2009	2.625%	295,000	380,316	675,316
2010	3.00%	305,000	371,869	676,869
2011	3.00%	315,000	362,569	677,569
2012	3.25%	325,000	352,562	677,562
2013-2017	3.75-4.00%	1,805,000	1,576,966	3,381,966
2018-2022	4.30%	2,215,000	1,170,637	3,385,637
2023-2027	4.30-4.60%	2,775,000	615,937	3,390,937
2028-2029	4.60-4.72%	<u>1,300,000</u>	<u>59,175</u>	<u>1,359,175</u>
Totals		<u>\$ 9,625,000</u>	<u>\$ 5,277,662</u>	<u>\$ 14,902,662</u>

NOTE 4 – BONDED INDEBTEDNESS (Continued)

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:

<u>Year</u>	<u>Principal Amount</u>
2008	\$ 250,000
2009	175,000
2010	175,000
2011	175,000
2012	175,000
2013-2017	875,000
2018	<u>50,000</u>
Total	<u>\$ 1,875,000</u>

Water District Bond Anticipation Notes, Series 2005

In May 2005, the Northern Kentucky Water District sold \$17,980,000 of Bond Anticipation Notes for the purpose of renovating the new central facility for the District and to pay part of the costs of the 2005 construction program. The Bond Anticipation Notes were paid in full with proceeds from the Water District Revenue Bond, Series 2006

Water District Revenue Bonds, Series 2006

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

The Water District Refunding Revenue Bonds, Series 2006, are scheduled to mature as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2008	4.00%	\$ 720,000	\$ 1,173,488	\$ 1,893,488
2009	4.00%	750,000	1,144,088	1,894,088
2010	4.00%	775,000	1,113,588	1,888,588
2011	4.00%	805,000	1,081,988	1,886,988
2012	4.00%	835,000	1,049,188	1,884,188
2013-2017	4.00%	4,710,000	4,706,640	9,416,640
2018-2022	4.00-4.125%	5,760,000	3,667,871	9,427,871
2023-2027	4.125-4.32%	7,310,000	2,304,902	9,614,902
2028-2031	4.32-4.42%	<u>7,035,000</u>	<u>628,705</u>	<u>7,663,705</u>
Totals		<u>\$ 28,700,000</u>	<u>\$ 16,870,458</u>	<u>\$ 45,570,458</u>

Water District Bond Anticipation Notes, Series 2007

In April, 2007, the Northern Kentucky Water District Sold \$27,165,000 of Bond Anticipation Notes for the purpose of paying part of the cost of constructing various projects to the District's water system.

NORTHERN KENTUCKY WATER DISTRICT

NOTE 4 – BONDED INDEBTEDNESS (Continued)

The Water District Bond Anticipation Notes, Series 2007, are scheduled to mature as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2008	3.70%	\$ -	\$ 502,552	\$ 502,552
2009	3.70%	<u>27,165,000</u>	<u>1,005,105</u>	<u>28,170,105</u>
Totals		<u>\$ 27,165,000</u>	<u>\$ 1,507,657</u>	<u>\$ 28,672,657</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.

		<u>Year Ended December 31, 2007</u>
Net Annual Income and Revenues as Defined by Resolution Including Service Applications		\$ 18,943,802
Maximum Annual Debt Service	\$ 12,643,121	
Factor	<u> x 1.2</u>	
Minimum Net Annual Income and Revenues		<u>15,171,745</u>
Surplus of Net Annual Income and Revenues Over Maximum Annual Debt Service		<u>\$ 3,772,057</u>
Actual Debt Service Coverage		<u>1.50</u>

Changes in long-term debt are as follows:

	<u>December 31, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2007</u>
Bond Indebtedness				
Series 1997	\$ 5,500,000	\$ -	\$ 850,000	\$ 4,650,000
Series 1998	9,550,000	-	265,000	9,285,000
Series 2001	15,120,000	-	200,000	14,920,000
Series 2002A	44,060,000	-	380,000	43,680,000
Series 2002B	8,585,000	-	580,000	7,985,000
Series 2003A	1,510,000	-	35,000	1,475,000
Series 2003B	27,740,000	-	880,000	26,860,000
Series 2003C	20,020,000	-	1,215,000	18,805,000
Series 2004	9,910,000	-	285,000	9,625,000
Series 2006	<u>29,000,000</u>	<u>-</u>	<u>300,000</u>	<u>28,700,000</u>
Total Bond Indebtedness	<u>170,975,000</u>	<u>-</u>	<u>4,990,000</u>	<u>165,985,000</u>
Taylor Mill Purchase Note	2,125,000	-	250,000	1,875,000
Bond Anticipation Notes	-	27,165,000	-	27,165,000
Rural Development Loan	2,170,000	-	27,000	2,143,000
Deferred Note Payable	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
Total Long-Term Debt	175,370,000	<u>\$ 27,165,000</u>	<u>\$ 5,267,000</u>	197,268,000
Less Current Portion	<u>(5,267,000)</u>			<u>(5,267,000)</u>
Total Long-Term Debt Less Current Portion	<u>\$ 170,103,000</u>			<u>\$ 191,440,000</u>

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

Non-hazardous Contributions – For the year ended December 31, 2007, plan members were required to contribute 5% 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 preceding 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, 2007, participating employers contributed 13.19%/16.17% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended December 31, 2007 was 13.19% through June 30, 2007 and 16.17% after June 30, 2007 of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

<u>Year</u>	<u>Contribution</u>	<u>Contributed</u>
2007	\$ 1,213,687	100%
2006	1,016,893	100%
2005	729,289	100%

NOTE 6 – OPERATING LEASES

The District is obligated under certain non-cancelable leases for equipment. The leases expire at various dates through May, 2011. Lease expense for the years ended December 31, 2007 and 2006 were \$13,771 and \$6,057, respectively.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2007 are:

<u>Years Ending December 31,</u>	
2008	\$ 13,771
2009	13,771
2010	12,730
2011	<u>2,508</u>
Total	<u>\$ 42,780</u>

NOTE 7 – ECONOMIC DEPENDENCY

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

NOTE 8 – 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 9 – SUBSEQUENT EVENTS

There will be an approved rate increase of 17.93% during 2008.

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REQUIRED SUPPLEMENTAL INFORMATION

**NORTHERN KENTUCKY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BUDGET TO ACTUAL
YEAR ENDED DECEMBER 31, 2007**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues			
Water Sales	\$ 33,749,076	\$ 37,410,245	\$ 3,661,169
Forfeited Discounts	678,306	784,386	106,080
Rents From Property	438,000	527,552	89,552
Other Water Revenues	400,852	366,560	(34,292)
	<u>35,266,234</u>	<u>39,088,743</u>	<u>3,822,509</u>
Operating Expenses			
Operation, Maintenance and Administration	21,909,464	23,782,968	(1,873,504)
Depreciation	-	5,916,329	(5,916,329)
	<u>21,909,464</u>	<u>29,699,297</u>	<u>(7,789,833)</u>
Total Operating Expenses			
	<u>21,909,464</u>	<u>29,699,297</u>	<u>(7,789,833)</u>
Net Operating Income	<u>13,356,770</u>	<u>9,389,446</u>	<u>(3,967,324)</u>
Nonoperating Income (Expense)			
Investment Income	1,931,467	2,506,262	574,795
Miscellaneous Non-Operating Income	101,871	152,913	51,242
Interest on Long-Term Debt	(7,545,241)	(6,957,720)	587,521
Amortization of Bond Discount and Expense	-	(575,605)	(575,605)
	<u>(5,512,103)</u>	<u>(4,874,150)</u>	<u>637,953</u>
Total Non-Operating Expense			
	<u>(5,512,103)</u>	<u>(4,874,150)</u>	<u>637,953</u>
Change in Net Assets Before Capital Contributions	7,844,667	4,515,296	(3,329,371)
Capital Contributions	-	4,920,156	4,920,156
Change in Net Assets	<u>\$ 7,844,667</u>	<u>\$ 9,435,452</u>	<u>\$ 1,590,785</u>

SUPPLEMENTAL INFORMATION

**NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF WATER OPERATING REVENUE**

	<u>Years Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Operating Revenues		
Metered Sales		
Sales to Residential Customers	\$ 22,487,843	\$ 19,257,248
Sales to Commercial Customers	6,124,182	5,411,685
Sales to Industrial Customers	2,907,673	2,617,798
Sales to Public Authorities	2,042,905	1,672,443
Sales to Multiple Family Dwellings	2,756,075	2,569,332
Sales Through Bulk Loading Stations	<u>19,693</u>	<u>6,954</u>
Total Metered Sales	38,338,371	31,535,460
Fire Protection Revenue	48,646	42,637
Sales For Resale	<u>1,023,228</u>	<u>921,897</u>
Total Sales of Water	37,410,245	32,499,994
Other Water Revenue	<u>1,678,498</u>	<u>1,620,270</u>
Total Operating Revenues	\$ <u>39,088,743</u>	\$ <u>34,120,264</u>

**NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF COMBINED OPERATION AND MAINTENANCE EXPENSES**

	Years Ended December 31,	
	2007	2006
Operation and Maintenance Expenses		
Salaries and Wages	\$ 8,370,624	\$ 7,749,010
Employee Pensions and Benefits	3,380,754	2,893,030
Taxes Other Than Income Taxes	612,350	547,521
Purchased Power	2,486,661	1,855,412
Chemicals	1,337,800	1,137,422
Materials and Supplies	2,157,450	1,805,740
Contractual Services	3,361,147	2,907,693
Rents	-	2,506
Transportation Expenses	584,890	446,229
Insurance	627,216	590,047
Bad Debt Expense	488,885	509,700
Miscellaneous Expense	230,382	196,662
Regulatory Commission Assessment	184,809	190,942
	<u>23,782,968</u>	<u>20,831,914</u>
Total Operation and Maintenance Expenses	\$ 23,782,968	\$ 20,831,914

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF INSURANCE COVERAGES
DECEMBER 31, 2007**

<u>Company</u>	<u>Policy Number</u>	<u>Description of Coverage</u>	<u>Amount of Coverage</u>	<u>Effective Period</u>	
				<u>From</u>	<u>To</u>
St. Paul Mercury Insurance Company	GP09313655	General Liability	\$ 1,000,000	1/1/2007	12/31/2007
	GP09313655	GL Umbrella	19,000,000		
	GP09313655	Public Officials	20,000,000		
	GP09313655	Automobile Liability	20,000,000		
	GP09313655	Property	128,556,890		
	GP09313655	Boiler Machinery	128,556,890		
		Bonds	Per Application		
	GP09313655	Crime	500,000		
Kentucky Employers Mutual Insurance	338786	Worker's Compensation	1,000,000	7/1/2007	6/30/2008
Cincinnati Insurance		Fidelity Bond	Per Application		
Westchester Surplus Lines Insurance Company	G23800585001	Pollution	10,000,000	12/18/2008	1/1/2010

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF DEPOSITORY COLLATERAL SECURITY
YEAR ENDED DECEMBER 31, 2007**

	<u>Maturity</u>	<u>Book Value</u>	<u>Market Value</u>
FANNIE MAE	9/1/2017	\$ 228,005	\$ 230,484
FANNIE MAE	3/1/2020	208,284	209,995
FANNIE MAE	9/1/2017	982,864	993,552
FNMA	11/1/2017	5,028,151	5,014,078
FNMA	1/1/2017	3,450,190	3,490,850
FREDDIE MAC	7/15/2015	8,431,168	8,358,821
FNMA	11/1/2017	448,431	447,176
FANNIE MAE	3/1/2020	238,623	240,584
FNMA	4/1/1936	2,528,744	2,518,688
FANNIE MAE	3/1/2020	79,336	79,988
FNMA	2/1/1936	29,124	29,509
FNMA	2/1/1936	46,084	46,693
FANNIE MAE	3/1/2020	84,751	85,447
FANNIE MAE	3/1/2020	83,796	84,485
FNMA	4/1/1936	913,946	910,311
FNMA	3/1/2020	1,211,242	1,221,267
FANNIE MAE	3/1/2020	152,258	153,509
FNMA	2/1/1936	40,978	41,519
FANNIE MAE	9/1/2017	484,953	490,226
FNMA	1/1/2017	3,794,079	3,838,792
FHLMC	9/15/1935	1,330,164	1,311,610
FHLMC	9/15/1935	1,048,291	1,033,669
FNMA	1/1/2017	3,297,660	3,336,523
FNMA	10/1/1937	876,245	887,746
FREDDIE MAC	7/15/2015	<u>12,205,189</u>	<u>12,100,457</u>
Total		<u>\$ 47,222,556</u>	<u>\$ 47,155,979</u>

In addition to the \$47,155,979 collateral securities, the Federal Deposit Insurance Corporation provides total coverage of \$111,807, a maximum of \$100,000 each for interest-bearing and non-interest-bearing accounts (limited to \$11,807 in non-interest bearing accounts held by the District).

**NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF RATES, RULES AND REGULATIONS
DECEMBER 31, 2007**

RETAIL WATER RATES

1. Monthly Service Rate

First	1,500 Cubic Feet	\$2.81 per 100 Cubic Feet
Next	163,500 Cubic Feet	\$2.43 per 100 Cubic Feet
Over	165,000 Cubic Feet	\$2.16 per 100 Cubic Feet

Sub District A shall be assessed a monthly surcharge in the amount of \$9.84
 Sub District B shall be assessed a monthly surcharge in the amount of \$19.46
 Sub District C shall be assessed a monthly surcharge in the amount of \$20.33
 Sub District D shall be assessed a monthly surcharge in the amount of \$30.00
 Sub District R shall be assessed a monthly surcharge in the amount of \$18.89
 Sub District RL shall be assessed a monthly surcharge in the amount of \$37.50
 Sub District E shall be assessed a monthly surcharge in the amount of \$30.00

Bromley Crescent Springs/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 1,000 ft.)

Sub District RF shall be assessed a monthly surcharge in the amount of \$25.47

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

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

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

2. Quarterly Rates

First	4,500 Cubic Feet	\$2.81 per 100 Cubic Feet
Next	490,500 Cubic Feet	\$2.43 per 100 Cubic Feet
Next	495,000 Cubic Feet	\$2.16 per 100 Cubic Feet

3. Fixed Service Charge

<u>Meter Size</u>	<u>Monthly</u>	<u>Quarterly</u>
5/8"	\$ 10.63	\$ 16.09
3/5"	10.99	16.95
1"	12.00	19.49
1½"	13.51	22.96
2"	17.07	32.28
3"	41.22	100.44
4"	51.63	126.09
6"	76.45	186.08
8"	103.24	254.22
10" and Larger	137.30	331.96

**NORTHERN KENTUCKY WATER DISTRICT
RATES, RULES AND REGULATIONS
DECEMBER 31, 2007
(CONTINUED)**

WHOLESALE WATER RATES

Bullock Pen Water District	\$1.89 per 1,000 Gallons (or) \$2.52 per 100 Cubic Feet
City of Walton	\$1.89 per 1,000 Gallons (or) \$2.52 per 100 Cubic Feet
Pendleton County	\$1.89 per 1,000 Gallons (or) \$2.52 per 100 Cubic Feet

MISCELLANEOUS SERVICE FEES

Service Area Non-Recurring Charges

Returned Check Charge	\$20.00
Water Hauling Station	\$ 3.50 per 1,000 Gallons
Reconnection Fee	\$25.00
Overtime Charge	\$40.00

**NORTHERN KENTUCKY WATER DISTRICT
MEMBERS OF THE COMMISSION AND ADMINISTRATIVE STAFF
DECEMBER 31, 2007**

COMMISSIONERS

TERM EXPIRES

Douglas Wagner, Treasurer

August 26, 2009

Andrew Collins, Secretary

August 28, 2011

Joseph Koester, Chair

July 28, 2008

Patricia Sommerkamp

August 21, 2009

Fred A. Macke, Jr.

August 28, 2008

Frank Jackson

August 28, 2011

ADMINISTRATIVE STAFF

C. Ronald Lovan, PE, President/CEO

Jack Bragg, CPA, MBA, Vice President of Finance

Bari L. Joslyn, MS, Vice President of Water Quality and Production

Richard B. Harrison, PE, Vice President of Engineering and Distribution

Mark Lofland, Vice President of Customer Service

LEGAL COUNSEL

Hemmer, Pangburn and DeFrank, PLLC



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Northern Kentucky Water District
Erlanger, Kentucky 41018

We have audited the financial statements of Northern Kentucky Water District as of and for the year ended December 31, 2007, and have issued our report thereon dated March 19, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Northern Kentucky Water District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Northern Kentucky Water District's financial statements that is more than inconsequential will not be prevented or detected by the Northern Kentucky Water District's internal control we consider the deficiency described below to be a significant deficiency in internal control over financial reporting:

Finding 2007-1

Condition:

The District issued a billing to a commercial account that contained a significant error in the amount billed. The District's internal procedures did not detect the error. The District should implement appropriate procedures and controls over the billing function so that an error is detected before the invoice is sent.

Management's Response:

As a result, we are instituting the following procedures to prevent this in the future:

1. The Customer Service Supervisor will retrain and remind all of the billing personnel of the proper billing procedures and issues that could arise as well as review more carefully those accounts subject to this issue.
2. The Customer Service area will utilize the "high-low" report included in the CIS software to note and investigate significant variances in the last four bills of all customers to highlight accounts that need to be reviewed.
3. The Database Administrator in the IT department will develop a custom report to analyze each individual bill in a completed cycle to the prior annual average and compile an alert report for those accounts outside of a % parameter that the District establishes as reasonable.
4. The Accounting Department will periodically spot check bills of those accounts known to be utilizing the Sensus meter and the register in question.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financials statements will not be prevented or detected by the Northern Kentucky Water District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above as 2007-1 to be a material weakness.

Compliance and Other Matters

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

Northern Kentucky Water District's response to the finding identified in our audit is described above. We did not audit the District's response and, accordingly, we express no opinion on it.

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

VonLehman & Company Inc.

Fort Mitchell, Kentucky
March 19, 2008

APPENDIX D

SUMMARY OF THE GENERAL BOND RESOLUTION

GENERAL BOND RESOLUTION

The following is a summary of certain of the terms and provisions of the Resolution and is qualified in its entirety by reference to the Resolution. The following summary supplements the information set forth in "SECURITY AND SOURCES OF PAYMENT OF THE SERIES 2009 BONDS - Security for the Series 2009 Bonds" and should be read in conjunction therewith. See "Introduction" as to the availability of copies of the Resolution.

Registration, Payment and Transfer

Payment of Principal. Principal of and interest on the Bonds will be payable when due without deduction for the services of the Paying Agent and Registrar. Principal of and redemption premium on any Bond will be paid to the registered owner thereof upon presentation and surrender thereof at the principal corporate trust office of the Paying Agent and Registrar.

Payment of Interest - Regular Record Dates. The interest on any Bonds which is payable, and is punctually paid or duly provided for, on any interest payment date will be paid by check or draft mailed by the Paying Agent to the person in whose name such Bond was registered on the registration books at the close of business on the regular record date for such interest payment date and will be mailed to such person at his address as it appears on the registration books. The regular record date for any interest payment date is the fifteenth (15th) day of the month next preceding the month in which the interest payment date occurs.

Exchange and Transfer. The Bonds shall be negotiable as provided by the Resolution, subject to the provisions for registration and transfer contained in the Resolution. The Registrar shall register or cause to be registered therein and permit to be transferred thereon any Bond entitled to registration or transfer under such reasonable regulations as it or the District may prescribe.

Pledge of Revenues

Bonds, together with such additional bonds ranking on a parity therewith that may be issued and outstanding from time to time under the restrictions and provisions of the Resolution do not constitute an indebtedness of the District within the meaning of the Constitution of Kentucky, but are payable as to principal, interest and premium, if any, solely from and are secured by a pledge of revenues and income resulting from the collection of water rates, rentals and charges for the services rendered by the facilities of the District. A statutory mortgage lien is created and granted to and in favor of the registered owner or owners of the Bonds for the issue of which it forms a part and said properties will remain subject to the statutory mortgage lien until the payment in full of the principal and interest on the Bonds and the issue of which it forms a part are paid in full.

Application of Revenues

Establishment of Funds. The Resolution establishes the following funds (the "Funds") for the deposit and application of revenues:

- (1) Bond Proceeds Fund
- (2) General Revenue Fund
- (3) Debt Service Fund
- (4) Operation and Maintenance Fund
- (5) Improvement Repair and Replacement Fund

The Resolution requires or permits investments of moneys in each Fund, consistent with the contemplated uses of such moneys, in "Investment Obligations." Investment Obligations are restricted to 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 secured by a pledge of annual contributions under annual contribution contracts with the United States or by requisition or payment agreements with the United States. Investment Obligations are deemed to be part of the Fund or account for which purchased, and income, interest, gains and losses on investments are credited or charged to the Fund or account for which such investments were purchased, subject, in the case of the Debt Service Reserve, that so long as the aggregate debt service reserve requirement is being maintained, income and revenues from such Fund are to be transferred to the General Revenue Fund.

A further description of each of the Funds follows:

Bond Proceeds Fund. Under the Resolution, the District is required to establish within the Bonds Proceeds Fund established by the Resolution a Cost of Issuance Account and a Construction and Acquisition Account for each series of Bonds outstanding. In addition, if Bond proceeds are to be used in whole or in part for the payment or provision therefore of outstanding debt obligations, a Refunding Account may be established. From the proceeds of the sale of a series of Bonds, there will be deposited in the Cost of Issuance Account the costs of issuing the series of Bonds. Moneys received by the District from any other source, unless otherwise provided by the Resolution, may also be deposited in the Cost of Issuance Account. So much of the remainder of the Bond proceeds as is required by the applicable series resolution (except for accrued and capitalized interest, if any, which shall be deposited in the Interest Account, and any premium over the principal amount of the Bonds, which is applied as provided in such series resolution) shall be deposited in the Construction and Acquisition Account. The Cost of Issuance Account and the Construction and Acquisition constitute all the accounts within the Bond Proceeds Fund.

Moneys in the Cost of Issuance Account and the Construction and Acquisition Account shall be applied by the appropriate depository, upon issuance of a check or other bill of exchange signed by two members of the Board of Commissioners of the District only for the making of disbursements and payments required to be made by the District for paying issuance costs and pursuant to construction and acquisition contracts relating to the Public Water System.

General Revenue Fund. All moneys received by the District as Pledged Receipts, together with income from the Debt Service Reserve as provided in the Resolution, are required to be deposited promptly in the General Revenue Fund. Pledged Receipts are defined as the totality of (i) all water service rates, rentals and charges imposed by the District, (ii) all interest earned and gains realized on investments, unless the Resolution specifically requires such interest earned or gains realized to remain in a particular Fund or Account, provided that any interest or gains on funds held in escrow by a trustee for the payment of previously outstanding Bonds shall not be included, and (iii) other income received by the District, if any, from any agency of government, both Federal and State, as representing income or operating subsidies, if any, as distinguished from capital grants, to the extent not otherwise required to be treated and applied.

The designated depository is required to make monthly transfers from the moneys in the General Revenue Fund to the following Funds and Accounts and in the following amounts and order of priority:

- (1) Debt Service Fund-Interest Account. An amount, which when added to the amount then on deposit in the Interest Account, will equal the interest on all outstanding Bonds accrued and unpaid in respect of the next interest payment date.
- (2) Debt Service Fund-Principal Account. An amount which, when added to the amount then on deposit in the Principal Account, will equal the next Principal Installment, which is the sum of the principal amount of outstanding Bonds maturing in the Bond Fiscal Year (February 1/January 31) plus the unsatisfied balance of any sinking fund installment for such year.

- (3) Operation and Maintenance Fund. The amount required prior to the tenth day of the next month to pay operating and maintenance costs of the District in accordance with its annual budget, together with such proportionate amounts as will, during the twenty-four months following the issuance of any series of Bonds, together with sums on deposit in said Fund, equal Operation and Maintenance Costs for one month. Operation and Maintenance Costs include salaries, operating expenses and all other expenses of administering the public water system, fees and expenses of the paying agents and costs of issuance other than those paid from Bond proceeds.
- (4) Improvement, Repair and Replacement Fund. Any amounts remaining in the General Revenue Fund. So long as all required transfers are made in respect of amortization of outstanding Bonds, and all reserves are fully funded, the Board of Commissioners of the District may order that funds be retained in the General Revenue Fund in lieu of transferring such funds to the Improvement, Repair and Replacement Fund.

Debt Service Fund.

Interest Account. The District will cause the Paying Agent to disburse moneys from the interest Account for the purpose of paying interest on the Series 2009 Bonds when due and payable as well as interest on notes to be redeemed to the extent not otherwise provided for.

Principal Account. The District will cause the Paying Agent to disburse moneys from the Principal Account for the purpose of paying the principal of the Series 2009 Bonds when due and payable. In addition, the District may, at its option, apply amounts accumulated in the Principal Account for each sinking fund installment (plus amounts accumulated in the Interest Account for interest on notes for which the sinking fund installment was established), before the forty-fifth day preceding the due date of such sinking fund installment, to (i) the purchase of notes of the Series and maturity for which the sinking fund was established at prices (including brokerage and other charges) not exceeding the principal amount thereof plus premium, if any, payable from sinking fund installments for such notes when such notes are redeemable by application of such sinking fund installment plus unpaid interest accrued to the date of purchase or (ii) to the redemption of such notes, if then redeemable by their terms at the redemption price referred to in clause (i). The District is required to pay from the Principal Account the amount required to redeem such notes as may be necessary (after taking into account notes purchased as aforesaid) to complete the retirement of the principal amounts specified by any series resolution for the sinking fund installments.

Operation and Maintenance Fund. In addition to the amounts required to be transferred to the Operation and Maintenance Fund from the General Revenue Fund, there may be paid into said Fund any moneys received by the District from any other source, unless otherwise provided by the Resolution. The District may withdraw moneys for the Operation and Maintenance Fund from time to time for the purpose of paying reasonable and necessary Operation and Maintenance Costs, and moneys so withdrawn and paid are free and clear of the pledge created by the Resolution for the payment of the principal, premium, if any, and interest on the Bonds and any sinking fund installments. The District may also withdraw moneys from the Operation and Maintenance Fund for deposit to any other Fund or Account except the Improvement, Repair and Replacement Fund. At the District's discretion, amounts in the Operation and Maintenance Fund may be invested from time to time to provide funds when needed to pay Operation and Maintenance Costs.

Improvement, Repair and Replacement Fund. The Improvement, Repair and Replacement Fund is available and is to be utilized to balance depreciation to make unforeseen major repairs and replacements and to pay the cost of construction of additions, extensions, betterments and improvements of the Public Water System which will either increase income and revenues or provide a higher degree of

service. In addition to any amounts required by any series resolution and the Resolution to be set aside and deposited therein there shall be transferred and deposited to the Improvement, Repair and Replacement Fund any other moneys (a) received by the District from any other source and duly ordered to be deposited therein (unless required to be otherwise applied), (b) for which the District has exercised a discretion to so deposit or transfer as permitted in the Resolution, and (c) ordered to be so deposited from the proceeds of any series of Bonds. Within ninety (90) days following the end of each calendar year, all amounts in the Improvement, Repair and Replacement Fund in excess of \$2,500,000 shall be expended and applied by the depository upon written direction of the District only for (i) making up any deficiency in the Debt Service Fund and the Debt Service Reserve, (ii) redemption of Bonds, (iii) payments of principal installments of or interest on Bonds when due, (iv) transfer to the Operation and Maintenance Fund, or (v) investment in investment obligations. To the extent that other moneys are not available for payment of principal installments or interest on Bonds when due, all investment earnings credited to, and investments in, the Improvement, Repair and Replacement Fund shall be sold and the proceeds deposited in the Debt Service Fund.

Redemption Provisions

The Resolution provides that, whenever Bonds are to be redeemed, the District shall give notice for the redemption of Bonds determined by the District to be redeemed. Notice shall be given by registered mail only, postage prepaid, at least thirty (30) days before the redemption date, addressed to the registered holder at the address shown in the records of the Registrar. After such notice has been given, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated in an amount equal to the principal amount thereof, premium, if any, plus interest accrued and unpaid to the redemption date. If on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any Series and maturity to be redeemed, together with interest to the redemption date, shall be held by any paying agent so to be available therefor on such date and if notice shall have been given as aforesaid, then, from and after the redemption date, interest on such Bonds or portions thereof shall cease to accrue. If less than all outstanding Bonds of a series and maturity are to be redeemed, the Registrar shall select, in such manner as the Registrar shall determine, each \$5,000 of the principal amount of Bonds to be redeemed.

Issuance of Bonds, Additional Bonds and Other Obligations

The Resolution provides that the District may issue notes in anticipation of an authorized issuance of a series of Bonds in a principal amount not to exceed the principal amount of such Bonds. Bonds are payable from any moneys of the District available therefore and not pledged under the Resolution for the benefit of the Bonds and from the proceeds of the sale of any authorized series of Bonds in anticipation of which notes were issued. Such proceeds may be pledged for payment of the principal of the notes and such pledge will have priority over any pledge created by the Resolution.

The Resolution provides that the District may issue notes, bonds and other obligations having such terms and secured by a pledge of such funds as the resolution authorizing the issue provides, but any pledge to the holders of such notes, bonds or other obligations of a fund or account created under the Resolution is required to be subordinated in all respects to the pledge created under the Resolution for the benefit of the holders of Bonds, except that proceeds of the sale of Bonds may be pledged for the payment of notes issued in anticipation thereof as aforesaid and additional series of Bonds may be issued on a parity with the initially issued Bonds and secured equally by the revenues and assets pledged under the Resolution and payable equally therefrom, as herein described.

Issuance of Parity Bonds

The Resolution provides that from and after the issuance of any Bonds thereunder, the Resolution shall constitute the sole and exclusive method for the issuance of any further Bonds by the District.

The District reserves the right to issue additional series of Bonds payable from the revenues of the District on a basis of parity and equality with all other parity Bonds authorized to be issued by the Resolution in order to (a) reconstruct, repair and improve the District's public water system, (b) make, acquire, construct and install additions, extensions, betterments or improvements thereto, (c) acquire existing waterworks and water distributions systems from any person, if said waterworks and water distribution systems are revenue-producing, and (d) refund any outstanding Bonds. No such parity Bonds shall be issued unless: (i) the facility or facilities to be acquired, constructed, reconstructed or improved from parity Bond proceeds are made in integral part of the District's public water system and revenues therefrom are pledged as additional security for all outstanding Bonds and additional parity bonds, (ii) the District is in compliance with all covenants and undertakings in connection with all of its Bonds then outstanding and payable from the revenues and pledged receipts, (iii) the net annual income and revenues of the District for a period of twelve (12) consecutive months of the fifteen (15) months immediately prior to the issuance of said parity Bonds are certified in writing by an independent firm of state-licensed Certified Public Accountants to have been equal to at least 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 outstanding bonds, together with the parity bonds to be issued.

The net annual income and revenues of the Public Water System may be adjusted by a firm of independent state-licensed Certified Public Accountants to reflect, for the historical period being tested, any revision in the schedule of water rates, rentals and charges being actually imposed and billed by the District or approved by the Public Service Commission of Kentucky or its successor, at the time of issuance of parity bonds. The net annual income and revenues may also be adjusted in writing by a consulting engineer of national recognition to take into account and reflect, for the historical period being tested, the amount of additional net income and revenues to be realized by the District (a) by virtue of the acquisition by the District of existing and operating waterworks and water distribution facilities, and (b) by virtue of contractual relationships between the District and other municipal corporations or other entities where such income and revenues are historically determinable. A further adjustment to the net annual income and revenues may also be made by adding an estimate of a consulting engineer of the annual increase in operating revenues anticipated to be derived from the extensions, additions, replacements and betterments to be financed by such additional bonds, less the engineer's estimate of any additional expenses of operation and maintenance.

In the event parity bonds are issued in the future, the District is required to (i) adjust the monthly deposits into the Debt Service Fund in the manner prescribed by the Resolution to reflect the annual debt service on the additional parity bonds, and (ii) adjust the prescribed amount to be accumulated in the Debt Service Reserve in accordance with the provisions of the Resolution and fund from such parity bonds said additional amount in the Debt Service Reserve, being the maximum debt service requirement in any Bond Fiscal Year with respect to outstanding bonds of all series.

Issuance of Refunding Bonds

Bonds of one or more series may be issued to refund outstanding bonds subject to the following provisions and limitations. A series of Refunding Bonds may be delivered only upon receipt of:

- (a) irrevocable instructions to the Paying Agent and Registrar in respect of the bonds to be refunded to give due notice of redemption of all bonds to be refunded on a specified redemption date, and
- (b) irrevocable instructions to the Paying Agent and Registrar in respect of the bonds to be refunded to give due notice provided for in the Resolution to the Holders of outstanding bonds being refunded.

- (c) Either
1. moneys in an amount sufficient to effect payment at the applicable principal amount and premium, if any, of the bonds to be refunded, together with accrued interest thereon to the date of redemption, or
 2. United States government obligations or obligations the payment of which is unconditionally guaranteed by the United States government, the principal of and interest on which, when due, will provide moneys which, together with any moneys deposited with the appropriate depository at the same time, will be sufficient to pay the principal or premium, if any, of and interest due or to become due on the bonds to be refunded.
- (d) all other documents required to be delivered to the Paying Agent in respect of the bonds to be refunded as a condition precedent to delivery of bonds under the Resolution and any series resolution.

In addition, the Paying Agent is required to deliver to the District at the time of delivery of the refunding bonds a certificate stating that it holds in trust the moneys and/or investments required to effect the aforesaid redemption on the date specified in such series resolution.

Modification, Adoption and Requirement for Consent

The Resolution provides procedures whereby the District may amend the Resolution by adoption of a Supplemental Resolution.

Amendments that may be made without the consent of the bondholders must be for purposes of further securing the bonds, imposing further limitations on or surrendering rights of the District or curing ambiguities.

Series Resolutions may be adopted from time to time pursuant to compliance with the conditions of the Resolution to provide for the issuance of one or more series of bonds and to prescribe the terms and conditions thereof.

Amendments of the respective rights and obligations of the District and the Bondholders may be made with the written consent of the holders of not less than 66-2/3% in principal amount of the outstanding Bonds affected by such amendment. No such amendment shall permit a change in the terms of redemption or maturity of the principal of any outstanding bond or any installment of interest thereon or a reduction in the premium payable with respect thereto or the rate of interest thereon or reduce the percentages or otherwise affect the classes of bonds the consent of the holders of which is required to effect such amendment.

Certain Covenants of the District

Among other covenants made by the District in the Resolution are those related to the following matters:

Tax Covenant. The District has covenanted to do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the District on the Bonds shall, for the purposes of Federal income taxation, be exempt from income taxation under any valid provision of law. The District shall not permit at any time or times any of the proceeds of the Bonds or other funds of the District to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in subsection (c) of Section 103 of the Internal Revenue Code as then in effect (now Section 103(b)(2) and 148 of the Internal Revenue Code of 1986) and to be subject to treatment under subsection (c) (1) of such Section, as an obligation not

described in subsection (a) (1) of such Section, unless under any valid provisions of the law hereafter enacted, the interest paid by the District on the Bonds shall be excludable from the gross income of a recipient thereof for Federal income tax purposes without regard to compliance with the provisions of subsection (c) of Section 103 of the Internal Revenue Code (now Section 103(b)(2) and 148 of the Internal Revenue Code).

In order to assure compliance with such covenant, the District, from the date of adoption of the Resolution, has covenanted that it shall not:

- (a) make any investment in connection with the Public Water System that produces a yield in excess of such applicable maximum yield as may be permitted by the Internal Revenue Code, and
- (b) invest or direct any depository to invest moneys in any such Fund or Account in Investment Obligations that produce a yield in excess of such applicable maximum yield as may be permitted by the Internal Revenue Code.

The District further covenants that prior to the issuance of any series of bonds the District shall certify by issuance of a certificate that on the basis of the facts, estimates and circumstances in existence on the date of issue of such Series it is not expected that the proceeds thereof will be used in a manner that would cause such obligations to be arbitrage bonds.

Accounts and Reports. The District shall keep complete and accurate books of record and accounts relating to the Public Water System, and all Funds and Accounts established by the Resolution, which are subject at reasonable times to the inspection of the holders of an aggregate of not less than five percent (5%) in principal amount of the bonds then outstanding or their representatives duly authorized.

General Compliance. The District has covenanted to faithfully and punctually perform all duties with reference to the Public Water System required by the Constitution and Laws of the Commonwealth of Kentucky, Chapter 74 and Sections 96.350 to 96.510, inclusive, of the Kentucky Revised Statutes, and by the terms and provisions of the Resolution.

Rates and Charges. The District has covenanted to at all times establish, enforce and collect rates, rentals and charges for the services and facilities afforded by said District's works and facilities, the same to be adequate to operate and maintain the public water system, provide necessary allowances for depreciation and for extensions and additions, and to timely retire all outstanding bonds and interest thereon. Such rates must also be adequate to accumulate and maintain all reserves as provided in the Resolution, and to provide, after fulfillment of all contractual obligations required of the District incident to the bonds, including accumulation and maintenance of all reserves, and after payment of operating and maintenance costs of the District, 1.20 times coverage of annual principal, interest and sinking fund requirements on all bonds. If necessary, such rates, rentals and charges must be adjusted from time to time in order to comply with the Resolution (see "Security and Sources of Payment - Rate Covenant").

Budgets. On or before the first day of each calendar year, so long as any bonds authorized or permitted to be issued by the Resolution are outstanding, the District shall adopt an annual budget of current expenses covering its fiscal operations for the ensuing calendar year and will promptly file a copy of each such Budget, and any amendments thereto, in the office of the Secretary of the District. Copies of same shall be furnished to any bondholder upon request. The District may file amendments of the Annual Budget for the remainder of the calendar year. The District shall not incur current expenses in excess of the amounts provided therefore in the annual budget as originally prepared or as amended, except upon resolution duly adopted by the Board of Commissioners determining that such expenses are necessary in order to operate and maintain the Public Water System.

No Decrease in Rates, Rentals and Charges. The District has covenanted that it will not at any time make any reduction in any prevailing schedule of rates, rentals and charges without first obtaining

the written determination of a consulting engineer of national recognition that any such proposed reduction will not materially affect the ability of the District to meet all the requirements of the Resolution.

Annual Audit. The District has covenanted that it will, within sixty (60) days after the end of each calendar year cause an audit to be made of the books of record and accounts pertinent to the District, and a report to be issued by an independent state-licensed certified public accountant reflecting in reasonable detail the financial condition and results of operations of the District, including the status of the several Funds created by the Resolution, the status of required insurance and fidelity bonding as provided by the Resolution, all in accordance with generally accepted governmental accounting principles. A copy of such audit must be submitted to the Board of Commissioners of the District, and a copy of same shall be filed in the office of the District where it will be available for public inspection.

Insurance of Facilities and Fidelity Bonding of Personnel. The District has covenanted to keep all buildings, machinery and equipment constituting any part of the public water system insured as provided in the Resolution, and to cause each officer or other person having custody of any moneys administered under the provisions of the Resolution to be bonded at all times in an amount at least equal to \$25,000. The District has further covenanted to carry public liability, vehicular insurance and property damage insurance.

Waiver of Laws. The District has covenanted not to insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law not or at any time hereafter in force which may affect the covenants and agreements contained in the Resolution or in any series resolution or supplemental resolution or in the bonds, and all benefit or advantage of such law or laws has been expressly waived by the District.

Termination of Water Services to Delinquent Users. The District has covenanted that pursuant to KRS 74.367 and any other applicable provisions of law, it will, to the maximum extent authorized by law, enforce and collect the schedule of rates, rentals and charges imposed upon users of the District's works and facilities, and will promptly cause water service to be discontinued to any premises where such District bill is not paid in full.

Statutory Mortgage Lien. Pursuant to the provisions of Chapter 74 and Section 96.400 of the Kentucky Revised Statutes, the District has recognized for the further protection of the holders of the bonds a statutory mortgage lien upon the Public Water System (see "Security and Sources of Payment - Mortgage Lien").

Defaults and Remedies

The General Bond Resolution declares each of the following events to be an "Event of Default":

- (a) default by the District in the payment of any principal installment or premium, if any, on any bond when due;
- (b) default by the District in the payment of any installment of interest on the bonds when due;
- (c) failure or refusal by the District to comply with the Act pursuant to which the District was created, or default in the performance or observance of any other of the covenants, agreements or conditions contained in the Resolution, any series resolution, any supplemental resolution or the bonds, and such failure, refusal or default shall continue for a period of forty-five (45) days after written notice thereof by the holder of not less than five percent (5%) in principal amount of the outstanding bonds.

The Resolution provides that upon the happening and continuance of any event of default, the holders of not less than twenty-five percent (25%) in principal amount of the outstanding bonds may proceed, in their own name, subject to certain provisions in the Resolution, to protect and enforce the rights of the bondholders by such of the following remedies as such bondholders, being advised by counsel, shall deem most effectual, including the following:

- (a) enforce by mandamus or other suit, action or proceedings at law or in equity all rights of the bondholders, including the right to require the District to enforce, collect and receive water rates, rentals and charges adequate to carry out the covenants and agreements of the District as to production of income, and to require the District to carry out any other covenant or agreement with bondholders and to perform its duties under the Act;
- (b) bring suit upon the bonds;
- (c) require the District by action or suit to account as if it were the trustee of an express trust for the holders of the bonds;
- (d) enjoin by action or suit any act or things which may be unlawful or in violation of the rights of the holders of the bonds;
- (e) by action or suit in equity, seek the appointment of a receiver who shall take charge of and administer the affairs of the District;
- (f) declare all bonds due and payable, and if all default shall be made good (excepting acceleration provisions), then with the written consent of not less than twenty-five percent (25%) in principal amount of the holders of outstanding bonds, to annul such declaration and its consequences; and
- (g) in the event that all bonds are declared due and payable, and a receiver is appointed, to sell all investments and all other assets of the District (to the extent not theretofore set aside for redemption of bonds for which call has been made), and to cause the receiver to take over the public water system and operate same in the name of the District for the use and benefit of the bondholders.

No Individual Liability

All covenants, stipulations, promises, agreements and obligations of the District in the Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the District and not of any member, officer, director or employee of the District in his individual capacity, and no recourse shall be had for the payment of the principal, premium, if any, or interest on the bonds or for any claims based thereon or on the Resolution against any member, officer, director or employee of the District or any natural person executing the bonds.

APPENDIX E

FORM OF BOND COUNSEL OPINION

[Date of Delivery]

Northern Kentucky Water District
Fort Wright, Kentucky

Ladies and Gentlemen:

We have acted as bond counsel in connection with the authorization, sale and issuance by Northern Kentucky Water District (the "District"), a public body corporate and politic and a political subdivision of the Commonwealth of Kentucky, acting by and through its Board of Commissioners as its duly authorized governing body, of \$29,290,000 principal amount of Revenue Bonds, Series 2009 (the "Series 2009 Bonds").

The Series 2009 Bonds have been authorized and issued pursuant to Chapter 74 of the Kentucky Revised Statutes (the "Act"), a certain General Bond Resolution adopted by the District on November 19, 1985, as amended by the District on November 17, 1987 (collectively the "Resolution"), a certain Series 2009 Bond Resolution authorizing approximately \$30,000,000 of Series 2009 Bonds adopted on March 15, 2007 (the "Series 2009 Bond Resolution"). Pursuant to the Resolution and the Series 2009 Bond Resolution, the District has authorized the issuance of the Series 2009 Bonds for the purpose of (i) refunding and retiring the District's outstanding \$27,165,000 Revenue Bond Anticipation Notes, Series 2007 (the "Prior Obligations") which were issued to provide funds used for paying the costs of various capital projects of the System and to pay interest on the Prior Obligations through their maturity, and (ii) paying the costs of issuing the Series 2009 Bonds.

We have examined such portions of the Constitution and Statutes of the United States, the Constitution and Statutes of the Commonwealth of Kentucky, and such applicable court decisions, regulations, rulings and opinions as we have deemed necessary or relevant for the purposes of the opinions set forth below.

We have also examined records, and the transcript of proceedings relating to the authorization and issuance of the Series 2009 Bonds, including a specimen Bond, and other relevant matters. We have also made such investigation as we have deemed necessary for the purposes of such opinions, and relied upon certificates of officials of the District as to certain factual matters. Based upon the foregoing, we advise you that in our opinion under existing law:

1. The Series 2009 Bonds have been duly authorized, executed and issued by the District in accordance with the Constitution and Statutes of the Commonwealth, including the Act, and in accordance with the Resolution and the Series 2009 Bond Resolution, and constitute valid and binding special obligations of the District, payable as to principal, interest, and premium, if any, from and secured by a pledge of: (i) the proceeds of the Series 2009 Bonds; (ii) any Investment Obligations, as defined in the Resolution, purchased with the proceeds of the Series 2009 Bonds; and (iii) a priority lien granted to the holders of the District's outstanding Revenue Bonds, and any obligations issued on a parity therewith in accordance with the terms of the General Bond Resolution, the revenues from the operation of the facilities of the District, to the payment of the principal of, premium, if any, and interest on the Series 2009 Bonds as and when same shall become due and payable.

2. Neither the faith and credit nor the taxing power of the District, the Commonwealth, or any political subdivision thereof, nor the faith and credit of the District is pledged to the payment of the principal of or interest on the Series 2009 Bonds, or to the payment of premium, if any.

3. Interest on the Series 2009 Bonds is exempt from income taxation by the Commonwealth of Kentucky, and the Series 2009 Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

4. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest, including original issue discount, on the Series 2009 Bonds is excludible from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the Series 2009 Bonds will not be treated as an item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. In rendering the opinions in this paragraph, we have assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. We express no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Series 2009 Bonds.

5. The Commission has not designated the Series 2009 Bonds as "qualified tax-exempt obligations" under Section 265 of the Code.

Our opinion set forth above is subject to the qualification that the enforceability of the Resolution, the Series 2009 Bonds and agreements relating thereto may be limited by bankruptcy, reorganization, moratorium, insolvency, or other similar laws relating to or affecting the enforcement of creditors' rights or by general equitable principles.

Without having undertaken to determine independently or to verify the accuracy or completeness of the statements contained in the Official Statement issued with respect to the Series 2009 Bonds, and expressing no opinion as to the financial statements or any other financial or statistical data contained therein, nothing has come to our attention in the course of our professional engagement as Bond Counsel which would lead us to believe that the Official Statement contains any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

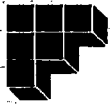
Very truly yours,

PECK, SHAFFER & WILLIAMS LLP

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APPENDIX F

FORM OF SPECIMEN MUNICIPAL BOND INSURANCE POLICY



**FINANCIAL
SECURITY
ASSURANCE®**

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER:

BONDS:

Policy No.: -N-

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment on the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day, otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify: (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent" for purposes of this Policy) by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)

NORTHERN KENTUCKY WATER DISTRICT

TEST YEAR OPERATION AND MAINTENANCE EXPENSE

Account No.	Account (1)	Actual	Adjusted Adjustment (3)	Adjusted Test Year 2009 (4)	Projected 2010 (5)	Projected 2011 (6)	Projected 2012 (7)	Projected 2013 (8)	Projected 2014 (9)
		2009 (2)							
OPERATION AND MAINTENANCE EXPENSES									
Source of Supply									
Operations									
615.1	Purchased Power	760,271	-	760,271	775,476	790,986	806,805	822,941	839,400
635.1	Contractual Service	2,405	-	2,405	2,453	2,502	2,552	2,603	2,655
	Total Operations	<u>762,676</u>	<u>0</u>	<u>762,676</u>	<u>777,929</u>	<u>793,488</u>	<u>809,357</u>	<u>825,544</u>	<u>842,055</u>
Maintenance									
620.2	Materials and Supplies	3,312	-	3,312	3,378	3,446	3,515	3,585	3,657
635.2	Contractual Service	7,095	-	7,095	7,237	7,382	7,529	7,680	7,833
	Total Maintenance	<u>10,407</u>	<u>0</u>	<u>10,407</u>	<u>10,615</u>	<u>10,827</u>	<u>11,044</u>	<u>11,265</u>	<u>11,490</u>
	Total Source of Supply	<u>773,083</u>	<u>0</u>	<u>773,083</u>	<u>788,544</u>	<u>804,315</u>	<u>820,401</u>	<u>836,809</u>	<u>853,546</u>
Water Treatment									
Operations									
601.3	Labor	1,238,002	5,461	1,243,463	1,268,332	1,293,699	1,319,573	1,345,964	1,372,884
601.3	Labor - Lab	431,874	1,905	433,779	442,455	451,304	460,330	469,537	478,927
615.3	Purchased Power	201,253	-	201,253	205,278	209,384	213,572	217,843	222,200
616.3	Gas	126,539	-	126,539	129,070	131,651	134,284	136,970	139,710
618.3	Chemicals	1,857,067	-	1,857,067	1,894,208	1,932,092	1,970,734	2,010,149	2,050,352
620.3	Materials and Supplies	199,637	-	199,637	203,630	207,703	211,857	216,094	220,416
631.3	Contractual Services - Engineering	16,380	-	16,380	16,707	17,041	17,382	17,730	18,084
633.3	Contractual Services	1,397	-	1,397	1,424	1,453	1,482	1,512	1,542
635.3	Contractual Services - Sludge	128,086	-	128,086	130,647	133,260	135,925	138,644	141,417
635.3	Contractual Services - Laboratory	56,571	-	56,571	57,703	58,857	60,034	61,235	62,459
635.3	Contractual Services - Other	182,252	-	182,252	185,898	189,615	193,408	197,276	201,221
650.3	Transportation Expense	48,568	-	48,568	49,539	50,530	51,541	52,571	53,623
	Total Operations	<u>4,487,626</u>	<u>7,366</u>	<u>4,494,992</u>	<u>4,584,892</u>	<u>4,676,590</u>	<u>4,770,122</u>	<u>4,865,524</u>	<u>4,962,835</u>
Maintenance									
601.4	Labor	753,498	3,324	756,822	771,958	787,397	803,145	819,208	835,592
620.4	Materials and Supplies	191,117	-	191,117	194,939	198,838	202,814	206,871	211,008
635.4	Contractual Services - Other	304,397	-	304,397	310,485	316,695	323,029	329,490	336,079
650.4	Transportation Expense	94	-	94	95	97	99	101	103
	Total Maintenance	<u>1,249,105</u>	<u>3,324</u>	<u>1,252,429</u>	<u>1,277,478</u>	<u>1,303,027</u>	<u>1,329,088</u>	<u>1,355,669</u>	<u>1,382,783</u>
	Total Water Treatment	<u>5,736,731</u>	<u>10,690</u>	<u>5,747,421</u>	<u>5,862,370</u>	<u>5,979,617</u>	<u>6,099,210</u>	<u>6,221,194</u>	<u>6,345,618</u>

NORTHERN KENTUCKY WATER DISTRICT

TEST YEAR OPERATION AND MAINTENANCE EXPENSE

Account No.	Account (1)	Actual	Adjusted	Projected	Projected	Projected	Projected	Projected	
		2009 (2)	Adjustment (3)	Test Year 2009 (4)	2010 (5)	2011 (6)	2012 (7)	2013 (8)	2014 (9)
Transmission and Distribution Operations									
601.5	Labor	810,346	3,575	813,921	830,199	846,803	863,739	881,014	898,634
615.5	Purchased Power	1,266,476	-	1,266,476	1,291,806	1,317,642	1,343,995	1,370,874	1,398,292
616.5	Gas	3,373	-	3,373	3,440	3,509	3,579	3,651	3,724
620.5	Materials and Supplies	127,498	-	127,498	130,048	132,649	135,302	138,008	140,768
631.5	Contractual Services - Engineering	6,345	-	6,345	6,472	6,601	6,733	6,868	7,005
633.5	Contractual Services	19,921	-	19,921	20,319	20,726	21,140	21,563	21,994
635.5	Contractual Services - Other	59,138	-	59,138	60,321	61,528	62,758	64,013	65,294
650.5	Transportation Expense	42,011	-	42,011	42,851	43,708	44,583	45,474	46,384
	Total Operations	<u>2,335,109</u>	<u>3,575</u>	<u>2,338,683</u>	<u>2,385,457</u>	<u>2,433,166</u>	<u>2,481,830</u>	<u>2,531,466</u>	<u>2,582,095</u>
Maintenance									
601.6	Labor	654,129	2,886	657,015	670,155	683,558	697,229	711,174	725,397
601.6	Labor - Mains	1,444,526	6,372	1,450,899	1,479,917	1,509,515	1,539,705	1,570,499	1,601,909
601.6	Labor - Services	241,916	1,067	242,983	247,843	252,800	257,856	263,013	268,273
601.6	Labor - Hydrants	73,692	325	74,017	75,497	77,007	78,547	80,118	81,721
620.6	Materials and Supplies - Mains	524,742	-	524,742	535,236	545,941	556,860	567,997	579,357
620.6	Materials and Supplies - Services	294,899	-	294,899	300,797	306,813	312,949	319,208	325,592
620.6	Materials and Supplies - Meters	317	-	317	324	330	337	344	350
620.6	Materials and Supplies - Hydrants	86,168	-	86,168	87,892	89,649	91,442	93,271	95,137
620.6	Materials and Supplies	19,921	-	19,921	20,320	20,726	21,140	21,563	21,995
631.6	Contractual Services - Engineering	3,134	-	3,134	3,197	3,261	3,326	3,392	3,460
635.6	Contractual Services - Other	365,828	-	365,828	373,145	380,608	388,220	395,984	403,904
635.6	Water Tower Painting Write-off	370,176	-	370,176	377,580	385,131	392,834	400,691	408,704
635.6	Contractual Services - Water Towers	1,829	-	1,829	1,866	1,903	1,941	1,980	2,020
635.6	Contractual Services - Mains	306,867	-	306,867	313,005	319,265	325,650	332,163	338,806
635.6	Contractual Services - Services	114,547	-	114,547	116,838	119,175	121,558	123,990	126,469
642.6	Rental	750	-	750	765	780	796	812	828
650.6	Transportation Expense	269,589	-	269,589	274,981	280,480	286,090	291,812	297,648
	Total Maintenance	<u>4,773,031</u>	<u>10,650</u>	<u>4,783,682</u>	<u>4,879,355</u>	<u>4,976,942</u>	<u>5,076,481</u>	<u>5,178,011</u>	<u>5,281,571</u>
	Total Transmission and Distribution	<u>7,108,140</u>	<u>14,225</u>	<u>7,122,365</u>	<u>7,264,812</u>	<u>7,410,108</u>	<u>7,558,311</u>	<u>7,709,477</u>	<u>7,863,666</u>

NORTHERN KENTUCKY WATER DISTRICT

TEST YEAR OPERATION AND MAINTENANCE EXPENSE

Account No.	Account (1)	Actual	Adjusted	Projected	Projected	Projected	Projected	Projected	
		2009 (2)	Adjustment (3)	Test Year 2009 (4)	2010 (5)	2011 (6)	2012 (7)	2013 (8)	2014 (9)
Customer Accounting									
601.7	Labor - Meter Reading	55,679	246	55,924	57,043	58,184	59,347	60,534	61,745
601.7	Labor - Meter Shop	190,116	839	190,954	194,773	198,669	202,642	206,695	210,829
601.7	Labor Field Service	664,594	2,932	667,526	680,876	694,494	708,384	722,551	737,002
601.7	Labor - Account Service	712,038	3,141	715,179	729,482	744,072	758,953	774,133	789,615
601.7	Labor - Courier	31,697	140	31,837	32,474	33,123	33,786	34,461	35,150
620.7	Materials and Supplies	80,802	-	80,802	82,418	84,066	85,747	87,462	89,212
620.7	Postage	49,486	-	49,486	50,476	51,486	52,515	53,566	54,637
633.7	Contractual Services - Account Service	2,508	-	2,508	2,558	2,609	2,662	2,715	2,769
633.7	Legal Fees	45	-	45	46	47	48	49	50
635.7	Contractual Services - Meter Reading	3,162	-	3,162	3,225	3,290	3,355	3,423	3,491
635.7	Contractual Services - Bill Printing/Mailing	175,502	-	175,502	179,012	182,593	186,244	189,969	193,769
635.7	Contractual Services - Collections	11,167	-	11,167	11,390	11,618	11,850	12,087	12,329
635.7	Contractual Services - Credit Card Processing	105,254	-	105,254	107,360	109,507	111,697	113,931	116,209
635.7	Contractual Services - Lock Box Processing	33,424	-	33,424	34,092	34,774	35,470	36,179	36,903
635.7	Contractual Services - Other	67,704	-	67,704	69,058	70,439	71,848	73,285	74,750
650.7	Transportation Expense	90,893	-	90,893	92,711	94,565	96,457	98,386	100,354
	Total Customer Accounting	2,274,071	7,297	2,281,368	2,326,995	2,373,535	2,421,006	2,469,426	2,518,814
Administrative and General									
601.8	Labor	1,129,204	4,981	1,134,186	1,156,869	1,180,007	1,203,607	1,227,679	1,252,233
604.0	Employee Benefits	3,496,157	277,178	3,773,335	3,848,802	3,925,778	4,004,293	4,084,379	4,166,067
615.8	Utilities	161,417	-	161,417	164,645	167,938	171,297	174,723	178,217
620.8	Materials and Supplies	171,817	-	171,817	175,253	178,758	182,334	185,980	189,700
631.8	Contractual Services - Engineering	126,833	-	126,833	129,370	131,957	134,597	137,289	140,034
632.8	Contract Service Accounting/Audit	28,255	-	28,255	28,820	29,397	29,984	30,584	31,196
633.8	Legal Fees	142,184	-	142,184	145,028	147,928	150,887	153,905	156,983
634.8	Contractual Fees	70,691	-	70,691	72,105	73,547	75,018	76,518	78,048
635.8	Contractual Services - HR/Infor Systems	200,547	-	200,547	204,558	208,649	212,822	217,079	221,421
635.8	Contractual Services	596,884	-	596,884	608,821	620,998	633,418	646,086	659,008
650.8	Transportation Expense	6,971	-	6,971	7,111	7,253	7,398	7,546	7,697
656.0	Vehicle Insurance	34,280	-	34,280	34,966	35,665	36,379	37,106	37,848
657.0	General Liability Insurance	250,390	-	250,390	255,398	260,506	265,716	271,030	276,451
658.0	Workers Comp Insurance	72,849	1,062	73,911	75,389	76,897	78,435	80,004	81,604
659.0	Other Insurance	124,307	-	124,307	126,794	129,329	131,916	134,554	137,245
660.0	Advertising Expense	19,969	-	19,969	20,368	20,775	21,191	21,615	22,047
667.0	PSC Expense- Rate Case Expense	122,618	-	122,618	125,070	127,571	130,123	132,725	135,380
670.0	Bad Debt Expense	649,060	-	649,060	662,041	675,282	688,787	702,563	716,614
675.0	Miscellaneous Expense	203,290	-	203,290	207,356	211,503	215,733	220,047	224,448
	Total Administrative and General	7,607,724	283,221	7,890,945	8,048,764	8,209,739	8,373,934	8,541,412	8,712,241
	Total Operation & Maintenance Expenses	23,499,748	315,433	23,815,181	24,291,485	24,777,315	25,272,861	25,778,318	26,293,885

Northern Kentucky Water District
Balance Sheet
As of May 31, 2010

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$10,544,953	\$9,440,114
Accrued Interest Receivable	66,771	
Accounts Receivable		
Customers	3,253,989	3,348,979
Unbilled Customers	4,700,000	4,700,000
Other	132,478	47,241
Assessments Receivable	87,322	82,711
Inventory Supplies for New Installation and Maintenance, at Cost	1,186,143	1,197,053
Prepaid Items	287,613	129,638
TOTAL CURRENT ASSETS	20,259,269	18,945,736
RESTRICTED ASSETS		
Boone/Florence Settlement Account	2,000,108	2,429,785
Bond Proceeds Fund	28,069,109	11,957,554
Debt Service Reserve Account	16,372,507	15,637,479
Debt Service Account	5,742,086	5,480,021
Improvement, Repair & Replacement	8,899,867	1,388,471
TOTAL RESTRICTED ASSETS	61,083,677	36,893,310
NONCURRENT ASSETS		
Miscellaneous Deferred Charges	7,958,988	8,943,451
Capital assets:		
Land, System, Buildings and Equipment	315,285,850	290,054,770
Construction in Progress	40,895,923	47,566,752
Total capital assets before accumulated depreciation	356,181,773	337,621,522
Less Accumulated Depreciation	(80,385,338)	(72,679,592)
Total capital assets before accumulated depreciation	275,796,435	264,941,930
TOTAL NONCURRENT ASSETS	283,755,423	273,885,381
TOTAL ASSETS	365,098,369	329,724,427

Northern Kentucky Water District
Balance Sheet
As of May 31, 2010

	<u>2010</u>	<u>2009</u>
LIABILITIES AND RETAINED EARNINGS		
CURRENT LIABILITIES		
Current Portion of Long Term Debt	\$7,647,748	\$6,823,527
Accounts Payable	1,443,572	1,401,776
Accrued Payroll & Liabilities	413,935	352,074
Other Accrued Liabilities	74,147	79,194
TOTAL CURRENT LIABILITIES	<u>9,579,402</u>	<u>8,656,571</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts Payable	1,439,177	1,889,114
Accrued Interest Payable	2,736,082	2,667,442
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	<u>4,175,259</u>	<u>4,556,556</u>
LONG-TERM DEBT		
Long-Term Portion of Bonded Indebtedness	182,239,332	182,278,599
Bond Anticipation Notes Payable	29,160,000	
Note Payable - Taylor Mill	1,275,000	1,450,000
Deferred Note Payable	100,000	100,000
TOTAL LONG-TERM DEBT	<u>212,774,332</u>	<u>183,828,599</u>
TOTAL LIABILITIES	<u>226,528,993</u>	<u>197,041,726</u>
Unrestricted Retained Earnings	109,718,385	103,831,709
TOTAL NET ASSETS	<u>138,569,377</u>	<u>132,682,701</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>365,098,370</u></u>	<u><u>329,724,427</u></u>

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Northern Kentucky Water District
Income Statement Actual to Actual
For the Five Months Ending May 31, 2010

Description	May Current yr	May Prior	Variance	May YTD Current	May YTD Prior	Variance
Income						
Water Sales	\$2,497,376	\$2,524,891	1%	\$14,383,963	\$14,711,290	2%
Forfited Discounts	50,121	57,318	13%	290,727	312,415	7%
Rents from Water Property	42,142	42,593	1%	222,028	179,952	(19%)
Other Water Revenues	31,755	19,830	(60%)	118,140	140,070	19%
Total Operating Revenues	\$2,621,394	\$2,644,632	1%	\$15,014,858	\$15,343,727	2%
Operating Expenses						
O & M Expenses						
Salaries & Wages	\$755,338	\$593,953	(27%)	\$3,570,130	\$3,524,718	(1%)
Employee Pension & Benefits	297,641	301,242	1%	1,523,282	1,386,714	(9%)
Taxes Other than Income Taxes	54,266	53,866	(1%)	256,200	253,293	(1%)
Purchased Power	164,000	196,986	17%	995,106	1,110,866	12%
Chemicals	123,244	128,858	4%	691,827	864,413	25%
Materials & Supplies	116,888	159,480	27%	754,685	849,269	13%
Contractual Services	239,976	207,334	(16%)	1,274,339	1,334,120	5%
Transportation	41,082	48,268	15%	197,912	182,860	(8%)
Insurance	41,293	33,670	(23%)	201,547	202,169	0%
Advertising	1,416	1,967	28%	11,496	14,993	30%
Bad Debt Expense	114,418	(3,601)	3,277%	221,249	205,353	(7%)
Miscellaneous	2,528	5,553	54%	20,597	21,787	6%
Regulatory Commission Assessment	8,484	15,440	45%	42,543	77,199	81%
Total O & M Expenses	\$1,960,574	\$1,743,016	(12%)	\$9,760,913	\$10,027,754	3%
Depreciation Expense	\$730,000	\$635,000	(15%)	\$3,580,000	\$3,204,592	(10%)
Total Operating Expenses	\$2,690,574	\$2,378,016	(13%)	\$13,340,913	\$13,232,346	(1%)
Net Operating Income (Loss)	(\$69,180)	\$266,616	126%	\$1,673,945	\$2,111,381	26%

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Northern Kentucky Water District
Income Statement Actual to Actual
For the Five Months Ending May 31, 2010

Description	May Current yr	May Prior	Variance	May YTD Current	May YTD Prior	Variance
Non-Operating Income (Expense)						
Interest Income	\$68,930	\$6,047	(1,040%)	\$478,855	\$223,564	(53%)
Miscellaneous	7,259	3,429	(112%)	101,056	47,011	(53%)
Interest on Long Term Debt	742,067	634,769	(17%)	2,660,972	3,077,030	16%
Amortization	77,181	57,595	(34%)	1,127,971	321,986	(71%)
Net Non-Operating Income (Expense)	(\$743,059)	(\$682,888)	(9%)	(\$3,209,032)	(\$3,128,441)	(3%)
Net Income before Contributions	(\$812,239)	(\$416,272)	(95%)	(\$1,535,087)	(\$1,017,060)	(34%)
Capital Contributions	\$26,877	\$34,855	23%	\$560,053	\$135,899	(76%)
Net Income (Loss) after Contributions	(\$785,362)	(\$381,417)	(106%)	(\$975,034)	(\$881,161)	(10%)

NORTHERN KENTUCKY WATER DISTRICT
SUMMARY OF REVENUE REQUIREMENTS
TEST YEAR 2009

	<u>Total*</u>
Operation and Maintenance Expense	\$23,815,181
Debt Service Requirements	17,314,762
Debt Service Coverage	3,462,952
Depreciation Expense	8,023,443
Amorization of Acquisition Adjustment	201,120
Taxes Other than Income	<u>663,941</u>
Total Revenue Requirements	\$53,481,400
Less: Boone & Florence Settlement	(438,584)
Less: Other Operating Revenue	<u>(4,426,722)</u>
Net Revenue Requirements	<u><u>\$48,616,094</u></u>

* Reference Exhibit N, Schedule B