

PRELIMINARY OFFICIAL STATEMENT DATED DECEMBER 1, 2014

NEW ISSUE

RATING: Moody's "Aa3"

In the opinion of Bond Counsel for the 2014 Series B Bonds (defined below), 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 2014 Series B Bonds 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 2014 Series B Bonds is exempt from Kentucky income tax and the 2014 Series B Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions. See "TAX EXEMPTION" herein.



\$16,965,000*

NORTHERN KENTUCKY WATER DISTRICT REFUNDING REVENUE BONDS, SERIES 2014B

Dated: Date of Delivery

Due Date: February 1, as shown below

Interest on the 2014 Series B Bonds is payable from their dated date on each February 1 and August 1, beginning February 1, 2015. The 2014 Series B 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 665306	Year (February 1)	Amount*	Interest Rate	Yield	CUSIP 665306
2015	\$2,240,000	%	%	—	2023	\$495,000	%	%	—
2016	2,115,000			—	2024	510,000			—
2017	2,145,000			—	2025	530,000			—
2018	2,030,000			—	2026	550,000			—
2019	2,080,000			—	2027	565,000			—
2020	1,555,000			—	2028	590,000			—
2021	465,000			—	2029	615,000			—
2022	480,000			—					

The Bonds captioned above (the "2014 Series B 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 2014B Bond Resolution (the "Series 2014B Bond Resolution") adopted by the Board of Commissioners of the District on July 31, 2014 (collectively, the "Resolution"). The holders of the 2014 Series B 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 2014 SERIES B BONDS" herein.

The 2014 Series B Bonds will be fully registered bonds in denominations of \$5,000 or any integral multiple thereof without coupons. The 2014 Series B 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 2014 Series B Bonds to the ultimate purchasers. See "Book Entry" and APPENDIX E herein. Principal and interest on the 2014 Series B Bonds is payable at the principal office of The Bank of New York Mellon Trust Company, N.A, Louisville, Kentucky, as Paying Agent and Bond Registrar. The 2014 Series B Bonds are subject to optional redemption prior to maturity as described herein.

The 2014 Series B Bonds are subject to redemption prior to maturity as described herein.

The 2014 Series B 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 2014 SERIES B BONDS" herein.

The District deems this Preliminary Official Statement to be final for purposes of Security 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.

The 2014 Series B Bonds are offered when, as and if issued, subject to the approving legal opinion of Dinsmore & Shohl LLP, Covington, Kentucky, Bond Counsel. Certain legal matters have been passed upon for the District by Frost Brown Todd LLC, Florence, Kentucky, General Counsel to the District. The 2014 Series B Bonds are expected to be available for delivery on or about December 23, 2014.

R | S | A

Ross, Sinclair & Associates, LLC

*Indicates preliminary; subject to change throughout

This Preliminary Official Statement and information contained herein are subject to change, completion or amendment without notice. These securities may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

NORTHERN KENTUCKY WATER DISTRICT

Board of Commissioners

Douglas C. Wagner, Chairman
Clyde Cunningham, Secretary
David M. Spaulding, Treasurer
Fred Macke
Patricia J. Sommerkamp
Andrew C. Collins

President/CEO

C. Ronald Lovan, P.E.

Vice President of Finance and Support Services

Jack P. Bragg, Jr.

GENERAL COUNSEL

Frost Brown Todd LLC
Florence, Kentucky

BOND COUNSEL

Dinsmore & Shohl LLP
Covington, Kentucky

FINANCIAL ADVISOR

Ross, Sinclair & Associates, LLC
Lexington, Kentucky

BOND PAYING AGENT AND REGISTRAR

The Bank of New York Mellon Trust Company, N.A
Louisville, Kentucky

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 \$16,965,000* aggregate principal amount of Refunding Revenue Bonds, Series 2014B of the District. Certain information concerning the authorization, purpose, terms, conditions of sale and sources of payment of, and security for, the 2014 Series B 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 2014 Series B 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 2014 Series B Bonds should be regarded as part of the contract with the holders from time to time of the District's 2014 Series B 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.

Insofar as the statements contained in this Official Statement involve matters of opinion or estimates, even if not expressly stated as such, such statements are made as such and not as representations of fact or certainty, no representation is made that any of such statements have been or will be realized, and such statements should be regarded as suggesting independent investigation or consultation of other sources prior to the making of investment decisions. Certain information may not be current; however, attempts were made to date and document sources of information. Neither this Official Statement nor any oral or written representations by or on behalf of the District preliminary to sale of the Bonds should be regarded as part of the District's contract with the successful bidder or the holders from time to time of the Bonds.

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.

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.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
The District	1
Sources of Payment and Security for the 2014 Series B Bonds	1
Purpose of the 2014 Series B Bonds.....	1
Description of the 2014 Series B Bonds.....	2
Tax Exemption	2
Parties to the Issuance of the 2014 Series B Bonds.....	2
Authority for Issuance	3
Offering and Delivery of the 2014 Series B Bonds.....	3
Disclosure Information.....	3
Additional Information.....	3
THE DISTRICT AND AUTHORITY	3
THE 2014 SERIES B BONDS.....	4
General.....	4
Redemption.....	4
Book Entry System.....	5
SECURITY FOR THE 2014 SERIES B BONDS.....	5
Security for the 2014 Series B Bonds	5
PLAN OF FINANCE	6
SOURCES AND USES OF FUNDS	6
PLANS TO ISSUE ADDITIONAL DEBT - FIVE YEAR CAPITAL PLAN	6
GENERAL LEGAL MATTERS	7
LITIGATION INVOLVING DISTRICT	7
TAX EXEMPTION	7
RATING.....	9
UNDERWRITING	9
FINANCIAL ADVISOR.....	9
CONTINUING DISCLOSURE	10
CONCLUDING STATEMENT.....	11

Appendices

Appendix A	Aggregate Debt Service Schedule	A-1
Appendix B	Information Regarding the District and the System	B-1
Appendix C	Northern Kentucky Water District Audited Financial Statements	C-1
Appendix D	Summary of the General Bond Resolution	D-1
Appendix E	Book-Entry Only System	E-1
Appendix F	Form of Bond Counsel Opinion	F-1
Appendix G	Official Terms and conditions of Bond Sale	G-1
Appendix H	Official Bid Form	H-1

\$16,965,000*
NORTHERN KENTUCKY WATER DISTRICT
REFUNDING REVENUE BONDS, SERIES 2014B

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 2014 Series B 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 2014 Series B Bonds to potential investors is made only by means of the entire Official Statement.

The District

The 2014 Series B 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 2014 Series B 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 2014B Bond Resolution (the "Series 2014B Bond Resolution") adopted by the Board of Commissioners of the District on July 31, 2014 (collectively, the "Resolution"), the District has pledged: (i) the proceeds of the District's Water District Refunding Revenue Bonds, Series 2014B (the "2014 Series B Bonds") authorized and directed to be issued under the Series 2014B 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 2014 Series B Bonds; and (iii) subject to the priority lien granted to the holders of the District's outstanding Revenue Bonds, including the 2014 Series B 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 2014 Series B Bonds as and when same shall become due and payable.

THE 2014 SERIES B BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE DISTRICT WITHIN THE MEANING OF THE CONSTITUTION OF THE COMMONWEALTH OF KENTUCKY. THE 2014 SERIES B 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 2014 SERIES B BONDS.

Purpose of the 2014 Series B Bonds

The proceeds of the 2014 Series B Bonds will be used to: (i) refund and retire the District's outstanding: \$9,300,000 of its Water District Revenue Refunding Bonds, Series 2003C dated December 18, 2003, and \$7,415,000 of its Water District Revenue Bonds, Series 2004A dated November 18, 2004

(the "Prior Obligations") which were issued to provide funds used for paying the costs of various capital projects of the System; (ii) make a deposit to the 2014 Series B Bonds Cost of Issuance Account to pay the costs of issuing the 2014 Series B Bonds; and (iii) make a deposit to the Debt Service Reserve Fund, if necessary.

Description of the 2014 Series B Bonds

Redemption. The 2014 Series B Bonds are subject to redemption prior to their maturity (see "THE 2014 SERIES B BONDS – Redemption," herein).

Denominations. The 2014 Series B Bonds will be issued in principal amounts of \$5,000 and integral multiples thereof.

Book Entry. The 2014 Series B Bonds are issuable only as fully registered 2014 Series B Bonds, without coupons. The 2014 Series B 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 2014 Series B Bonds. Purchasers will not receive certificates representing their ownership interest in the 2014 Series B Bonds purchased. So long as DTC or its nominee is the registered owner of the 2014 Series B Bonds, payments of the principal of and interest due on the 2014 Series B Bonds will be made directly to DTC. Principal of, redemption premium, if any, and interest on the 2014 Series B Bonds will be paid directly to DTC by The Bank of New York Mellon Trust Company, N.A, Louisville, Kentucky, as Paying Agent and Registrar (the "Paying Agent" and "Registrar"). See "BOOK-ENTRY SYSTEM" and APPENDIX E herein.

Interest. The 2014 Series B 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, 2015.

Notices. In the event any 2014 Series B Bonds are called for redemption, notice shall be given by mailing a copy of the redemption notice by registered mail not less than twenty (20) days prior to the date fixed for redemption to the registered owner of each 2014 Series B 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 2014 Series B 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 2014 Series B 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 2014 Series B 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 2014 Series B Bonds. Interest on the 2014 Series B Bonds is exempt from income taxation and the 2014 Series B Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

The District has not designated the 2014 Series B Bonds as "qualified tax exempt obligations" with respect to certain financial institutions under Section 265 of the Code. See Appendix F hereto for the form of the opinion Bond Counsel proposes to deliver in connection with the 2014 Series B Bonds.

Parties to the Issuance of the 2014 Series B Bonds

The Paying Agent and Registrar for the 2014 Series B Bonds is The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky. Legal matters incidence to the issuance of the 2014 Series B Bonds and with regard to the tax-exempt status of the interest thereon are subject to the approving legal

opinion of Dinsmore & Shohl LLP, Covington, Kentucky, Bond Counsel. The financial advisor to the District with regard to the issuance of the 2014 Series B Bonds is Ross, Sinclaire & Associates, LLC, Lexington, Kentucky.

Authority for Issuance

Authority for the issuance of the 2014 Series B 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. 2014-00282 to issue the 2014 Series B Bonds on October 16, 2014.

Offering and Delivery of the 2014 Series B Bonds

The 2014 Series B Bonds are offered when, as and if issued by the District. The 2014 Series B Bonds will be delivered on or about December 23, 2014 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 2014 Series B 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 2014 Series B Bonds, is available from Ross, Sinclaire & Associates, LLC, 325 West Main Street, Suite 300, Lexington, Kentucky 40507, Attention: Mr. Dwight Salsbury.

Brief descriptions of the 2014 Series B Bonds, security for the 2014 Series B 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 No. 96-234 approved the merger of the Prior Districts. The rates, rules and regulations of the Prior Districts were adopted by the District.

The 2014 Series B Bonds are being issued under Section 510(2) of the General Bond Resolution and the Series 2014B Bond Resolution. The 2014 Series B 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. 2014-00282 to issue the 2014 Series B Bonds on October 16, 2014.

THE 2014 SERIES B BONDS

General

The 2014 Series B Bonds are to be issued only as fully registered Bonds in denominations of \$5,000 or any integral multiple thereof without coupons. The 2014 Series B Bonds will be dated their date of delivery, will bear interest from that date as described herein, payable semi-annually on February 1 and August 1 of each year commencing February 1, 2015 (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 2014 Series B 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 2014 Series B 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 2014 Series B Bond, the District shall issue in the name of the transferee a new registered 2014 Series B Bond of the same aggregate principal amount, series and maturity as the surrendered 2014 Series B Bond. If any 2014 Series B Bond is mutilated, lost, stolen or destroyed, the District will execute and deliver a new 2014 Series B Bond in accordance with the General Bond Resolution.

Redemption

Optional Redemption. The 2014 Series B Bonds maturing on or after February 1, 2024 are subject to optional redemption, in whole or in part, on any date beginning August 1, 2023, 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 2014 Series B Bonds maturing on February 1, 20__, February 1, 20__ and February 1, 20__ 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:

[Insert Mandatory Sinking Fund Redemption Dates]

Selection of Bonds to be Redeemed. In the event of redemption of less than all the outstanding 2014 Series B Bonds of the same maturity, the District shall assign to each such outstanding 2014 Series B Bond a distinctive number for each \$5,000 of the principal amount of such 2014 Series B 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 2014 Series B Bonds to be redeemed. The 2014 Series B Bonds to be redeemed shall be the 2014 Series B Bonds to which were assigned numbers so selected; provided, however, that only so much of the principal amount of each such 2014 Series B 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 2014 Series B Bonds determined by the District to be redeemed, which notice shall specify the maturities of the 2014 Series B 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 2014 Series B Bonds of the same maturity are to be redeemed, the letters and numbers or other distinguishing marks of such 2014 Series B Bonds so to be redeemed and, in the case of 2014 Series B 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 2014 Series B Bond to be redeemed the redemption price thereof, or the redemption price of the specified portions of the principal thereof of 2014 Series B 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 twenty (20) days before the Redemption Date to the registered owners of any 2014 Series B Bonds or portions of 2014 Series B Bonds which are to be redeemed, at their last addresses, appearing upon the registry books.

Book Entry System

The 2014 Series B Bonds initially will be issued solely in book entry form to be held in the book-entry only system maintained by DTC. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of 2014 Series B Bonds and Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the 2014 Series B Bonds under the Resolution. For additional information about DTC and the book-entry-only system see "APPENDIX E – Book-Entry Only System."

THE INFORMATION IN THIS SECTION AND IN APPENDIX E 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 2014 SERIES B BONDS

Security for the 2014 Series B 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 D "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 2014 Series B 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 2014 Series B Bonds are no longer Outstanding under the Resolution.

PLAN OF FINANCE

The Prior Obligations will be discharged by depositing an amount of proceeds of the 2014 Series B Bonds in the respective bond payment fund for each series of Prior Obligations that will be used to redeem all the Prior Obligations on January 5, 2015. The remaining proceeds from the sale of the 2014 Series B Bonds will be (i) deposited in the Debt Service Reserve Fund, if necessary, in order to meet the debt service reserve requirements as provided in the General Bond Resolution, if necessary, and (ii) used to pay the costs of issuing the Bonds (see "SOURCES AND USES OF FUNDS" herein).

SOURCES AND USES OF FUNDS

<u>Sources</u>	
Principal Amount of 2014 Series B Bonds	\$16,965,000*
[Less][Plus]Original Issue [Discount][Premium]	\$
TOTAL	\$
 <u>Uses</u>	
Deposit to Series 2003C Bond Payment Fund	\$
Deposit to Series 2004A Bond Payment Fund	
[Deposit to Debt Service Reserve Fund]	
Costs of Issuance	
Underwriter's Discount	\$
TOTAL	\$

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 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 2013 through 2017 that totals approximately \$89 million. Water Quality and Production issues account for approximately \$44 million (50%) of this total while Distribution issues also represent approximately \$44 million (50%).

The replacement of aging infrastructure, the upgrade of distribution capacity, and the provision for redundancy and reliability are the drivers of this capital effort in order to provide water to the region in a sustainable manner.

The District was approved for an Assistance Agreement with the Kentucky Infrastructure Authority for up to \$4,000,000 in November 2014. The obligations of the District under the Assistance Agreement are subordinate to the 2014 Series B Bonds and all other bonds outstanding under the Resolution.

GENERAL LEGAL MATTERS

The issuance of the 2014 Series B 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 Dinsmore & Shohl LLP, Covington, Kentucky, Bond Counsel, whose approving opinion will be delivered with the 2014 Series B Bonds. Certain legal matters will be passed upon for the District by its counsel, Frost Brown Todd LLC.

Bond Counsel has reviewed legal matters incident to those sections of the Official Statement entitled "The 2014 Series B 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 2014 Series B Bonds, or in any way contesting or affecting the validity of such 2014 Series B 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 2014 Series B Bonds, or the due existence or powers of the District.

TAX EXEMPTION

General. In the opinion of Bond Counsel for the 2014 Series B Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the 2014 Series B Bonds will be excludible from gross income for federal income tax purposes. Bond Counsel for the 2014 Series B Bonds is also of the opinion that interest on the 2014 Series B Bonds will not be a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of computing the alternative minimum tax for individuals and corporations. Furthermore, Bond Counsel for the 2014 Series B Bonds is of the opinion that interest on the 2014 Series B Bonds is exempt from income taxation by the Commonwealth and the 2014 Series B Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

A copy of the form of opinion of Bond Counsel for the 2014 Series B Bonds is set forth in Appendix F, attached hereto.

The Code imposes various restrictions, conditions, and requirements relating to the qualification of the 2014 Series B Bonds as so-called "tax-exempt" bonds. The District has covenanted to comply with certain restrictions designed to ensure that interest on the 2014 Series B Bonds will not be includable in gross income for federal income tax purposes. Failure to comply with these covenants could result in the 2014 Series B Bonds not qualifying as "tax-exempt bonds," and thus interest on the 2014 Series B Bonds being includable in the gross income of the holders thereof for federal income tax purposes. Such failure to qualify and the resulting inclusion of interest could be required retroactively to the date of issuance of the 2014 Series B 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 2014 Series B Bonds may adversely affect either the federal or Kentucky tax status of the 2014 Series B 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 2014 Series B 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 2014 Series B 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 Dinsmore & Shohl LLP.

Although Bond Counsel for the 2014 Series B Bonds is of the opinion that interest on the 2014 Series B Bonds will be excludible from gross income for federal income tax purposes and the 2014 Series B Bonds will be exempt from Kentucky income tax, as described above, the ownership or disposition of, or the accrual or receipt of interest on, the 2014 Series B Bonds may otherwise affect a Holder'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 Holder or the Holder'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 Holder or potential Holder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the 2014 Series B Bonds on the tax liabilities of the individual or entity.

Receipt of tax-exempt interest, ownership or disposition the 2014 Series B Bonds may result in other collateral federal, state or local tax consequence for certain taxpayers. Such effects may include, 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 the Railroad Retirement benefits under Section 86 of the Code and limiting the amount of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any of the 2014 Series B Bonds may also result in the limitation of interest and certain other deductions for financial institutions and other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the Holder of the 2014 Series B 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 2014 Series B Bonds.

The District has *not* designated the 2014 Series B Bonds as "qualified tax-exempt obligations" under 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 2014 Series B 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 2014 Series B 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 2014 Series B 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. 2014 Series B 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.

RATING

Moody's has assigned its municipal bond rating to the 2014 Series B Bonds, as shown on the cover page hereto. Such rating reflects only the view of the rating agency. Any explanation of the significance of such ratings may only be obtained from Moody's at the following address: Moody's Investors Service, Inc. at 7 World Trade Center, 250 Greenwich Street, Public Finance Group - 23rd Floor, New York, New York 10007, (212) 553-0300. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such organization if, in the judgment of such organization, circumstances so warrant. Any such downward revision or withdrawal of such rating will have adverse effects on the market price of the 2014 Series B Bonds.

UNDERWRITING

The 2014 Series B Bonds are being purchased for reoffering by _____ (the "Underwriter"). The Underwriter has agreed to purchase the 2014 Series B Bonds at an aggregate purchase price of \$_____ (reflecting the par amount of the 2014 Series B Bonds, plus premium of \$_____, and less underwriter's discount of \$_____). 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 2014 Series B Bonds to certain dealers (including dealers depositing 2014 Series B 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, Sinclair & Associates, LLC is employed as Financial Advisor to the District in connection with the issuance of the 2014 Series B Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the 2014 Series B Bonds is contingent upon the issuance and delivery thereof. The Preliminary Official Statement was prepared and distributed by the Financial Advisors. The information

set forth herein was obtained from the District and other sources believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of the Financial Advisors.

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 December 23, 2014 (the "Disclosure Agreement"), to be delivered on the date of delivery of the 2014 Series B Bonds, to cause the following information to be provided:

- (i) to the Municipal Securities Rulemaking Board (the "MSRB"), 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" and "Appendix C" (the "Financial Data") of the Official Statement; such information shall be provided on or before October 1 following the fiscal year ending on the preceding December 31, commencing with the fiscal year ended December 31, 2014, provided that the audited financial statements may not be available by such date, but will be made available immediately upon delivery thereof by the auditor to the Obligated Person;
- (ii) to the MSRB, notice of the occurrence of the following events, if material, with respect to the Bonds:
 - (a) Principal and interest payment delinquencies;
 - (b) Non-payment related defaults, if material;
 - (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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security;
 - (g) Modifications to rights of security holders, if material;
 - (h) Bond calls, if material, and tender offers (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, if material;
 - (k) Rating changes;
 - (l) Bankruptcy, insolvency, receivership or similar event of the obligated person (Note: For the purposes of this event, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having

- supervision or jurisdiction over substantially all of the assets or business of the obligated person);
- (m) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
 - (n) Appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (iii) in a timely manner, to the MSRB, notice of a failure (of which the Obligated Person has knowledge) of an Obligated Person to provide the required Annual Financial Information on or before the date specified in the Continuing Disclosure Agreement.

The Disclosure Agreement provides holders of the 2014 Series B Bonds, including beneficial owners of the 2014 Series B 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 2014 Series B 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.

For purposes of this transaction with respect to events as set forth in the Rule:

- (i) there are no credit enhancements applicable to the Bonds;
- (ii) there are no liquidity providers applicable to the Bonds; and
- (iii) there is no property securing the repayment of the Bonds.

Pursuant to outstanding continuing disclosure agreements (the "Existing Agreements") the District is required to file certain annual financial information with the MSRB by October 1 of each year. The District operates on a fiscal year ending each December 31 and the General Bond Resolution requires that annual audits be completed within 60 days of the end of each fiscal year. Certain Existing Agreements correctly reference a fiscal year ending December 31 while others reference a fiscal year ending June 30. The District has filed its annual audits upon completion in accordance with the General Bond Resolution.

For the year ending December 31, 2010, the District's annual financial information was not filed by the date required in the Existing Agreements. The annual financial information was subsequently filed on October 4, 2011, and the District has complied with the requirements of the Rule in every year since 2010. The District has procedures in place to assure compliance with the Rule and the Existing Agreements in the future and, except for the late filing in 2011, is in compliance the continuing disclosure undertaking requirements of the Rule in connection with its outstanding obligations that are subject to such requirements.

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 2014 Series B 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/ _____
Chairman

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APPENDIX A

AGGREGATE DEBT SERVICE SCHEDULE

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Northern Kentucky Water District
Refunding Revenue Bonds, Series 2014B
Debt Service Schedule

Estimated Principal and Interest Requirements

Date	Principal	Interest	Total Principal and Interest
02/01/2014	2,360,000	235,827	\$2,595,827
08/01/2014		314,444	\$314,444
02/01/2015	2,280,000	314,444	\$2,594,444
08/01/2015		305,438	\$305,438
02/01/2016	2,305,000	305,438	\$2,610,438
08/01/2016		291,723	\$291,723
02/01/2017	1,870,000	291,723	\$2,161,723
08/01/2017		277,511	\$277,511
02/01/2018	1,355,000	277,511	\$1,632,511
08/01/2018		264,774	\$264,774
02/01/2019	1,380,000	264,774	\$1,644,774
08/01/2019		249,456	\$249,456
02/01/2020	1,410,000	249,456	\$1,659,456
08/01/2020		231,549	\$231,549
02/01/2021	1,445,000	231,549	\$1,676,549
08/01/2021		211,175	\$211,175
02/01/2022	1,495,000	211,175	\$1,706,175
08/01/2022		188,077	\$188,077
02/01/2023	1,540,000	188,077	\$1,728,077
08/01/2023		162,821	\$162,821
02/01/2024	1,595,000	162,821	\$1,757,821
08/01/2024		135,387	\$135,387
02/01/2025	1,655,000	135,387	\$1,790,387
08/01/2025		105,680	\$105,680
02/01/2026	1,710,000	105,680	\$1,815,680
08/01/2026		73,361	\$73,361
02/01/2027	1,780,000	73,361	\$1,853,361
08/01/2027		38,028	\$38,028
02/01/2028	1,855,000	38,028	\$1,893,028
	<u>\$26,035,000</u>	<u>\$5,934,668</u>	<u>\$31,969,668</u>

All figures rounded to nearest dollar

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APPENDIX B

INFORMATION REGARDING THE DISTRICT AND THE SYSTEM

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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 No. 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 300,000 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 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 2011.

	2011 Beginning Year Customers	2011 Year Customer End	Year End Customers by Class	Sales	Sales by Class
Residential	73,877	73,942	91.50%	\$25,830,125	60.31%
Commercial	4,269	4,165	5.15%	\$6,480,434	15.13%
Industrial	109	109	0.13%	\$3,340,091	7.80%
Public Authorities	481	490	0.61%	\$2,204,488	5.15%
Multiple Family Dwellings	1,633	1,648	2.04%	\$3,554,109	8.30%
Bulk Loading Stations	5	5	0.01%	\$62,113	0.15%
Fire Protection	450	450	0.56%	\$30,695	0.07%
Wholesale Customers	3	3	0.00%	\$1,324,677	3.09%
Total:	80,827	80,812	100.00%	\$42,826,732	100.00%

Wholesale Customers

At the end of calendar year 2011, 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 2011.

	Consumption Gallons	Revenue
City of Walton	173,046,800	\$525,050
Bullock Pen Water District	164,037,200	\$497,687
Pendleton County Water	97,771,800	\$296,406
Total:	434,855,800	\$1,319,143

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 Bromely, 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 No. 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 2011 were:

<u>Customer Name</u>	<u>Total Consumption (Gallons)</u>	<u>Total Water Sales</u>
Kenton County Airport Board	138,507,160	\$486,840
Sara Lee Foods	132,519,420	\$477,484
Club Chef LLC	122,112,496	\$428,510
Lafarge Gypsum	121,697,356	\$427,543
St Elizabeth Hospital	94,145,524	\$341,212
Schwan's Global Supply Chain	87,568,360	\$310,573
Northern Kentucky University	73,036,964	\$284,927
Trauth Dairy	58,928,188	\$213,560
Newport Steel	58,821,972	\$212,401
Ticona	49,884,120	\$181,299
Totals:	937,221,560	\$3,364,349

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 million gallons per day. The average daily demand is 28-30 mgd or slightly under 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 2010-00094, dated January 7, 2011 (the "Order"), provides that the District is authorized, to adjust certain rates charged by the System to its customers in order to produce additional revenues in two phases.

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

Effective January 7, 2011 Phase I

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

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/Quarterly Block</u>	<u>Rate</u>
First	1,500 cubic feet/4,500 cubic feet	\$3.67 Per 100 cubic feet
Next	163,500 cubic feet/490,500 cubic feet	\$3.08 Per 100 cubic feet
Over	165,000 cubic feet/495,000 cubic feet	\$2.57 Per 100 cubic feet
Wholesale		\$3.05 per 1,000 gallons \$2.28 Per 100 cubic feet
Bulk Sales (Fill Stations)		\$4.90 Per 1,000 gallons
Overtime Charge		\$60

Effective January 1, 2012 Phase II

<u>Meter Size</u>	<u>Monthly Charge</u>	<u>Quarterly Charge</u>
5/8 inch	\$13.00	\$26.00
3/4 inch	\$13.44	\$27.40
1 inch	\$14.67	\$31.50
1 1/2 inch	\$16.51	\$37.12
2 inch	\$20.87	\$52.18
3 inch	\$50.39	\$162.35
4 inch	\$63.12	\$203.46
6 inch	\$93.47	\$300.76
8 inch	\$126.22	\$410.89
10 inch and larger	\$167.85	\$536.54

	<u>Monthly Block/Quarterly Block</u>	<u>Rate</u>
First	1,500 cubic feet/4,500 cubic feet	\$4.02 Per 100 cubic feet
Next	163,500 cubic feet/490,500 cubic feet	\$3.27 Per 100 cubic feet
Over	165,000 cubic feet/495,000 cubic feet	\$2.58 Per 100 cubic feet
Wholesale		\$3.13 per 1,000 gallons
		\$2.34 Per 100 cubic feet
Bulk Sales (Fill Stations)		\$5.40 Per 1,000 gallons
Overtime Charge		\$60

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

Effective June, 4 2010

Sub-district Charges

Sub-district A shall be assessed a monthly surcharge in the amount of \$ 8.55
 Sub-district B shall be assessed a monthly surcharge in the amount of \$17.92
 Sub-district C shall be assessed a monthly surcharge in the amount of \$18.48
 Sub-district D shall be assessed a monthly surcharge in the amount of \$30.00
 Sub-district 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 \$13.65
 Sub-district R shall be assessed a monthly surcharge in the amount of \$18.73
 Sub-district RF shall be assessed a monthly surcharge in the amount of \$21.61
 Sub-district RL shall be assessed a monthly surcharge in the amount of \$36.22

District Production, Usage and Sales Trends

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>Customers</u>					
Residential	73,361	73,366	73,819	73,877	73,942
Commercial	4,392	4,336	4,326	4,269	4,165
Industrial	111	114	112	109	109
Other	2,522	2,394	2,584	2,572	2,596
Total	80,386	80,210	80,841	80,827	80,812
<u>Water Sales</u>					
Residential	\$22,487,843	\$24,351,516	\$23,746,320	\$25,358,536	\$25,830,125
Commercial	\$6,124,182	\$6,336,052	\$5,989,314	\$6,333,852	\$6,480,434
Industrial	\$2,907,673	\$3,257,666	\$3,160,606	\$3,387,672	\$3,340,091
Other	\$5,890,547	\$6,464,503	\$6,524,433	\$7,038,746	\$7,176,082
Total	\$37,410,245	\$40,409,737	\$39,420,673	\$42,118,806	\$42,826,732
<u>Avg Monthly Bill by Customer</u>					
Residential	\$25.54	\$27.66	\$26.81	\$28.60	\$29.11
Commercial	\$116.20	\$121.77	\$115.37	\$123.64	\$129.66
Industrial	\$2,182.94	\$2,381.33	\$2,351.64	\$2,589.96	\$2,553.59
Other	\$194.64	\$225.02	\$210.41	\$228.06	\$230.36
<u>Line Loss (as % of Production)</u>					
	11.26%	13.21%	14.98%	9.88%	13.25%

Outstanding Indebtedness

The table below lists the District's outstanding bond issues as of 12/1/2014, including the estimates on the 2014 Series B Bonds:

Debt Capsule Summary Report

Bond Series	Original Par Amount	Amount Outstanding	Interest Rate Range	Final Maturity	Call Information
2000 USDA	\$2,287,000	\$1,987,000	5.000%	05/01/39	N/A
2003C-REF	\$23,790,000	\$0	4.000 - 4.250%	02/01/20	Feb 2014 @ 100%
2004	\$10,455,000	\$0	3.500 - 4.500%	02/01/29	Aug 2014 @ 100%
2004 Loan (Taylor Mill)	\$3,000,000	\$925,000	0.000%	2018	N/A
2006	\$29,000,000	\$23,945,000	4.000 - 4.375%	02/01/31	Aug 2016 @ 100%
2006KIA F06-03	\$4,000,000	\$3,304,508	3.000%	06/01/28	N/A
2008KIA F08-07	\$4,000,000	\$4,000,000	1.000%	12/01/32	N/A
2009KIA C08-01	\$6,000,000	\$4,939,351	3.000%	12/01/20	N/A
2009	\$29,290,000	\$25,560,000	4.000 - 6.150%	02/01/33	Feb 2019 @ 100%
2010KIA F09-02	\$24,000,000	\$24,000,000	2.000%	12/01/33	N/A
2011	\$30,830,000	\$29,155,000	3.000 - 5.000%	02/01/35	Feb 2021 @ 100%
2012-Ref	\$54,840,000	\$53,115,000	4.000 - 5.000%	02/01/27	Feb 2022 @ 100%
2013	\$26,400,000	\$26,400,000	2.000 - 5.000%	02/01/38	Feb 2023 @ 100%
2013-REF	\$24,120,000	\$22,120,000	5.000 - 4.000%	02/01/28	Aug 2023 @ 100%
2014-REF (Estimated)*	\$16,965,000	\$16,965,000	TBD	02/01/29	TBD
2016 USDA (Estimated) **	\$1,733,000	\$1,733,000	2.750%	02/01/56	N/A
Totals:	\$333,170,000	\$238,148,859	---	---	---

*Proposed Refinancing of outstanding Series 2003C and 2004 bonds

** District currently has outstanding project that will be funded by a USDA loan -- USDA bonds projected to close 2016

APPENDIX C

NORTHERN KENTUCKY WATER DISTRICT AUDITED FINANCIAL STATEMENTS

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**NORTHERN KENTUCKY
WATER DISTRICT**

FINANCIAL STATEMENTS

December 31, 2013 and 2012

**NORTHERN KENTUCKY
WATER DISTRICT**

FINANCIAL STATEMENTS

December 31, 2013 and 2012

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis (M D & A)	5
Statements of Net Position	10
Statements of Revenues, Expenses, and Changes in Net Position.....	12
Statements of Cash Flows.....	13
Notes to the Financial Statements.....	14
SUPPLEMENTARY INFORMATION:	
Statement of Comparison of Budget to Actual (Required Supplementary Information).....	33
OTHER SUPPLEMENTARY INFORMATION	
Statements of Water Operating Revenue	34
Statements of Combined Operation and Maintenance Expenses.....	35
Schedule of Insurance Coverages.....	36
Schedule of Rates, Rules and Regulations.....	37
Members of the Commission and Administrative Staff.....	39
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.....	
Schedule of Findings and Responses.....	44



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

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

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



Other Reporting Required by *Government Auditing Standards*

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

RANKIN, RANKIN & COMPANY

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2013. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

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

Overview of the Financial Statements

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

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

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

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

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

Overview of Annual Financial Report

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

Table 1
Net Position

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

The District's net position for 2013 increased 5.6%, as compared to the previous year. This increase was mainly attributable to additional capital assets acquired from new construction and an increase in operating revenue. The largest portion of the District's net position (55%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position (29%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

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

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

**Table 2
Changes in Net Position**

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

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

In reviewing income before capital contributions, the financial statements showed net income for the year of \$6,636,693. Operating revenues decreased 4.56% due to the slight decrease in water sales, and increase in interest on long-term debt. Operating expenses (including depreciation) remained relatively flat and decreased by less than 0.19%.

Debt and Capital Asset Administration

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

Table 3
Outstanding Debt at Year End

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

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

Capital Assets

At December 31, 2013, the capital assets reported amounted to \$443,020,050 invested in capital assets including land, buildings, water systems, equipment, and vehicles. This represents a net increase of \$10,671,293, or 2%, over last year due to the District's investment in distribution and treatment projects, and vehicle and equipment purchases during the year.

Table 4
Capital Assets, Net of Depreciation

	<u>2013</u>	<u>2012</u>
Not being depreciated:		
Land	\$ 3,291,127	\$ 3,291,127
Construction in progress	14,441,478	43,776,830
Plant Acquisition Adjustment	5,516,136	5,516,136
Other capital assets:		
Utility plants:	419,771,309	379,764,664
Transmission & Distribution, Source of Supply, Pumping system, Power Generation, Water Treatment and General plant and equipment		
Subtotal	<u>443,020,050</u>	<u>432,348,757</u>
Accumulated depreciation	<u>(111,130,615)</u>	<u>(101,451,833)</u>
TOTALS	<u>\$ 331,889,435</u>	<u>\$ 330,896,924</u>

Economic Factors and Next Year's Budget

The District's budget for 2014 projects a moderate increase in water revenue due to a phased rate increase in 2014. A modest increase is anticipated for operating expenses as a result of chemical cost increases due to utilization of the new Granular Activated Carbon process.

Contacting The District's Financial Management

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administrative Office at 2835 Crescent Springs Road, Erlanger, KY, 41018.

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

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

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

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

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

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

NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

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

See accompanying notes.

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

NOTE 1 – REPORTING ENTITY

Description of Entity

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting and Presentation

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

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

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

Fund Structure

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

General Revenue Account

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

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

Operation and Maintenance Account

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

Boone Florence Settlement

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

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

Bond Proceeds Fund

This fund contains the bond proceeds plus investment interest earned that are available for paying the cost of construction and acquisition contracts relating to the water system as provided in the various bond ordinances.

Debt Service Reserve Account

The Debt Service Reserve Account holds an amount that will equal the aggregate debt service reserve requirement (defined as the maximum annual debt service requirement in any succeeding bond fiscal year). The account assets are:

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

Maximum annual debt service is \$17,888,352 of senior debt.

Debt Service Account

The Debt Service Account accumulates monies for the purpose of paying interest on the bonds when due and payable and paying the principal of the bonds when due and payable. The account assets are:

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

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

Improvement, Repair and Replacement Account

The Improvement, Repair and Replacement Account are available to make major repairs and replacements and to pay the cost of construction of additions, extensions and improvements to the water system. The account assets are:

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

Plant Account

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

Summary of Significant Accounting Policies:

Use of Estimates

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

Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers all highly liquid unrestricted debt instruments purchased with a maturity of three months or less to be cash equivalents.

The District is authorized by bond resolution to invest in direct obligations of the United States, or obligations guaranteed by the United States, obligations of certain federal agencies and instrumentalities, including U.S. dollar-denominated deposits in commercial banks which are insured by the Federal Deposit Insurance Corporation or fully collateralized by the foregoing, and public housing bonds or project notes issued by public housing authorities annual contribution contracts with the United States or by requisition or payment agreement with the United States.

Investment Policy

General Policy

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

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

Authorized Investment Instruments

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

Limitations of Investment Transaction

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

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

Deposits and Investments

Custodial Credit Risk – Deposits. For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned. The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC Insurance at least equal to the amount on deposit at all times. As of December 31, 2013, the District's deposits are entirely insured and/or collateralized with securities held by the financial institutions on the District's behalf and the FDIC Insurance.

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District had no custodial credit risk at December 31, 2013.

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

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

Supplemental Disclosure of Cash Flow Information

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

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

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

Accounts Receivable - Customers

The District follows a quarterly cycle billing procedure with approximately one-third of the meters read and billed each month. When meter reading is delayed, estimated bills are rendered to promote consistency of water revenue. In order to accomplish a proper matching of revenues with expenses and to fairly state assets, an analysis is prepared of the final quarterly billings in the year to determine the estimated amount of water delivered but unbilled at year end.

Accounts receivable are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of an account has not been paid in full within the contractual terms of the account. The District begins to assess its ability to collect receivables that are over 90 days past due and provides for an adequate allowance for doubtful accounts based on the District's collection history, the financial stability and recent payment history of the customer, and other pertinent factors. Based on these criteria, the District has estimated no allowance for doubtful accounts at December 31, 2013 because it expects no material losses.

Assessments Receivable

Direct assessments from property owners are recorded as a receivable by the District at the time the improvement project is completed.

Inventory

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

NORTHERN KENTUCKY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

Capital Assets

Prior to 1978, utility plant assets were recorded as expenditures at the time of purchase and capitalized to the Plant Fund. No depreciation was provided on utility plant assets and continuing property records were not maintained.

The District obtained an independent appraisal which includes a detailed listing of District buildings, structures and contents. The appraisal serves as the basis for detailed property records that is updated on a continuous basis.

Utility plant assets are stated at cost or appraised value. Interest related to the financing of projects under construction is capitalized as part of the projects' basis in connection with the various construction projects in progress. In 2013, interest in the amount of \$889,053 has been capitalized. The cost of current repairs and maintenance is charged to expense, while the cost of replacements or betterments is capitalized.

Depreciation of the utility plant is computed on the straight-line method over the estimated useful lives of the assets. Useful lives range from:

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

Miscellaneous Deferred Charges

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

Construction in Progress

Capitalizable costs incurred on projects which are not in use or ready for use are held in construction in progress. When the asset is ready for use, related costs are transferred to utility plant.

Capital Contributions

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

Restricted Net Position

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

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

Included in restricted net position at December 31,

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

NOTE 3 - ACCOUNTS RECEIVABLE

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

NOTE 4 - BONDED INDEBTEDNESS

Fiscal Court of Kenton County, Kentucky

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

Rural Development Loan

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

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

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

Year	Principal Amount	Interest Amount	Total Debt Service
2014	\$ 38,000	\$ 96,600	\$ 134,600
2015	40,000	94,650	134,650
2016	42,000	92,600	134,600
2017	44,000	90,450	134,450
2018	46,000	88,200	134,200
2019-2023	269,000	402,875	671,875
2024-2028	342,000	326,900	668,900
2029-2033	437,000	230,025	667,025
2034-2038	563,000	105,625	668,625
2039	130,000	3,250	133,250
Total	\$ 1,951,000	\$ 1,531,175	\$ 3,482,175

Water District Refunding Revenue Bonds, Series 2003 C

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

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

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

Water District Revenue Bonds, Series 2004

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

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

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

Year	Interest Rate	Principal Amount	Interest Amount	Total Debt Service
2014	3.50%	\$ 345,000	\$ 329,938	\$ 674,938
2015	4.00%	360,000	316,700	676,700
2016	4.00%	375,000	302,000	677,000
2017	4.00%	390,000	286,700	676,700
2018	4.00%	405,000	270,800	675,800
2019 - 2023	4.00-4.50%	2,315,000	1,071,851	3,386,851
2024 - 2028	4.50%	2,905,000	488,140	3,393,140
2029	4.50%	665,000	14,963	679,963
Totals		\$ <u>7,760,000</u>	\$ <u>3,081,092</u>	\$ <u>10,841,092</u>

Taylor Mill Purchase Financing

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

Year	Principal Amount
2014	\$ 175,000
2015	175,000
2016	175,000
2017	175,000
2018	<u>50,000</u>
Totals	\$ <u>750,000</u>

Water District Revenue Bonds, Series 2006

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

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

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

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2014	4.00%	\$ 900,000	\$ 979,688	\$ 1,879,688
2015	4.00%	940,000	942,888	1,882,888
2016	4.00%	980,000	904,488	1,884,488
2017	4.00%	1,020,000	864,488	1,884,488
2018	4.00%	970,000	824,688	1,794,688
2019 - 2023	4.00-4.125%	6,210,000	3,422,858	9,632,858
2024 - 2028	4.125%	7,530,000	1,993,959	9,523,959
2029 - 2031	4.125-4.250%	5,395,000	359,973	5,754,973
Totals		\$ <u>23,945,000</u>	\$ <u>10,293,030</u>	\$ <u>34,238,030</u>

Kentucky Infrastructure Authority Loan F06-03

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

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2014	\$ 175,436	\$ 100,447	\$ 275,883
2015	180,738	94,692	275,430
2016	186,201	88,785	274,986
2017	191,828	82,688	274,516
2018	197,627	76,406	274,033
2019 - 2023	1,081,427	280,986	1,362,413
2024 - 2028	1,120,962	92,886	1,213,848
Totals	\$ <u>3,134,219</u>	\$ <u>816,890</u>	\$ <u>3,951,109</u>

Water District Revenue Bonds, Series 2009

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

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

The Water District Revenue Bonds, Series 2009, are scheduled to mature as follows:

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2014	4.00%	\$ 750,000	\$ 1,426,662	\$ 2,176,662
2015	4.13%	780,000	1,395,575	2,175,575
2016	4.250%	815,000	1,362,169	2,177,169
2017	4.250%	850,000	1,324,663	2,174,663
2018	4.250%	895,000	1,282,101	2,177,101
2019-2023	4.250 -5.250%	5,230,000	5,652,358	10,882,358
2024-2028	5.250 -5.75%	6,910,000	3,970,922	10,880,922
2029-2033	5.75 - 6.00%	9,330,000	1,551,141	10,881,141
Totals		\$ <u>25,560,000</u>	\$ <u>17,965,591</u>	\$ <u>43,525,591</u>

Kentucky Infrastructure Authority Loan C08-01

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

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

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2014	\$ 571,512	\$ 132,277	\$ 703,789
2015	588,895	113,431	702,326
2016	606,807	94,325	701,132
2017	625,264	74,639	699,903
2018	644,281	54,323	698,604
2019 - 2020	<u>1,347,951</u>	<u>45,362</u>	<u>1,393,313</u>
Totals	\$ <u>4,384,710</u>	\$ <u>514,357</u>	\$ <u>4,899,067</u>

Kentucky Infrastructure Authority Loan C08-07

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

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

The Kentucky Infrastructure Authority Loan C08-07 is scheduled to mature as follows:

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

Kentucky Infrastructure Authority Loan F09-02

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

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

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

Water District Revenue Bonds, Series 2011

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

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

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

Years	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2014	3.000%	\$ 875,000	\$ 1,200,587	2,075,587
2015	3.000%	900,000	1,173,963	2,073,963
2016	3.000%	930,000	1,146,512	2,076,512
2017	3.000%	960,000	1,118,162	2,078,162
2018	3.000%	985,000	1,088,987	2,073,987
2019-2023	3.000-4.000%	5,490,000	4,884,735	10,374,735
2024-2028	4.000-4.125%	6,715,000	3,663,468	10,378,468
2029-2033	4.250-4.500%	8,350,000	2,032,125	10,382,125
2034-2035	5.000%	3,950,000	200,000	4,150,000
Totals		\$ 29,155,000	\$ 16,508,539	\$ 45,663,539

Water District Refunding Revenue Bonds, Series 2012

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2014	4.00%	\$ 1,800,000	\$ 2,563,400	4,363,400
2015	4.00%	1,875,000	2,489,900	4,364,900
2016	4.00%	1,960,000	2,413,200	4,373,200
2017	5.00%	2,530,000	2,310,750	4,840,750
2018	5.00%	3,475,000	2,160,625	5,635,625
2019-2023	5.00%	21,475,000	7,813,375	29,288,375
2024-2027	5.00%	20,000,000	1,957,750	21,957,750
		\$ 53,115,000	\$ 21,709,000	\$ 74,824,000

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

Water District Revenue Bonds, Series 2013

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

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

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

Water District Refunding Revenue Bonds, Series 2013B

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

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

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2014	4.00%	\$ 2,000,000	\$ 933,408	\$ 2,933,408
2015	4.00%	1,920,000	1,008,950	2,928,950
2016	4.00%	2,020,000	910,450	2,930,450
2017	5.00%	1,645,000	818,825	2,463,825
2018	5.00%	1,170,000	748,450	1,918,450
2019-2023	5.00%	6,810,000	2,778,500	9,588,500
2024-2028	5.00%	8,555,000	1,031,750	9,586,750
		\$ <u>24,120,000</u>	\$ <u>8,230,333</u>	\$ <u>32,350,333</u>

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

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

Changes in long-term debt are as follows:

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

NOTE 5 - EMPLOYEE RETIREMENT SYSTEMS

County Employees Retirement System (CERS)

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

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

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

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

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

Non-hazardous Contributions – For the year ended December 31, 2013, plan members were required to contribute 5% (6% for members with a participation date on or after September 1, 2008) of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended December 31, 2013, participating employers contributed 19.55%/18.89% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended December 31, 2013 was 19.55% through June 30, 2013 and 18.89% after June 30, 2013 of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

Year	Contribution	Contributed
2013	\$ 1,467,384	100%
2012	\$ 1,510,110	100%
2011	\$ 1,412,439	100%

401(k) Plan and 457 Plan

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

NOTE 6 – OPERATING LEASES

The District is obligated under certain non-cancelable leases for equipment. The leases expire at various dates through April, 2014. Lease expense for both the years ended December 31, 2013 and 2012 was \$17,040.

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

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

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

NOTE 7-CHANGES IN UTILITY PLANT IN SERVICE

The changes in utility plant in service are as follows:

	December 31, 2012	Additions	Retirements	December 31, 2013
Land and land rights	3,291,127 \$	-	-	3,291,127 \$
Structures and improvements	84,991,863	31,296,008	-	116,287,871
Lake river and other intakes	1,463,171	-	-	1,463,171
Supply mains	2,865,693	-	-	2,865,693
Power generation plant	3,491,523	-	-	3,491,523
Pumping equipment	11,289,153	65,866	-	11,355,019
Water treatment equipment	29,609,250	254,019	2,130	29,861,139
Distribution reservoirs and standpipes	9,567,871	-	-	9,567,871
Transmissions and distribution mains	167,145,414	7,586,811	967,363	173,764,862
Services	25,747,190	1,471,809	398,650	26,820,349
Meters and meter installations	17,157,630	473,440	230,288	17,400,782
Hydrants	7,919,662	481,562	58,500	8,342,724
Other plant and miscellaneous equipment	3,429,789	52,699	2,382	3,480,106
Office furniture and equipment	3,512,563	98,738	62,540	3,548,761
Transportation equipment	2,944,544	127,083	221,274	2,850,353
Tools, shop and garage equipment	579,025	20,716	5,846	593,895
Laboratory equipment	194,979	56,672	-	251,651
Power operated equipment	1,061,890	24,300	53,119	1,033,071
Communication equipment	6,216,535	-	986	6,215,549
Miscellaneous equipment	576,919	-	-	576,919
Utility plant acquisition adjustment	545,925	-	-	545,925
Acquisition adjustment-Newport	4,970,211	-	-	4,970,211
Total depreciable utility plant assets	388,571,927	42,009,723	2,003,078 \$	428,578,572 \$
Construction in progress	43,776,830	-	29,335,352	14,441,478
Total	432,348,757 \$	42,009,723 \$	31,338,430	443,020,050
Less: accumulated depreciation	(101,451,832)			(111,130,615)
Net utility plant in service	\$ 330,896,925			\$ 331,889,435

NOTE 8 - ECONOMIC DEPENDENCY

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

NOTE 9 – CONTINGENT LIABILITIES

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

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

NOTE 10 – SUBSEQUENT EVENTS

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

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

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

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

The Budget was not amended for 2013. Depreciation and capital contributions are not budgeted. The District budget is for planning purposes and is not a required legally adopted process.

NORTHERN KENTUCKY WATER DISTRICT
STATEMENTS OF WATER OPERATING REVENUE
Years Ended December 31, 2013 and 2012

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

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

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

NORTHERN KENTUCKY WATER DISTRICT
SCHEDULE OF INSURANCE COVERAGES

December 31, 2013

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

NORTHERN KENTUCKY WATER DISTRICT
RATES, RULES AND REGULATIONS
December 31, 2013

RETAIL WATER RATES

1. Monthly Service Rate

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

- Sub district A shall be assessed a monthly surcharge in the amount of \$8.36
 Sub district B shall be assessed a monthly surcharge in the amount of \$16.87
 Sub district C shall be assessed a monthly surcharge in the amount of \$17.73
 Sub district D shall be assessed a monthly surcharge in the amount of \$30.00
 Sub district R shall be assessed a monthly surcharge in the amount of \$19.65
 Sub district RL shall be assessed a monthly surcharge in the amount of \$36.22
 Sub district E shall be assessed a monthly surcharge in the amount of \$30.00
 Bromley Crs. Spgs/St. Johns, Whitaker/McDonald, Fiskburg Road (KY 17 to 1.2 mi),
 Oliver Road – McCullum to Harris. Phase 2; Ky 177, Bethel Grove, Brandy Lane,
 Vise's Train, Licking Sta. Road. Phase 3; Ky 177, Kenton Station (Rector to Ky 177),
 and Ishmael Road (Ky 177 to 1000 ft).
 Sub district RF shall be assessed a monthly surcharge in the amount of \$23.77
 KY 177 to Decoursey, Porter Road, Tecumseh Lane, and Short Marshall
 Sub District F shall be assessed a monthly surcharge in the amount of \$28.83
 Sub District G. shall be assessed a monthly surcharge in the amount of \$29.19
 Sub District K. shall be assessed a monthly surcharge in the amount of \$11.23

2. Quarterly Rates

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

3. Fixed Service Charge

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

NORTHERN KENTUCKY WATER DISTRICT
RATES, RULES AND REGULATIONS
December 31, 2013

WHOLESALE WATER RATES

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

MISCELLANEOUS SERVICE FEES

Service Area Non-Recurring Charges:

Returned Check Charge	\$ 20.00
Water Hauling Station	\$ 5.53 per 1,000 gallons
Reconnection Fee	\$ 25.00
Overtime Charge	\$ 60.00

**NORTHERN KENTUCKY
WATER DISTRICT
MEMBERS OF THE COMMISSION AND ADMINISTRATIVE STAFF
December 31, 2013**

COMMISSIONERS

TERM EXPIRES

Douglas C. Wagner, Chairman	August 26, 2017
Fred A. Macke, Jr., Vice-Chairman	August 26, 2016
David M. Spaulding, Esq., Treasurer	August 28, 2015
Clyde Cunningham, Secretary	August 28, 2015
Dr. Patricia Sommerkamp	August 28, 2017
Andrew Collins	July 31, 2016

ADMINISTRATIVE STAFF

C. Ronald Lovan, PE, President/CEO

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

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

LEGAL COUNSEL

Hemmer DeFrank, PLLC

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Northern Kentucky Water District, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Northern Kentucky Water District's basic financial statements and have issued our report thereon dated March 11, 2014.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to not be material weaknesses.

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

Compliance and Other Matters

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

Northern Kentucky Water District's Response to Findings

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

Purpose of this Report

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

RANKIN, RANKIN & COMPANY

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

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

NORTHERN KENTUCKY WATER DISTRICT

Schedule of Findings and Responses

Year Ended December 31, 2013

Finding 2013 – 1: Unauthorized Use of Gas Card

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

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

Management's Response:

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

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

Other procedural changes have been instituted including the following:

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

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

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

NORTHERN KENTUCKY WATER DISTRICT

Schedule of Findings and Responses

Year Ended December 31, 2013

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

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

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APPENDIX D

SUMMARY OF THE GENERAL BOND RESOLUTION

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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 2014 SERIES B BONDS - Security for the 2014 Series B 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 2014 Series B 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 2014 Series B 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 affect 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.

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APPENDIX E

BOOK-ENTRY ONLY SYSTEM

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BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds 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 Bond certificate will be issued for each maturity date of the Bonds, each in the aggregate principal amount of such maturity, 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 3.5 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 a Standard & Poor's rating of AA+. 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.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each 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 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all 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 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 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 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 Bonds within an issue 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 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 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 Issuer or Agent, 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 securities 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, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, 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 Bonds at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

APPENDIX F

FORM OF BOND COUNSEL OPINION

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[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 \$16,965,000* principal amount of Refunding Revenue Bonds, Series 2014B (the "2014 Series B Bonds").

The 2014 Series B 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 2014B Bond Resolution authorizing approximately \$18,665,000 of 2014 Series B Bonds adopted on July 31, 2014 (the "Series 2014B Bond Resolution"). Pursuant to the Resolution and the Series 2014B Bond Resolution, the District has authorized the issuance of the 2014 Series B Bonds for the purpose of (i) refunding and retiring the District's outstanding: \$9,300,000 of its Water District Revenue Refunding Bonds, Series 2003C dated December 18, 2003, and \$7,415,000 of its Water District Revenue Bonds, Series 2004A dated November 18, 2004 (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 2014 Series B 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 2014 Series B 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 2014 Series B 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 2014B 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 2014 Series B Bonds; (ii) any Investment Obligations, as defined in the Resolution, purchased with the proceeds of the 2014 Series B Bonds; and (iii) subject to the 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 2014 Series B 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 2014 Series B Bonds, or to the payment of premium, if any.

3. The interest on the 2014 Series B Bonds is not subject to taxation by the Commonwealth of Kentucky, and the 2014 Series B Bonds are not subject to ad valorem taxation by the Commonwealth of Kentucky or by any political subdivision thereof.

4. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the 2014 Series B 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 2014 Series B 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, nor be includable in adjusted current earnings, under Section 56(c) of the Code, in computing the alternative minimum tax for 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 or state tax consequences of purchasing, holding or disposing of the 2014 Series B Bonds.

5. The Bonds are NOT "qualified tax-exempt obligations" with respect to investments by certain financial institutions under Section 265 of the Code.

In giving this opinion, we have relied upon covenants and certifications of facts, estimates and expectations made by officials of the Issuer and others contained in the transcript which we have not independently verified. It is to be understood that the enforceability of the Resolution, the 2014 Series B Bonds and agreements relating thereto may be limited by bankruptcy, insolvency, 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 2014 Series B 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,

DINSMORE & SHOHL LLP

APPENDIX G

OFFICIAL TERMS AND CONDITIONS OF BOND SALE

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Official Terms and Conditions of Bond Sale

\$16,965,000*

NORTHERN KENTUCKY WATER DISTRICT REFUNDING REVENUE BONDS, SERIES 2014B

SALE: December 3, 2014@ 11:00 a.m., eastern time.

The Board of Commissioners of Northern Kentucky Water District (the "District") will until 11:00 a.m., eastern time, on December 3, 2014, at the offices of the District, 2835 Crescent Springs Road, Erlanger, Kentucky 41018, receive sealed, competitive bids for the 2014 Series B Bonds herein described. To be considered, a proposal for the purchase of said 2014 Series B Bonds must be submitted on an Official Bid Form and must be delivered to the District at the address indicated on the date of sale no later than the hour indicated. Bids will be opened at the time stated and the successful bid may be formally accepted by the District's President or Chairman without further action by the Board of Commissioners.

PURPOSE OF ISSUE AND SECURITY

The District Board of Commissioners has adopted a Series Resolution, authorizing and providing for the issuance of approximately \$16,965,000 of its Refunding Revenue Bonds, 2014 Series B, the proceeds of which will be used to (i) refund and retire the District's outstanding: \$9,300,000 of its Water District Revenue Refunding Bonds, Series 2003C dated December 18, 2003, and \$7,415,000 of its Water District Revenue Bonds, Series 2004A dated November 18, 2004 (the "Prior Obligations") which were issued to provide funds used for paying the costs of various capital projects of the System; (ii) make a deposit to the 2014 Series B Bonds Cost of Issuance Account to pay the costs of issuing the 2014 Series B Bonds; and (iii) make a deposit to the Debt Service Reserve Fund.

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"). All Outstanding Bonds are issued and secured pursuant to a General Bond Resolution adopted by the Northern Kentucky Water District No. 1 Board of Commissioners on November 19, 1985 and a First Supplemental General Bond Resolution adopted on November 17, 1987 (the "Resolution").

The 2014 Series B Bonds will rank on the same basis of parity and equality with all other Outstanding Bonds of the District. The District reserves the right to issue additional series of notes and bonds payable from the revenues of the System which then will be considered Outstanding on a basis of parity and equality with all other parity notes and bonds authorized and issued pursuant to the Resolution. See "INTRODUCTION - Sources of Payment and Security for the 2014 Series B Bonds," herein for a more complete description as to the sources of payment and security for the 2014 Series B Bonds.

The 2014 Series B Bonds, when, as and if issued, will not constitute general obligations of or be an indebtedness of the District or of the Commonwealth of Kentucky, or its political subdivisions, within the meaning of the Constitution of Kentucky and neither the faith and credit nor the taxing power of the District, or its political subdivisions, or the Commonwealth of Kentucky will be pledged to the payment of the 2014 Series B Bonds.

FORM OF BONDS, MATURITY, PRIOR REDEMPTION PROVISIONS

Reference is made to the Preliminary Official Statement for information regarding the form of Bonds, interest rates, dated date, delivery date, maturity and redemption provisions relating to the Bonds.

BIDDING CONDITIONS AND RESTRICTIONS

(A) Bids must be made on an Official Bid Form, contained herein or available from the undersigned or Ross, Sinclair & Associates, LLC, 325 West Main Street, Suite 300, Lexington, Kentucky 40507. Complete Bid Forms may be sent via facsimile to the District at (859) 547-1331. Neither the District nor the Financial Advisor assumes any responsibility whatsoever with regard to the receipt of bids, or that adequate personnel and/or equipment are available to accept all facsimile bids before the appointed date and hour. No Bids will be accepted via telephone. Bidders have the sole responsibility of assuring that their bids have been received or delivered by an employee or agent for the Bidder before the appointed date and hour of sale. Any bids in progress, via facsimile, at the appointed time will be considered as received by the appointed time and hour.

(B) The minimum bid shall be not less than par, plus accrued interest. Interest rates shall be in multiples of 1/8 or 1/10 or 1/20 of 1%. Only one interest rate shall be permitted per Bond, and all Bonds of the same maturity shall bear the same rate. There is no limit on the number of different interest rates.

(C) The determination of the best purchase bid for said 2014 Series B Bonds shall be made on the basis of all bids submitted for exactly \$16,965,000 principal amount of 2014 Series B Bonds offered for sale under the terms and conditions herein specified; provided, however, the District reserves the right to increase or decrease the total principal amount of Bonds sold to such best bidder, in the amount not exceeding \$1,700,000, or other such amount as determined by the District. In the event of any such adjustment, no rebidding or recalculation of a submitted bid will be required or permitted. The price at which such adjusted principal amount of Bonds will be sold will be at the same price per \$5,000 of Bonds as the price per \$5,000 for the \$16,965,000 of Bonds bid.

(D) Unless bids for the 2014 Series B Bonds are rejected, the 2014 Series B Bonds will be awarded on an all or none basis on the sale date to the bidder whose bid result in the lowest true interest rate for the 2014 Series B Bonds to be calculated as that rate (or yield) that, when used in computing the present worth of all payments of principal and interest on the 2014 Series B Bonds (compounded semi-annually from the date of the 2014 Series B Bonds), produces an amount equal to the purchase price of the 2014 Series B Bonds, exclusive of accrued interest. For purposes of calculating the true interest cost, the principal amount of any Term Bonds scheduled for mandatory sinking fund redemption as part of the Term Bond shall be treated as a serial maturity in such year for the 2014 Series B Bonds. In the event that two or more bidders offer to purchase the 2014 Series B Bonds at the same lowest true interest rate, the President, upon the advice of the Financial Advisor shall determine (in her sole discretion) which of the bidders shall be awarded the 2014 Series B Bonds.

(E) In addition to other forms of bidding, electronic proposals will be received via PARITY®, in the manner described below, until 11:00 a.m., eastern time, on December 3, 2014. Bids may be submitted electronically via PARITY® pursuant to this Notice until 11:00 a.m., eastern time, but no bid will be received after the time for receiving bids specified above. To the extent any instructions or directions set forth in PARITY® conflict with this Notice, the terms of this Notice shall control. For further information about PARITY®, potential bidders may contact Ross, Sinclair & Associates, LLC at (800) 255-0795 or PARITY® at (212) 806-8304.

(F) The successful bidder may elect to notify the Financial Advisor within one (1) hour of the award of the 2014 Series B Bonds that certain serial maturities as awarded may be combined with immediately succeeding serial maturities as one or more Term Bonds; provided, however, (a) bids must be submitted to permit only a single interest rate for each Term Bond specified, and (b) Term Bonds will be subject to mandatory redemption by lot as described in the Preliminary Official Statement.

(G) The Purchaser shall pay the CUSIP Service Bureau Charge. Improper imprinting or the failure to imprint CUSIP numbers shall not constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for said 2014 Series B Bonds in accordance with the terms of any accepted proposal for the purchase of said 2014 Series B Bonds.

(H) The District shall provide to the successful Purchaser a Final Official Statement in accordance with SEC Rule 15c2-12 (the "Rule"). Arrangements have been made with the printer of the Preliminary Official Statement, upon submission of completion text, to print a reasonable quantity of Final Official Statements in sufficient time to meet the delivery requirements of the successful bidder under SEC or Municipal Securities Rulemaking Board Delivery Requirements. The successful bidder shall be required to pay for the printing of the Final Official Statement.

(I) Bids need not be accompanied by a certified or bank cashier's good faith check. The successful purchaser shall be required (without further advice from the District) to wire transfer an amount equal to 1% of the principal amount of the 2014 Series B Bonds awarded to the Paying Agent Bank, by the close of business on the day following the award as a good faith deposit and said amount will be applied (without interest) to the purchase price upon delivery. Said good faith amount will be forfeited as liquidated damages in the event of a failure of the successful bidder to take delivery of such 2014 Series B Bonds when ready. The good faith amount (without interest) will be applied to the purchase price upon delivery of the 2014 Series B Bonds. The successful bidder shall not be required to take up and pay for the 2014 Series B Bonds unless delivery is made within 45 days from the date the bid is accepted.

(J) The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2014 Series B Bonds. They will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond certificate will be issued for each maturity of the 2014 Series B Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. Purchases of the Bonds under the DTC system must be made by or through securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations (the "Direct Participants"), which will receive a credit for the 2014 Series B Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (a "Beneficial Owner") is in turn to be recorded on the records of Direct Participants or securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant (the "Indirect Participants"). Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are 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 2014 Series B Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2014 Series B Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

(K) Payment of all amounts due from the successful bidder shall be at the principal office of the Bond Registrar and shall be in IMMEDIATELY AVAILABLE FUNDS.

(L) Bidders are advised that Ross, Sinclair & Associates, LLC has been employed as Financial Advisor in connection with the issuance of the 2014 Series B Bonds. Their fee for services rendered with respect to the sale of the 2014 Series B Bonds is contingent upon the issuance and delivery thereof.

(M) The District reserves the right to reject any and all bids or to waive any informality in any bid. The 2014 Series B Bonds are offered for sale subject to the principal and interest not being subject to

Federal or Kentucky income taxation or Kentucky ad valorem taxation on the date of their delivery to the successful bidder, in accordance with the Final Approving Legal Opinion of Dinsmore & Shohl LLP, Covington, Kentucky, which Opinion will be qualified in accordance with the section hereof on TAX EXEMPTION.

(N) Bond Insurance can be purchased as a bidder's option. In such event, the District agrees to cooperate with the purchaser, however the District will not assume any of the expenses incident to the issuance of such a bond insurance policy, other than the costs for securing a rating of the Bonds from Moody's Investors Service, Inc.

(O) As required by the Internal Revenue Code of 1986, as amended, the purchaser of the 2014 Series B Bonds will be required to certify to the District as to certain of its activities regarding any reoffering to the public of the 2014 Series B Bonds, including any reoffering prices. This information from the purchaser of the 2014 Series B Bonds shall also be made available to the Financial Advisor immediately after the sale of the 2014 Series B Bonds.

(P) Upon wrongful refusal of the purchasers to take delivery of and pay for the 2014 Series B Bonds in Immediately Available Funds when tendered for delivery, the good faith deposit shall be forfeited by such purchasers, and such amount shall be deemed liquidated damages for such default; provided, however, if the 2014 Series B Bonds are not ready for delivery and payment within forty-five (45) days from the date of sale herein provided for, said purchasers shall be relieved of any liability to accept the 2014 Series B Bonds hereunder. However, it is contemplated that the 2014 Series B Bonds will be delivered on a date during such period as may be designated by representatives of the District, and the purchasers will be required to accept delivery of and pay for the 2014 Series B Bonds on any designated date within such 45 day period upon notice being given at least five (5) business days prior to the designated delivery date.

CONTINUING DISCLOSURE

The District has agreed to provide or cause to be provided, in accordance with the requirements of the Rule (i) on or prior to 270 days after the end of each fiscal year, certain annual financial information and operating data, including audited financial statements for the preceding fiscal year, generally consistent with the information contained in certain appendices to the Official Statement, and (ii) timely notice of the occurrence of certain material events with respect to the Bonds.

TAX EXEMPTION

Reference is made to the Preliminary Official Statement for information concerning local, state and federal tax exemption of interest earned on the 2014 Series B Bonds.

NORTHERN KENTUCKY WATER DISTRICT

By: /s/ Ron Lovan

President/CEO

APPENDIX H

OFFICIAL BID FORM

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OFFICIAL BID FORM

\$16,965,000*
**NORTHERN KENTUCKY WATER DISTRICT
 REFUNDING REVENUE BONDS, SERIES 2014B**

Subject to the terms and conditions set forth in the Official Terms and conditions of Bond Sale for \$16,965,000* Northern Kentucky Water District Refunding Revenue Bonds, Series 2014B, dated their date of delivery, and in accordance with the Notice of Sale, as duly advertised, to all of which the undersigned agrees, the undersigned hereby submits the following offer to purchase said Bonds.

We hereby bid for said \$16,965,000* principal amount of Bonds, the total sum of \$_____ (not less than par) at the following annual rates, payable semiannually:

SCHEDULE OF PRINCIPAL AMOUNTS

<u>Maturity</u> <u>February 1</u>	<u>Principal</u> <u>Amount*</u>	<u>Serial</u> <u>Bond</u> <u>Rate</u>	<u>Term</u> <u>Bond</u> <u>Rate</u>	<u>Maturity</u> <u>February 1</u>	<u>Principal</u> <u>Amount*</u>	<u>Serial</u> <u>Bond</u> <u>Rate</u>	<u>Term</u> <u>Bond</u> <u>Rate</u>
2015	\$2,240,000	_____	_____	2023	\$495,000	_____	_____
2016	2,115,000	_____	_____	2024	510,000	_____	_____
2017	2,145,000	_____	_____	2025	530,000	_____	_____
2018	2,030,000	_____	_____	2026	550,000	_____	_____
2019	2,080,000	_____	_____	2027	565,000	_____	_____
2020	1,555,000	_____	_____	2028	590,000	_____	_____
2021	465,000	_____	_____	2029	615,000	_____	_____
2022	480,000	_____	_____				

* Subject to permitted adjustment

It is understood that the District will furnish the final, approving Legal Opinion of Dinsmore & Shohl LLP Bond Counsel, Covington, Kentucky.

We understand that the District reserves the right to increase or decrease the total principal amount of Bonds sold to such best bidder, in the amount not exceeding \$2,605,000, or other such amount as determined by the District, at the same price per \$5,000 Bond, with the variation in such amount occurring in any maturity or all maturities, which will be determined by the District's Financial Advisor at the time of acceptance of the best bid.

No certified or bank cashier's check will be required to accompany a bid, but the successful bidder shall be required to wire transfer an amount equal to 1% of the principal amount of Bonds awarded by the close of business on the day following the award. Said good faith amount will be applied (without interest) to the purchase price on delivery. Wire transfer procedures should be arranged through Ross, Sinclair & Associates, LLC at (800) 255-0795.

The successful bidder may elect to notify the Financial Advisor within one (1) hour of the award of the Bonds that certain serial maturities as awarded may be combined with immediately succeeding serial maturities as one or more Term Bonds; provided, however, (a) bids must be submitted to permit only a single interest rate for each Term Bond specified, and (b) Term Bonds will be subject to mandatory redemption by lot as described in the Preliminary Official Statement.

Notwithstanding other forms of bidding, electronic proposals will be received via PARITY®, in the manner described below, until 11:00 a.m. (ET), on December 3, 2014. Bids may be submitted electronically via PARITY® pursuant to this Notice until 11:00 a.m. (ET), but no bid will be received after the time for receiving bids specified above. To the extent any instructions or directions set forth in PARITY® conflict with this Notice, the terms of this Notice shall control. For further information about PARITY®, potential bidders may contact Ross, Sinclair & Associates, LLC at (800) 255-0795 or PARITY® at (212) 807-3800.

If we are the successful bidder, we agree to accept and make payment for the Bonds in Federal Funds within forty-five (45) days of sale.

Respectfully submitted,

Bidder

Address

Telephone Number

By: _____
Signature

- (a) Total interest cost from delivery (December 23, 2014) to final maturity \$ _____
- (b) Plus Discount \$ _____
- (c) Net interest cost (Total interest cost plus discount) \$ _____
- (d) True Interest Rate (i.e. T.I.C.) \$ _____

The above computation of net interest cost and of true interest rate or cost is submitted for information only and is not a part of this Bid.

ACCEPTANCE

Accepted by the President of the District for the adjusted \$ _____ principal amount
of Bonds at the price of \$ _____ as follows:

SCHEDULE OF ADJUSTED PRINCIPAL AMOUNTS

<u>Maturity</u> <u>February 1</u>	<u>Principal</u> <u>Amount</u>	<u>Maturity</u> <u>February 1</u>	<u>Principal</u> <u>Amount</u>
2015	_____	2023	_____
2016	_____	2024	_____
2017	_____	2025	_____
2018	_____	2026	_____
2019	_____	2027	_____
2020	_____	2028	_____
2021	_____	2029	_____
2022	_____		

Authorized Official
NORTHERN KENTUCKY WATER DISTRICT

Dated: _____, 2014

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