

**NORTHERN KENTUCKY  
WATER DISTRICT**

***FINANCIAL STATEMENTS***

**December 31, 2015 and 2014**

**NORTHERN KENTUCKY  
WATER DISTRICT**

***FINANCIAL STATEMENTS***

**December 31, 2015 and 2014**

**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
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Schedule of District Contributions.....	37
Schedule of the Proportionate Share of Net Liability, Non-hazardous.....	38
<b>OTHER SUPPLEMENTARY INFORMATION</b>	
Statement of Comparison of Budget to Actual.....	39
Statements of Water Operating Revenue .....	40
Statements of Combined Operation and Maintenance Expenses.....	41
Schedule of Insurance Coverages.....	42
Schedule of Rates, Rules and Regulations.....	43
Members of the Commission and Administrative Staff.....	45
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	46
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	48
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND OF INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE.....	52
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	55
SUMMARY SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS.....	56



## 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, 2015 and 2014, 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, 2015 and 2014, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

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

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

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Northern Kentucky Water District's basic financial statements. The other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is also not a required part of the basic financial statements.

The other supplementary information and the schedule of expenditures of federal awards 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 and the schedule of expenditures of federal awards 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 April 21, 2016, 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 &amp; Company".

**Ft. Wright, Kentucky  
April 21, 2016**

This page left blank intentionally.

## **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, 2015. 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 \$173,557,469 (net position). This was a decrease of \$5,043,114 in comparison to the prior year.
- Operating revenues decreased \$309,698 or 0.61% from 2014.
- The debt coverage ratio decreased from 1.52 in 2014 to 1.39 in 2015, due to the 2015 change in net assets and the effects of GASB 68.

### **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 2015 compared to 2014.

Net Position		
	2015	2014
Current assets	\$ 34,948,167	\$ 34,810,480
Restricted assets	40,799,297	43,013,195
Noncurrent assets	343,194,211	339,557,570
Total assets	<u>418,941,675</u>	<u>417,381,245</u>
Deferred outflow of resources	2,343,773	-
Total Assets and Deferred outflows of resources	<u>421,285,448</u>	<u>417,381,245</u>
Current liabilities	14,721,277	14,369,968
Liabilities payable from restricted assets	6,229,716	5,130,235
Long term liabilities	226,776,986	219,280,459
Total liabilities	<u>247,727,979</u>	<u>238,780,662</u>
Net position:		
Invested in capital assets, net of related debt	123,581,751	112,890,227
Restricted	34,569,581	37,882,960
Unrestricted	15,406,137	27,827,396
Total net position	<u>\$ 173,557,469</u>	<u>\$ 178,600,583</u>

The District's net position for 2015 decreased 2.82%, as compared to the previous year. This decrease was mainly attributable to the implementation of GASB 68 which required a prior period adjustment of over \$11 Million. The largest portion of the District's net position (71%) 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 (20%) 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 (9%) may be used to meet the District's ongoing obligations to customers and creditors.



Table 2 shows the changes in net position for 2015, as well as revenue and expense comparisons to 2014.

**Table 2  
Changes in Net Position**

	2015	2014
Operating Revenues:		
Water Sales	\$ 48,776,304	\$ 49,108,156
Forfeited discounts	832,463	859,283
Rents from property	567,932	557,728
Other water revenue	378,630	339,860
Total operating revenues	50,555,329	50,865,027
Operating Expenses:		
Operations, maintenance and administration expenses	27,074,797	25,369,579
Depreciation	11,175,166	11,207,665
Total operating expenses	38,249,963	36,577,244
Net Operating Income	12,305,366	14,287,783
Non-operating Income (Expenses)		
Investment income	793,339	797,246
Miscellaneous non-operating income (expense)	(187,848)	(462,913)
Interest on long-term debt	(8,446,701)	(8,980,047)
Amortization of bond discount and expense	547,046	361,178
Gain/(loss) on disposition of assets	(8,410)	(59,840)
Net Non-operating income (expenses)	(7,302,574)	(8,344,376)
Income Before Capital Contributions	5,002,792	5,943,407
Capital Contributions	956,293	2,166,160
Change in net position	5,959,085.00	8,109,567
Net position - January 1	178,600,583	170,491,016
Prior period adjustment-GASB 68	(11,002,199)	-
Net position - December 31	\$ 173,557,469	\$ 178,600,583

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

In reviewing income before capital contributions, the financial statements showed net income for the year of \$5,002,792. Operating revenues decreased 0.61% due to the slight decrease in water sales. Operating expenses (including depreciation) increased by 4.57%.

## Debt and Capital Asset Administration

Table 3 summarizes the District's outstanding debt at the end of 2015 as compared to 2014.

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

	<u>2015</u>	<u>2014</u>
Bond payable obligations	\$ 183,988,000	\$ 193,073,000
Notes payable	35,624,460	33,594,344
Totals	<u>\$ 219,612,460</u>	<u>\$ 226,667,344</u>

At year-end, the District had \$219,612,460 in outstanding notes and bonds compared to \$226,667,344 last year. That is a decrease of 3% as shown in the Table 3.

## Capital Assets

At December 31, 2015, the capital assets reported amounted to \$474,053,086 invested in capital assets including land, buildings, water systems, equipment, and vehicles. This represents a net increase of \$13,549,539, or 2.9%, 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>2015</u>	<u>2014</u>
Not being depreciated:		
Land	\$ 3,291,127	\$ 3,291,127
Construction in progress	27,277,241	22,260,422
Plant Acquisition Adjustment	5,516,136	5,516,136
Other capital assets:		
Utility plants:	437,968,582	429,435,859
Transmission & Distribution, Source of Supply, Pumping system, Power Generation, Water Treatment and General plant and equipment		
Subtotal	<u>474,053,086</u>	<u>460,503,544</u>
Accumulated depreciation	<u>(130,858,875)</u>	<u>(120,945,977)</u>
TOTALS	<u>\$ 343,194,211</u>	<u>\$ 339,557,567</u>

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

The District's budget for 2016 projects a normal water revenue increase due to the first step of the estimated increase from the rate increase in 2015. A modest increase is anticipated for operating expenses as a result of the modest increase in employee related expenses offset by the reduced use of carbon in the GAC process due to shrinking demand and optimization.

### **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, 2015 and 2014

	2015	2014
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 20,583,131	\$ 20,796,630
Investments	1,163,010	-
Accounts receivable		
Customers	4,796,712	5,558,817
Unbilled customers	5,900,000	5,900,000
Others	176,416	88,762
Assessments receivable	123,785	117,464
Inventory supplies for new installation and maintenance, at cost	1,584,034	1,631,421
Prepaid items	621,079	717,386
<b>TOTAL CURRENT ASSETS</b>	<b>34,948,167</b>	<b>34,810,480</b>
<b>RESTRICTED ASSETS</b>		
Boone Florence Settlement	-	308,392
Bond Proceeds Fund	3,492,225	5,289,663
Debt Service Reserve Account	18,556,798	18,466,115
Debt Service Account	16,903,629	15,679,859
Improvement, Repair & Replacement	1,846,645	3,269,166
<b>TOTAL RESTRICTED ASSETS</b>	<b>40,799,297</b>	<b>43,013,195</b>
<b>NONCURRENT ASSETS</b>		
Miscellaneous deferred charges	-	-
Capital assets:		
Land, system, buildings and equipment	446,775,845	438,243,125
Construction in progress	27,277,241	22,260,422
Total capital assets before accumulated depreciation	474,053,086	460,503,547
Less accumulated depreciation	(130,858,875)	(120,945,977)
Total capital assets, net of accumulated depreciation	343,194,211	339,557,570
<b>TOTAL NONCURRENT ASSETS</b>	<b>343,194,211</b>	<b>339,557,570</b>
<b>TOTAL ASSETS</b>	<b>418,941,675</b>	<b>417,381,245</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Contributions subsequent to the measurement date, Change in assumptions and other changes	2,343,773	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 421,285,448</b>	<b>\$ 417,381,245</b>

**NORTHERN KENTUCKY WATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**December 31, 2015 and 2014**

	2015	2014
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Bonded indebtedness	\$ 9,242,000	\$ 9,085,000
Notes payable	2,192,256	2,146,588
Accounts payable	1,772,076	1,834,714
Accrued payroll and taxes	323,920	402,917
Other accrued liabilities	238,169	233,274
Customer deposits	952,856	667,475
<b>TOTAL CURRENT LIABILITIES</b>	<b>14,721,277</b>	<b>14,369,968</b>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Accounts payable	2,573,513	1,548,495
Accrued interest payable	3,656,203	3,581,740
<b>TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>	<b>6,229,716</b>	<b>5,130,235</b>
<b>LONG-TERM DEBT</b>		
Bonded indebtedness	174,746,000	183,988,000
Notes payable	33,432,204	31,447,755
<b>TOTAL LONG-TERM DEBT</b>	<b>208,178,204</b>	<b>215,435,755</b>
<b>NET PENSION LIABILITY</b>	<b>14,819,690</b>	<b>-</b>
<b>NON CURRENT LIABILITIES</b>		
Miscellaneous deferred charges	3,779,092	3,844,704
<b>TOTAL LIABILITIES</b>	<b>247,727,979</b>	<b>238,780,662</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Differences between projected and actual earnings on pension plan	-	-
<b>NET POSITION</b>		
Net investment in capital assets	123,581,751	112,890,227
Restricted	34,569,581	37,882,960
Unrestricted	15,406,137	27,827,396
<b>TOTAL NET POSITION</b>	<b>173,557,469</b>	<b>178,600,583</b>
<b>TOTAL LIABILITIES DEFERRED IN FLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 421,285,448</b>	<b>\$ 417,381,245</b>

**NORTHERN KENTUCKY WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**Years Ended December 31, 2015 and 2014**

	2015	2014
<b>OPERATING REVENUES</b>		
Water sales	\$ 48,776,304	\$ 49,108,156
Forfeited discounts	832,463	859,283
Rents from property	567,932	557,728
Other water revenues	378,630	339,860
<b>TOTAL OPERATING REVENUES</b>	<b>50,555,329</b>	<b>50,865,027</b>
<b>OPERATING EXPENSES</b>		
Operating and maintenance expense	27,074,797	25,369,579
Depreciation expense	11,175,166	11,207,665
<b>TOTAL OPERATING EXPENSES</b>	<b>38,249,963</b>	<b>36,577,244</b>
<b>NET OPERATING INCOME</b>	<b>12,305,366</b>	<b>14,287,783</b>
<b>NONOPERATING INCOME (EXPENSES)</b>		
Investment income	793,339	797,246
Miscellaneous non-operating income/(expense)	(187,848)	(462,913)
Interest on long-term debt	(8,446,701)	(8,980,047)
Amortization of debt discount and expense	547,046	361,178
Gain/(loss) on disposition of assets	(8,410)	(59,840)
<b>NET NONOPERATING INCOME (EXPENSES)</b>	<b>(7,302,574)</b>	<b>(8,344,376)</b>
<b>INCOME BEFORE CONTRIBUTIONS</b>	<b>5,002,792</b>	<b>5,943,407</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>956,293</b>	<b>2,166,160</b>
<b>CHANGE IN NET POSITION</b>	<b>5,959,085</b>	<b>8,109,567</b>
<b>NET POSITION - BEGINNING OF YEAR</b>	<b>178,600,583</b>	<b>170,491,016</b>
Prior period adjustment-GASB 68	(11,002,199)	-
<b>NET POSITION - ENDING OF YEAR</b>	<b>\$ 173,557,469</b>	<b>\$ 178,600,583</b>

**NORTHERN KENTUCKY WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2015 and 2014**

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Customer deposits	\$ 285,381	\$ 263,247
Received from customers	51,223,459	50,203,490
Paid to suppliers for goods and services	(13,262,774)	(13,754,455)
Paid to or on behalf of employees for services	(12,331,351)	(11,976,957)
Net Cash Flows From Operating Activities	<u>25,914,715</u>	<u>24,735,325</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(1,163,010)	-
Investment income	793,339	797,246
Net Cash Flows From Investing Activities	<u>(369,671)</u>	<u>797,246</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal paid on capital debt	(11,231,588)	(27,645,031)
Debt proceeds	4,176,704	15,805,000
Interest paid on bonds and notes, net of capitalized interest	(8,372,235)	(9,213,267)
Change in deferred assets, other than amortization	481,435	(176,871)
Acquisition and construction of fixed assets	(13,855,517)	(16,709,641)
(Increase) decrease in restricted funds		
Boone Florence Settlement	308,392	(663)
Bond Proceeds Fund	1,797,438	3,439,033
Debt Service Reserve and Debt Service Account	(1,314,453)	(991,516)
Improvement, Repair and Replacement Fund	1,422,521	9,556,898
Payment of restricted liabilities	1,025,018	371,652
Miscellaneous non-operating income (expense)	(196,258)	(522,753)
Net Cash Flows From Capital and Related Financing Activities	<u>(25,758,543)</u>	<u>(26,087,159)</u>
Net Change in Cash and Cash Equivalents	(213,499)	(554,588)
CASH AND CASH EQUIVALENTS-Beginning of Year	<u>20,796,630</u>	<u>21,351,218</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 20,583,131</u>	<u>\$ 20,796,630</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income	\$ 12,305,366	\$ 14,287,783
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation	11,175,166	11,207,665
Change in pension expense from deferred outflows	1,473,718	-
(Increase) decrease in assessments receivable	(6,321)	(6,511)
(Increase) decrease in accounts receivable	674,451	(655,026)
(Increase) decrease in inventory supplies	47,387	(93,717)
(Increase) decrease in prepaid expenses	96,307	(335,052)
Increase (decrease) in accounts payable	(62,638)	27,911
Increase (decrease) in accrued payroll and taxes	(78,997)	35,947
Increase (decrease) in other accrued liabilities	4,895	3,078
Increase (decrease) in customer deposits	285,381	263,247
	<u>\$ 25,914,715</u>	<u>\$ 24,735,325</u>

See accompanying notes.

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015 and 2014**

**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.



<p><b>NORTHERN KENTUCKY WATER DISTRICT</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  <b>December 31, 2015 and 2014</b></p>
---

*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 contained 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 held these funds in a restricted account and moved the remaining balance for the final year of the settlement into an unrestricted account in 2015.

		2015		2014
Cash and Cash Equivalents	\$	<u>          -</u>	\$	<u>      308,392</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:

		2015		2014
Cash and Cash Equivalents	\$	<u>11,093,547</u>	\$	<u>10,987,986</u>
FNMA and FHLB Discount Notes		7,366,809		7,366,530
Accrued Interest Receivable and CD Market Change		96,442		111,599
Total	\$	<u>18,556,798</u>	\$	<u>18,466,115</u>

*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:

		2015		2014
Cash and Cash Equivalents	\$	<u>16,903,629</u>	\$	<u>15,679,859</u>
Total	\$	<u>16,903,629</u>	\$	<u>15,679,859</u>

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015 and 2014**

*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:

Cash		2015	2014
		\$ 1,846,645	\$ 3,269,166
	Total	\$ 1,846,645	\$ 3,269,166

*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 twelve 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.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2015 and 2014</b>
--

*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

As of December 31, 2015, the District had the following investments:

Certificates of Deposit, \$1,163,010, at fair value.

*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, 2015, the District's deposits are entirely insured and/or collateralized with securities held by the financial institutions on the District's behalf and the FDIC Insurance.

*Custodial Credit Risk – Investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District had custodial credit risk at December 31, 2015 in the amount of \$1,163,010 for its investments. The related certificates are insured under the FDIC Insurance.

*Credit Risk – Investments.* The District's investments are subject to minimal credit risk because they are invested in Certificates of Deposit and are insured by the FDIC Insurance.

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2015 and 2014</b>
--

Supplemental Disclosure of Cash Flow Information

<u>Cash Paid For Interest</u> <u>During the Year</u>	<u>2015</u>	<u>2014</u>
Expensed	\$ 8,446,701	\$ 8,980,047
Capitalized	<u>308,920</u>	<u>285,882</u>
Total	<u>\$ 8,755,621</u>	<u>\$ 9,265,929</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, 2015 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.

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.

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015 and 2014**

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

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

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

Miscellaneous Deferred Charges

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

Construction in Progress

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

Capital Contributions

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

Restricted Net Position

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

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015 and 2014**

Included in restricted net position at December 31,

	2015	2014
Boone Florence Settlement	\$ -	\$ 308,392
Bond Proceeds Fund	3,492,225	5,289,663
Debt Service Reserve Account	18,556,798	18,466,115
Debt Service Account	16,903,629	15,679,859
Improvement, Repair & Replacement	<u>1,846,645</u>	<u>3,269,166</u>
Total Restricted Assets	40,799,297	43,013,195
Less: Restricted Liabilities	<u>(6,229,716)</u>	<u>(5,130,235)</u>
Total Restricted Net Position	<u>\$ 34,569,581</u>	<u>\$ 37,882,960</u>

*Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*Federal Taxes and Other Compliance Returns*

Accordinging principles generally accepted in the United States of America require management to evaluate tax positions taken and recognize a tax liability (or asset) if the District has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken, and has concluded that as of December 31, 2015, there are not uncertain positions taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The District is subject to routine audits by taxing jurisdictions; however, there are no audits for any tax periods currently in progress. Management of the District believes it is no longer subject to income tax examinations for years prior to 2012.

**NOTE 3 - ACCOUNTS RECEIVABLE**

	2015	2014
Accounts receivable arising		
from billings of metered water sales	\$ 4,796,712	\$ 5,558,816
Accrual for estimated unbilled		
water revenue	5,900,000	5,900,000
Other	<u>176,416</u>	<u>88,762</u>
Total net accounts receivable	<u>\$ 10,873,128</u>	<u>\$ 11,547,578</u>

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2015 and 2014

**NOTE 4 - BONDED INDEBTEDNESS**

*Fiscal Court of Kenton County, Kentucky*

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

*Rural Development Loan*

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

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

Year	Principal Amount	Interest Amount	Total Debt Service
2016	\$ 42,000	\$ 92,600	\$ 134,600
2017	44,000	90,450	134,450
2018	46,000	88,200	134,200
2019	49,000	85,825	134,825
2020	51,000	83,325	134,325
2021-2025	296,000	374,650	670,650
2026-2030	377,000	290,975	667,975
2031-2035	484,000	184,000	668,000
2036-2039	484,000	49,900	533,900
<b>Total</b>	<b>\$ 1,873,000</b>	<b>\$ 1,339,925</b>	<b>\$ 3,212,925</b>

**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
2016	\$ 175,000
2017	175,000
2018	50,000
<b>Totals</b>	<b>\$ 400,000</b>

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015 and 2014**

*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%.

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

<u>Years</u>	<u>Rates</u>	<u>Amount</u>	<u>Amount</u>	<u>Service</u>
2016	4.00%	\$ 980,000	\$ 904,488	\$ 1,884,488
2017	4.00%	1,020,000	864,488	1,884,488
2018	4.00%	970,000	824,688	1,794,688
2019	4.00%	1,010,000	785,088	1,795,088
2020	4.00%	1,320,000	737,663	2,057,663
2021-2025	4.00-4.125%	6,695,000	2,886,103	9,581,103
2026-2030	4.250%	8,230,000	1,326,811	9,556,811
2031	4.250-4.375%	1,880,000	41,125	1,921,125
Totals		\$ <u>22,105,000</u>	\$ <u>8,370,454</u>	\$ <u>30,475,454</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>
2016	\$ 186,201	\$ 88,785	\$ 274,986
2017	191,828	82,688	274,516
2018	197,627	76,406	274,033
2019	203,600	69,956	273,556
2020	209,754	63,268	273,022
2021-2025	1,147,788	209,076	1,356,864
2026-2028	641,247	31,572	672,819
Totals	\$ <u>2,778,045</u>	\$ <u>621,751</u>	\$ <u>3,399,796</u>



<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2015 and 2014</b>
--

*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%.

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>
2016	4.250%	\$ 815,000	\$ 1,362,169	\$ 2,177,169
2017	4.750%	850,000	1,324,663	2,174,663
2018	5.000%	895,000	1,282,101	2,177,101
2019	5.000%	940,000	1,236,226	2,176,226
2020	5.125%	990,000	1,187,357	2,177,357
2021-2025	5.250-5.750%	5,825,000	5,055,588	10,880,588
2026-2030	5.750-6.000%	7,775,000	3,104,161	10,879,161
2031-2033	6.000-6.500%	5,940,000	591,089	6,531,089
<b>Totals</b>		<b>\$ 24,030,000</b>	<b>\$ 15,143,354</b>	<b>\$ 39,173,354</b>

*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>
2016	\$ 606,807	\$ 94,325	\$ 701,132
2017	625,264	74,639	699,903
2018	644,281	54,323	698,604
2019	663,879	33,450	697,329
2020	684,072	11,912	695,984
<b>Totals</b>	<b>\$ 3,224,303</b>	<b>\$ 268,649</b>	<b>\$ 3,492,952</b>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2015 and 2014</b>
--

*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.

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

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2016	\$ 187,134	\$ 42,538	\$ 229,672
2017	189,010	40,193	229,203
2018	190,905	37,824	228,729
2019	192,819	35,431	228,250
2020	194,752	33,015	227,767
2021-2025	1,003,439	127,977	1,131,416
2026-2030	1,054,757	63,832	1,118,589
2031-2032	436,854	6,843	443,697
Totals	\$ <u>3,449,670</u>	\$ <u>387,653</u>	\$ <u>3,837,323</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>
2016	\$ 1,037,114	\$ 477,849	\$ 1,514,963
2017	1,057,960	454,397	1,512,357
2018	1,079,225	430,474	1,509,699
2019	1,100,917	406,071	1,506,988
2020	1,123,045	381,176	1,504,221
2021-2025	5,963,039	1,514,595	7,477,634
2026-2030	6,586,904	812,745	7,399,649
2031-2033	3,547,538	120,524	3,668,062
Totals	\$ <u>21,495,742</u>	\$ <u>4,597,831</u>	\$ <u>26,093,573</u>

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015 and 2014**

*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.

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

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2016	3.000%	\$ 930,000	\$ 1,146,512	\$ 2,076,512
2017	3.000%	960,000	1,118,162	2,078,162
2018	3.000%	985,000	1,088,987	2,073,987
2019	3.000%	1,015,000	1,058,987	2,073,987
2020	4.000%	1,055,000	1,022,662	2,077,662
2021-2025	4.00%	5,940,000	4,432,810	10,372,810
2026-2030	4.125-4.500%	7,305,000	3,075,769	10,380,769
2031-2034	4.500-5.000%	9,190,000	1,190,100	10,380,100
Totals		\$ <u>27,380,000</u>	\$ <u>14,133,989</u>	\$ <u>41,513,989</u>

*Water District Refunding Revenue Bonds, Series 2012*

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2016	4.00%	\$ 1,960,000	\$ 2,413,200	\$ 4,373,200
2017	5.00%	2,530,000	2,310,750	4,840,750
2018	5.00%	3,475,000	2,160,625	5,635,625
2019	5.00%	3,650,000	1,982,500	5,632,500
2020	5.00%	4,150,000	1,787,500	5,937,500
2021-2025	5.00%	23,865,000	5,540,125	29,405,125
2026-2027	5.00%	9,810,000	461,000	10,271,000
		\$ <u>49,440,000</u>	\$ <u>16,655,700</u>	\$ <u>66,095,700</u>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2015 and 2014</b>
--

*Water District Revenue Bonds, Series 2013*

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

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

<u>Years</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
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	5.000%	720,000	1,008,026	1,728,026
2020	5.000%	755,000	971,151	1,726,151
2021-2025	5.000%	4,405,000	4,232,755	8,637,755
2026-2030	4.000-5.000%	5,560,000	3,076,430	8,636,430
2031-2035	4.125-4.500%	6,855,000	1,781,822	8,636,822
2036-2038	4.125-4.250%	4,865,000	314,911	5,179,911
		<u>\$ 25,155,000</u>	<u>\$ 14,571,270</u>	<u>\$ 39,726,270</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, 2015 and 2014

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	4.00%	\$ 2,020,000	\$ 910,450	\$ 2,930,450
2017	5.00%	1,645,000	818,825	2,463,825
2018	5.00%	1,170,000	748,450	1,918,450
2019	5.00%	1,230,000	688,450	1,918,450
2020	5.00%	1,295,000	625,325	1,920,325
2021-2025	4.00-5.00%	7,490,000	2,095,225	9,585,225
2026-2028	4.00-5.00%	5,350,000	401,250	5,751,250
		\$ 20,200,000	\$ 6,287,975	\$ 26,487,975

*Water District Refunding Revenue Bonds, Series 2014B*

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	5.000%	\$ 1,850,000	\$ 580,388	\$ 2,430,388
2017	5.000%	1,940,000	485,637	2,425,637
2018	5.000%	1,880,000	390,138	2,270,138
2019	5.000%	1,980,000	293,637	2,273,637
2020	5.000%	1,505,000	206,513	1,711,513
2021-2025	3.000-5.000%	2,400,000	595,115	2,995,115
2026-2029	3.000-4.000%	2,250,000	142,833	2,392,833
		\$ 13,805,000	\$ 2,694,261	\$ 16,499,261

Kentucky Infrastructure Authority Loan F13-012 is not yet fully drawn and therefore there is no schedule of maturity.

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015 and 2014**

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

Changes in long-term debt are as follows:

	December 31, 2014	Additions	Retirements	December 31, 2015
<b>Bond indebtedness</b>				
Series 2006	\$ 23,045,000	\$ -	\$ 940,000	\$ 22,105,000
Series 2009	24,810,000	-	780,000	24,030,000
Series 2011	28,280,000	-	900,000	27,380,000
Series 2012	51,315,000	-	1,875,000	49,440,000
Series 2013A	25,785,000	-	630,000	25,155,000
Series 2013B	22,120,000	-	1,920,000	20,200,000
Series 2014B	15,805,000	-	2,000,000	13,805,000
Rural Development Loan	1,913,000	-	40,000	1,873,000
<b>Total bond indebtedness</b>	<b>193,073,000</b>	<b>-</b>	<b>9,085,000</b>	<b>183,988,000</b>
Taylor Mill purchase note	575,000	-	175,000	400,000
KIA Loan F06-03	2,958,784	-	180,738	2,778,046
KIA Loan F08-07	3,634,945	-	185,276	3,449,669
KIA Loan C08-01	3,813,195	-	588,895	3,224,300
KIA Loan F09-02	22,512,420	-	1,016,679	21,495,741
KIA Loan F13-012	-	4,176,704	-	4,176,704
Deferred Note Payable	100,000	-	-	100,000
<b>Total long-term debt</b>	<b>226,667,344</b>	<b>\$ 4,176,704</b>	<b>\$ 11,231,588</b>	<b>219,612,460</b>
Less Current Portion	<u>(11,231,588)</u>			<u>(11,434,255)</u>
<b>Total long-term debt</b>				
Less Current Portion	<u>\$ 215,435,756</u>			<u>\$ 208,178,205</u>

**NOTE 5-EMPLOYEE RETIREMENT SYSTEM**

*County Employees Retirement System (CERS)*

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 (KRS) 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.

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015 and 2014**

*General Information about the Pension Plan*

*Plan Description* - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous and hazardous positions of each county, District, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, cost-of-living (COLA) adjustments were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5%.

Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

*Non-hazardous Benefits* – For members who began contributing to CERS prior to September 1, 2008, final compensation represents the average fiscal year of earnings with the highest monthly average used when calculating your retirement benefit. Final compensation is based on the 5-high creditable compensation years with a minimum of 48 months and a minimum of five fiscal years. Final compensation is determined by dividing the total salary earned during the 5-high years by the number of months worked, then multiplying by twelve. Non-hazardous members, age 65 or older, or with 27 or more years of service are eligible to retire and receive unreduced benefits. Any non-hazardous member, age 55, with a minimum of five years of service may retire with a reduction in benefits.

For non-hazardous members who began contributing to CERS on or after September 1, 2008, any member age 57 or older, may retire with no reduction in benefits if the member's age and years of service equal 87. In addition, a member, age 65, with at least 60 months of service may retire with no reduction in benefits. A member, age 60 or older, with at least 120 months of service credit may retire at any time with a reduction of benefits.

*Non-hazardous Contributions* - For the year ended June 30, 2015, all plan members who began participating before September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2015, participating employers contributed 17.06% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2015 was 17.06% of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015 and 2014**

1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative regulation 102 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

In accordance with Senate Bill 2 signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to participate to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Contributions to the non-hazardous pension plan from the District were \$1,429,517 for the year ended December 31, 2015.

*Hazardous Contributions* – For the year ended June 30, 2015, all plan members who began participating before September 1, 2008, were required to contribute 8% of their annual creditable compensation. The state was required to contribute at an actuarially determined rate. Per Kentucky Revised Statue Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2015, participating employers contributed 34.31% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2015 was 34.31% of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 9% of their annual creditable compensation. Eight percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative regulation 102 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 8% of their annual creditable compensation.



<p><b>NORTHERN KENTUCKY WATER DISTRICT</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  <b>December 31, 2015 and 2014</b></p>
---

In accordance with Senate Bill 2 signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to participate to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Hazardous members contribute 8% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 7.5% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District has no hazardous pension contributions.

*Insurance Benefits*

*Plan Description* – The Kentucky Retirement Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from KERS, CERS and SPRS. The Fund pays a prescribed contribution for the whole or partial payment of required premiums to purchase hospital and medical insurance. The Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty.

*Insurance Benefits* – For members participating prior to July 1, 2003, the amount of contribution paid for hospital and medical insurance is based on the years of service and respective percentages of the maximum contribution as follows:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>
20 or More	100%
15-19	75%
10-14	50%
4-9	25%
Less than 4	0%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on, or after, July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provisions of the Kentucky Revised Statute 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

<p><b>NORTHERN KENTUCKY WATER DISTRICT</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  December 31, 2015 and 2014</p>
--

*Insurance Contributions* – In prior years, the employer’s required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve a target rate for the full entry age normal funding within 20 years.

KRS commenced self-funding of healthcare benefits for its Medicare eligible retirees on January 1, 2006. A self-funded plan is one in which KRS assumes the financial risk for providing healthcare benefits to its retirees. The self-funded plan pays for claims out-of-pocket as they are presented instead of paying a pre-determined premium to an insurance carrier for a fully-insured plan. KRS funds the risk of its self-insured program directly from its insurance assets.

On August 6, 2012, the board voted to cease self-funding of healthcare benefits for most KRS Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS’ retirees through a fully-insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

*Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At December 31, 2015, the District reported a liability of \$14,819,690 for its proportionate share of the net pension liability for non-hazardous. The District’s net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the District’s proportion was 0.3447 percent for non-hazardous.

For the year ended December 31, 2015, the District recognized pension expense of \$714,758 for non-hazardous and, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience.	\$ 98,525	-
Change in assumptions.	1,195,523	-
Net difference between projected and actual earnings on pension plan investments.	106,277	-
Changes in proportion and difference between contributions and proportionate share of contributions.	228,690	-
Contributions subsequent to the measurement date.	714,758	-
<b>Total</b>	<b>\$ 2,343,773</b>	<b>\$ -</b>

<b>NORTHERN KENTUCKY WATER DISTRICT</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>December 31, 2015 and 2014</b>
--

The \$2,343,773 reported as deferred outflows of resources relating to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Nonhazardous
2016	\$ 407,254
2017	407,254
2018	407,254
2019	407,254
2020	-
Totals	1,629,016

*Actuarial Assumptions* – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.0 percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense, including inflation

The Mortality Table for active members is RP-2000 Combined Mortality table projected with Scale BB to 2013 multiplied by 50% for males and 30% for females. The rates of mortality healthy retired members and their beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 multiplied by 50% for males and 30% for females and setback one year for females. For disabled members, the RP-2000 Combined mortality Table projected with Scale BB to 2013 setback four years for males is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015 valuation were based on results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

The long-term expected return on system assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report submitted April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return and net of investment expense) were developed by the investment consultant for each major asset class. These ranges were combined to produce long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which cover a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, or a fundamental change in the market that alters expected returns in future years. The

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2015 and 2014

target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Nominal Return
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return ( Diversified Inflation Strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute return (Diversified Hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash equivalent	2%	-0.25%
Total	<u>100%</u>	

*Discount Rate* – The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2017.

The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* - The discount rate used to measure the total pension liability for the system was 7.5% for both, nonhazardous and hazardous. The following presents the net pension liability calculated using the discount rate of percent, as well as what the systems' net position liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate for non-hazardous and (6.5%) or one percentage point higher (8.5%) than the current rate for hazardous (\$ thousands):

CERS	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
Non-hazardous	\$ 5,488,878	\$ 4,299,525	\$ 3,280,950
Hazardous	\$ 1,964,988	\$ 1,535,106	\$ 1,178,941

*Pension Plan Fiduciary Net Position* – Detailed information about the plan's fiduciary net position is available in the separately issued CERS financial report.

**401(k) Plan and 457 Plan**

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

**NOTE 6 – OPERATING LEASES**

The District is obligated under certain non-cancelable leases for equipment. The leases expire at various dates through April, 2019. Lease expense for the years ended December 31, 2014 and 2015 was \$13,950 and \$12,920.

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015 and 2014**

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2015 are:

<u>Years Ending</u> <u>December 31,</u>	
2016	\$ 12,920
2017	12,920
2018	12,920
2019	3,230
	<u>\$ 41,990</u>

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

The changes in utility plant in service are as follows:

	December 31, 2014	Additions	Retirements	December 31, 2015
Land and land rights	\$ 3,291,127	\$ -	\$ -	\$ 3,291,127
Structures and improvements	117,021,635	198,495	8,192	117,211,938
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	11,385,253	120,035	32,525	11,472,763
Water treatment equipment	29,907,736	58,906	76,149	29,890,493
Distribution reservoirs and standpipes	9,567,871	-	-	9,567,871
Transmissions and distribution mains	180,256,241	6,903,613	478,496	186,681,358
Services	27,412,353	1,413,469	363,716	28,462,106
Meters and meter installations	17,761,023	755,175	105,420	18,410,778
Hydrants	8,542,052	316,187	43,656	8,814,583
Other plant and miscellaneous equipment	3,519,417	11,803	112,092	3,419,128
Office furniture and equipment	3,654,466	56,385	171,229	3,539,622
Transportation equipment	3,417,164	138,744	160,505	3,395,403
Tools, shop and garage equipment	607,330	131,208	70,299	668,239
Laboratory equipment	453,970	42,819	-	496,789
Power operated equipment	1,248,832	44,326	34,526	1,258,632
Communication equipment	6,283,210	-	5,842	6,277,368
Miscellaneous equipment	576,919	4,205	-	581,124
Utility plant acquisition adjustment	545,925	-	-	545,925
Acquisition adjustment-Newport	4,970,211	-	-	4,970,211
Total depreciable utility plant assets	438,243,122	10,195,370	1,662,647	446,775,845
Construction in progress	22,260,422	5,016,819	-	27,277,241
Total	460,503,544	15,212,189	1,662,647	474,053,086
Less: accumulated depreciation	(120,945,977)			(130,858,875)
Net utility plant in service	<u>\$ 339,557,567</u>			<u>\$ 343,194,211</u>

**NORTHERN KENTUCKY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015 and 2014**

**NOTE 8 – ECONOMIC DEPENDENCY**

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

**NOTE 9 – CONTINGENT LIABILITIES**

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

**NOTE 10 – SUBSEQUENT EVENTS**

Effective in January, 2016 there was a phase in increase in rates and charges at various amounts depending on consumption.

The date to which events occurring after December 31, 2015, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is April 21, 2016, which is the date on which the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

**NORTHERN KENTUCKY WATER DISTRICT**  
**SCHEDULE OF DISTRICT CONTRIBUTIONS**  
**For the Year Ended December 31, 2015**

	2015	2014
Non-hazardous:		
Contractually required contribution	\$ 1,429,517	\$ 1,483,609
Contributions in relation to the contractually required contribution	1,429,517	1,483,609
Contribution deficiency (excess)	\$ -	-
District's covered payroll	\$ 7,972,340	\$ 7,931,952
Contributions as a percentage of covered-employee payroll	17.93%	18.70%



**NORTHERN KENTUCKY WATER DISTRICT**  
**SCHEDULE OF THE PROPORTIONATE SHARE OF NET PENSION LIABILITY-**  
**NON-HAZARDOUS**  
**For the Year Ended December 31, 2015**

	June 30, 2015
Non-hazardous:	
District's proportion of the net pension liability	0.3447%
District's proportionate share of the net pension liability	\$ 14,819,690
District's covered-employee payroll (Calendar year 2015)	\$ 7,972,340
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	185.89%
Plan fiduciary net position as a percentage of the total pension liability	59.97%

**NORTHERN KENTUCKY WATER DISTRICT**  
**STATEMENT OF COMPARISON OF BUDGET TO ACTUAL**  
Year Ended December 31, 2015

	2015	
	Budget	Actual
<b>OPERATING REVENUES</b>		
Water sales	\$ 49,547,770	\$ 48,776,304
Forfeited discounts	848,138	832,463
Rents from property	553,000	567,932
Other water revenues	367,340	378,630
<b>TOTAL OPERATING REVENUES</b>	<b>51,316,248</b>	<b>50,555,329</b>
<b>OPERATING EXPENSES</b>		
Operation maintenance and administration	27,161,761	27,074,797
Depreciation	-	11,175,166
<b>TOTAL OPERATING EXPENSES</b>	<b>27,161,761</b>	<b>38,249,963</b>
<b>NET OPERATING INCOME</b>	<b>24,154,487</b>	<b>12,305,366</b>
<b>NON-OPERATING INCOME (EXPENSES)</b>		
Investment income	802,000	793,339
Miscellaneous non-operating income (expense)	(153,515)	(187,848)
Interest on long-term debt	(8,953,589)	(8,446,701)
Amortization of debt discount and expense	-	547,046
Gain/(loss) on disposition of assets	-	(8,410)
<b>NET NON-OPERATING INCOME (EXPENSES)</b>	<b>(8,305,104)</b>	<b>(7,302,574)</b>
<b>CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS</b>	<b>15,849,383</b>	<b>5,002,792</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>-</b>	<b>956,293</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ 15,849,383</b>	<b>\$ 5,959,085</b>

The Budget was not amended for 2015. 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, 2015 and 2014**

	2015	2014
<b>OPERATING REVENUES</b>		
Metered sales		
Sales to residential customers	\$ 29,945,579	\$ 30,212,926
Sales to commercial customers	7,060,233	7,188,701
Sales to industrial customers	3,724,937	3,756,997
Sales to public authorities	2,348,548	2,265,395
Sales to multiple family dwellings	4,141,377	4,112,073
Sales through bulk loading stations	68,116	81,604
Total metered sales	47,288,790	47,617,696
Fire protection revenue	43,397	52,747
Sales for resale	1,444,117	1,437,713
Total sales of water	48,776,304	49,108,156
Other water revenue	1,779,025	1,756,871
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 50,555,329</b>	<b>\$ 50,865,027</b>

**NORTHERN KENTUCKY WATER DISTRICT**  
**STATEMENTS OF COMBINED OPERATION AND MAINTENANCE EXPENSES**  
**Years Ended December 31, 2015 and 2014**

	2015	2014
<b>OPERATION AND MAINTENANCE EXPENSES</b>		
Salaries and wages	\$ 7,972,340	\$ 7,931,952
Employee pensions and benefits	5,753,732	4,080,952
Taxes other than income taxes	566,732	566,125
Purchased power	2,491,367	2,834,628
Chemicals	2,844,729	2,170,435
Materials and supplies	2,303,921	2,453,643
Contractual services	3,227,497	3,165,151
Transportation expenses	585,911	668,840
Insurance	507,786	654,119
Bad debt expense	363,373	417,320
Miscellaneous expense	344,025	317,636
Regulatory Commission assessment	113,384	108,778
<b>TOTAL OPERATION AND MAINTENANCE EXPENSES</b>	<b>\$ 27,074,797</b>	<b>\$ 25,369,579</b>

**NORTHERN KENTUCKY WATER DISTRICT**

**SCHEDULE OF INSURANCE COVERAGES**

December 31, 2015

Company	Policy Number	Description of Coverage	Amount of Coverage	Effective Period	
				From	To
Travelers Insurance	ZLP14T8065315	General Liability	\$ 1,000,000	1/1/2015	1/1/2016
	ZUP14T8066515	Umbrella	19,000,000		
	ZLP14T8065315	Public Officials	1,000,000		
	H8102721X112CO	Automobile Liability	1,000,000		
	H6302721X112TIL	Property	268,166,889		
	H6302721X112TIL	Boiler machinery	268,166,889		
	H6302721X112TIL	Employee Dishonesty	500,000		
Kentucky Employers Mutual Insurance	ZPL14P0759915	Cyber Liability	2,000,000	7/1/2015	7/1/2016
	WC 338786	Worker's Compensation	1,000,000		
Cincinnati Insurance	8877071	Fidelity Bond	Per Application	8/20/2014	12/31/15
Great American Insurance	PEL1093742	Pollution Liability	15,000,000	1/1/2013	1/1/2016

# NORTHERN KENTUCKY WATER DISTRICT

## RATES, RULES AND REGULATIONS

December 31, 2015

### RETAIL WATER RATES

(Effective 4/13/15)

#### 1. Monthly Service Rate

First	1,500 cubic feet	\$4.25 per 100 cubic feet
Next	163,500 cubic feet	\$3.53 per 100 cubic feet
Over	165,000 cubic feet	\$2.72 per 100 cubic feet

Sub district A shall be assessed a monthly surcharge in the amount of \$7.97

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

Sub district C shall be assessed a monthly surcharge in the amount of \$17.07

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 \$19.73

Sub district RL shall be assessed a monthly surcharge in the amount of \$35.81

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 \$23.00

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

Sub District F shall be assessed a monthly surcharge in the amount of \$21.96

Sub District G. shall be assessed a monthly surcharge in the amount of \$25.73

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

Sub District I. 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 \$8.19

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

#### 2. Quarterly Rates

First	1,500 cubic feet	4,500 cubic feet	\$4.25 per 100 cubic feet
Next	163,500 cubic feet	490,500 cubic feet	\$3.53 per 100 cubic feet
Over	165,000 cubic feet	495,000 cubic feet	\$2.72 per 100 cubic feet

#### 3. Fixed Service Charge

<u>Meter Size</u>		<u>Monthly</u>		<u>Quarterly</u>
5/8"	\$	14.20	\$	28.40
3/4"	\$	14.60	\$	29.90
1"	\$	16.00	\$	34.30
1 1/2"	\$	18.00	\$	40.50
2"	\$	22.70	\$	56.90
3"	\$	54.90	\$	177.00
4"	\$	68.80	\$	221.80
6"	\$	101.90	\$	327.80
8"	\$	137.60	\$	447.90
10" and larger	\$	183.00	\$	584.80

**NORTHERN KENTUCKY WATER DISTRICT**  
**RATES, RULES AND REGULATIONS**  
December 31, 2015

**WHOLESALE WATER RATES**

Bullock Pen Water District	\$3.26 per 1,000 gallons (or) \$2.44 per 100 cubic feet
City of Walton	\$3.26 per 1,000 gallons (or) \$2.44 per 100 cubic feet
Pendleton County	\$3.26 per 1,000 gallons (or) \$2.44 per 100 cubic feet

**MISCELLANEOUS SERVICE FEES**

**Service Area Non-Recurring Charges:**

Returned Check Charge	\$ 20.00
Water Hauling Station	\$ 5.68 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, 2015**

**COMMISSIONERS**

**TERM EXPIRES**

Douglas C. Wagner, Treasurer	August 26, 2017
Fred A. Macke, Jr., Chair	August 26, 2016
David M. Spaulding, Esq., Secretary	August 28, 2019
Clyde Cunningham, Vice-Chair	August 28, 2019
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 (To 12/31/15)  
 Lindsey Rehtin, CPA, Acting Vice President of Finance and Support Services (Effective 1/1/16)  
 Amy Kramer, PE, Acting Vice President of Engineering, Water Quality and Production  
 (To 12/31/15, to full status, effective 1/1/16)



**NORTHERN KENTUCKY WATER DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended December 31, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
Department of Housing and Urban Development Community Development Block Grants/Entitlement Grants Passed Through Kentucky Department of Local Government and Passed Through Kenton County Fiscal Court Kenton County Unserved Water Project 2012	14.218	12-056	\$ 100,000
Environmental Protection Agency Capitalization Grants for Drinking Water State Revolving Funds/ American Recovery and Reinvestment Act Passed Through Kentucky Infrastructure Authority Kenton and Campbell County Water Main Projects	66.468 66.468	F13-012 F14-015	\$ 2,699,885 \$ 2,130,721
U.S. Department of Agriculture, Rural Utilities Service	10.770		\$ 134,562

**Note 1 - Basis of Presentation**

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

**Note 2 - Outstanding Notes**

Total Kentucky Infrastructure Authority loans outstanding at December 31, 2015 totaled \$35,124,460. Loans outstanding at December 31, 2014 totaled \$32,919,344, for a net increase of \$2,205,116.

This page left blank intentionally.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MAT-  
TERS 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, 2015 and 2014, 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 April 21, 2016.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This page left blank intentionally.



### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

### **RANKIN, RANKIN & COMPANY**

A handwritten signature in cursive script that reads "Rankin, Rankin + Company". The signature is written in black ink and is positioned below the company name.

**Ft. Wright, Kentucky  
April 21, 2016**

This page left blank intentionally.



**RANKIN, RANKIN & COMPANY**  
*Certified Public Accountants*

■ Lookout Corporate Center  
1717 Dixie Highway, Suite 600  
Ft. Wright, Kentucky 41011

■ Tel. 859/331-5000

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

### **Report on Compliance for Each Major Federal Program**

We have audited the Northern Kentucky Water District's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### *Management's Responsibility*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### *Opinion on Each Major Federal Program*

In our opinion, the Northern Kentucky Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

### *Other Matters*

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

### **Report on Internal Control over Compliance**

Management of the Northern Kentucky Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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





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

**RANKIN, RANKIN & COMPANY**

*Rankin, Rankin & Company*

**Ft. Wright, Kentucky  
April 21, 2016**

# NORTHERN KENTUCKY WATER DISTRICT

## *Schedule of Findings and Questioned Costs*

Year Ended December 31, 2015

### Section I – Summary of Auditors' Results

#### Financial Statements

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

#### Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	None
• Significant deficiency(ies) identified not considered to be material weaknesses?	None
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings that are required to be Reported in accordance with the Uniform Guidance.	None
Identification of major programs:	
• CFDA 66.468 Capitalization Grants for Drinking Water	
Dollar threshold to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	No

### Section II – Financial Statement Findings

No matters reported.

Findings and Questioned Costs –  
Major Federal Award Programs Audit

No matters reported.

**NORTHERN KENTUCKY WATER DISTRICT**  
***SUMMARY SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS***  
**Year Ended December 31, 2015**

**PRIOR YEAR - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**PRIOR YEAR - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.