

BOONE COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
For the Years Ended December 31, 2014 and 2013

BOONE COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
December 31, 2014 and 2013

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BOONE COUNTY WATER DISTRICT

BOARD OF COMMISSIONERS

December 31, 2014 and 2013

Richard Knock, Chairman

Mike Giordano, Vice Chairman

James Daugherty, Treasurer

Tim Alexander, Jr., Secretary

Charlie Cain

Of Counsel

David Koenig, Esq.



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
John P. Walker, CPA, MBA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

Independent Auditor's Report

**To the Board of Commissioners
Boone County Water District**

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Boone County Water District (District), as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

-Management's Responsibility for the Financial Statements

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

-Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 financial position of the business-type activities of Boone County Water District as of December 31, 2014 and 2013 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4-7 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2015 on our consideration of Boone County 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 Boone County Water District's internal control over financial reporting and compliance.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
March 10, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2014. The information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The District saw an increase in net position during 2014. This was primarily due to capital contributions received from tap on fees and donated lines.

USING THIS ANNUAL REPORT

The financial statements presented herein include all of the activities of the District accounted for within a single proprietary (enterprise) reporting entity. The financial statements include a statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows, and notes to the financial statements. These statements show the condition of the District's finances and the sources of income and the funds expended.

SUMMARY OF NET POSITION

Table 1 provides a summary of the District's Net Position at December 31, 2014 and 2013.

	<u>2014</u>	(Restated) <u>2013</u>
Current Assets	\$12,465,023	\$11,511,642
Restricted Assets	2,264,714	2,251,542
Noncurrent Assets/Capital Assets	81,413,745	79,687,896
Deferred Outflow of Resources	<u>53,301</u>	<u>63,126</u>
 Total Assets and Deferred Outflow of Resources	 <u>96,196,783</u>	 <u>93,514,206</u>
 Current Liabilities	 1,483,126	 1,442,152
Liabilities from Restricted Assets	449,644	438,175
Long - Term Liabilities	<u>5,238,405</u>	<u>5,640,097</u>
 Total Liabilities	 <u>7,171,175</u>	 <u>7,520,424</u>
 Net Position:		
Invested in Capital Assets, Net of Related Debt	75,773,648	73,659,998
Restricted	2,270,063	2,264,294
Unrestricted	<u>10,981,897</u>	<u>10,069,490</u>
 Total Net Position	 <u>\$89,025,608</u>	 <u>\$85,993,782</u>

Net Position (i.e., total assets net of total liabilities) is divided into three components: 1) invested in capital assets, net of related debt, 2) restricted and 3) unrestricted.

The majority of the net position of the District is included in the first category which consists of capital assets: land, buildings, transmission lines and equipment net of accumulated depreciation. This classification accounts for 85% of the total net position. It increased \$2,113,650 from the prior years' figures.

The second category, restricted, represents resources that are subject to restrictions on how they are to be expended.

The third category, unrestricted, may be used by the District to meet current obligations to creditors.

SUMMARY OF CHANGES IN NET POSITION

Revenues

Operating revenues increased \$345,376 or 2.8% from 2013 to 2014. This is primarily due to increased water sales as a result of dryer weather conditions during 2014.

Water Purchased

The cost of water increased \$521,217 or 7.4% from 2013 to 2014. This was caused by two things. The District sold more water during 2014 than in 2013. In addition to this the cost of water purchased increased from \$2.89 per 1,000 gallons to \$3.03 per 1,000 gallons effective July 1, 2014. The District's board of commissioners decided to let the District absorb the increase in costs until January 1, 2015. The District has received approval from the Kentucky Public Service Commission to pass this increased cost on to its customers starting with the bills for the month of January 2015.

Operating & Maintenance Expenses

Operating and maintenance expenses decreased \$113,666 or 3.6% from 2013 to 2014. This is primarily due to a decrease in legal and consulting fees incurred during 2013 to support the new District management and tighten internal controls.

Depreciation

Depreciation expense for 2014 and 2013 was \$2,290,593 and \$2,231,681, respectively. This increase of \$58,912 or 2.6% is consistent with the increase seen in depreciation expense in recent years.

Investment Income

Investment income decreased \$2,366 from 2013 to 2014. This number continues to reflect the decrease in interest rates available at financial institutions.

Interest Expense

Interest expense decreased from 2013 to 2014 in the amount of \$9,418. The decrease resulted from the reduction of overall debt due to annual payments of principal.

Capital Contributions

Capital contributions increased \$1,976,401 from 2013 to 2014. This was primarily due to an increase of \$1,948,727 in dedicated lines donated by contractors and the Kentucky Department of Transportation (KDOT). During 2014 KDOT completed their KY 237 widening project and the new water lines associated with this project were donated to the District. This donation accounted for \$1,280,161 of the increase in donated property. The remainder of the increase is due to the collection of more tap on fees as a result of an improved economy and an increase in new construction during 2014.

Prior Period Adjustment

During 2014 the District became aware that they had over billed a customer for the past 49 months at a rate of \$3,192 per month. The District issued a refund check in the amount of \$156,408. Since the majority of the refund, \$89,098, related to periods prior to 2013, a prior period adjustment was recorded to recognize the refund cost in the prior years in which it occurred and 2013 amounts were restated to reflect the 2013 portion of the refund. See note 10 to the financial statements for a more complete explanation.

The following schedule compares the revenues and expenses for the current year and the previous year.

**Table 2
Changes in Net Position**

	<u>2014</u>	(Restated) <u>2013</u>
Operating Revenues:		
Water Sales	\$12,212,360	\$11,802,663
Forfeited Discounts	219,007	220,965
Other Water Revenues	<u>108,781</u>	<u>171,144</u>
 Total Operating Revenues	 <u>12,540,148</u>	 <u>12,194,772</u>
Operating Expenses:		
Water Purchased	7,584,385	7,063,168
Operating and Maintenance	3,002,101	3,115,767
Depreciation	<u>2,290,593</u>	<u>2,231,681</u>
 Total Operating Expenses	 <u>12,877,079</u>	 <u>12,410,616</u>
 Net Operating (Loss)	 <u>(336,931)</u>	 <u>(215,884)</u>
Non-Operating Income(Expenses):		
Investment Income	48,504	50,870
(Loss)/Gain on Disposition of Assets	(79)	17,689
Interest on Long-Term Debt	(182,590)	(192,008)
Amortization of Debt Expenses	<u>(9,825)</u>	<u>(9,825)</u>
 Net Non-Operating Income(Expenses)	 <u>(143,990)</u>	 <u>(133,274)</u>
 Net Income (Loss)	 (480,921)	 (349,158)
Capital Contributions	<u>3,512,747</u>	<u>1,536,346</u>
 Change in Net Position	 3,031,826	 1,187,188
Net Position – Beginning	85,993,782	84,895,652
Prior Period Adjustment	<u>-0-</u>	<u>(89,098)</u>
 Net Position – Ending	 <u>\$89,025,608</u>	 <u>\$85,993,782</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2014, the District had \$81,413,745 invested in capital assets including land, buildings, water treatment, transmission and distribution system, equipment, and vehicles, as reflected in the following schedule. This represents a net increase (additions less retirements and depreciation) of \$1,725,849.

Table 3 Summarizes the District's capital assets at the end of 2014 as compared to 2013.

**Table 3
Capital Assets at Year End
(Net of Depreciation)**

	<u>2014</u>	<u>2013</u>
Land	\$ 256,633	\$ 256,633
Construction in Progress	101,199	161,428
Transmission Lines	106,106,995	102,104,916
Automated Meter System	1,663,110	1,663,110
Rate Study	220,578	220,578
Furniture and Fixtures	127,947	151,306
Machinery & Equipment	1,295,997	1,293,889
Buildings	<u>1,942,970</u>	<u>1,951,622</u>
Subtotal	111,715,429	107,803,482
Accumulated Depreciation	<u>(30,301,684)</u>	<u>(28,115,586)</u>
Total Capital Assets	<u>\$ 81,413,745</u>	<u>\$ 79,687,896</u>

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2014 and 2013.

**Table 4
Outstanding Debt at Year End**

	<u>2014</u>	<u>2013</u>
Bonds Payable	\$ 1,520,000	\$ 1,790,000
Capitalized Lease	2,065,822	2,117,999
Notes Payable-KIA	<u>2,054,275</u>	<u>2,119,899</u>
Total Debt	<u>\$ 5,640,097</u>	<u>\$ 6,027,898</u>

All of the required payments were made on the District's outstanding debt in 2014.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2015 reflects a 5.5% increase in revenues while water costs are expected to increase approximately 4.7%. The water revenue is expected to increase somewhat due to increased rates charged to offset the increase in purchased water costs incurred during 2014. The remainder of the increase in revenue is strictly an estimate since consumption is directly related to weather conditions which are unpredictable. The increase in water costs is primarily in response to the budgeted increase in revenues from increased consumption. Overhead expenses are budgeted to increase approximately 3% during 2015. The District expects 2015 income to increase slightly from the amount reported in 2014.

FINANCIAL CONTACT

This District's financial statements are designed to present users (citizens, customers, investors and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions about the report or need additional information, contact the District Administrative Office at 2475 Burlington Pike, Burlington, KY 41005.

Harry Anness, Director of Operations
Boone County Water District

BOONE COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2014 and 2013

ASSETS	(Restated)	
	2014	2013
Current Assets		
Cash and cash equivalents	\$ 269,959	\$ 180,510
Reserve for depreciation, cash and certificates of deposit	9,701,186	8,880,435
Accounts receivable		
Customers, net of allowance	1,817,468	1,834,159
Others	230,897	231,834
Assessments receivable	224,791	217,126
Inventories	193,142	144,361
Advances	455	6,247
Prepays	26,221	16,277
Accrued interest income	904	693
Total Current Assets	12,465,023	11,511,642
Restricted Assets		
Debt service account	137,203	84,339
Debt service reserve account	325,488	367,182
Renewal and replacement account	1,802,023	1,800,021
Total Restricted Assets	2,264,714	2,251,542
Capital Assets		
Land, building, transmission system, equipment, and vehicles	111,614,231	107,642,055
Construction in progress	101,198	161,427
Total utility plant in service	111,715,429	107,803,482
Less accumulated depreciation	(30,301,684)	(28,115,586)
Total Capital Assets, Net	81,413,745	79,687,896
TOTAL ASSETS	96,143,482	93,451,080
DEFERRED OUTFLOW OF RESOURCES		
Deferred refunding costs on defeased bond debt	53,301	63,126
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	96,196,783	93,514,206
LIABILITIES		
Current Liabilities		
Accounts payable	820,228	789,515
Accrued payroll and taxes	343,905	331,854
Accrued liabilities	-	3,225
Deferred revenue on tap ins	48,130	62,070
Customer deposits	270,863	255,488
Total Current Liabilities	1,483,126	1,442,152
Current Liabilities Payable From Restricted Assets		
Bonds payable	280,000	270,000
KIA note payable	67,407	65,624
Capital lease payable	54,285	52,177
Accrued interest payable	47,952	50,374
Total Current Liabilities Payable From Restricted Assets	449,644	438,175
Long-Term Obligations		
Bonds	1,240,000	1,520,000
Capital lease - KRW	1,986,868	2,054,275
KIA loan payable - KRW	2,011,537	2,065,822
Total Long-Term Obligations	5,238,405	5,640,097
TOTAL LIABILITIES	7,171,175	7,520,424
NET POSITION		
Invested in capital assets, net of related debt	75,773,648	73,659,998
Restricted	2,270,063	2,264,294
Unrestricted	10,981,897	10,069,490
TOTAL NET POSITION	\$ 89,025,608	\$ 85,993,782

The accompanying notes are an integral part of the financial statements.

BOONE COUNTY WATER DISTRICT STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Years Ended December 31, 2014 and 2013

	2014	(Restated) 2013
OPERATING REVENUES		
Water revenue	\$ 12,212,360	\$ 11,802,663
Forfeited discounts	219,007	220,965
Other water revenues	108,781	171,144
TOTAL OPERATING REVENUES	<u>12,540,148</u>	<u>12,194,772</u>
OPERATING EXPENSES		
Water purchased	7,584,385	7,063,168
Operation and maintenance expense	3,002,101	3,115,767
Depreciation	2,290,593	2,231,681
TOTAL OPERATING EXPENSES	<u>12,877,079</u>	<u>12,410,616</u>
OPERATING INCOME (LOSS)	<u>(336,931)</u>	<u>(215,844)</u>
NON-OPERATING INCOME (EXPENSE)		
Investment income	48,504	50,870
Loss on sale of assets	(79)	17,689
Interest on long-term obligations	(182,590)	(192,008)
Amortization of bond discounts	(9,825)	(9,825)
NET NON-OPERATING INCOME (EXPENSE)	<u>(143,990)</u>	<u>(133,274)</u>
NET INCOME (LOSS)	(480,921)	(349,118)
CAPITAL CONTRIBUTIONS	<u>3,512,747</u>	<u>1,536,346</u>
CHANGE IN NET POSITION	3,031,826	1,187,228
NET POSITION, JANUARY 1	85,993,782	84,895,652
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>(89,098)</u>
NET POSITION, DECEMBER 31	<u><u>\$ 89,025,608</u></u>	<u><u>\$ 85,993,782</u></u>

The accompanying notes are an integral part of the financial statements.

BOONE COUNTY WATER DISTRICT STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2014 and 2013
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	2014	(Restated) 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 12,550,111	\$ 12,125,177
Paid to suppliers for goods and services	(9,422,433)	(8,657,776)
Paid to or on behalf of employees for services	(1,176,012)	(985,402)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,951,666</u>	<u>2,481,999</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	48,293	51,149
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>48,293</u>	<u>51,149</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long-term debt	(387,801)	(384,038)
Transfers of reserve for depreciation, cash and certificates of deposit	(820,751)	(1,493,607)
Interest paid on long-term debt	(185,012)	(194,364)
Acquisition and construction of fixed assets	(791,369)	(1,327,930)
Proceeds on sale of assets	-	17,689
Contributed capital received	287,595	259,921
Refund of previous years portion of overcharge	-	(89,098)
(Increase) decrease in restricted funds		
Debt service account	(52,864)	3,053
Debt service reserve account	41,694	(13,775)
Renewal and replacement account	(2,002)	(21)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,910,510)</u>	<u>(3,222,170)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	89,449	(689,022)
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>180,510</u>	<u>869,532</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 269,959</u>	<u>\$ 180,510</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	\$ (336,931)	\$ (215,844)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,290,593	2,231,681
Change in operating assets and liabilities		
Decrease (Increase) in receivables	9,963	(69,595)
Decrease (Increase) in inventories	(48,781)	4,453
Decrease (Increase) in advances	5,792	(6,247)
Decrease (Increase) in prepaid assets	(9,944)	(3,343)
Increase (Decrease) in accounts payable	30,713	161,940
Increase (Decrease) in accrued liabilities	(3,225)	3,225
Increase (Decrease) in accrued payroll and taxes	12,051	286,410
Increase (Decrease) in deferred revenue on tap ins	(13,940)	62,070
Increase (Decrease) in customer deposits	15,375	27,249
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,951,666</u>	<u>\$ 2,481,999</u>
Non-Cash Capital and Related Financing Activities:		
Capital assets (transmission mains, hydrants, etc.) contributed to the District	<u>\$ 3,225,152</u>	<u>\$ 1,276,425</u>
Supplemental Information		
Interest paid	<u>\$ (185,012)</u>	<u>\$ (194,364)</u>

The accompanying notes are an integral part of the financial statements.

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013

NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

The Boone County Water District (District) is a water utility, which provides service to residential and commercial customers in Boone County, Kentucky. The District was created by the Boone County Court under the provisions of chapter 74 of the Kentucky Revised Statutes (“KRS”).

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission (“PSC”) pursuant to KRS 278.040.

Basis of Accounting

The District’s financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District has adopted GASB Statements 66 through 70, and related interpretations issued through December 31, 2014.

Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees – This statement is not currently applicable to Boone County Water District.

Statement No. 69 – Government Combinations and Disposals of Government Operations – This statement is not currently applicable to Boone County Water District.

Statement No. 68 – Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27 – Requires Boone County Water District to report their representative share of the unfunded pension liability of the Kentucky County Employee Retirement System (CERS) on Boone County Water District’s Balance Sheet. This statement will be in effect for fiscal periods beginning after June 15, 2014.

Statement No. 67 – Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25 – This statement is not currently applicable to Boone County Water District.

Statement No. 66 – Technical Corrections – 2012; an amendment of GASB Statements no. 10 and 62 – This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54 and No. 62.

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 (expense, 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

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013

associated with the operations are included on the Statement of Net Position. Net position (i.e., total assets net of total liabilities) are segregated into “invested in capital assets, net of related liabilities”; “restricted”; and “unrestricted” components.

Assessments Receivable

Assessments that the District has levied on property owners for the extension of water service to their property are recorded as a receivable at the time of the final public hearing.

Allowance for Bad Debts

The District maintained an allowance for bad debts of \$37,000 at 2014 and 2013, respectively.

Cash Equivalents

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

Budgets

In accordance with Kentucky Revised Statute 65A, the District is required to upload a balanced budget on the Kentucky Department of Local Government’s website prior to January 15. The budget includes proposed expenditures and the means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year end.

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined under the First-In, First-Out (FIFO) method. Market is determined on the basis of estimated realizable market values.

Distribution System, Building, and Equipment

Property, plant, transmission lines and equipment are recorded at cost and depreciated over their estimated useful lives using the straight line method. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the “Non-Operating Income (Expense)” portion of results of operations.

Construction in Progress

Capitalizable costs incurred on projects which are not in use or ready for use at year end are held as “Construction in Progress”. When the related asset is ready for use, related costs are transferred to the related asset account.

Capital Contributions

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District’s income statement. These contributions represent customer tap-in fees and assessments charged to recover the costs of extensions of the distribution system. The District also includes estimated cost figures for those lines contributed by outside contractors. These

BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

amounts have been reduced by rebates paid to the contractor for 50 feet of line each time that a new customer taps into the contributed line.

Income Tax Status

The District is exempt from federal and state income taxes since it is a governmental entity. Accordingly, the financial statements include no provision for income taxes.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-Operating Revenues

Revenues have been classified as operating and non-operating. Operating revenues are those revenues that are directly generated from the sale of water to customers. Non-operating revenues are those revenues that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, sale of fixed assets and interest income.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits consist of checking and savings accounts. They are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the Statement of Net Position as “Cash and Cash Equivalents” and “Restricted Assets”. The bank balances for Cash and Cash Equivalents were \$6,471,146 and \$5,560,945 at December 31, 2014 and 2013, respectively; which were the same as the carrying amount. The bank balances for Restricted Assets were \$2,264,714 and \$2,251,542 at December 31, 2014 and 2013, respectively; which were the same as the carrying amount. Investments in Certificates of Deposit were valued at \$3,500,000 at December 31, 2014 and 2013, respectively.

The District’s General Bond Resolution dated October 13, 1992 permits investment of monies in each fund, consistent with the contemplated use of such monies, in investment obligations defined as follows:

- a) Direct obligations of or obligations guaranteed by the United States of America;
- b) Obligations issued by any of the following agencies: Federal Home Loan Bank System; Export-Import Banks; Government National Mortgage Association; Farmers Home Administration; Federal National Mortgage Association to the extent that such obligations are guaranteed by the Government National Mortgage Association; and any other Federal Agency to the extent that such obligations are backed by the full faith and credit of the United States (other than provided in (a) hereof);
- c) Public housing bonds issued by public housing authorities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by public housing authorities, fully secured as to the payment of both

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013

principal and interest by a requisition or payment agreement with the United States of America;

- d) U.S. Dollar denominated deposit accounts fully insured to the holder (up to the \$250,000 maximum coverage) by the Federal Deposit Insurance Corporation in commercial banks, and to the extent not so insured (amounts in excess of \$250,000 maximum coverage), collateralized by obligations described in (a) or (b) above, having at all times a quoted market value at least equal to such uninsured amount plus accrued and undisbursed interest;
- e) General obligations to the Commonwealth of Kentucky;
- f) A pool or fund made up entirely of U.S. Government obligations or obligations guaranteed both as to principal and interest by the U.S. Government ; or
- g) Repurchase agreements for U.S. Government Obligations, secured in the same manner as is provided in (d) above for other deposits.

Effective January 1, 1998, investments are reported at fair value which is determined using the selected basis. Short term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair market value.

Investment obligations are deemed to be part of the fund or account for which they were purchased. Income, interest, gains and losses on an investment obligation are credited or charged to the fund or account for which such an investment obligation was purchased. In the case of the Debt Service

Reserve, as long as the aggregate debt service reserve requirement is being maintained, excess income from that fund is to be transferred to the Water Reserve Fund.

The District's investments are categorized to give an indication of the level of risk assumed by the District at December 31, 2014. The categories are described as follows:

Category 1 - Insured and registered, with securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013

The District's deposits and investments in each category are as follows for 2014:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
Deposits	\$ 11,910,371	\$ -	\$ -	\$ 11,910,371
Investments	-	-	325,488	325,488
Total	<u>\$ 11,910,371</u>	<u>\$ -</u>	<u>\$ 325,488</u>	<u>\$ 12,235,859</u>

The District's deposits and investments in each category are as follows for 2013:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
Deposits	\$ 10,945,305	\$ -	\$ -	\$ 10,945,305
Investments	-	-	367,182	367,182
Total	<u>\$ 10,945,305</u>	<u>\$ -</u>	<u>\$ 367,182</u>	<u>\$ 11,312,487</u>

In accordance with GASB 40, the District has \$325,488 and \$367,182 in bond sinking funds held in investments in federally backed US Treasury Obligations rated AAA/Aaa at December 31, 2014 and 2013, respectively. The market risk on these investments is negligible.

NOTE 3 – RESTRICTED PORTION OF NET POSITION

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

Included in restricted portion of net position at December 31,

	<u>2014</u>	<u>2013</u>
Debt Service Account	\$ 137,203	\$ 84,339
Debt Service Reserve Account	325,488	367,182
Renewal and Replacement Account	<u>1,802,023</u>	<u>1,800,021</u>
Subtotal - Restricted Assets	2,264,714	2,251,542
Deferred refunding costs on defeased bond debt	53,301	63,126
Less: non-capital payables to be paid from restricted assets: accrued interest payable	<u>(47,952)</u>	<u>(50,374)</u>
Total Restricted Portion of Net Position	<u>\$ 2,270,063</u>	<u>\$ 2,264,294</u>

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013

NOTE 4 – UTILITY PLANT IN SERVICE

All property, plant and equipment including infrastructure assets are recorded at cost and depreciated over their estimated useful lives, using the straight-line method as detailed in Note 1. Repair and maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	10-40 years
Furniture and fixtures	5-15 years
Machinery and equipment	5-15 years
Automated meter system	50 years
Transmission lines	50 years
Rate Study	4 years

Asset Type	Balance at December 31, 2013	Additions	Retirements	Balance at December 31, 2014
Land	\$ 256,633	\$ -	\$ -	\$ 256,633
Transmission lines	102,104,916	4,002,079	-	106,106,995
Automated meter system	1,663,110	-	-	1,663,110
Buildings	1,951,622	2,996	(11,648)	1,942,970
Machinery and equipment	1,293,889	71,675	(69,567)	1,295,997
Furniture and fixtures	151,306	-	(23,359)	127,947
Rate study	220,578	-	-	220,578
Construction in progress	161,428	367,135	(427,364)	101,199
Subtotal	107,803,482	4,443,885	(531,938)	111,715,429
Accumulated depreciation	(28,115,586)	(2,290,593)	104,495	(30,301,684)
Fixed Assets, net	\$ 79,687,896	\$ 2,153,292	\$ (427,443)	\$ 81,413,745

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013

NOTE 5 – LONG TERM DEBT

The following is a summary of the District's debt:

Debt type	Balance at December 31 2013	Additions	Principal Payments	Balance at December 31 2014	Current Portion
2004 Refunding Bond	\$ 615,000	\$ -	\$ (115,000)	\$ 500,000	\$ 120,000
2011 Refunding Bond	1,175,000	-	(155,000)	1,020,000	160,000
BCFC Capital Lease	2,117,999	-	(52,177)	2,065,822	54,285
KIA Note	2,119,899	-	(65,624)	2,054,275	67,408
Totals	<u>\$ 6,027,898</u>	<u>\$ -</u>	<u>\$ (387,801)</u>	<u>\$ 5,640,097</u>	<u>\$ 401,693</u>

Revenue Refunding Bonds, Series 2011

In October 2011, the District sold \$1,480,000 of revenue refunding bonds in order to redeem the Water Revenue Bonds, 2001 Series A. The bonds mature on or after October 1, 2020 at a redemption price of 100%. Interest is payable April 1st and October 1st of each year. Maturing bond principal is due October 1st of each year. District infrastructure assets serve as collateral for this debt.

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2015	1.000%	\$ 160,000	\$ 15,460	\$ 175,460
2016	1.000%	160,000	13,860	173,860
2017	1.000%	165,000	12,180	177,180
2018	1.000%	165,000	9,952	174,952
2019	1.000%	170,000	7,230	177,230
2020	1.05 - 2.00%	200,000	4,000	204,000
Totals		<u>\$ 1,020,000</u>	<u>\$ 62,682</u>	<u>\$ 1,082,682</u>

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013

Revenue Refunding Bonds, Series 2004

In November 2004, the District sold \$1,975,000 of revenue bonds in order to redeem the Water System Refunding and Revenue Bonds, 1993 Series A. The bonds mature on or after October 1, 2018 at a redemption price of 100%. Interest is payable April 1st and October 1st of each year. Maturing bond principal is due October 1st of each year. District infrastructure assets serve as collateral for this debt.

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2015	3.600%	\$ 120,000	\$ 18,770	\$ 138,770
2016	3.600%	120,000	14,450	134,450
2017	3.700%	130,000	10,010	140,010
2018	3.900%	130,000	5,070	135,070
Totals		<u>\$ 500,000</u>	<u>\$ 48,300</u>	<u>\$ 548,300</u>

Capital Lease – Boone County Fiscal Court

The District established a capital lease related to its acquisition of Rural Water lines from the Boone County Fiscal Court, effective during the year ended 2009. This capital lease carries an interest rate of 2.00%, and expires on August 1, 2037. District infrastructure assets serve as collateral for this debt.

Remaining debt service requirements on this capital lease are as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2015	2.00%	\$ 54,285	\$ 82,095	\$ 136,380
2016	2.00%	56,477	79,903	136,380
2017	2.00%	58,760	77,620	136,380
2018	2.00%	61,133	75,247	136,380
2019	2.00%	63,603	72,777	136,380
2020-2024	2.00%	358,699	323,201	681,900
2025-2029	2.00%	437,251	244,649	681,900
2030-2034	2.00%	533,007	148,893	681,900
2035-2037	2.00%	442,607	34,153	476,760
Totals		<u>\$ 2,065,822</u>	<u>\$ 1,138,538</u>	<u>\$ 3,204,360</u>

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013

Note Payable – Kentucky Infrastructure Authority

The District established a note payable related to its acquisition of Rural Water lines from the Boone County Fiscal Court, effective during the year ended 2009. This note payable carries an interest rate of 2.70% and matures on June 1, 2037. District infrastructure assets serve as collateral for this debt.

Remaining debt service requirements on this note payable are as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2015	2.70%	\$ 67,408	\$ 55,014	\$ 122,422
2016	2.70%	69,240	53,181	122,421
2017	2.70%	71,122	51,299	122,421
2018	2.70%	73,055	49,366	122,421
2019	2.70%	75,042	47,380	122,422
2020-2024	2.70%	406,933	205,171	612,104
2025-2029	2.70%	465,330	146,595	611,925
2030-2034	2.70%	532,107	80,198	612,305
2035-2037	2.70%	294,038	12,214	306,252
Totals		<u>\$ 2,054,275</u>	<u>\$ 700,418</u>	<u>\$ 2,754,693</u>

Defeased District Revenue Bonds

In October 2011, the District placed \$1,741,250 from the 2011 Series Bond proceeds in trust to be used solely for satisfying scheduled payments of both principal and interest of the 2001 Series Bonds. In November 2004, the District irrevocably placed \$1,924,562 from the 2004 Series Bond proceeds in trust to be used solely for satisfying scheduled payments of both principal and interest of the 1993 Series A Bonds.

These defeased revenue bonds outstanding at December 31, 2014 are as follows:

<u>Year</u>	<u>2001 Series Bond</u>	<u>1993 Series A</u>
2015	\$ 155,000	\$ 120,000
2016	160,000	125,000
2017	170,000	135,000
2018	175,000	140,000
2019	185,000	-
2020-2021	390,000	-
	<u>\$ 1,235,000</u>	<u>\$ 520,000</u>

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013

Miscellaneous Deferred Charges

The discount on the 2001 Series Bonds is recorded as a deferred charge and is being amortized over the life of the bond issues and the defeased bond loss associated with the 1993 Series A Bonds is being amortized over fifteen years. These revenue bonds are considered extinguished and do not appear as liabilities on the accompanying Statements of Net position as of December 31, 2014 and 2013. The balance of losses incurred on the 2001 Series Bonds defeasement was \$33,354 in 2014 and \$39,071 in 2013. The balance of losses incurred on the 1993 Series A Bonds defeasement was \$19,947 in 2014 and \$24,055 in 2013.

NOTE 6 – EMPLOYEE RETIREMENT SYSTEM

County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System (CERS) of Kentucky. It is a cost sharing multiple-employer defined benefit pension plan created by and operated under Kentucky law. CERS covers substantially all regular full-time employees of each county and school board, and any additional local agencies electing to participate in the system. The plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments are provided at the discretion of the state legislature.

For the years ended December 31, 2014 and 2013 plan members were required to contribute 5% of their annual creditable compensation.

Employer contribution rates are actuarially determined. Such contribution rates are determined by the Board of Trustees of the Kentucky Retirement System. They may amend contribution rates as of the first day of July, if it is determined necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. From January 2014 until June 2014, the employer contribution rates were 18.89%. From July 2014 until December 2014, the employer contribution rates were 17.67%. From January 2013 until June 2013, the employer contribution rates were 19.55%. From July 2013 until December 2013, the employer contribution rates were 18.89%.

The District has made 100% of all required contributions for each of the years ended December 31, 2014, 2013, 2012, 2011, and 2010.

Information about the contributions made by the District and the employees, as well as gross payroll and covered payroll for the past five years follows:

	2014	2013	2012	2011	2010
Gross Payroll-All Employees	\$ 1,269,008	\$ 1,079,084	\$ 1,041,875	\$ 1,025,501	\$ 1,053,013
Gross Payroll-Covered Employees	1,219,229	1,031,100	995,335	979,220	1,003,329
Employee Contribution	60,962	51,555	49,558	49,279	50,166
Employer Contribution Expense	222,737	197,928	190,906	175,205	168,206

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013

Kentucky Public Employees Deferred Compensation Authority

During 1999, the District approved employee participation in a deferred compensation plan administered by the Kentucky Public Employees' Deferred Compensation Authority (Authority). The Authority is authorized under KRS 18A.230-18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school, and university employees and employees of local political subdivisions that have elected to participate. The District has elected to participate in Plan II, authorized under Section 401(k) of the United States Internal Revenue Code. The plan is funded 100% by payroll deductions from those employees who have elected to participate. The District makes the payroll deduction and then forwards the funds to the Authority.

NOTE 7 – RELATED PARTY TRANSACTIONS

The District purchases water from the joint Boone-Florence Water Commission (Commission). Two of the District's board members also serve as commissioners on the Boone-Florence Water Commission. The Commission is the District's sole source of wholesale water. The Commission was created in a joint venture with the City of Florence, Kentucky to purchase water from the City of Cincinnati, Ohio. During 2014 and 2013, the District purchased \$7,584,385 and \$7,063,168, respectively. During 2014 and 2013, the District leased office space to the Commission at a cost of \$6,000 per year. The District also provided maintenance services to the Water Commission lines and towers, and was reimbursed \$58,299 and \$47,677 for those services during 2014 and 2013, respectively.

NOTE 8 – ECONOMIC DEPENDENCY/CREDIT RISK

Boone County Water District is a government agency operating with one office in Burlington, Kentucky. It grants credit to customers who are primarily local residents and businesses. The District receives all of its operating revenues from customers in Boone County, Kentucky.

NOTE 9 – RECLASSIFICATION IN PRIOR YEAR STATEMENTS

In August of 2010, Boone County Water District attempted to streamline large meter reading operations by installing the "Orion Satellite Read System" in the meter vault of one customer, on a trial basis. The Orion system would allow the District to read the meter by satellite instead of entering the property and manually reading the meter. In October of 2010, it was determined that the system was not beneficial, removed, and the District went back to manually reading the meter. The last readings from the satellite read system were left in customer's account for historical information, but each month as the manual meter readings were entered, the billing system was automatically adding the last entered satellite reading to the current manual reading thus overbilling the customer's account each month in the amount of \$3,192. The District recognized and corrected this error and on October 9, 2014, issued the customer a refund in the amount of \$156,408 (49 months @ \$3,192). Since this error was discovered, the District has run reports to verify that this was an isolated incident and all large meter vaults are read manually to eliminate the risk of any future incidents.

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013

The 2013 Statement of Revenues, Expenses and Changes in Net Position has been adjusted to reflect the 2013 portion of the refund, \$37,189. A prior period adjustment, reducing the net position by \$89,098, has been recorded in 2013 to recognize the remainder of the refund costs in the prior years in which they were incurred. The 2014 portion of the refund runs through the current year's income statement.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated events through March 10, 2015, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2014 through March 10, 2015 to disclose.



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 *Government Auditing Standards*

Independent Auditor's Report

To the Board of Commissioners
Boone County Water District

We have audited, in accordance with the 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 Boone County Water District as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements which collectively comprise Boone County Water District's basic financial statements and have issued our report thereon dated March 10, 2015.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered Boone County 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 Boone County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Boone County 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did not identify deficiencies in internal control that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Boone County Water District's financial statements are free of material misstatement, we performed tests of its compliance



with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
March 10, 2015