

BULLOCK PEN WATER DISTRICT
FINANCIAL STATEMENTS

For the Years Ending December 31, 2015 and 2014

BULLOCK PEN WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2015 and 2014

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BULLOCK PEN WATER DISTRICT

BOARD OF COMMISSIONERS

December 31, 2015 and 2014

Bobby Burgess, Chairman

Andrea Walton, Vice-Chairman

Charles Givin, Treasurer

William Wethington, Secretary

Logan Murphy, Commissioner

Of Counsel

Thomas R. Nienaber, Esq.

Administration

William L. Catlett, General Manager



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

Charles A. Van Gorder, CPA
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
Bullock Pen Water District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Bullock Pen Water District (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 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 audits 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 Bullock Pen 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 and Analysis* on pages 4-8 and the pension disclosures on page 30 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.

-Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bullock Pen Water District's financial statements as a whole. The accompanying Schedules of Operations, Maintenance and Administrative Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements of Bullock Pen Water District. The Schedules of Operations, Maintenance and Administrative Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2016 on our consideration of Bullock Pen 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 Bullock Pen Water District's internal control over financial reporting and compliance.



Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
May 3, 2016

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. The 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 \$15,348,592 (net position). This was an increase of \$135,170 in comparison to the prior year. During 2015 water revenue decreased and expenses increased so that the District's increase in net position was almost identical to the increase during 2014.
- At the end of the current year, unrestricted net position was \$1,712,933.

USING THIS ANNUAL REPORT

The financial statements presented herein include all of the activities of the District as prescribed in GASB Statements No. 33 through 70. The financial statements include a statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows, notes to the financial statements and a supplemental schedule. These statements show the condition of the District's finances and the sources of income and the funds expended

Basis of Accounting

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

Statements of Net Position and Revenues, Expenses and Changes in Net Position

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

- The District charges rates for water usage based on the water consumption of its customers to cover all or most of the cost of certain services the District provides.

SUMMARY OF NET POSITION

Table 1 provides a summary of the District's net assets at December 31, 2015 and 2014.

	<u>2015</u>	(Restated) <u>2014</u>
Current Assets	\$ 2,631,101	\$ 2,679,520
Restricted Assets	1,493,447	1,433,777
Noncurrent Assets/Capital Assets	19,226,488	23,409,636
Deferred Outflow of Resources	<u>235,217</u>	<u>115,888</u>
Total Assets and Deferred Outflow of Resources	<u>23,586,253</u>	<u>23,520,908</u>
Current Liabilities	280,350	297,797
Liabilities from Restricted Assets	821,938	743,470
Long - Term Liabilities	7,073,872	7,184,217
Deferred Inflow of Resources	<u>61,501</u>	<u>82,002</u>
Total Liabilities and Deferred Inflow of Resources	<u>8,237,661</u>	<u>8,307,486</u>
Net Position:		
Net Investment in Capital Assets	12,896,772	12,585,652
Restricted	738,887	730,748
Unrestricted	<u>1,712,933</u>	<u>1,897,022</u>
Total Net Position	<u>\$15,348,592</u>	<u>\$15,213,422</u>

The District's net position for 2015 increased 0.89% or \$135,170 as compared to a 3% or \$451,826 increase in the previous year. During 2015 water sales, customer contributions and expenses increased resulting in a change in net position that was almost identical to that of the previous year.

The largest portion of the District's net position (84.0%) 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 the debt.

An additional portion of the District's net position (11.2%) 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 may be used to meet the District's ongoing obligations to customers and creditors.

SUMMARY OF CHANGES IN NET POSITION

Operating Revenues

The District's operating revenues decreased by \$113,061 or 2.8%. This decrease in operating revenues is primarily the result of increased water sales due to a dryer year with less rainfall during the summer months.

Operating Expenses

The District's operating expenses increased \$146,256. Water costs accounted for \$114,807 of this increase due to increased water sales and rate increases from 3 of the 4 entities that supply water to the District. Operation, maintenance and administrative expenses actually decreased slightly. Depreciation expense increased \$36,415 due to the addition of a new 500,000 gallon water storage tank to the system in January of 2014.

SUMMARY OF CHANGES IN NET POSITION (continued)

Interest on Long-Term Debt and Customer Deposits

Interest expense decreased \$1,491 during 2014. This is due to the fact that the District refinanced two bond issues bearing interest at 5% to 5.45% with a capital lease bearing interest at 2.8% during 2013 which reduced interest costs. However, the District borrowed additional funds to build a 500,000 gallon storage tank during 2013 and early 2014 so that the increased interest expense from this note offset the interest reduction from the refinancing.

Capital Contributions

Capital contributions increased \$4,717. This was primarily due to a small increase in tap on fees paid by new customers coupled with a small increase in the amount of surcharges billed during 2014.

Prior Period Adjustment

During 2015, Government Accounting Standards Board Statement No. 68 required the District to report its portion of the estimated unfunded pension liability associated with its participation in the County Employee Retirement System. The prior period adjustment of \$977,594 reported in the statement of changes in net position accounts for the estimated net pension liability at June 30, 2015. See note 9 to the financial statements for a more complete explanation of this unfunded liability.

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

**Table 2
Changes in Net Position**

	<u>2015</u>	(Restated) <u>2014</u>
Operating Revenues:		
Water Sales	\$ 3,719,057	\$ 3,842,534
Forfeited Discounts	99,915	102,893
Miscellaneous Services Revenues	48,751	36,057
Management Fee	<u>124,770</u>	<u>124,070</u>
Total Operating Revenues	<u>3,992,493</u>	<u>4,105,554</u>
Operating Expenses:		
Water Purchased	1,199,622	1,128,644
Operations and Maintenance Expense	1,831,304	1,842,635
Depreciation & Amortization	<u>597,605</u>	<u>608,112</u>
Total Operating Expenses	<u>3,628,531</u>	<u>3,579,391</u>
Net Operating Income	<u>363,962</u>	<u>526,163</u>
Non-Operating Income(Expenses)		
Investment Income	7,502	3,110
Gain/(Loss) on Disposition of Assets	1,328	(2,832)
Interest on Long-Term Debt and Customer Deposits	(193,143)	(206,286)
Amortization of Debt Discount and Expenses	(2,711)	(2,711)
Net Effect on Change of Pension Expense	<u>(192,661)</u>	<u>36,391</u>
Net Non-Operating Expenses	<u>(379,685)</u>	<u>(172,328)</u>
(Loss)/Income Before Capital Contributions	(15,723)	353,835
Capital Contributions	<u>150,893</u>	<u>133,882</u>
Change in Net Position	135,170	487,717
Net Position – January 1	15,213,422	15,703,299
Prior Period Adjustment	-	(977,594)
Net Position – December 31	<u>\$15,348,592</u>	<u>\$15,213,422</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2015, the District had \$19,287,107 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 decrease (additions less retirements and depreciation) of \$422,321. This decrease is mainly due to the fact that depreciation expense of \$598,452 exceeded the cost of new assets purchased during 2015.

Table 3 Summarizes the District's capital assets at the end of 2015 as compared to 2014.

Table 3
Capital Assets at Year End

	<u>2015</u>	<u>2014</u>
Land	\$ 200,283	\$ 200,283
Buildings and Improvements	1,582,964	1,577,352
Construction in Progress	281,227	34,843
Other Plant & Miscellaneous Equipment	652,662	651,390
Transportation Equipment	306,862	282,381
Transmission and Distribution System	25,302,052	25,047,864
Furniture and Fixtures	81,346	81,346
Subtotal	<u>28,407,396</u>	<u>27,875,459</u>
Accumulated Depreciation	<u>(9,184,324)</u>	<u>(8,588,352)</u>
Total Capital Assets	<u>\$19,223,072</u>	<u>\$19,287,107</u>

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2015 compared to 2014.

Table 4
Outstanding Debt at Year End

	<u>2015</u>	<u>2014</u>
Bond Payable Obligations	\$ 1,017,000	\$ 1,123,000
Notes Payable	4,336,530	4,449,930
Capitalized Leases	<u>1,045,654</u>	<u>1,235,494</u>
Total	<u>\$ 6,399,184</u>	<u>\$ 6,808,424</u>

At year-end, the District had \$6,808,424 in outstanding long-term debt compared to \$7,110,865 last year. This is a decrease of \$302,441.

During 2013 the District drew \$1,599,207 on a \$1,796,300 loan. During 2014 they drew the remaining \$197,093 on this loan. The funds were borrowed to finance the construction of a new water tower. The loan will be repaid over 20 years at 2% interest.

During 2013 the District also refunded and refinanced \$851,000 of long term debt from two bond issues bearing interest at 5% to 5.45% with a \$769,465 capital lease bearing interest at 2.8%. The interest savings from this refinancing offset the interest costs of the new loan to build the water tower so that interest expense actually decreased slightly from the 2013 amount.

All of the required payments were made on the District's outstanding debt during 2014. The total payments on long-term debt amounted to \$499,534.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2016 projects a year very similar to 2015. Water revenues are expected to increase slightly due to a small rate increase approved by the Public Service Commission to pass the increased water purchase costs of 2015 on to the District's customers. The rate increase will take effect on the April 2015 billing. This small increase in water revenues is expected to be offset by further increases in the cost of water purchased and other operation expenses. The 2016 change in net position is expected to be approximately \$446,346 which is very similar to the increase in both 2014 and 2015.

FINANCIAL CONTACT

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 Farrell Drive, Crittenden, Kentucky 41030.

William Catlett, General Manager
Bullock Pen Water District

BULLOCK PEN WATER DISTRICT STATEMENTS OF NET POSITION December 31, 2015 and 2014

ASSETS	2015	<i>(Restated)</i> 2014
Current Assets		
Cash and cash equivalents	\$ 1,887,153	\$ 1,875,881
Accounts receivable		
Customers, net of allowance	488,767	562,933
Other	32,665	20,134
Restitution receivable - Thurman	1,200	1,200
Inventories	174,016	164,755
Prepays	42,956	50,273
Unamortized expenses	4,344	4,344
Total Current Assets	<u>2,631,101</u>	<u>2,679,520</u>
Restricted Assets		
Current reserve fund - USDA Rural Development	150,152	149,703
Debt payment account	399,238	395,687
Current construction fund	7,525	18,169
Accounts receivable - surcharges	12,755	12,686
FSA/HRA account	7,930	1,639
Customer deposits	236,205	225,915
Maintenance and replacement reserve	679,642	629,978
Total Restricted Assets	<u>1,493,447</u>	<u>1,433,777</u>
Noncurrent Assets		
Restitution receivable - Thurman	3,416	4,616
Total Noncurrent Assets	<u>3,416</u>	<u>4,616</u>
Capital Assets		
Land, building, transmission system, equipment, and vehicles	28,126,169	27,840,616
Construction in progress	281,227	34,843
Total utility plant in service	28,407,396	27,875,459
Less: accumulated depreciation	(9,184,324)	(8,588,352)
Total Capital Assets, net of depreciation	<u>19,223,072</u>	<u>19,287,107</u>
TOTAL ASSETS	<u>23,351,036</u>	<u>23,405,020</u>
DEFERRED OUTFLOW OF RESOURCES		
Unamortized debt discounts	12,058	14,769
Unamortized tap-in expense	40,414	42,047
Deferred pension contributions	182,745	59,072
TOTAL DEFERRED OUTFLOW OF RESOURCES	<u>235,217</u>	<u>115,888</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>23,586,253</u>	<u>23,520,908</u>

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

(Continued on Page 10)

BULLOCK PEN WATER DISTRICT STATEMENTS OF NET POSITION (Continued from Page 9) December 31, 2015 and 2014

LIABILITIES	2015	(Restated) 2014
Current Liabilities		
Accounts payable	140,921	159,272
Accrued and withheld liabilities	139,429	138,525
Total Current Liabilities	<u>280,350</u>	<u>297,797</u>
Current Liabilities Payable From Restricted Assets		
Revenue bonds - current portion	112,000	106,000
Notes payable - current portion	261,679	246,696
Lease obligations - current portion	206,742	189,784
Customer deposits	168,693	163,131
Accrued interest payable	34,235	37,859
Accounts payable - construction	38,589	-
Total Current Liabilities Payable From Restricted Assets	<u>821,938</u>	<u>743,470</u>
Long-Term Obligations		
Bonds	905,000	1,017,000
Notes payable	4,074,851	4,203,234
Capital lease obligations	838,914	1,045,710
Net unfunded pension liability	1,255,107	918,273
Total Long-Term Obligations	<u>7,073,872</u>	<u>7,184,217</u>
TOTAL LIABILITIES	8,176,160	8,225,484
DEFERRED INFLOW OF RESOURCES		
Deferred inflow related to pensions	61,501	82,002
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	<u>8,237,661</u>	<u>8,307,486</u>
NET POSITION		
Net investment in capital assets	12,896,772	12,585,652
Restricted	738,887	730,748
Unrestricted	1,712,933	1,897,022
TOTAL NET POSITION	<u>\$ 15,348,592</u>	<u>\$ 15,213,422</u>

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

BULLOCK PEN WATER DISTRICT STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Years Ending December 31, 2015 and 2014

	<u>2015</u>	<i>(Restated)</i> <u>2014</u>
OPERATING REVENUES		
Water revenue	\$ 3,867,722	\$ 3,981,484
Management fees	124,771	124,070
TOTAL OPERATING REVENUES	<u>3,992,493</u>	<u>4,105,554</u>
OPERATING EXPENSES		
Water purchased	1,199,622	1,128,644
Operations, maintenance, and administrative expenses	1,831,304	1,842,635
Depreciation and amortization	597,605	608,112
TOTAL OPERATING EXPENSES	<u>3,628,531</u>	<u>3,579,391</u>
OPERATING INCOME	<u>363,962</u>	<u>526,163</u>
NON-OPERATING INCOME (EXPENSE)		
Investment income	7,502	3,110
Gain (loss) on sale of assets	1,328	(2,832)
Net effect on change of pension expense	(192,661)	36,391
Interest on long-term obligations	(193,143)	(206,286)
Amortization of bond discounts	(2,711)	(2,711)
NET NON-OPERATING INCOME (EXPENSE)	<u>(379,685)</u>	<u>(172,328)</u>
NET (LOSS) INCOME	<u>(15,723)</u>	<u>353,835</u>
CAPITAL CONTRIBUTIONS	<u>150,893</u>	<u>133,882</u>
CHANGE IN NET POSITION	<u>135,170</u>	<u>487,717</u>
NET POSITION, JANUARY 1	15,213,422	15,703,299
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>(977,594)</u>
NET POSITION, DECEMBER 31	<u>\$ 15,348,592</u>	<u>\$ 15,213,422</u>

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

BULLOCK PEN WATER DISTRICT STATEMENTS OF CASH FLOWS For the Years Ending December 31, 2015 and 2014
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	2015	(Restated) 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 4,055,328	\$ 4,079,217
Paid to suppliers for goods and services	(1,918,221)	(1,852,030)
Paid to or on behalf of employees for services	(1,132,096)	(1,065,236)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,005,011</u>	<u>1,161,951</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of fixed assets	(493,348)	(323,563)
Interest on investments	7,502	3,110
Proceeds from sale of fixed assets	1,328	-
NET CASH USED FOR INVESTING ACTIVITIES	<u>(484,518)</u>	<u>(320,453)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributed capital received	150,893	133,882
Increase (decrease) in customer deposits	5,562	7,808
Interest paid on long term debt	(196,767)	(209,166)
Loan proceeds	133,295	197,093
Principal paid on long term debt	(542,534)	(499,534)
(Increase) decrease in restricted assets	(59,670)	(78,241)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(509,221)</u>	<u>(448,158)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	11,272	393,340
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>1,875,881</u>	<u>1,482,541</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 1,887,153</u>	<u>\$ 1,875,881</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 363,962	\$ 526,163
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	597,605	608,112
Change in operating assets and liabilities		
Increase (decrease) in receivables	62,835	(26,337)
Decrease (increase) in inventories	(9,261)	58,544
Increase (decrease) in prepaid assets	7,317	(29,997)
Decrease (increase) in accounts payable	(18,351)	10,013
Increase (decrease) in other accrued liabilities	904	15,453
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,005,011</u>	<u>\$ 1,161,951</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ 196,767</u>	<u>\$ 209,166</u>
Non-cash contribution to fixed assets	<u>\$ -</u>	<u>\$ -</u>

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

BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

The Bullock Pen Water District (District) is a water utility, which provides service to residential and commercial customers in Grant, Boone, Kenton, Pendleton and Gallatin Counties in Kentucky. The District was created by the Grant County Fiscal Court under the provisions of chapter 74 of the Kentucky Revised Statutes (KRS) in 1957.

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 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) Opinions of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Bullock Pen Water District has adopted GASB Statements 66 through 70, and related interpretations issued through December 31, 2015.

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

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

Statement No. 68 – Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27 – Requires Bullock Pen Water District to report their representative share of the unfunded pension liability of the Kentucky County Employee Retirement System (CERS) on Bullock Pen 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 Bullock Pen 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.

BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015 and 2014

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 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.

Cash Equivalents

For purposes of the balance sheets and the statements 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.

Inventories

Inventories are stated at the lower of cost or market. 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 asset under construction is ready for use, related costs are transferred to the asset account. The Construction in Progress account was \$281,227 and \$34,843 at December 31, 2015 and 2014, respectively.

Miscellaneous Deferred Charges

Bond premiums and discounts are deferred and amortized over the life of the bond. The District amortizes expenses related to tapping into the Northern Kentucky Water District. The District also amortizes costs associated with the preparation, filing, and completion of its rate case proceedings.

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 other contributions to recover the costs of extensions of the distribution system. The District also includes estimated cost figures for those lines contributed by outside contractors.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014
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During 2015 and 2014 these contributions consisted of the following:

<u>Source</u>	<u>2015</u>	<u>2014</u>
Tap in fees and construction costs paid by new customers	\$ 54,000	\$ 39,800
Surcharges - Phases 5, 6, 7, 8, and 10	96,893	94,082
Total income received in aid of construction	150,893	133,882
Waterlines and related infrastructure received without cost	-	-
Total capital contributions	<u>\$ 150,893</u>	<u>\$ 133,882</u>

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, sales of fixed assets and interest income.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits consist of only cash checking accounts. They are carried at cost, which equals market value. The carrying amount of deposits is separately displayed on the balance sheets as "Cash and Cash Equivalents" and "Restricted Assets". At December 31, 2015 and 2014, the bank balances were \$3,367,846 and \$3,296,972, respectively, which were the same as the carrying amount.

The District has amounts on deposit with two banks in excess of FDIC insured amounts. The banks have pledged collateral agreements to cover such excess amounts. At December 31, 2015, all amounts held on deposit by the District were sufficiently collateralized.

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. The District's investments are categorized to give an indication of the level of risk assumed by the District at December 31, 2015. 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;

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014
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Category 3 – Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

At December, 31, 2015	Category 1	Category 2	Category 3	Fair Value/ Carrying Cost	Cost
Operation and maintenance	\$ 1,895,083	\$ -	\$ -	\$ 1,895,083	\$ 1,895,083
Customer deposits	236,205	-	-	236,205	236,205
Debt payment accounts	246,263	-	152,976	399,239	399,239
Current and replacement reserve	829,794	-	-	829,794	829,794
Construction funds	7,525	-	-	7,525	7,525
Total	\$ 3,214,870	\$ -	\$ 152,976	\$ 3,367,846	\$ 3,367,846

NOTE 3 – RESTRICTED NET POSITION

Net position is comprised of 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 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 are attributable to the acquisition, construction and improvement of those assets. The restricted portion of net position consists of assets, net of related liabilities, 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, net of related liabilities, not included in the above categories. The following amounts are included in restricted net position at December 31, 2015 and 2014:

	2015	2014
Current reserve fund - USRDA	\$ 143,400	\$ 143,400
Debt payment account	162,864	170,842
Accrued interest payable	(19,197)	(21,350)
Portion of bonds payable	(112,000)	(106,000)
Maintenance and replacement	563,820	543,856
Total Restricted Net Position	\$ 738,887	\$ 730,748

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. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss included in the results of operations. 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.

**BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015 and 2014**

Asset Type	Balance at December 31, 2014	Additions	Retirements	Balance at December 31, 2015
Land	\$ 200,283	\$ -	\$ -	\$ 200,283
Buildings and improvements	1,577,352	5,612	-	1,582,964
Construction in progress	34,843	250,083	(3,699)	281,227
Distribution reservoirs and standpipes	3,722,962	203,091	-	3,926,053
Furniture and fixtures	81,346	-	-	81,346
Hydrants	1,289,016	-	-	1,289,016
Meter system and installation	4,064,103	51,097	-	4,115,200
Other plant and misc. equipment	440,514	-	-	440,514
Pumping equipment	53,991	-	-	53,991
Tools and lab equipment	86,305	-	-	86,305
Transmission mains	15,917,792	-	-	15,917,792
Transportation equipment	282,381	24,481	-	306,862
Water treatment equipment	124,571	1,272	-	125,843
Subtotal	27,875,459	535,636	(3,699)	28,407,396
Accumulated depreciation	(8,588,352)	(595,972)	-	(9,184,324)
Fixed Assets, net	<u>\$ 19,287,107</u>	<u>\$ (60,336)</u>	<u>\$ (3,699)</u>	<u>\$ 19,223,072</u>

NOTE 5 – BONDED INDEBTEDNESS

Water Works System Revenue Bonds, U.S. Department of Agriculture 1982

On August 6, 1982, the District sold \$125,000 of revenue bonds for the purpose of financing the costs of major water system facilities. All bonds mature on January 1st of each year beginning in 1984 and ending in 2023. Interest is payable on January 1st and July 1st of each year and principal is due in annual installments on January 1st through 2023. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	5.00%	\$ 5,000	\$ 2,075	\$ 7,075
2017	5.00%	6,000	1,800	7,800
2018	5.00%	6,000	1,500	7,500
2019	5.00%	6,000	1,200	7,200
2020	5.00%	7,000	875	7,875
2021-2022	5.00%	14,000	700	14,700
Totals		<u>\$ 44,000</u>	<u>\$ 8,150</u>	<u>\$ 52,150</u>

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014
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Kentucky Rural Water Finance Corporation Revenue Bonds, Series 2001C - Refinancing

On July 31, 2002, the District sold \$574,000 of revenue bonds for the purpose of refinancing existing obligations. All bonds mature on February 1st of each year beginning in 2003 and ending in 2021. Interest is payable on February 1st and August 1st of each year and principal is due in annual installments on February 1st through 2021. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	4.50-5.00%	\$ 33,000	\$ 10,123	\$ 43,123
2017	4.60-5.00%	35,000	8,575	43,575
2018	4.70-5.00%	37,000	6,900	43,900
2019	4.80-5.00%	39,000	5,095	44,095
2020	4.90-5.00%	41,000	3,155	44,155
2021	5.00%	43,000	1,075	44,075
Totals		\$ 228,000	\$ 34,923	\$ 262,923

Kentucky Rural Water Finance Corporation Revenue Bonds, Series 2001G - Dry Ridge Tank

On July 29, 2003, the District sold \$460,000 of revenue bonds for the purpose of installing a water tower in Dry Ridge, Kentucky. All bonds mature on February 1st of each year beginning in 2004 and ending in 2018. Interest is payable on February 1st and August 1st of each year and principal is due in annual installments on February 1st. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	4.52%	\$ 40,000	\$ 4,294	\$ 44,294
2017	4.52%	35,000	2,599	37,599
2018	4.52%	40,000	904	40,904
Totals		\$ 115,000	\$ 7,797	\$ 122,797

Kentucky Rural Water Finance Corporation Revenue Bonds, Series 2004D - Phase 7

On October 19, 2004, the District sold \$98,000 of revenue bonds for the purpose of funding its Phase 7 waterline extension project. All bonds mature on February 1st of each year beginning in 2005 and ending in 2019. Interest is payable on February 1st and August 1st of each year and principal is due in annual installments on February 1st through 2019. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	4.12%	\$ 7,000	\$ 1,050	\$ 8,050
2017	4.12%	7,000	762	7,762
2018	4.12%	7,000	474	7,474
2019	4.12%	8,000	165	8,165
Totals		\$ 29,000	\$ 2,451	\$ 31,451

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014
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Kentucky Rural Water Finance Corporation Revenue Bonds, Series 2005B - Phase 8

On October 19, 2005, the District sold \$514,000 of revenue bonds for the purpose of funding its Phase 8 waterline extension project. All bonds mature on February 1st of each year beginning in 2007 and ending in 2031. Interest is payable on February 1st and August 1st of each year and principal is due in annual installments on February 1st through 2031. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	4.090-4.590%	\$ 17,000	\$ 16,379	\$ 33,379
2017	4.090-4.590%	19,000	15,643	34,643
2018	4.090-4.590%	19,000	14,865	33,865
2019	4.090-4.590%	20,000	14,068	34,068
2020	4.190-4.590%	20,000	13,240	33,240
2021-2025	4.215-4.590%	112,000	52,534	164,534
2026-2030	4.440-4.590%	144,000	24,427	168,427
2031	4.59%	33,000	757	33,757
Totals		<u>\$ 384,000</u>	<u>\$ 151,913</u>	<u>\$ 535,913</u>

Kentucky Rural Water Finance Corporation Revenue Bonds, Series 2005B - Phase 10

On October 19, 2005, the District sold \$290,000 of revenue bonds for the purpose of funding its Phase 10 waterline extension project. All bonds mature on February 1st of each year beginning in 2007 and ending in 2031. Interest is payable on February 1st and August 1st of each year and principal is due in annual installments on February 1st through 2031. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	4.090-4.590%	\$ 10,000	\$ 9,245	\$ 19,245
2017	4.090-4.590%	11,000	8,815	19,815
2018	4.090-4.590%	11,000	8,365	19,365
2019	4.090-4.590%	11,000	7,915	18,915
2020	4.190-4.590%	11,000	7,460	18,460
2021-2025	4.215-4.590%	64,000	29,549	93,549
2026-2030	4.440-4.590%	81,000	13,644	94,644
2031	4.59%	18,000	413	18,413
Totals		<u>\$ 217,000</u>	<u>\$ 85,406</u>	<u>\$ 302,406</u>

NOTE 6 – NOTES PAYABLE

Kentucky Infrastructure Authority - Drinking Water Supply Project 2002

On February 1, 2002, the District signed a note from the Kentucky Infrastructure Authority for \$350,367 to fund waterline replacement and extension projects. Water system revenues serve as collateral for this loan. The note carries an interest rate of 3.80% and matures on December 1, 2022.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014
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The remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2016	3.80%	\$ 19,522	\$ 5,647	\$ 25,169
2017	3.80%	20,271	4,898	25,169
2018	3.80%	21,049	4,120	25,169
2019	3.80%	21,856	3,313	25,169
2020	3.80%	22,695	2,474	25,169
2021-2022	3.80%	48,034	2,304	50,338
Totals		<u>\$ 153,427</u>	<u>\$ 22,756</u>	<u>\$ 176,183</u>

Kentucky Infrastructure Authority - Drinking Water Supply Project 2003

On November 1, 2003, the District signed a note from the Kentucky Infrastructure Authority for \$1,210,604 to fund waterline extension projects and the Mt. Zion water tank installation. Water system revenues serve as collateral for this loan. The note carries an interest rate of 3.0% and matures on June 1, 2024. The remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2016	3.00%	\$ 63,446	\$ 17,665	\$ 81,111
2017	3.00%	65,364	15,748	81,112
2018	3.00%	67,339	13,772	81,111
2019	3.00%	69,375	11,737	81,112
2020	3.00%	71,471	9,641	81,112
2021-2024	3.00%	267,596	16,294	283,890
Totals		<u>\$ 604,591</u>	<u>\$ 84,857</u>	<u>\$ 689,448</u>

Kentucky Infrastructure Authority – Drinking Water Supply Project 2010

During 2009, the District executed a drawdown loan with the Kentucky Infrastructure Authority in order to finance its Phase 6 waterline extension project. Water system revenues serve as collateral for this loan. The loan carries an interest rate of 3.0% and matures on December 1, 2030. The balance on this loan at December 31, 2015 is \$1,760,255.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014
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The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	3.00%	\$ 94,487	\$ 52,104	\$ 146,591
2017	3.00%	97,343	49,248	146,591
2018	3.00%	100,285	46,306	146,591
2019	3.00%	103,316	43,275	146,591
2020	3.00%	106,439	40,152	146,591
2021-2025	3.00%	582,441	150,515	732,956
2026-2030	3.00%	675,944	57,013	732,957
Totals		<u>\$ 1,760,255</u>	<u>\$ 438,613</u>	<u>\$ 2,198,868</u>

Kentucky Infrastructure Authority – Drinking Water State Revolving Loan Fund 2012

During 2012, the District executed a drawdown loan with the Kentucky Infrastructure Authority in order to finance its Phase 12 500,000 gallon water tower storage tank. The water tower will serve as collateral for this loan. The loan carries an interest rate of 2.0% and matures on December 1, 2033. As of December 31, 2015 the District has drawn \$1,684,961 on this loan. Once the loan is fully drawn, the total future remaining debt service will be as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	3.00%	\$ 76,094	\$ 33,321	\$ 109,415
2017	3.00%	77,624	31,791	109,415
2018	3.00%	79,184	30,231	109,415
2019	3.00%	80,776	28,639	109,415
2020	3.00%	82,399	27,016	109,415
2021-2025	3.00%	437,514	109,559	547,073
2026-2030	3.00%	483,288	63,785	547,073
2031-2034	3.00%	368,082	14,870	382,952
Totals		<u>\$ 1,684,961</u>	<u>\$ 339,212</u>	<u>\$ 2,024,173</u>

Kentucky Infrastructure Authority - Drinking Water State Revolving Loan Fund 2015

On September 10, 2015, the District executed a drawdown loan with the Kentucky Infrastructure Authority in order to finance its Phase 14 looped lines. Water system revenues serve as collateral for this loan. The loan carries an interest rate of 1.75% and matures on June 1, 2036. As of December 31, 2015 the District has drawn \$133,295 on this loan.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014
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Once the loan is fully drawn, the total future remaining debt service will be as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	1.75%	\$ 8,130	\$ 2,015	\$ 10,145
2017	1.75%	16,474	6,565	23,039
2018	1.75%	16,764	6,275	23,039
2019	1.75%	17,058	5,981	23,039
2020	1.75%	17,358	5,681	23,039
2021-2025	1.75%	91,476	23,719	115,195
2026-2030	1.75%	99,803	15,392	115,195
2031-2035	1.75%	108,887	6,308	115,195
2036	1.75%	11,420	100	11,520
Totals		<u>\$ 387,370</u>	<u>\$ 72,036</u>	<u>\$ 459,406</u>

NOTE 7 – CAPITAL LEASES

BB&T - 2013

On October 29, 2013, the District signed a capital lease agreement with BB&T for \$769,465, which served to relinquish the District's obligations on its December 28, 1978 bond debt through the U.S. Department of Agriculture and its May 15, 2002 Series 2001C – Surcharge and Series 2001C – Phase V bond debt through the Kentucky Rural Water Finance Corporation. The interest rate is fixed at 2.80%. Principal and interest payments are due on the twenty-ninth day of each month beginning November 29, 2013 and ending October 29, 2023. Future minimum lease payments are as follows:

Year	Interest Rate	Principal Amount	Interest Amount	Total Lease Payment
2016	2.80%	\$ 71,742	\$ 16,740	\$ 88,482
2017	2.80%	73,854	14,628	88,482
2018	2.80%	75,979	12,503	88,482
2019	2.80%	78,164	10,318	88,482
2020	2.80%	80,387	8,095	88,482
2021 -2023	2.80%	240,530	10,167	250,697
Totals		<u>\$ 620,656</u>	<u>\$ 72,451</u>	<u>\$ 693,107</u>

Grant County Fiscal Court – 2010

On May 4, 2010, the District signed a capital lease agreement with the Grant County Fiscal Court for \$1,020,000, which served to relinquish the District's obligations on its capital lease agreements through the Kentucky Association of Counties Leasing Trust. This lease agreement therefore covers water lines, meters, hydrants, and other infrastructure associated with those leases. The fixed assets are included on the fixed asset summary in Note 4, and also serve as collateral for this debt. The lease matures on February 1, 2019. Amortization of the lease is included in the depreciation expense.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014
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Future minimum lease payments are as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Lease Payment
2016	3.00-3.30%	\$ 135,000	\$ 11,263	\$ 146,263
2017	3.00-3.30%	95,000	7,813	102,813
2018	3.00-3.30%	95,000	4,844	99,844
2019	3.00-3.30%	100,000	1,648	101,648
Totals		<u>\$ 425,000</u>	<u>\$ 25,568</u>	<u>\$ 450,568</u>

Old National Bank - 2003

On September 1, 2003 the District signed a capital lease agreement for \$477,050 for water meter automated read heads. The interest rate is 4.5%. These read heads are included in meters on the fixed asset summary in Note 4, and also serve as collateral on this debt. The lease matured on February 5, 2014. This capital lease has been paid in full, and therefore had a balance of \$0 at December 31, 2014.

NOTE 8 – INDEBTEDNESS SUMMARY

The changes in long-term indebtedness for 2015 are as follows:

Debt Instrument	Balance at December 31, 2014	Additions	Retirements	Balance at December 31, 2015
USDA revenue bonds of 1982	\$ 49,000	\$ -	\$ (5,000)	\$ 44,000
KRW series 2001C bonds - Refinancing	261,000	-	(33,000)	228,000
KRW series 2004D bonds - Phase 7	36,000	-	(7,000)	29,000
KRW series 2001G bonds - Dry Ridge	150,000	-	(35,000)	115,000
KRW series 2005B bonds - Phase 8	401,000	-	(17,000)	384,000
KRW series 2005B bonds - Phase 10	226,000	-	(9,000)	217,000
Note payable - KIA 2002	172,228	-	(18,801)	153,427
Note payable - KIA 2003	666,176	-	(61,585)	604,591
Construction loan - KIA	1,851,970	-	(91,715)	1,760,255
Construction loan -Phase 12 - KIA	1,759,556	-	(74,595)	1,684,961
Note payable - KIA 2015	-	133,295	-	133,295
Capital lease - Grant County Fiscal Court	545,000	-	(120,000)	425,000
Capital lease - The Bank of Kentucky	690,494	-	(69,839)	620,655
Subtotal	6,808,424	<u>\$ 133,295</u>	<u>\$ (542,535)</u>	6,399,184
Less: current portion of long-term debt	(542,480)			(580,422)
Total Long-Term Indebtedness	<u>\$ 6,265,944</u>			<u>\$ 5,818,762</u>

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014
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NOTE 9 – RETIREMENT PLAN

The District participates in the County Employees' Retirement System of Kentucky ("Plan"). The Plan is a cost-sharing, multi-employer public retirement plan created by and operating under Kentucky law. It is a defined benefit plan that covers substantially all regular employees of the District. The County Employees Retirement System covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The Plan provides for retirement, disability and death benefits.

Participating non-hazardous employees contribute 5% of their creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus 1% of un-funded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium.

Contributions

The District contributed 17.67% (from January – June of 2015) and 17.06% (from July – December of 2015) of the non-hazardous duty employee's compensation during the year ended December 31, 2015. The District made all required contributions for the Plan pension obligation for the fiscal year ended December 31, 2015 in the amount of \$117,967.

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

At December 31, 2015, the District reported a liability of \$1,255,107 as its proportionate share of the net pension liability. The 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 employer allocation proportion was 0.02919% of the total CERS non-hazardous duty employees. For the year ended December 31, 2015, the District recognized pension expense of \$192,661. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 7,458	\$ -
Net difference between projected and actual earnings on plan investments	9,001	61,501
Changes of assumptions	90,506	-
Changes in proportion and differences between District contributions and proportionate share of contributions	16,381	-
District contributions subsequent to the measurement date	59,399	-
Total	<u>\$ 182,745</u>	<u>\$ 61,501</u>

BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015 and 2014

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

In 2015, \$230,551 was recognized as a deferred outflow of resources resulting from a) actuarial losses, b) difference between projected and actual earnings, c) changes in assumptions, d) changes in proportion share. These amounts are being amortized as follows:

Deferred Outflows of Resources

5.0 Years Amortization Period	Amount Deferred	Amount Amortized	Net Deferral Balance
Recognized in previous years	\$ -	\$ -	\$ -
Recognized in current year			
Difference in earnings	11,251	2,250	9,001
Subtotal	<u>11,251</u>	<u>2,250</u>	<u>9,001</u>
3.51 Years Amortization Period			
Recognized in previous years	-	-	-
Recognized in current year			
Actuarial losses	10,430	2,972	7,458
Changes in assumptions	126,564	36,058	90,506
Changes in proportion share	22,907	6,526	16,381
Subtotal	<u>159,901</u>	<u>45,556</u>	<u>114,345</u>
0 Years Amortization Period			
Recognized in current year			
Contributions since measurement date	59,399	-	59,399
Subtotal	<u>59,399</u>	<u>-</u>	<u>59,399</u>
	<u>\$ 230,551</u>	<u>\$ 47,806</u>	<u>\$ 182,745</u>

Future amortization of will be recognized as an offset to pension expense as follows:

Actuarial Losses		Difference in Earnings	
3.51 Year Amortization Period		5 Year Amortization Period	
Year Ending	Net Deferral Amortization	Year Ending	Net Deferral Amortization
December 31,		December 31,	
2016	\$ 2,972	2016	\$ 2,250
2017	2,972	2017	2,250
2018	1,514	2018	2,250
	<u>\$ 7,458</u>	2019	2,251
			<u>\$ 9,001</u>

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014
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Changes in Assumptions 3.51 Year Amortization Period		Changes in Proportion 3.51 Year Amortization Period	
Year Ending December 31,	Net Deferral Amortization	Year Ending December 31,	Net Deferral Amortization
2016	\$ 36,058	2016	\$ 6,526
2017	36,058	2017	6,526
2018	18,390	2018	3,329
	<u>\$ 90,506</u>		<u>\$ 16,381</u>

The District's contributions subsequent to the measurement date of \$59,399 will be recognized as a reduction of the net pension liability in the year ending December 31, 2016.

In 2014, \$102,501 was recognized as a deferred inflow of resources, and was amortized over a closed five year period at an annual amortization amount of \$20,500. There were no additional deferred inflows recognized in 2015. The annual amortization of \$20,500 was recognized in 2015 as a reduction in pension expense as follows:

Deferred Inflows of Resources

5.0 Years Amortization Period	Amount Deferred	Amount Amortized	Net Deferral Balance
Recognized in previous years	\$ 102,501	\$ 41,000	\$ 61,501
Recognized in current year			
None			
Totals	<u>\$ 102,501</u>	<u>\$ 41,000</u>	<u>\$ 61,501</u>

Future amortization of will be recognized in pension expense as follows:

Year Ending December 31,	Net Deferral
2016	\$ 20,500
2017	20,500
2018	20,501
	<u>\$ 61,501</u>

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:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan expense, including inflation

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014
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The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (1 year set-back for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated 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, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting 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 covers 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, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>CERS Non-Hazardous Target Allocation</u>	<u>Long Term Expected Nominal Return</u>
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return	10%	3.50%
Real estate	5%	4.50%
Absolute return	10%	4.25%
Private equity	10%	8.50%
Cash	2%	-0.25%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014
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Sensitivity of the District's Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	Discount Rate	Proportionate Share of Net Pension Liability
1% decrease	6.50%	\$ 1,602,204
Current discount rate	7.50%	1,255,107
1% increase	8.50%	957,709

Plan Fiduciary Net Position

The Plan issues a publicly available financial report that includes financial statements and required supplementary information, and detailed information about the Plan's fiduciary net position. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

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 10 – RELATED PARTY TRANSACTIONS

The staff of the Bullock Pen Water District operates the Grant County Sewer District as well. The District receives a management fee from the Grant County Sewer District for these services. This fee was \$124,771 and \$124,070 in 2015 and 2014, respectively. The Chairman of the Board of Commissioners and two other commissioners of the District serve on the boards of both the Bullock Pen Water District and the Grant County Sewer District.

NOTE 11 – ECONOMIC DEPENDENCY/CREDIT RISK

Bullock Pen Water District is a government agency operating with one office in Crittenden, Kentucky. It grants credit to customers who are primarily local residents and businesses. The District receives all of its operating revenues from customers in Grant, Pendleton, Kenton, Boone and Gallatin Counties in Kentucky.

NOTE 12 – CONCENTRATIONS

The District has agreements to purchase water from the cities of Walton and Williamstown, Kentucky, the Northern Kentucky Water District, and the Boone County Water District.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014
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NOTE 13 – RESTITUTION RECEIVABLE

The District has a receivable balance due from Jonathan Thurman as restitution for past unpaid water charges. This restitution balance is unsecured and non-interest bearing, and is to be paid over multiple years. The entire account balance becomes immediately due and payable upon default of the monthly payment. The balance of this account was \$4,616 and \$5,816 at December 31, 2015 and December 31, 2014, respectively.

NOTE 14 – RESTATEMENT OF PRIOR YEAR STATEMENTS

The District has recorded an adjustment to the Beginning Net Position of (\$977,594) at December 31, 2014. This adjustment accounts for the estimated net pension liability at June 30, 2014, and is being recorded in accordance with Government Accounting Standards Board Statement No. 68.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated events through May 3, 2016, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2015 through May 3, 2016 to disclose.

BULLOCK PEN WATER DISTRICT
MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN
Last Ten Fiscal Years

Schedule of the District's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)

(New disclosure in 2015, will display additional years as time progresses)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Proportion of net pension liability	0.029190%									
Proportionate share of the net pension liability (asset)	\$ 1,255,107									
Covered employee payroll in year of measurement	681,485									
Share of the net pension liability (asset) as a percentage of its covered employee payroll	184.17%									
Plan fiduciary net position as a percentage of total pension liability	65.96%									

Schedule of the District's Contributions
County Employees' Retirement System (CERS)

(New disclosure in 2015, will display additional years as time progresses)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 117,967	\$ 120,261								
Actual contribution	117,967	120,261								
Contribution deficiency (excess)	-	-								
Covered employee payroll	681,485	658,224								
Contributions as a percentage of covered employee payroll	17.31%	18.27%								

Notes to Required Supplementary Information
for the Year Ended June 30, 2015

Changes of Assumptions

The net pension liability as of June 30, 2015, is based on the June 30, 2015, actuarial valuation for the first year of implementation. There are differences between expected and actual experience and changes in assumptions subject to amortization as detailed in Note 9, in the Notes to the Financial Statements.

BULLOCK PEN WATER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operations, Maintenance and Administrative Expenses		
Salaries and wages - employees	\$ 733,369	\$ 705,195
Employee pension and benefits	386,131	362,694
Advertising	546	288
Bad debt expense	26,344	32,670
Chemicals	93,488	94,501
Commissioners' fees	13,500	12,800
Contractual services - accounting	46,588	50,772
Contractual services - engineering	11,315	10,365
Contractual services - legal	12,125	9,028
Contractual services - management	2,432	2,560
Contractual services - water test	17,886	17,135
Contractual services - other	116,293	84,946
Insurance - general liability	21,166	18,088
Insurance - other	8,925	9,398
Insurance - vehicle	4,702	6,274
Insurance - workers' compensation	7,341	8,799
Materials and supplies	162,355	218,702
Miscellaneous	126	1,054
Payroll taxes	53,701	51,527
Purchased power	70,883	85,822
Rental of property and equipment	7,887	9,576
Transportation	26,632	42,933
Utility regulatory assessment	7,569	7,508
	<u>7,569</u>	<u>7,508</u>
Total Operations, Maintenance and Administrative Expenses	<u>\$ 1,831,304</u>	<u>\$ 1,842,635</u>



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

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

**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**

**To the Board of Commissioners
Bullock Pen 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 Bullock Pen 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 Bullock Pen Water District's basic financial statements, and have issued our report thereon dated May 3, 2016.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered Bullock Pen 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 Bullock Pen Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Bullock Pen 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 any deficiencies in internal control that we consider significant deficiencies.



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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bullock Pen 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 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
May 3, 2016