

BULLOCK PEN WATER DISTRICT

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July 2, 2014

Public Service Commission
P.O. Box 615
Frankfort, KY 40602

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PUBLIC SERVICE
COMMISSION

To Whom It May Concern:

A copy of the Bullock Pen Water District's audited financial statement is enclosed for your review and records.

If there are any questions, please feel free to call.

Thanks.

Sincerely,



Amy Ruark
Office Manager

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Enclosure

BULLOCK PEN WATER DISTRICT
FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

BULLOCK PEN WATER DISTRICT
FINANCIAL STATEMENTS
December 31, 2013 and 2012

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BULLOCK PEN WATER DISTRICT

BOARD OF COMMISSIONERS

December 31, 2013 and 2012

Bobby Burgess, Chairman

Charles Givin, Treasurer

Jimmie King, Secretary

Logan Murphy, Commissioner

Andrea Walton, 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
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
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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

-Management's Responsibility for the Financial Statements

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

-Auditor's Responsibility

Our responsibility is to express 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, 2013 and 2012 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4-8 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 Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Bullock Pen Water District. 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 Schedule of Expenditures of Federal Awards and 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 8, 2014 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 8, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2013. 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 \$15,703,299 (net position). This was an increase of \$451,826 in comparison to the prior year. During 2013 water revenue declined due to a year with more rainfall while expenses increased. As a result the District's increase in net position was less than in the previous year.
- At the end of the current year, unrestricted net position was \$2,392,878.

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 65. The financial statements include a balance sheet, 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. Please note that the 2012 statements have been restated in order for the District to be in compliance with the requirements of GASB 65. See footnote 1 and 14 for additional information about the restatement.

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 position at December 31, 2013 and 2012.

Table 1
Net Position

	<u>2013</u>	(Restated) <u>2012</u>
Current Assets	\$ 2,295,117	\$ 1,890,651
Restricted Assets	1,355,536	1,415,660
Noncurrent Assets	<u>19,776,504</u>	<u>18,698,121</u>
Total Assets	<u>\$23,427,157</u>	<u>\$22,004,432</u>
Current Liabilities	\$ 272,331	\$ 198,487
Liabilities Payable from Restricted Assets	877,279	840,732
Long Term Liabilities	<u>6,574,248</u>	<u>5,713,740</u>
Total Liabilities	<u>\$ 7,723,858</u>	<u>\$ 6,752,959</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	\$12,588,365	\$12,473,748
Restricted	722,056	675,014
Unrestricted	<u>2,392,878</u>	<u>2,102,711</u>
Total Net Position	<u>\$15,703,299</u>	<u>\$15,251,473</u>

The District's net position for 2013 increased 3% or \$451,826 as compared to a 5% or \$736,191 increase in the previous year. During 2013 water sales and customer contributions declined while expenses increased resulting in a smaller increase in net position than in 2013.

The largest portion of the District's net position (80.2%) 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 investments 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 (4.6%) 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 \$122,286 or 3%. This decrease in operating revenues is primarily the result of decreased water sales due to a relatively static number of customers and a year with more rainfall during the summer months.

Operating Expenses

The District's operating expenses increased \$112,620. Water costs accounted for \$52,603 of this increase due to a rate increase from the Northern Kentucky Water Service District and the City of Walton coupled with increased water usage for the flushing of water lines. Operation, maintenance and administrative expenses also increased \$57,708 primarily due to increases in employee salaries and benefits.

SUMMARY OF CHANGES IN NET POSITION (continued)

Interest on Long-Term Debt and Customer Deposits

Interest expense decreased \$24,017 during 2013 primarily 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%.

Capital Contributions

Capital Contributions decreased \$66,451. This was primarily due to a donation of land valued at \$33,500 to be used for the construction of a water tower. There were no donations of this type during 2013. In addition there was a decrease in the number of tap on fees received by the District.

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

**Table 2
Changes in Net Position**

	<u>2013</u>	(Restated) <u>2012</u>
Operating Revenues:		
Water Sales	\$ 3,717,061	\$ 3,830,940
Forfeited Discounts	100,990	107,504
Miscellaneous Services Revenues	28,357	28,120
Management Fee	<u>124,290</u>	<u>126,420</u>
Total Operating Revenues	<u>3,970,698</u>	<u>4,092,984</u>
Operating Expenses:		
Water Purchased	1,013,837	961,234
Operations and Maintenance Expense	1,847,601	1,789,893
Depreciation & Amortization	<u>571,697</u>	<u>569,388</u>
Total Operating Expenses	<u>3,433,135</u>	<u>3,320,515</u>
Net Operating Income	<u>537,563</u>	<u>772,469</u>
Non-Operating Income(Expenses)		
Investment Income	4,139	5,780
Gain/(Loss) on Disposition of Assets	545	(3,649)
Interest on Long-Term Debt and Customer Deposits	(207,777)	(231,794)
Amortization of Debt Discount and Expenses	(2,309)	(2,231)
Debt Issue Costs	<u>(9,500)</u>	<u>-</u>
Net Non-Operating Expenses	<u>(214,902)</u>	<u>(231,894)</u>
Income Before Capital Contributions	322,661	540,575
Capital Contributions	<u>129,165</u>	<u>195,616</u>
Change in Net Position	451,826	736,191
Net Position – January 1	15,251,473	14,601,033
Prior Period Adjustment	<u>-</u>	<u>(85,751)</u>
Net Position – December 31	<u>\$15,703,299</u>	<u>\$15,251,473</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2013, the District had \$19,709,428 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 \$1,086,834. This increase is mainly due to the construction of a water tower during 2013. Although the construction was not completed at the end of the year the majority of the construction costs were incurred during 2013.

Table 3 Summarizes the District's capital assets at the end of 2013 as compared to 2012.

**Table 3
Capital Assets at Year End**

	<u>2013</u>	<u>2012</u>
Land	\$ 195,257	\$ 195,257
Buildings and Improvements	1,550,924	1,542,738
Construction in Progress	1,860,004	342,185
Other Plant & Miscellaneous Equipment	540,771	492,787
Transportation Equipment	278,281	269,419
Transmission and Distribution System	23,202,838	23,173,131
Furniture and Fixtures	<u>76,771</u>	<u>76,175</u>
Subtotal	27,704,846	26,091,692
Accumulated Depreciation	<u>(7,995,418)</u>	<u>(7,469,098)</u>
Total Capital Assets	<u>\$19,709,428</u>	<u>\$18,622,594</u>

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2013 compared to 2012.

**Table 4
Outstanding Debt at Year End**

	<u>2013</u>	<u>2012</u>
Bond Payable Obligations	\$ 1,226,000	\$ 2,195,000
Notes Payable	4,456,490	3,212,199
Capitalized Leases	<u>1,428,375</u>	<u>853,589</u>
Total	<u>\$ 7,110,865</u>	<u>\$ 6,260,788</u>

At year-end, the District had \$7,110,865 in outstanding long-term debt compared to \$6,260,788 last year. This is an increase of \$850,077.

During 2013 the District drew 1,427,769 on a \$1,796,300 loan. This loan is funding the construction of the new water tower discussed above. The loan will be repaid over 20 years at 2% interest.

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 District expects substantial interest savings as a result of this refinancing.

All of the required payments were made on the District's outstanding debt during 2013. The total payments on long-term debt amounted to \$496,156.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2014 projects a small increase of approximately 1% in operating revenues and a 4.05% increase in operating expenses. Water revenues are expected to increase slightly because the customer base remains relatively unchanged and 2013 sales declined so it is expected that they will rebound some during 2014. All categories of operating expenses are expected to increase. Purchased water costs are expected to increase due to additional rate increases from our water suppliers coupled with a slight increase in customer usage. Operation and maintenance expense is expected to increase due to normal increases in the costs of operations. Depreciation expense is expected to increase due to the addition of the new water tower to the depreciation schedule. Interest expense is projected to stay approximately the same as in 2013 because the interest savings obtained by the refunding and refinancing of two bond issues during 2013 is expected to be offset by the interest costs on the new debt incurred to build the new water tower. Consequently, the increase in net position during 2014 is expected to be about \$357,000 in comparison to a \$451,826 increase during 2013.

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, 2013 and 2012

	2013	(Restated) 2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,482,541	\$ 1,092,154
Accounts receivable		
Customers, net of allowance	537,652	569,899
Other	17,778	22,582
Restitution receivable - Thurman	1,200	1,200
Inventories	223,299	169,283
Prepays	20,276	23,646
Unamortized expenses	12,371	11,887
Total Current Assets	<u>2,295,117</u>	<u>1,890,651</u>
Restricted Assets		
Debt service reserve fund - Kentucky Infrastructure Authority	-	9,456
Current reserve fund - USDA Rural Development	149,256	148,811
Debt payment account	371,858	372,796
Water tower construction fund	33,935	171,438
Accounts receivable - surcharges	12,775	12,210
Customer deposits	220,727	206,947
Maintenance and replacement reserve	566,985	494,002
Total Restricted Assets	<u>1,355,536</u>	<u>1,415,660</u>
Noncurrent Assets		
Restitution receivable - Thurman	5,916	7,016
Miscellaneous deferred charges		
Unamortized debt discounts	17,480	15,171
Unamortized tap-in expense	43,680	45,313
Deferred rate case expense	-	8,027
Total Noncurrent Assets	<u>67,076</u>	<u>75,527</u>
Capital Assets		
Land, building, transmission system, equipment, and vehicles	25,844,842	25,749,507
Construction in progress	1,860,004	342,185
Total utility plant in service	27,704,846	26,091,692
Less: accumulated depreciation	(7,995,418)	(7,469,098)
Total Capital Assets, net of depreciation	<u>19,709,428</u>	<u>18,622,594</u>
TOTAL ASSETS	<u>\$ 23,427,157</u>	<u>\$ 22,004,432</u>

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

BULLOCK PEN WATER DISTRICT STATEMENTS OF NET POSITION December 31, 2013 and 2012

	<u>2013</u>	<u>(Restated)</u> <u>2012</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 149,259	\$ 125,227
Accrued and withheld liabilities	123,072	73,260
Total Current Liabilities	<u>272,331</u>	<u>198,487</u>
Current Liabilities Payable From Restricted Assets		
Revenue bonds - current portion	103,000	185,000
Notes payable - current portion	240,765	183,479
Lease obligations - current portion	192,852	178,569
Customer deposits	155,323	160,442
Accrued interest payable	40,739	52,067
Accounts payable - construction	144,600	81,175
Total Current Liabilities Payable From Restricted Assets	<u>877,279</u>	<u>840,732</u>
Long-Term Obligations		
Bonds	1,123,000	2,010,000
Notes payable	4,215,725	3,028,720
Capital lease obligations	1,235,523	675,020
Total Long-Term Obligations	<u>6,574,248</u>	<u>5,713,740</u>
TOTAL LIABILITIES	<u>7,723,858</u>	<u>6,752,959</u>
NET POSITION		
Invested in capital assets, net of related debt	12,588,365	12,473,748
Restricted	722,056	675,014
Unrestricted	<u>2,392,878</u>	<u>2,102,711</u>
TOTAL NET POSITION	<u>\$ 15,703,299</u>	<u>\$ 15,251,473</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 Ended December 31, 2013 and 2012
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	<u>2013</u>	<u>(Restated) 2012</u>
OPERATING REVENUES		
Water revenue	\$ 3,846,408	\$ 3,966,564
Management fees	124,290	126,420
TOTAL OPERATING REVENUES	<u>3,970,698</u>	<u>4,092,984</u>
OPERATING EXPENSES		
Water purchased	1,013,837	961,234
Operations, maintenance, and administrative expenses	1,847,601	1,789,893
Depreciation and amortization	571,697	569,388
TOTAL OPERATING EXPENSES	<u>3,433,135</u>	<u>3,320,515</u>
OPERATING INCOME	<u>537,563</u>	<u>772,469</u>
NON-OPERATING INCOME (EXPENSE)		
Investment income	4,139	5,780
Gain (loss) on sale of assets	545	(3,649)
Interest on long-term obligations	(207,777)	(231,794)
Amortization of bond discounts	(2,309)	(2,231)
Debt issuance costs	(9,500)	-
NET NON-OPERATING INCOME (EXPENSE)	<u>(214,902)</u>	<u>(231,894)</u>
NET INCOME	322,661	540,575
CAPITAL CONTRIBUTIONS	<u>129,165</u>	<u>195,616</u>
CHANGE IN NET POSITION	451,826	736,191
NET POSITION, JANUARY 1	15,251,473	14,601,033
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>(85,751)</u>
NET POSITION, DECEMBER 31	<u>\$ 15,703,299</u>	<u>\$ 15,251,473</u>

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

BULLOCK PEN WATER DISTRICT STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2013 and 2012

	2013	(Restated) 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 4,008,849	\$ 4,114,421
Paid to suppliers for goods and services	(1,701,493)	(1,681,414)
Paid to or on behalf of employees for services	(1,136,747)	(1,083,655)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,170,609</u>	<u>1,349,352</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of fixed assets	(1,586,550)	(327,542)
Interest on investments	4,139	5,780
Proceeds from sale of fixed assets	1,650	-
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,580,761)</u>	<u>(321,762)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributed capital received	129,165	155,510
Increase/(decrease) in customer deposits	(5,119)	9,406
Interest paid on long term debt	(219,109)	(234,792)
Loan proceeds	2,197,234	171,438
Debt issuance costs	(9,500)	-
Premium paid to refund bonds	(5,100)	-
Principal paid on long term debt	(1,347,156)	(560,537)
(Increase)/decrease in restricted assets	60,124	(295,625)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>800,539</u>	<u>(754,600)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	390,387	272,990
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	1,092,154	819,164
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 1,482,541</u>	<u>\$ 1,092,154</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 537,563	\$ 772,469
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	571,697	569,388
Change in operating assets and liabilities		
Decrease in receivables	38,151	21,437
Increase in inventories	(54,016)	(38,711)
Decrease in prepaid assets	3,370	31,642
Increase (decrease) in accounts payable	24,032	(10,050)
Increase in other accrued liabilities	49,812	3,177
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,170,609</u>	<u>\$ 1,349,352</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ 237,981</u>	<u>\$ 234,792</u>
Non-cash contribution to fixed assets	<u>\$ -</u>	<u>\$ 40,106</u>

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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2013 and 2012
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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 60 through 65, and related interpretations issued through December 31, 2013.

Statement No. 65 – *Items Previously Reported as Assets and Liabilities* – Disallows the amortization of bond issuance costs over the life of the bond. Bond issuance costs must now be expensed in the period incurred. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53* – Not applicable to Bullock Pen Water District.

Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* – Requires Bullock Pen Water District to report the amortized deferred refunding costs on defeased bonds separately as a Deferred Outflow of Resources, instead of reporting this amount net of the related bond liability. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* – This Statement incorporates in GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

Statement No. 61 – *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* – This Statement modifies Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, to add certain requirements for inclusion of component units in the financial reporting entity.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2013 and 2012
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Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangements –
Not applicable to Bullock Pen Water District.

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 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 \$1,860,004 and \$342,185 at December 31, 2013 and 2012, 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

<p>BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2013 and 2012</p>

costs of extensions of the distribution system. The District also includes estimated cost figures for those lines contributed by outside contractors. During 2013 and 2012 these contributions consisted of the following:

Source	2013	2012
Tap in fees and construction costs paid by new customers	\$ 38,000	\$ 66,792
Surcharges - Phases 5, 6, 7, 8, and 10	91,165	88,718
Total income received in aid of construction	129,165	155,510
Waterlines and related infrastructure received without cost	-	40,106
Total capital contributions	<u>\$ 129,165</u>	<u>\$ 195,616</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, 2013 and 2012, the bank balances were \$2,825,302 and \$2,495,604, 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, 2013, 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, 2013. The categories are described as follows:

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2013 and 2012
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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.

At December, 31, 2013	Category 1	Category 2	Category 3	Fair Value/ Carrying Cost	Cost
Operation and maintenance	\$ 1,482,541	\$ -	\$ -	\$ 1,482,541	\$ 1,482,541
Customer deposits	220,727	-	-	220,727	220,727
Debt payment accounts	223,661	-	148,197	371,858	371,858
Current and replacement reserve	716,241	-	-	716,241	716,241
Construction funds	33,935	-	-	33,935	33,935
Total	\$ 2,677,105	\$ -	\$ 148,197	\$ 2,825,302	\$ 2,825,302

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, 2013 and 2012:

	2013	2012
Accounts receivable	\$ -	\$ 3,377
Current reserve fund - USRDA	143,400	143,400
Debt payment account	200,715	195,591
Accounts payable - construction	(33,935)	-
Accrued interest payable	(23,016)	(35,282)
Portion of bonds payable	(98,000)	(118,000)
Maintenance and replacement	532,892	485,928
Total Restricted Net Assets	\$ 722,056	\$ 675,014

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2013 and 2012
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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.

Asset Type	Balance at	Additions	Retirements	Balance at
	December 31,			December 31,
	2012			2013
Land	\$ 195,257	\$ -	\$ -	\$ 195,257
Buildings and improvements	1,542,738	8,186	-	1,550,924
Construction in progress	342,185	1,517,819	-	1,860,004
Distribution reservoirs and standpipes	2,127,209	-	-	2,127,209
Furniture and fixtures	76,175	596	-	76,771
Hydrants	1,273,131	-	-	1,273,131
Meter system and installation	4,005,092	29,707	-	4,034,799
Other plant and misc. equipment	341,855	7,467	-	349,322
Pumping equipment	50,116	-	-	50,116
Tools and lab equipment	47,935	31,443	-	79,378
Transmission mains	15,717,583	-	-	15,717,583
Transportation equipment	269,419	45,684	(36,822)	278,281
Water treatment equipment	102,997	9,074	-	112,071
Subtotal	26,091,692	1,649,976	(36,822)	27,704,846
Accumulated depreciation	(7,469,098)	(562,037)	35,717	(7,995,418)
Fixed Assets, net	<u>\$ 18,622,594</u>	<u>\$ 1,087,939</u>	<u>\$ (1,105)</u>	<u>\$ 19,709,428</u>

NOTE 5 – BONDED INDEBTEDNESS

Water Works System Revenue Bonds, U.S. Department of Agriculture 1978

On December 21, 1978, the District sold \$1,330,000 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 1981 and ending in 2017. Interest is payable on January 1st and July 1st of each year and principal is due in annual installments on January 1st through 2017. On October 29, 2013, these bonds were refinanced through The Bank of Kentucky (see Note 7 – Capital Leases), and therefore have a balance of \$0 at December 31, 2013.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2013 and 2012
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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
2014	5.00%	\$ 5,000	\$ 2,700	\$ 7,700
2015	5.00%	5,000	2,450	7,450
2016	5.00%	5,000	2,200	7,200
2017	5.00%	6,000	1,950	7,950
2018	5.00%	6,000	1,650	7,650
2019-2023	5.00%	27,000	3,450	30,450
Totals		\$ 54,000	\$ 14,400	\$ 68,400

Kentucky Rural Water Finance Corporation Bonds, Series 2001C - Surcharge

On May 15, 2002, the District participated in the Kentucky Rural Water Finance Corporation's first Flexible Term Finance Program Remarketing. The District's total share of the bond proceeds was \$715,000 for Phase V of the District's waterline extension; \$374,000 of that amount was funded by customer surcharges. These surcharges are paid by customers who benefited from the waterline extension and are used to provide refunding for the bonds. All surcharge bonds mature on February 1st of each year beginning in 2004 and ending in 2027. Interest is payable on February 1st and August 1st of each year and principal is due in annual installments on February 1st through 2027. On October 29, 2013, these bonds were refinanced through The Bank of Kentucky (see Note 7 – Capital Leases), and therefore have a balance of \$0 at December 31, 2013.

Kentucky Rural Water Finance Corporation Revenue Bonds, Series 2001C - Phase V

As mentioned above, on May 15, 2002, the District participated in the Kentucky Rural Water Finance Corporation's first Flexible Term Finance Program Remarketing. The District's total share of the bond proceeds was \$715,000 for Phase V of the District's waterline extension; \$341,000 of that amount was funded by District revenue. The Revenue Bonds are refunded by District water revenue. All bonds mature on February 1st of each year beginning in 2004 and ending in 2027. Interest is payable on February 1st and August 1st of each year and principal is due in annual installments on February 1st through 2027. On October 29, 2013, these bonds were refinanced through The Bank of Kentucky (see Note 7 – Capital Leases), and therefore have a balance of \$0 at December 31, 2013.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2013 and 2012
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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
2014	4.15-5.00%	\$ 31,000	\$ 12,960	\$ 43,960
2015	4.15-5.00%	33,000	11,591	44,591
2016	4.40-5.00%	33,000	10,123	43,123
2017	4.50-5.00%	35,000	8,575	43,575
2018	4.60-5.00%	37,000	6,900	43,900
2019-2021	4.70-5.00%	123,000	9,324	132,324
Totals		\$ 292,000	\$ 59,473	\$ 351,473

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
2014	4.52%	\$ 35,000	\$ 7,571	\$ 42,571
2015	4.52%	35,000	5,989	40,989
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		\$ 185,000	\$ 21,357	\$ 206,357

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
2014	3.62-4.12%	\$ 7,000	\$ 1,627	\$ 8,627
2015	4.12%	7,000	1,339	8,339
2016	4.12%	7,000	1,051	8,051
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		\$ 43,000	\$ 5,418	\$ 48,418

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2013 and 2012
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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
2014	4.090-4.590%	\$ 16,000	\$ 17,749	\$ 33,749
2015	4.090-4.590%	17,000	17,074	34,074
2016	4.090-4.590%	17,000	16,379	33,379
2017	4.090-4.590%	19,000	15,642	34,642
2018	4.090-4.590%	19,000	14,865	33,865
2019-2023	4.090-4.590%	104,000	61,728	165,728
2024-2028	4.340-4.590%	130,000	36,781	166,781
2029-2031	4.465-4.590%	95,000	6,617	101,617
Totals		<u>\$ 417,000</u>	<u>\$ 186,835</u>	<u>\$ 603,835</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
2014	4.090-4.590%	\$ 9,000	\$ 10,001	\$ 19,001
2015	4.090-4.590%	9,000	9,633	18,633
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
2019-2023	4.090-4.590%	58,000	34,766	92,766
2024-2028	4.340-4.590%	74,000	20,528	94,528
2029-2031	4.465-4.590%	53,000	3,686	56,686
Totals		<u>\$ 235,000</u>	<u>\$ 105,039</u>	<u>\$ 340,039</u>

NOTE 6 – NOTES PAYABLE

Kentucky Infrastructure Authority - 1993

On April 7, 1993, the District signed a note from the Kentucky Infrastructure Authority for \$582,599. Water system revenues serve as collateral for this loan. This note was refunded and refinanced on December 19, 2002 and again on August 1, 2004. The most recent note carries a variable interest rate between 2.25-5.19% and matures on June 1, 2013. This note has been paid off, and therefore has a balance of \$0 at December 31, 2013.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2013 and 2012
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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. 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>
2014	3.80%	\$ 18,106	\$ 7,063	\$ 25,169
2015	3.80%	18,801	6,368	25,169
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
2019-2022	3.80%	92,586	33,257	125,843
Totals		<u>\$ 190,335</u>	<u>\$ 61,353</u>	<u>\$ 251,688</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>
2014	3.00%	\$ 59,778	\$ 21,334	\$ 81,112
2015	3.00%	61,585	19,527	81,112
2016	3.00%	63,446	17,666	81,112
2017	3.00%	65,364	15,748	81,112
2018	3.00%	67,339	13,773	81,112
2019-2023	3.00%	368,485	37,072	405,557
2024	3.00%	39,957	599	40,556
Totals		<u>\$ 725,954</u>	<u>\$ 125,719</u>	<u>\$ 851,673</u>

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2013 and 2012
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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, 2013 is \$1,940,994. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2014	3.00%	\$ 89,024	\$ 57,567	\$ 146,591
2015	3.00%	91,715	54,876	146,591
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
2019-2023	3.00%	548,766	184,190	732,956
2024-2028	3.00%	636,866	96,090	732,956
2029-2030	3.00%	282,508	157,267	439,775
Totals		<u>\$ 1,940,994</u>	<u>\$ 697,648</u>	<u>\$ 2,638,642</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, 2013 the District has drawn \$1,599,207 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
2014	3.00%	\$ 73,856	\$ 29,570	\$ 103,426
2015	3.00%	75,341	34,074	109,415
2016	3.00%	76,855	32,560	109,415
2017	3.00%	78,400	31,015	109,415
2018-2022	3.00%	416,280	130,794	547,074
2023-2027	3.00%	459,832	87,242	547,074
2028-2032	3.00%	507,941	39,133	547,074
2033	3.00%	107,795	1,620	109,415
Totals		<u>\$ 1,796,300</u>	<u>\$ 386,008</u>	<u>\$ 2,182,308</u>

Software Solutions – Note Payable

On May 29, 2010, the District executed a loan payable for the purchase and integration of new software, through Software Solutions Incorporated, in the amount of \$21,105. This loan carried no interest, and matured on May 29, 2013. Payments of \$4,104 were made on this loan during the year leaving a balance of \$0 at December 31, 2013.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2013 and 2012
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NOTE 7 – CAPITAL LEASES

Bank of Kentucky - 2013

On October 29, 2013, the District signed a capital lease agreement with the Bank of Kentucky 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
2014	2.80%	\$ 67,833	\$ 20,649	\$ 88,482
2015	2.80%	69,784	18,698	88,482
2016	2.80%	71,742	16,740	88,482
2017	2.80%	73,855	14,627	88,482
2018	2.80%	75,979	12,503	88,482
2019 -2023	2.80%	399,162	28,499	427,661
Totals		<u>\$ 758,355</u>	<u>\$ 111,716</u>	<u>\$ 870,071</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. Future minimum lease payments are as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Lease Payment
2014	2.00-3.30%	\$ 120,000	\$ 17,368	\$ 137,368
2015	2.40-3.30%	120,000	14,728	134,728
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	1,647	101,647
Totals		<u>\$ 665,000</u>	<u>\$ 57,663</u>	<u>\$ 722,663</u>

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2013 and 2012
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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 matures on February 5, 2014. Amortization of the lease is included in the depreciation expense.

Future minimum lease payments are as follows:

Year	Principal Amount	Interest Amount	Total Lease Payment
2014	\$ 5,019	\$ 19	\$ 5,038
Totals	\$ 5,019	\$ 19	\$ 5,038

NOTE 8 – INDEBTEDNESS SUMMARY

The changes in long-term indebtedness for 2013 are as follows:

Debt Instrument	Balance at December 31, 2012	Additions	Retirements	Balance at December 31, 2013
USDA revenue bonds of 1978	\$ 341,000	\$ -	\$ (341,000)	\$ -
USDA revenue bonds of 1982	54,000	-	-	54,000
KRW series 2001C bonds - Surcharge	281,000	-	(281,000)	-
KRW series 2001C bonds - Phase V	254,000	-	(254,000)	-
KRW series 2001C bonds - Refinancing	322,000	-	(30,000)	292,000
KRW series 2004D bonds - Phase 7	50,000	-	(7,000)	43,000
KRW series 2001G bonds - Dry Ridge	217,000	-	(32,000)	185,000
KRW series 2005B bonds - Phase 8	432,000	-	(15,000)	417,000
KRW series 2005B bonds - Phase 10	244,000	-	(9,000)	235,000
Note payable - KIA 1993	17,500	-	(17,500)	-
Note payable - KIA 2002	207,772	-	(17,437)	190,335
Note payable - KIA 2003	783,978	-	(58,024)	725,954
Note payable - Software Solutions	4,104	-	(4,104)	-
Construction loan - KIA	2,027,407	-	(86,412)	1,940,995
Construction loan -Phase 12 - KIA	171,438	1,427,769	-	1,599,207
Capital lease - Grant County Fiscal Court	785,000	-	(120,000)	665,000
Capital lease - The Bank of Kentucky	-	769,465	(11,110)	758,355
Capital lease - Old National 2003	68,588	-	(63,569)	5,019
Subtotal	6,260,787	\$ 2,197,234	\$ (1,347,156)	7,110,865
Less: current portion of long-term debt	(547,047)			(536,617)
Total Long-Term Indebtedness	\$ 5,713,740			\$ 6,574,248

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2013 and 2012
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NOTE 9 – EMPLOYEE RETIREMENT SYSTEM

County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System of Kentucky (CERS). 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, 2013 and 2012 plan members were required to contribute 5% of their annual creditable compensation. Members hired on or after September 1, 2008 are required to contribute 6%. The additional 1% is considered a health insurance contribution.

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 until July 2013 the employer contribution rate was 19.55%. From July until December 2013, the employer rate was 18.89%. From January until July 2012 the employer contribution rate was 18.96%. From July until December 2012, the employer rate was 19.55%.

The District has made 100% of all required contributions for each of the years ended December 31, 2013, 2012, 2011, 2010, and 2009. Information about the contributions made by the District and the employees, as well as gross payroll and covered payroll follows:

	2013	2012	2011	2010	2009
Gross Payroll - All Employees	\$698,697	\$ 675,951	\$684,217	\$685,089	\$660,208
Gross Payroll - Covered Employees	635,183	624,243	634,083	648,571	620,617
Employee Contribution	32,859	31,971	31,353	32,691	31,051
Employer Contribution (expense)	121,303	119,107	109,960	107,283	92,028

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 \$124,290 and \$126,420 in 2013 and 2012, 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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2013 and 2012
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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.

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 \$7,116 and \$8,216 at December 31, 2013 and December 31, 2012, respectively.

NOTE 14 – RECLASSIFICATION IN PRIOR YEAR STATEMENTS

The 2012 Statement of Revenues, Expenses and Changes in Net Position has been adjusted due to the requirements of GASB 65 (See NOTE 1) which disallows the amortization of bond issuance costs over the life of the bond. The Statement requires that all accounts be adjusted retroactively to the earliest period disclosed. Therefore, a prior period adjustment, reducing the net position by \$85,751, has been recorded; as if the bond issuance costs were expensed at the date the costs were incurred.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated events through May 8, 2014, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2013 through May 8, 2014 to disclose.

BULLOCK PEN WATER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operations, Maintenance and Administrative Expenses		
Salaries and wages - employees	\$ 743,139	\$ 656,865
Employee pension and benefits	429,720	416,967
Advertising	885	1,224
Bad debt expense	38,305	48,762
Chemicals	85,323	98,247
Commissioners' fees	13,700	13,000
Contractual services - accounting	46,869	50,338
Contractual services - engineering	10,231	13,732
Contractual services - legal	32,666	-
Contractual services - management	2,208	2,679
Contractual services - water test	11,536	9,638
Contractual services - other	73,038	76,558
Insurance - general liability	15,427	12,718
Insurance - other	8,521	10,549
Insurance - vehicle	5,973	4,688
Insurance - workers' compensation	9,814	11,346
Materials and supplies	107,070	153,408
Miscellaneous	1,493	1,031
Payroll taxes	50,311	48,493
Purchased power	94,025	88,939
Rental of property and equipment	13,590	15,316
Transportation	46,677	48,562
Utility regulatory assessment	7,080	6,833
	<u>1,847,601</u>	<u>1,789,893</u>
Total Operations, Maintenance and Administrative Expenses	<u>\$ 1,847,601</u>	<u>\$ 1,789,893</u>

BULLOCK PEN WATER DISTRICT SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS Year Ended December 31, 2013
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<u>Federal Agency</u>	<u>Federal Grantor/Program Title/Project</u>	<u>Federal CFDA Number</u>	<u>Loan Number</u>	<u>Expenditures</u>
EPA	Capitalization Grants for Clean Water - State Revolving Loan Funds - Passed through Commonwealth of Kentucky - Kentucky Infrastructure Authority			
	Phase XII - Water Tank	66.458	F11-05	\$ 1,123,787
Total Federal Expenditures:				<u>\$ 1,123,787</u>



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**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, 2013 and 2012, 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 8, 2014.

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 identify certain deficiencies in internal control, described below, that we consider significant deficiencies.

Lack of Segregation of Duties

Condition: We noted that due to the size of the District and financial considerations, some of the executing and recording of transactions are performed by the same person.



Criteria: Segregation of duties is a necessary part of any system of internal control. Segregating the processes of authorizing, executing and recording transactions is essential.

Effect: Lack of segregation of duties could allow for receipts to be diverted away from the District and expenses not attributed to the District could be paid for from the District's cash account. The District has determined that the cost of mitigation is not justified when compared to the risk of the related transactions.

Recommendation: Due to the size of the District and other financial considerations, internal controls should be implemented, to the highest appropriate level, to segregate the duties of the personnel. Controls should then be monitored to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

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.
Erlanger, Kentucky
May 8, 2014



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Commissioners
Bullock Pen Water District

Report on Compliance for Each Major Federal Program

We have audited Bullock Pen Water District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Bullock Pen Water District's major federal program for the year ended December 31, 2013. Bullock Pen Water District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Bullock Pen Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bullock Pen Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Bullock Pen Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.



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

Report on Internal Control Over Compliance

Management of Bullock Pen Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Bullock Pen Water District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Bullock Pen Water District's internal control over compliance.

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

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

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

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
May 8, 2014

BULLOCK PEN WATER DISTRICT SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended December 31, 2013
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I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiencies identified? X Yes None reported

Noncompliance material to financial statements noted Yes X No

Federal Awards

Internal Control Over Major Programs:

- Material weakness(es) identified? Yes X No
- Significant deficiencies identified? Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133: Yes X No

Identification of major programs:

Federal Program or Cluster	CFDA No.
Capitalization Grants for Clean Water	66.458

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

II. FINDINGS - FINANCIAL STATEMENTS AUDIT

No matters were reported

III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

No matters were reported

BULLOCK PEN WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2013

NOT APPLICABLE