

BULLOCK PEN WATER DISTRICT

1 FARRELL DRIVE • P.O. BOX 188 • CRITTENDEN, KY 41030 • (859) 428-2112

June 10, 2015

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

RECEIVED
JUN 16 2015
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

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PUBLIC SERVICE
COMMISSION

BULLOCK PEN WATER DISTRICT
FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013



BULLOCK PEN WATER DISTRICT
FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

BULLOCK PEN WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2014 and 2013

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BULLOCK PEN WATER DISTRICT

BOARD OF COMMISSIONERS

December 31, 2014 and 2013

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

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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

-Management's Responsibility for the Financial Statements

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

-Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2014

and 2013 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4-8 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 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 March 11, 2015 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
March 11, 2015

Bullock Pen Water District

P.O. Box 188 • 1 Farrell Drive
Crittenden, Kentucky 41030
(859) 428-2112

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent year by \$16,154,625 (net position). This was an increase of \$451,326 in comparison to the prior year. During 2014 both water revenue and expenses increased so that the District's increase in net position was almost identical to the increase during 2013.
- At the end of the current year, unrestricted net assets were \$2,838,225.

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, 2014 and 2013.

Table 1		
Net Position		
	<u>2014</u>	<u>2013</u>
Current Assets	\$ 2,679,520	\$ 2,295,117
Restricted Assets	1,433,777	1,355,536
Noncurrent Assets	<u>19,348,539</u>	<u>19,776,504</u>
Total Assets	<u>\$23,461,836</u>	<u>\$23,427,157</u>
Current Liabilities	\$ 297,797	\$ 272,331
Liabilities Payable from Restricted Assets	743,470	877,279
Long Term Liabilities	<u>6,265,944</u>	<u>6,574,248</u>
Total Liabilities	<u>\$ 7,307,211</u>	<u>\$ 7,723,858</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	\$12,585,652	\$12,588,365
Restricted	730,748	722,056
Unrestricted	<u>2,838,225</u>	<u>2,392,878</u>
Total Net Position	<u>\$16,154,625</u>	<u>\$15,703,299</u>

The District's net position for 2014 increased 2.9% or \$451,326 as compared to a 3% or \$451,826 increase in the previous year. During 2014 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 assets (77.9%) 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 assets (4.5%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The unrestricted net assets 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 increased by \$134,856 or 3.4%. This increase 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.

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

Table 2
Changes in Net Position

	<u>2014</u>	(Restated) <u>2013</u>
Operating Revenues:		
Water Sales	\$ 3,842,534	\$ 3,717,061
Forfeited Discounts	102,893	100,990
Miscellaneous Services Revenues	36,057	28,357
Management Fee	<u>124,070</u>	<u>124,290</u>
Total Operating Revenues	<u>4,105,554</u>	<u>3,970,698</u>
Operating Expenses:		
Water Purchased	1,128,644	1,013,837
Operations and Maintenance Expense	1,842,635	1,847,601
Depreciation & Amortization	<u>608,112</u>	<u>571,697</u>
Total Operating Expenses	<u>3,579,391</u>	<u>3,433,135</u>
Net Operating Income	<u>526,163</u>	<u>537,563</u>
Non-Operating Income(Expenses)		
Investment Income	3,110	4,139
Gain/(Loss) on Disposition of Assets	(2,832)	545
Interest on Long-Term Debt and Customer Deposits	(206,286)	(207,777)
Amortization of Debt Discount and Expenses	(2,711)	(2,309)
Debt Issue Costs	<u>-0-</u>	<u>(9,500)</u>
Net Non-Operating Expenses	<u>(208,719)</u>	<u>(214,902)</u>
Income Before Capital Contributions	317,444	322,661
Capital Contributions	<u>133,882</u>	<u>129,165</u>
Change in Net Position	451,326	451,826
Net Position – January 1	<u>15,703,299</u>	<u>15,251,473</u>
Net Position – December 31	<u>\$16,154,625</u>	<u>\$15,703,299</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2014, 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 2014.

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

Table 3
Capital Assets at Year End

	<u>2014</u>	<u>2013</u>
Land	\$ 200,283	\$ 195,257
Buildings and Improvements	1,577,352	1,550,924
Construction in Progress	34,843	1,860,004
Other Plant & Miscellaneous Equipment	651,390	540,771
Transportation Equipment	282,381	278,281
Transmission and Distribution System	25,047,864	23,202,838
Furniture and Fixtures	<u>81,346</u>	<u>76,771</u>
Subtotal	27,875,459	27,704,846
Accumulated Depreciation	<u>(8,588,352)</u>	<u>(7,995,418)</u>
Total Capital Assets	<u>\$19,287,107</u>	<u>\$19,709,428</u>

Debt Outstanding

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

Table 4
Outstanding Debt at Year End

	<u>2014</u>	<u>2013</u>
Bond Payable Obligations	\$ 1,123,000	\$ 1,226,000
Notes Payable	4,449,930	4,456,490
Capitalized Leases	<u>1,235,494</u>	<u>1,428,375</u>
Total	<u>\$ 6,808,424</u>	<u>\$ 7,110,865</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 2015 projects a year very similar to 2014. 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 2014 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 2015 change in net position is expected to be approximately \$446,346 which is very similar to the increase in both 2013 and 2014.

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,875,881	\$ 1,482,541
Accounts receivable		
Customers, net of allowance	562,933	537,652
Other	20,134	17,778
Restitution receivable - Thurman	1,200	1,200
Inventories	164,755	223,299
Prepays	50,273	20,276
Unamortized expenses	4,344	12,371
Total Current Assets	<u>2,679,520</u>	<u>2,295,117</u>
Restricted Assets		
Current reserve fund - USDA Rural Development	149,703	149,256
Debt payment account	395,687	371,858
Water tower construction fund	18,169	33,935
Accounts receivable - surcharges	12,686	12,775
FSA/HRA account	1,639	-
Customer deposits	225,915	220,727
Maintenance and replacement reserve	629,978	566,985
Total Restricted Assets	<u>1,433,777</u>	<u>1,355,536</u>
Noncurrent Assets		
Restitution receivable - Thurman	4,616	5,916
Miscellaneous deferred charges		
Unamortized debt discounts	14,769	17,480
Unamortized tap-in expense	42,047	43,680
Total Noncurrent Assets	<u>61,432</u>	<u>67,076</u>
Capital Assets		
Land, building, transmission system, equipment, and vehicles	27,840,616	25,844,842
Construction in progress	34,843	1,860,004
Total utility plant in service	27,875,459	27,704,846
Less: accumulated depreciation	(8,588,352)	(7,995,418)
Total Capital Assets, net of depreciation	<u>19,287,107</u>	<u>19,709,428</u>
TOTAL ASSETS	<u>\$ 23,461,836</u>	<u>\$ 23,427,157</u>

(Continued)

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

BULLOCK PEN WATER DISTRICT STATEMENTS OF NET POSITION (Continued) December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 159,272	\$ 149,259
Accrued and withheld liabilities	138,525	123,072
Total Current Liabilities	<u>297,797</u>	<u>272,331</u>
Current Liabilities Payable From Restricted Assets		
Revenue bonds - current portion	106,000	103,000
Notes payable - current portion	246,696	240,765
Lease obligations - current portion	189,784	192,852
Customer deposits	163,131	155,323
Accrued interest payable	37,859	40,739
Accounts payable - construction	-	144,600
Total Current Liabilities Payable From Restricted Assets	<u>743,470</u>	<u>877,279</u>
Long-Term Obligations		
Bonds	1,017,000	1,123,000
Notes payable	4,203,234	4,215,725
Capital lease obligations	1,045,710	1,235,523
Total Long-Term Obligations	<u>6,265,944</u>	<u>6,574,248</u>
TOTAL LIABILITIES	<u>7,307,211</u>	<u>7,723,858</u>
NET POSITION		
Invested in capital assets, net of related debt	12,585,652	12,588,365
Restricted	730,748	722,056
Unrestricted	<u>2,838,225</u>	<u>2,392,878</u>
TOTAL NET POSITION	<u>\$ 16,154,625</u>	<u>\$ 15,703,299</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, 2014 and 2013
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	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Water revenue	\$ 3,981,484	\$ 3,846,408
Management fees	124,070	124,290
TOTAL OPERATING REVENUES	<u>4,105,554</u>	<u>3,970,698</u>
OPERATING EXPENSES		
Water purchased	1,128,644	1,013,837
Operations, maintenance, and administrative expenses	1,842,635	1,847,601
Depreciation and amortization	608,112	571,697
TOTAL OPERATING EXPENSES	<u>3,579,391</u>	<u>3,433,135</u>
OPERATING INCOME	<u>526,163</u>	<u>537,563</u>
NON-OPERATING INCOME (EXPENSE)		
Investment income	3,110	4,139
Gain (loss) on sale of assets	(2,832)	545
Interest on long-term obligations	(206,286)	(207,777)
Amortization of bond discounts	(2,711)	(2,309)
Debt issuance costs	-	(9,500)
NET NON-OPERATING INCOME (EXPENSE)	<u>(208,719)</u>	<u>(214,902)</u>
NET INCOME	317,444	322,661
CAPITAL CONTRIBUTIONS	<u>133,882</u>	<u>129,165</u>
CHANGE IN NET POSITION	451,326	451,826
NET POSITION, JANUARY 1	<u>15,703,299</u>	<u>15,251,473</u>
NET POSITION, DECEMBER 31	<u>\$ 16,154,625</u>	<u>\$ 15,703,299</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 4,079,217	\$ 4,008,849
Paid to suppliers for goods and services	(1,852,030)	(1,701,493)
Paid to or on behalf of employees for services	(1,065,236)	(1,136,747)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,161,951</u>	<u>1,170,609</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of fixed assets	(323,563)	(1,586,550)
Interest on investments	3,110	4,139
Proceeds from sale of fixed assets	-	1,650
NET CASH USED FOR INVESTING ACTIVITIES	<u>(320,453)</u>	<u>(1,580,761)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributed capital received	133,882	129,165
Increase (decrease) in customer deposits	7,808	(5,119)
Interest paid on long term debt	(209,166)	(219,109)
Loan proceeds	197,093	2,197,234
Debt issuance costs	-	(9,500)
Premium paid to refund bonds	-	(5,100)
Principal paid on long term debt	(499,534)	(1,347,156)
(Increase) decrease in restricted assets	(78,241)	60,124
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(448,158)</u>	<u>800,539</u>
INCREASE IN CASH AND CASH EQUIVALENTS	393,340	390,387
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	1,482,541	1,092,154
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 1,875,881</u>	<u>\$ 1,482,541</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 526,163	\$ 537,563
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	608,112	571,697
Change in operating assets and liabilities		
Decrease (increase) in receivables	(26,337)	38,151
Decrease (increase) in inventories	58,544	(54,016)
Decrease (increase) in prepaid assets	(29,997)	3,370
Increase (decrease) in accounts payable	10,013	24,032
Increase (decrease) in other accrued liabilities	15,453	49,812
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,161,951</u>	<u>\$ 1,170,609</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ 209,166</u>	<u>\$ 219,109</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, 2014 and 2013**

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, 2014.

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,

BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

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 \$34,843 and \$1,860,004 at December 31, 2014 and 2013, 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. During 2014 and 2013 these contributions consisted of the following:

**BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013**

Source	2014	2013
Tap in fees and construction costs paid by new customers	\$ 39,800	\$ 38,000
Surcharges - Phases 5, 6, 7, 8, and 10	94,082	91,165
Total income received in aid of construction	133,882	129,165
Waterlines and related infrastructure received without cost	-	-
Total capital contributions	<u>\$ 133,882</u>	<u>\$ 129,165</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, 2014 and 2013, the bank balances were \$3,296,972 and \$2,825,302, 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, 2014, 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, 2014. The categories are described as follows:

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013
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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, 2014	Category 1	Category 2	Category 3	Fair Value/ Carrying Cost	Cost
Operation and maintenance	\$ 1,877,520	\$ -	\$ -	\$ 1,877,520	\$ 1,877,520
Customer deposits	225,915	-	-	225,915	225,915
Debt payment accounts	246,624	-	149,063	395,687	395,687
Current and replacement reserve	779,681	-	-	779,681	779,681
Construction funds	18,169	-	-	18,169	18,169
Total	\$ 3,147,909	\$ -	\$ 149,063	\$ 3,296,972	\$ 3,296,972

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, 2014 and 2013:

	2014	2013
Current reserve fund - USRDA	\$ 143,400	\$ 143,400
Debt payment account	170,842	200,715
Accounts payable - construction	-	(33,935)
Accrued interest payable	(21,350)	(23,016)
Portion of bonds payable	(106,000)	(98,000)
Maintenance and replacement	543,856	532,892
Total Restricted Net Position	\$ 730,748	\$ 722,056

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013
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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 December 31, 2013	Additions	Retirements	Balance at December 31, 2014
Land	\$ 195,257	\$ 5,026	\$ -	\$ 200,283
Buildings and improvements	1,550,924	26,428	-	1,577,352
Construction in progress	1,860,004	106,093	(1,931,254)	34,843
Distribution reservoirs and standpipes	2,127,209	1,595,753	-	3,722,962
Furniture and fixtures	76,771	4,575	-	81,346
Hydrants	1,273,131	15,885	-	1,289,016
Meter system and installation	4,034,799	29,304	-	4,064,103
Other plant and misc. equipment	349,322	99,542	(8,350)	440,514
Pumping equipment	50,116	3,875	-	53,991
Tools and lab equipment	79,378	6,927	-	86,305
Transmission mains	15,717,583	200,209	-	15,917,792
Transportation equipment	278,281	4,100	-	282,381
Water treatment equipment	112,071	12,500	-	124,571
Subtotal	27,704,846	2,110,217	(1,939,604)	27,875,459
Accumulated depreciation	(7,995,418)	(598,452)	5,518	(8,588,352)
Fixed Assets, net	\$ 19,709,428	\$ 1,511,765	\$(1,934,086)	\$ 19,287,107

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 had a balance of \$0 at December 31, 2013.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013
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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
2015	5.00%	\$ 5,000	\$ 2,325	\$ 7,325
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
2020-2023	5.00%	21,000	1,575	22,575
Totals		\$ 49,000	\$ 10,475	\$ 59,475

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 had 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 had a balance of \$0 at December 31, 2013.

BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

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:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2015	4.40-5.00%	\$ 33,000	\$ 11,591	\$ 44,591
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	5,094	44,094
2020-2021	4.90-5.00%	84,000	4,230	88,230
Totals		<u>\$ 261,000</u>	<u>\$ 46,513</u>	<u>\$ 307,513</u>

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:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
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		<u>\$ 150,000</u>	<u>\$ 13,786</u>	<u>\$ 163,786</u>

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.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013
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The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2015	4.12%	\$ 7,000	\$ 1,339	\$ 8,339
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		<u>\$ 36,000</u>	<u>\$ 3,790</u>	<u>\$ 39,790</u>

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
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	15,643	34,643
2018	4.090-4.590%	19,000	14,865	33,865
2019	4.090-4.590%	20,000	14,068	34,068
2020-2024	4.190-4.590%	107,000	57,241	164,241
2025-2029	4.390-4.590%	138,000	30,734	168,734
2030-2031	4.59%	64,000	2,983	66,983
Totals		<u>\$ 401,000</u>	<u>\$ 168,987</u>	<u>\$ 569,987</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.

BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
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	4.090-4.590%	11,000	7,915	18,915
2020-2024	4.190-4.590%	61,000	32,236	93,236
2025-2029	4.390-4.590%	77,000	17,178	94,178
2030-2031	4.59%	36,000	1,652	37,652
Totals		\$ 226,000	\$ 95,039	\$ 321,039

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 in full, and therefore had a balance of \$0 at December 31, 2013.

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:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
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	3.80%	21,856	3,313	25,169
2020-2022	3.80%	70,729	4,776	75,505
Totals		\$ 172,228	\$ 29,122	\$ 201,350

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013
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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>
2015	3.00%	\$ 61,585	\$ 19,527	\$ 81,112
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
2020-2024	3.00%	339,067	25,935	365,002
Totals		<u>\$ 666,176</u>	<u>\$ 104,384</u>	<u>\$ 770,560</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, 2014 is \$1,851,970. 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>
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	3.00%	103,316	43,275	146,591
2020-2024	3.00%	565,353	167,602	732,955
2025-2029	3.00%	656,115	76,843	732,958
2030	3.00%	143,356	3,235	146,591
Totals		<u>\$ 1,851,970</u>	<u>\$ 493,489</u>	<u>\$ 2,345,459</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, 2014 the District has drawn \$1,796,300 on this loan.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013
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Once the loan is fully drawn, the total future remaining debt service will be as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2015	3.00%	\$ 74,595	\$ 34,820	\$ 109,415
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
2020-2024	3.00%	428,893	118,182	547,075
2025-2029	3.00%	473,765	73,310	547,075
2030-2034	3.00%	468,625	23,738	492,363
Totals		<u>\$ 1,759,556</u>	<u>\$ 374,032</u>	<u>\$ 2,133,588</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. This loan has been paid in full, and therefore had a balance of \$0 at December 31, 2013.

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:

<u>Year</u>	<u>Rate</u>	<u>Amount</u>	<u>Amount</u>	<u>Lease Payment</u>
2015	2.80%	\$ 69,784	\$ 18,698	\$ 88,482
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
2020-2023	2.80%	320,971	18,208	339,179
Totals		<u>\$ 690,494</u>	<u>\$ 91,095</u>	<u>\$ 781,589</u>

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013
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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:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Lease Payment</u>
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	1,648	101,648
Totals		<u>\$ 545,000</u>	<u>\$ 40,296</u>	<u>\$ 585,296</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.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013
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NOTE 8 – INDEBTEDNESS SUMMARY

The changes in long-term indebtedness for 2014 are as follows:

Debt Instrument	Balance at December 31, 2013	Additions	Retirements	Balance at December 31, 2014
USDA revenue bonds of 1982	\$ 54,000	\$ -	\$ (5,000)	\$ 49,000
KRW series 2001C bonds - Refinancing	292,000	-	(31,000)	261,000
KRW series 2004D bonds - Phase 7	43,000	-	(7,000)	36,000
KRW series 2001G bonds - Dry Ridge	185,000	-	(35,000)	150,000
KRW series 2005B bonds - Phase 8	417,000	-	(16,000)	401,000
KRW series 2005B bonds - Phase 10	235,000	-	(9,000)	226,000
Note payable - KIA 2002	190,335	-	(18,107)	172,228
Note payable - KIA 2003	725,954	-	(59,778)	666,176
Construction loan - KIA	1,940,995	-	(89,025)	1,851,970
Construction loan -Phase 12 - KIA	1,599,207	197,093	(36,744)	1,759,556
Capital lease - Grant County Fiscal Court	665,000	-	(120,000)	545,000
Capital lease - The Bank of Kentucky	758,355	-	(67,861)	690,494
Capital lease - Old National 2003	5,019	-	(5,019)	-
Subtotal	<u>7,110,865</u>	<u>\$ 197,093</u>	<u>\$ (499,534)</u>	<u>6,808,424</u>
Less: current portion of long-term debt	<u>(536,617)</u>			<u>(542,480)</u>
Total Long-Term Indebtedness	<u>\$ 6,574,248</u>			<u>\$ 6,265,944</u>

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, 2014 and 2013 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 June 2014 the employer contribution rate was 18.89%. From July until December 2014, the employer rate was

<p>BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2014 and 2013</p>

17.67%. From January until June 2013 the employer contribution rate was 19.55%. From July until December 2013, the employer rate was 18.89%.

The District has made 100% of all required contributions for each of the years ended December 31, 2014, 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:

	2014	2013	2012	2011	2010
Gross Payroll - All Employees	\$ 724,438	\$698,697	\$ 675,951	\$684,217	\$685,089
Gross Payroll - Covered Employees	658,224	635,183	624,243	634,083	648,571
Employee Contribution	34,122	32,859	31,971	31,353	32,691
Employer Contribution (expense)	120,261	121,303	119,107	109,960	107,283

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 \$124,070 and \$124,290 in 2014 and 2013, 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.

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 \$5,816 and \$7,116 at December 31, 2014 and December 31, 2013, respectively.

BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated events through March 11, 2015, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2014 through March 11, 2015 to disclose.

BULLOCK PEN WATER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operations, Maintenance and Administrative Expenses		
Salaries and wages - employees	\$ 705,195	\$ 743,139
Employee pension and benefits	362,694	429,720
Advertising	288	885
Bad debt expense	32,670	38,305
Chemicals	94,501	85,323
Commissioners' fees	12,800	13,700
Contractual services - accounting	50,772	46,869
Contractual services - engineering	10,365	10,231
Contractual services - legal	9,028	32,666
Contractual services - management	2,560	2,208
Contractual services - water test	17,135	11,536
Contractual services - other	84,946	73,038
Insurance - general liability	18,088	15,427
Insurance - other	9,398	8,521
Insurance - vehicle	6,274	5,973
Insurance - workers' compensation	8,799	9,814
Materials and supplies	218,702	107,070
Miscellaneous	1,054	1,493
Payroll taxes	51,527	50,311
Purchased power	85,822	94,025
Rental of property and equipment	9,576	13,590
Transportation	42,933	46,677
Utility regulatory assessment	7,508	7,080
	<u> </u>	<u> </u>
Total Operations, Maintenance and Administrative Expenses	<u>\$ 1,842,635</u>	<u>\$ 1,847,601</u>

**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, 2014 and 2013, 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 March 11, 2015.

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.

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
March 11, 2015