

BOONE COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
For Years Ending December 31, 2015 and 2014

BOONE COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
December 31, 2015 and 2014

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BOONE COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
December 31, 2015 and 2014

Richard Knock, Chairman

Mike Giordano, Vice Chairman

James Daugherty, Treasurer

Tim Alexander, Jr., Secretary

Charlie Cain

Of Counsel

David Koenig, Esq.



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

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

Independent Auditor's Report

To the Board of Commissioners
Boone County Water District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Boone County Water District (District), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

-Management's Responsibility for the Financial Statements

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

-Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



-Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Boone County Water District as of December 31, 2015 and 2014 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4-7 and the pension disclosure on page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2016 on our consideration of Boone County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Boone County Water District's internal control over financial reporting and compliance.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
March 9, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2015. The information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The District saw an increase in net position during 2015. This was primarily due to capital contributions received from tap on fees and donated lines.

USING THIS ANNUAL REPORT

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

SUMMARY OF NET POSITION

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

	<u>2015</u>	(Restated) <u>2014</u>
Current Assets	\$15,092,978	\$12,465,023
Restricted Assets	1,166,145	2,264,714
Noncurrent Assets/Capital Assets	80,475,609	81,413,745
Deferred Outflow of Resources	<u>373,974</u>	<u>163,023</u>
Total Assets and Deferred Outflow of Resources	<u>97,108,706</u>	<u>96,306,505</u>
Current Liabilities	1,339,221	1,483,126
Liabilities from Restricted Assets	451,122	449,644
Long - Term Liabilities	7,026,374	6,866,906
Deferred Inflow of Resources	<u>109,068</u>	<u>145,424</u>
Total Liabilities and Deferred Inflow of Resources	<u>8,925,785</u>	<u>8,945,100</u>
Net Position:		
Net investment in Capital Assets	75,237,204	75,773,648
Restricted	1,164,216	2,270,063
Unrestricted	<u>11,781,501</u>	<u>9,317,694</u>
Total Net Position	<u>\$88,182,921</u>	<u>\$87,361,405</u>

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

The majority of the net position of the District is included in the first category which consists of capital assets: land, buildings, transmission lines and equipment net of accumulated depreciation. This classification accounts for 85% of the total net position.

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

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

SUMMARY OF CHANGES IN NET POSITION

Revenues

Operating revenues increased \$811,306 or 6.5% from 2014 to 2015. This increase is primarily due to the addition of 383 new customers during 2015 and increased usage by industrial customers. In addition the rates charged to customers increased effective with the January 2015 billing in order to pass along the increase in water costs that the District had been absorbing since July 1, 2014.

Water Purchased

The cost of water increased \$468,224 or 6.2% from 2014 to 2015. This was caused by two things. Since water rates charged to the District increased as of July 1, 2014, the District paid the increased rates during all twelve months of 2015 as compared to six months during 2014. In addition the District used more water for flushing and maintenance and had an increase in water loss.

Operating & Maintenance Expenses

Operating and maintenance expenses decreased \$46,203 or 1.5% from 2014 to 2015. This is primarily due to a decrease in employee salaries and wages. During 2015 several highly paid employees retired and were replaced by employees with a lower rate of pay.

Depreciation

Depreciation expense for 2015 and 2014 was \$2,361,296 and \$2,290,593, respectively. This increase of \$70,703 or 3.1% is consistent with the increase seen in depreciation expense in recent years.

Interest and Investment Income

Interest and Investment income increased \$10,421 from 2014 to 2015. The District moved \$6,000,000 in cash reserves from low interest rate certificates of deposit to an investment portfolio with a higher rate of return. This portfolio consists of US Treasuries, US Agency debt, Municipal Bonds, Mutual Funds, and Money Market Funds.

Interest Expense

Interest expense decreased from 2014 to 2015 in the amount of \$9,723. The decrease resulted from the reduction of overall debt due to annual payments of principal.

Capital Contributions

Capital contributions decreased \$2,241,062 from 2014 to 2015. This was primarily due to a decrease of \$2,292,412 in dedicated lines donated by contractors and the Kentucky Department of Transportation (KDOT). During 2014 KDOT completed their KY 237 widening project and the new water lines associated with this project were donated to the District. This donation accounts for \$1,280,161 of the decrease in capital contributions. The remainder of the decrease is due to a decline in the number of lines donated by contractors during 2015.

Prior Period Adjustment

During 2015, Government Accounting Standards Board Statement No. 68 required the District to report its portion of the estimated unfunded pension liability associated with its participation in the County Employee Retirement System. The prior period adjustment of \$1,738,172 reported in the statement of changes in net position accounts for the estimated net pension liability at

June 30, 2015. See note 7 to the financial statements for a more complete explanation of this unfunded liability.

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

**Table 2
Changes in Net Position**

	<u>2015</u>	(Restated) <u>2014</u>
Operating Revenues:		
Water Sales	\$12,941,395	\$12,212,360
Forfeited Discounts	273,713	219,007
Other Water Revenues	<u>136,346</u>	<u>108,781</u>
Total Operating Revenues	<u>13,351,454</u>	<u>12,540,148</u>
Operating Expenses:		
Water Purchased	8,052,609	7,584,385
Operating and Maintenance	2,955,898	3,002,101
Depreciation	<u>2,361,296</u>	<u>2,290,593</u>
Total Operating Expenses	<u>13,369,803</u>	<u>12,877,079</u>
Net Operating (Loss)	<u>(18,349)</u>	<u>(336,931)</u>
Non-Operating Income (Expenses):		
Interest Income	34,322	48,504
Investment Income	24,603	-
(Loss)/Gain on Disposition of Assets	-	(79)
Net effect of pension expense	(380,053)	73,969
Interest on Long-Term Debt	(172,867)	(182,590)
Amortization of Debt Expenses	<u>(9,825)</u>	<u>(9,825)</u>
Net Non-Operating Income (Expenses)	<u>(431,820)</u>	<u>(70,021)</u>
Net Income (Loss)	(450,169)	(406,952)
Capital Contributions	<u>1,271,685</u>	<u>3,512,747</u>
Change in Net Position	821,516	3,105,795
Net Position – Beginning	87,361,405	85,993,782
Prior Period Adjustment	<u>-</u>	<u>(1,738,172)</u>
Net Position – Ending	<u>\$88,182,921</u>	<u>\$87,361,405</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2015, the District had \$80,475,609 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 \$938,136.

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

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

	<u>2015</u>	<u>2014</u>
Land	\$ 256,633	\$ 256,633
Construction in Progress	143,018	101,199
Transmission Lines	107,386,965	106,106,995
Automated Meter System	1,663,110	1,663,110
Rate Study	220,578	220,578
Furniture and Fixtures	127,947	127,947
Machinery & Equipment	1,383,847	1,295,997
Buildings	<u>1,946,420</u>	<u>1,942,970</u>
Subtotal	113,128,518	111,715,429
Accumulated Depreciation	<u>(32,652,909)</u>	<u>(30,301,684)</u>
Total Capital Assets	<u>\$ 80,475,609</u>	<u>\$ 81,413,745</u>

Debt Outstanding

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

**Table 4
Outstanding Debt at Year End**

	<u>2015</u>	<u>2014</u>
Bonds Payable	\$ 1,240,000	\$ 1,520,000
Capitalized Lease	2,011,537	2,065,822
Notes Payable-KIA	<u>1,986,868</u>	<u>2,054,275</u>
Total Debt	<u>\$ 5,238,405</u>	<u>\$ 5,640,097</u>

All of the required payments were made on the District's outstanding debt in 2015.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2016 projects operating revenues to remain approximately the same as in 2015 while operating expenses are expected to increase approximately 6%. The amount budgeted for operating revenues is strictly an estimate since consumption is directly related to weather conditions which are unpredictable. While all categories of operating expenses are expected to increase slightly during 2016, an increase in water costs due to another rate increase from our supplier accounts for the majority of the increase in operating expenses. The District has decided to absorb the rate increase rather than pass it on to our customers at this time. Therefore a net operating loss is expected to be incurred during 2016 over and above the net operating loss incurred in 2015.

FINANCIAL CONTACT

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

Harry Anness, General Manager
Boone County Water District

BOONE COUNTY WATER DISTRICT STATEMENTS OF NET POSITION December 31, 2015 and 2014
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ASSETS	2015	(Restated) 2014
Current Assets		
Cash and cash equivalents	\$ 679,969	\$ 269,959
Investments	3,578,320	-
Reserve for depreciation, investment cash and equivalents and CDs	8,572,028	9,701,186
Accounts receivable		
Customers, net of allowance	1,794,243	1,817,468
Others	42,131	230,897
Assessments receivable	218,072	224,791
Inventories	183,701	193,142
Prepays	24,205	26,676
Accrued interest income	309	904
Total Current Assets	<u>15,092,978</u>	<u>12,465,023</u>
Restricted Assets		
Debt service account	79,198	137,203
Debt service reserve account	336,947	325,488
Renewal and replacement account	750,000	1,802,023
Total Restricted Assets	<u>1,166,145</u>	<u>2,264,714</u>
Capital Assets		
Land, building, transmission system, equipment, and vehicles	112,985,500	111,614,231
Construction in progress	143,018	101,198
Total utility plant in service	113,128,518	111,715,429
Less accumulated depreciation	(32,652,909)	(30,301,684)
Total Capital Assets, Net	<u>80,475,609</u>	<u>81,413,745</u>
TOTAL ASSETS	96,734,732	96,143,482
DEFERRED OUTFLOW OF RESOURCES		
Pension contributions	330,498	109,722
Deferred refunding costs on defeased bond debt	43,476	53,301
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>97,108,706</u>	<u>96,306,505</u>

Continued on page 9

BOONE COUNTY WATER DISTRICT STATEMENTS OF NET POSITION - Continued December 31, 2015 and 2014
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LIABILITIES	2015	(Restated) 2014
Current Liabilities		
Accounts payable	675,440	820,228
Accrued payroll and taxes	346,216	343,905
Deferred revenue on tap ins	24,445	48,130
Customer deposits	293,120	270,863
Total Current Liabilities	<u>1,339,221</u>	<u>1,483,126</u>
 Current Liabilities Payable From Restricted Assets		
Bonds payable	280,000	280,000
KIA note payable	69,240	67,407
Capital lease payable	56,477	54,285
Accrued interest payable	45,405	47,952
Total Current Liabilities Payable From Restricted Assets	<u>451,122</u>	<u>449,644</u>
 Long-Term Obligations		
Bonds	960,000	1,240,000
Capital lease - KRW	1,955,060	1,986,868
KIA loan payable - KRW	1,917,628	2,011,537
Net unfunded pension liability	2,193,686	1,628,501
Total Long-Term Obligations	<u>7,026,374</u>	<u>6,866,906</u>
 TOTAL LIABILITIES	8,816,717	8,799,676
 DEFERRED INFLOW OF RESOURCES		
Deferred inflow related to pensions	109,068	145,424
 TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	<u>8,925,785</u>	<u>8,945,100</u>
 NET POSITION		
Net investment in capital assets	75,237,204	75,773,648
Restricted	1,164,216	2,270,063
Unrestricted	11,781,501	9,317,694
 TOTAL NET POSITION	<u>\$ 88,182,921</u>	<u>\$ 87,361,405</u>

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

BOONE COUNTY WATER DISTRICT STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For Years Ending December 31, 2015 and 2014
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	<u>2015</u>	<u>(Restated) 2014</u>
OPERATING REVENUES		
Water revenue	\$ 12,941,395	\$ 12,212,360
Forfeited discounts	273,713	219,007
Other water revenues	136,346	108,781
TOTAL OPERATING REVENUES	<u>13,351,454</u>	<u>12,540,148</u>
OPERATING EXPENSES		
Water purchased	8,052,609	7,584,385
Operation and maintenance expense	2,955,898	3,002,101
Depreciation	2,361,296	2,290,593
TOTAL OPERATING EXPENSES	<u>13,369,803</u>	<u>12,877,079</u>
OPERATING INCOME (LOSS)	<u>(18,349)</u>	<u>(336,931)</u>
NON-OPERATING INCOME (EXPENSE)		
Interest income	34,322	48,504
Investment income	24,603	-
Loss on sale of assets	-	(79)
Net effect of change in pension expense	(308,053)	73,969
Interest on long-term obligations	(172,867)	(182,590)
Amortization of bond discounts	(9,825)	(9,825)
NET NON-OPERATING INCOME (EXPENSE)	<u>(431,820)</u>	<u>(70,021)</u>
NET INCOME (LOSS)	<u>(450,169)</u>	<u>(406,952)</u>
CAPITAL CONTRIBUTIONS	<u>1,271,685</u>	<u>3,512,747</u>
CHANGE IN NET POSITION	821,516	3,105,795
NET POSITION, JANUARY 1	87,361,405	85,993,782
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>(1,738,172)</u>
NET POSITION, DECEMBER 31	<u>\$ 88,182,921</u>	<u>\$ 87,361,405</u>

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

BOONE COUNTY WATER DISTRICT STATEMENTS OF CASH FLOWS For Years Ending December 31, 2015 and 2014

	2015	(Restated) 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 13,570,164	\$ 12,550,111
Paid to suppliers for goods and services	(9,978,248)	(9,422,433)
Paid to or on behalf of employees for services	(1,162,252)	(1,176,012)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,429,664</u>	<u>1,951,666</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases and sales of investments	(3,586,200)	-
Interest on investments	53,646	48,293
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(3,532,554)</u>	<u>48,293</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long-term debt	(401,692)	(387,801)
Transfers of reserve for depreciation, cash and certificates of deposit	1,129,158	(820,751)
Interest paid on long-term debt	(175,414)	(185,012)
Acquisition and construction of fixed assets	(612,249)	(791,369)
Proceeds on sale of assets	-	-
Contributed capital received	474,528	287,595
(Increase) decrease in restricted funds		
Debt service account	58,005	(52,864)
Debt service reserve account	(11,459)	41,694
Renewal and replacement account	1,052,023	(2,002)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>1,512,900</u>	<u>(1,910,510)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	410,010	89,449
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>269,959</u>	<u>180,510</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 679,969</u>	<u>\$ 269,959</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	\$ (18,349)	\$ (336,931)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,361,296	2,290,593
Change in operating assets and liabilities		
Decrease (Increase) in receivables	218,710	9,963
Decrease (Increase) in inventories	9,441	(48,781)
Decrease (Increase) in advances	-	5,792
Decrease (Increase) in prepaid assets	2,471	(9,944)
Increase (Decrease) in accounts payable	(144,788)	30,713
Increase (Decrease) in accrued liabilities	-	(3,225)
Increase (Decrease) in accrued payroll and taxes	2,311	12,051
Increase (Decrease) in deferred revenue on tap ins	(23,685)	(13,940)
Increase (Decrease) in customer deposits	22,257	15,375
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,429,664</u>	<u>\$ 1,951,666</u>
Non-Cash Capital and Related Financing Activities:		
Capital assets (transmission mains, hydrants, etc.) contributed to the District	<u>\$ 3,225,152</u>	<u>\$ 3,225,152</u>
Supplemental Information		
Interest paid	<u>\$ (175,414)</u>	<u>\$ (185,012)</u>

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

**BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015 and 2014**

NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Regulatory Requirements

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

Basis of Accounting

The District's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District has adopted GASB Statements 66 through 70, and related interpretations issued through December 31, 2015.

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

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

Statement No. 68 – Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27 – Requires Boone County Water District to report their representative share of the unfunded pension liability of the Kentucky County Employee Retirement System (CERS) on Boone County Water District's Balance Sheet. This statement became effective for fiscal periods beginning after June 15, 2015.

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

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

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities 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.

**BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015 and 2014**

Assessments Receivable

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

Allowance for Bad Debts

The District maintained an allowance for bad debts of \$37,000 at 2015 and 2014, respectively.

Cash Equivalents

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

Budgets

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

Inventories

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

Distribution System, Building, and Equipment

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

Construction in Progress

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

Capital Contributions

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District's income statement. These contributions represent customer tap-in fees and assessments charged to recover the costs of extensions of the distribution system. The District also includes estimated cost figures for those lines contributed by outside contractors. These amounts have been reduced by rebates paid to the contractor for 50 feet of line each time that a new customer taps into the contributed line.

Income Tax Status

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

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities,

**BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015 and 2014**

revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-Operating Revenues

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

NOTE 2 – DEPOSITS

Deposits consist of checking and savings accounts. They are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the Statement of Net Position as "Cash and Cash Equivalents" and "Restricted Assets". The bank balances for Cash and Cash Equivalents were \$8,742,265 and \$6,471,146 at December 31, 2015 and 2014, respectively; which were the same as the carrying amount. The bank balances for Restricted Assets were \$1,166,145 and \$2,264,714 at December 31, 2015 and 2014, respectively; which were the same as the carrying amount. Investments in Certificates of Deposit were valued at \$500,000 and \$3,500,000 at December 31, 2015 and 2014, respectively.

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

- a) Direct obligations of or obligations guaranteed by the United States of America;
- b) Obligations issued by any of the following agencies: Federal Home Loan Bank System; Export-Import Banks; Government National Mortgage Association; Farmers Home Administration; Federal National Mortgage Association to the extent that such obligations are guaranteed by the Government National Mortgage Association; and any other Federal Agency to the extent that such obligations are backed by the full faith and credit of the United States (other than provided in (a) hereof);
- c) Public housing bonds issued by public housing authorities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by public housing authorities, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;
- d) U.S. Dollar denominated deposit accounts fully insured to the holder (up to the \$250,000 maximum coverage) by the Federal Deposit Insurance Corporation in commercial banks, and to the extent not so insured (amounts in excess of \$250,000 maximum coverage), collateralized by obligations described in (a) or (b) above, having at all times a quoted market value at least equal to such uninsured amount plus accrued and undisbursed interest;
- e) General obligations to the Commonwealth of Kentucky;
- f) A pool or fund made up entirely of U.S. Government obligations or obligations guaranteed both as to principal and interest by the U.S. Government ; or

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014

- g) Repurchase agreements for U.S. Government Obligations, secured in the same manner as is provided in (d) above for other deposits.

NOTE 3 – INVESTMENTS

Investment obligations are deemed to be part of the fund or account for which they were purchased. Income, interest, gains and losses on an investment obligation are credited or charged to the fund or account for which such an investment obligation was purchased. In the case of the Debt Service Reserve, as long as the aggregate debt service reserve requirement is being maintained, excess income from that fund is to be transferred to the Water Reserve Fund.

Investments are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements are as follows at December 31, 2015:

Investments	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Debt securities:				
U.S. treasuries	\$ 307,426	\$ 307,426	\$ -	\$ -
U.S. agencies (FNMA, etc.)	1,197,927	1,197,927	-	-
Municipal bonds	1,748,475	-	1,748,475	-
Total debt securities	3,253,828	1,505,353	1,748,475	-
Equity securities:				
Mutual funds	324,492	324,492	-	-
Total equity securities	324,492	324,492	-	-
Subtotal investments	3,578,320	1,829,845	1,748,475	-
Cash and Cash Equivalents				
Money market funds	2,434,829	2,434,829	-	-
Total investments	\$ 6,013,149	\$ 4,264,674	\$ 1,748,475	\$ -

Debt and equity securities categorized as Level 1 are valued based on prices quoted in active markets for those securities. Debt securities categorized as Level 2 are valued using a matrix pricing technique that values securities based on their relationship to benchmark quoted prices.

In accordance with GASB 40, the District has \$336,947 and \$325,488 in bond sinking funds held in investments in federally backed US Treasury Obligations rated AAA/Aaa at December 31, 2015 and 2014, respectively. The market risk on these investments is negligible.

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014

NOTE 4 – RESTRICTED PORTION OF NET POSITION

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

Included in restricted portion of net position at December 31,

	<u>2015</u>	<u>2014</u>
Debt Service Account	\$ 79,198	\$ 137,203
Debt Service Reserve Account	336,947	325,488
Renewal and Replacement Account	<u>750,000</u>	<u>1,802,023</u>
Subtotal - Restricted Assets	1,166,145	2,264,714
Deferred refunding costs on defeased bond debt	43,476	53,301
Less: non-capital payables to be paid from restricted assets: accrued interest payable	<u>(45,405)</u>	<u>(47,952)</u>
Total Restricted Portion of Net Position	<u>\$ 1,164,216</u>	<u>\$ 2,270,063</u>

NOTE 5 – UTILITY PLANT IN SERVICE

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

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

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

**BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015 and 2014**

Asset Type	Balance at	Additions	Retirements	Balance at
	December 31,			December 31,
	2014			2015
Land	\$ 256,633	\$ -	\$ -	\$ 256,633
Transmission lines	106,106,995	1,279,970	-	107,386,965
Automated meter system	1,663,110	-	-	1,663,110
Buildings	1,942,970	3,450	-	1,946,420
Machinery and equipment	1,295,997	97,921	(10,071)	1,383,847
Furniture and fixtures	127,947	-	-	127,947
Rate study	220,578	-	-	220,578
Construction in progress	101,199	41,819	-	143,018
Subtotal	111,715,429	1,423,160	(10,071)	113,128,518
Accumulated depreciation	(30,301,684)	(2,361,296)	10,071	(32,652,909)
Fixed Assets, net	\$ 81,413,745	\$ (938,136)	\$ -	\$ 80,475,609

NOTE 6 – LONG TERM DEBT

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

Debt type	Balance at	Additions	Principal Payments	Balance at	Current Portion
	December 31			December 31	
	2014			2015	
2004 Refunding Bond	\$ 500,000	\$ -	\$ (120,000)	\$ 380,000	\$ 120,000
2011 Refunding Bond	1,020,000	-	(160,000)	860,000	160,000
BCFC Capital Lease	2,065,822	-	(54,285)	2,011,537	56,477
KIA Note	2,054,275	-	(67,407)	1,986,868	69,240
Totals	\$ 5,640,097	\$ -	\$ (401,692)	\$ 5,238,405	\$ 405,717

Revenue Refunding Bonds, Series 2011

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	1.000%	\$ 160,000	\$ 13,860	\$ 173,860
2017	1.000%	165,000	12,180	177,180
2018	1.000%	165,000	9,952	174,952
2019	1.000%	170,000	7,230	177,230
2020	1.05 - 2.00%	200,000	4,000	204,000
Totals		\$ 860,000	\$ 47,222	\$ 907,222

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014

Revenue Refunding Bonds, Series 2004

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

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2016	3.600%	\$ 120,000	\$ 14,450	\$ 134,450
2017	3.700%	130,000	10,010	140,010
2018	3.900%	130,000	5,070	135,070
Totals		<u>\$ 380,000</u>	<u>\$ 29,530</u>	<u>\$ 409,530</u>

Capital Lease – Boone County Fiscal Court

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

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2016	2.00%	\$ 56,477	\$ 79,903	\$ 136,380
2017	2.00%	58,760	77,620	136,380
2018	2.00%	61,133	75,247	136,380
2019	2.00%	63,603	72,777	136,380
2020	2.00%	66,173	70,207	136,380
2021-2025	2.00%	373,190	308,710	681,900
2026-2030	2.00%	454,916	226,984	681,900
2031-2035	2.00%	554,541	127,359	681,900
2036-2037	2.00%	322,744	17,636	340,380
Totals		<u>\$ 2,011,537</u>	<u>\$ 1,056,443</u>	<u>\$ 3,067,980</u>

Note Payable – Kentucky Infrastructure Authority

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

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	2.70%	\$ 69,240	\$ 53,182	\$ 122,422
2017	2.70%	71,122	51,300	122,422
2018	2.70%	73,055	49,367	122,422
2019	2.70%	75,042	47,380	122,422
2020	2.70%	77,080	45,342	122,422
2021-2025	2.70%	417,995	194,110	612,105
2026-2030	2.70%	477,979	134,126	612,105
2031-2035	2.70%	546,571	65,534	612,105
2036-2037	2.70%	178,783	66,059	244,842
Totals		\$ 1,986,867	\$ 706,400	\$ 2,693,267

Defeased District Revenue Bonds

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

These defeased revenue bonds outstanding at December 31, 2015 are as follows:

Year	2001 Series Bond	1993 Series A
2016	\$ 160,000	\$ 125,000
2017	170,000	135,000
2018	175,000	140,000
2019	185,000	-
2020	190,000	-
2021	200,000	-
	\$ 1,080,000	\$ 400,000

Miscellaneous Deferred Charges

The discount on the 2001 Series Bonds is recorded as a deferred charge and is being amortized over the life of the bond issues and the defeased bond loss associated with the 1993 Series A Bonds is being amortized over fifteen years. These revenue bonds are considered extinguished and do not appear as liabilities on the accompanying Statements of Net position as of December 31, 2015 and 2014. The balance of losses incurred on the 2001 Series Bonds defeasement was \$27,636 in 2015 and \$33,354 in 2014. The balance of losses incurred on the 1993 Series A Bonds defeasement was \$15,840 in 2015 and \$19,947 in 2014.

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014

NOTE 7 – RETIREMENT PLAN

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

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

Contributions

The District contributed 17.67% (from January – June of 2015) and 17.06% (from July – December of 2015) of the non-hazardous duty employee's compensation during the year ended December 31, 2015. The District made all required contributions for the Plan pension obligation for the fiscal year ended December 31, 2015 in the amount of \$201,693.

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

At December 31, 2015, the District reported a liability of \$2,193,686 as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the District's employer allocation proportion was 0.051020% of the total CERS non-hazardous duty employees. For the year ended December 31, 2015, the District recognized pension expense of \$308,053. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 13,036	\$ -
Net difference between projected and actual earnings on plan investments	15,732	109,068
Changes of assumptions	158,186	-
Changes in proportion and differences between District contributions and proportionate share of contributions	15,252	-
District contributions subsequent to the measurement date	128,292	-
Total	\$ 330,498	\$ 109,068

**BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015 and 2014**

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

In 2015, \$408,725 was recognized as a deferred outflow of resources resulting from a) actuarial losses, b) difference between projected and actual earnings, c) changes in assumptions, d) changes in proportion share. These amounts are being amortized as follows:

Deferred Outflows of Resources

5.0 Years Amortization Period	Amount Deferred	Amount Amortized	Net Deferral Balance
Recognized in previous years	\$ -	\$ -	\$ -
Recognized in current year			
Difference in earnings	19,665	3,933	15,732
Subtotal	<u>19,665</u>	<u>3,933</u>	<u>15,732</u>
3.51 Years Amortization Period			
Recognized in previous years	-	-	-
Recognized in current year			
Actuarial losses	18,230	5,194	13,036
Changes in assumptions	221,209	63,023	158,186
Changes in proportion share	21,329	6,077	15,252
Subtotal	<u>260,768</u>	<u>74,294</u>	<u>186,474</u>
0 Years Amortization Period			
Recognized in current year			
Contributions since measurement date	128,292	-	128,292
Subtotal	<u>128,292</u>	<u>-</u>	<u>128,292</u>
	<u>\$ 408,725</u>	<u>\$ 78,227</u>	<u>\$ 330,498</u>

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

Actuarial Losses		Difference in Earnings	
3.51 Year Amortization Period		5 Year Amortization Period	
Fiscal Year Ending	Net Deferral Amortization	Fiscal Year Ending	Net Deferral Amortization
June 30,		June 30,	
2016	\$ 5,194.00	2016	\$ 3,933
2017	5,194	2017	3,933
2018	2,648	2018	3,933
	<u>\$ 13,036</u>	2019	3,933
			<u>\$ 15,732</u>

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014

Changes in Assumptions 3.51 Year Amortization Period		Changes in Proportion 3.51 Year Amortization Period	
Fiscal Year Ending June 30,	Net Deferral Amortization	Fiscal Year Ending June 30,	Net Deferral Amortization
	2016		\$ 63,023
2017	63,023	2017	6,077
2018	32,140	2018	3,098
	<u>\$ 158,186</u>		<u>\$ 15,252</u>

The District's contributions subsequent to the measurement date of \$128,292 will be recognized as a reduction of the net pension liability in the year ending December 31, 2016.

In 2014, \$181,780 was recognized as a deferred inflow of resources, and was amortized over a closed five year period at an annual amortization amount of \$36,356. There were no additional deferred inflows recognized in 2015. The annual amortization of \$36,356 was recognized in 2015 as a reduction in pension expense as follows:

Deferred Inflows of Resources

5.0 Years Amortization Period	Amount Deferred	Amount Amortized	Net Deferral Balance
Recognized in previous years	\$ 181,780	\$ 72,712	\$ 109,068
Recognized in current year			
None			
Totals	<u>\$ 181,780</u>	<u>\$ 72,712</u>	<u>\$ 109,068</u>

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

Fiscal Year Ending June 30,	Net Deferral
2016	\$ 36,356
2017	36,356
2018	36,356
	<u>\$ 109,068</u>

Actuarial Assumptions

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

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

**BOONE COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2015 and 2014**

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

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

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

Discount Rate

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

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2015 and 2014

Sensitivity of the District's Share of the Net Pension Liability to Changes in the Discount Rate

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

	Discount Rate	Proportionate Share of Net Pension Liability
1% decrease	6.50%	\$ 2,800,426
Current discount rate	7.50%	2,193,686
1% increase	8.50%	1,673,941

Plan Fiduciary Net Position

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

Kentucky Public Employees Deferred Compensation Authority

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

NOTE 8 – RELATED PARTY TRANSACTIONS

The District purchases water from the joint Boone-Florence Water Commission (Commission). Two of the District's board members also serve as commissioners on the Boone-Florence Water Commission. The Commission is the District's sole source of wholesale water. The Commission was created in a joint venture with the City of Florence, Kentucky to purchase water from the City of Cincinnati, Ohio. During 2015 and 2014, the District purchased \$8,052,609 and \$7,584,385, respectively. During 2015 and 2014, the District leased office space to the Commission at a cost of \$6,000 per year. The District also provided maintenance services to the Water Commission lines and towers, and was reimbursed \$44,329 and \$58,299 for those services during 2015 and 2014, respectively.

NOTE 9 – ECONOMIC DEPENDENCY/CREDIT RISK

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

BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 10 – RESTATEMENT OF PRIOR YEAR STATEMENTS

The District has recorded an adjustment to the Beginning Net Position of (\$1,738,172) at December 31, 2014. This adjustment accounts for the estimated net pension liability at June 30, 2014, and is being recorded in accordance with Government Accounting Standards Board Statement No. 68.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated events through March 9, 2016, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2015 through March 9, 2016 to disclose.

BOONE COUNTY WATER DISTRICT MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN Last Ten Fiscal Years
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**Schedule of the District's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)**

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Proportion of net pension liability	0.051020%									
Proportionate share of the net pension liability (asset)	\$ 2,193,686									
Covered employee payroll in year of measurement	1,162,263									
Share of the net pension liability (asset) as a percentage of its covered employee payroll	188.74%									
Plan fiduciary net position as a percentage of total pension liability	65.98%									

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

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 201,693	\$ 222,737								
Actual contribution	201,693	222,737								
Contribution deficiency (excess)	-	-								
Covered employee payroll	1,162,263	1,219,229								
Contributions as a percentage of covered employee payroll	17.35%	18.27%								

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

Changes of Assumptions

The net pension liability as of June 30, 2015, is based on the June 30, 2015, actuarial valuation for the first year of implementation. There are differences between expected and actual experience and changes in assumptions subject to amortization as detailed in Note 7, in the Notes to the Financial Statements.



Van Gorder, Walker & Co., Inc.
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Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Independent Auditor's Report

To the Board of Commissioners
Boone County Water District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Boone County Water District as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements which collectively comprise Boone County Water District's basic financial statements and have issued our report thereon dated March 9, 2016.

Internal Control over Financial Reporting

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

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

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



Compliance and Other Matters

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

Purpose of this Report

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

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
March 9, 2016