BOONE COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

For Years Ending December 31, 2019 and 2018

BOONE COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2019 and 2018

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BOONE COUNTY WATER DISTRICT

BOARD OF COMMISSIONERS

December 31, 2019 and 2018

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
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

Independent Auditor's Report

To the Board of Commissioners
Boone County Water District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Boone County Water District (District), as of and for the years ended December 31, 2019 and 2018, 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.

3216 Dixie Highway • Erlanger, KY 41018 • Phone: (859) 431-0700 • Fax: (859)655-4780

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, 2019 and 2018 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 and OPEB disclosures on pages 29-30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2019 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
April 30, 2020

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, 2019. 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 2019. This was primarily due to increases in water revenue and investment income.

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, 2019 and 2018.

Table 1 – Net Position

	2019	2018
Current Assets	$19,179,898	$18,031,360
Restricted Assets	103,367	99,149
Noncurrent Assets/Capital Assets	94,185,944	93,106,599
Deferred Outflow of Resources	1,096,447	1,007,740
Total Assets and Deferred Outflow of Resources	114,565,656	112,244,848
Current Liabilities	2,052,234	1,812,232
Liabilities from Restricted Assets	377,884	345,323
Long - Term Liabilities	7,976,721	7,812,532
Deferred Inflow of Resources	468,115	413,772
Total Liabilities and Deferred Inflow of Resources	10,874,954	10,383,859
Net Position:		
Net investment in Capital Assets	90,515,970	89,127,982
Restricted	73,502	76,471
Unrestricted	13,101,230	12,656,536
Total Net Position	$103,690,702	$101,860,989

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 87.3% 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

Operating Revenues

Operating revenues increased $1,378,189 or 9.4% from 2018 to 2019. This increase is primarily due to the combination of three factors. The District sold more water due to an increase in the number of customers and an increase in customer consumption. In addition, the District increased the rates charged to their customers to offset a rate increase from their suppliers at the beginning of 2019.

Water Purchased

The cost of water increased $880,950 or 9.2% from 2018 to 2019. This increase is due to an increase in water sales and increased rates charged by the supplier.

Operating & Maintenance Expenses

Operating and maintenance expenses increased $263,694 or 7.8% from 2018 to 2019. This increase is primarily due to increases in three categories of expenses. Employee pensions and benefits increased as a result of increases in both pension costs and health insurance premiums. Service Costs increased due to the requirement that the District switch to a new meter reading program. The cost of operating supplies also increased due to increases in the amounts charged by suppliers.

Depreciation

Depreciation expense for 2019 and 2018 was $2,765,506 and $2,607,486, respectively. This increase of $158,020 or 6.06% correlates to significant additions in fixed assets in 2018 and is consistent with the increase seen in depreciation expense in recent years.

Interest and Investment Income

Interest and investment income increased $398,472 from 2018 to 2019. During 2015 the District moved 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. These investments, unlike certificates of deposit, carry with them the risk of loss. The amount of this unrealized gain or (loss), $306,892 and $(80,259) at December 31, 2019 and 2018, respectively, has been included in investment income. Since the District plans to hold these investments to maturity, the management believes that these unrealized gains and/or losses will never be incurred. See the table below for a breakdown of investment income for 2018 and 2019.

	2019	2018	Increase/Decrease
Interest and dividends	$ 257,578	$ 216,551	$ 41,027
Realized gains on the sale of investments	(16,274)	8,343	(24,617)
Accrued income	(2,406)	(1,727)	(679)
Investment fees	(42,768)	(38,358)	(4,410)
Investment income	196,130	184,809	11,321
Unrealized gain/loss on investment	306,892	(80,259)	387,151
Reported interest and investment income	$ 503,022	$ 104,550	$ 398,472

Capital Contributions

Capital contributions decreased $6,175,681 from 2018 to 2019. This was primarily due to some dedicated lines donated by contractors and replacement lines donated by the Kentucky Department of Transportation as part of road improvement projects in 2018 that was not repeated in 2019.

Table 2 compares the revenues, expenses, and change in net position for 2019 and 2018.

Table 2 – Changes in Net Position

	2019	2018
Operating Revenues:		
Water Sales	$15,622,495	$14,302,007
Forfeited Discounts	239,788	214,175
Other Water Revenues	170,087	137,999
Total Operating Revenues	16,032,370	14,654,181
Operating Expenses:		
Water Purchased	10,464,161	9,583,211
Operating and Maintenance	3,638,068	3,374,374
Depreciation	2,765,506	2,607,486
Total Operating Expenses	16,867,735	15,565,071
Net Operating (Loss)	(835.365)	(910,890)
Non-Operating Income (Expenses):		
Interest Income	69.856	34.122
Investment (Loss) Income	433,166	70,428
Gain on Sale of Assets	20,705	9,219
Net effect of Pension Expense	(463,842)	(423,652)
Interest on Long-Term Debt	(128,848)	(140,148)
Amortization of Debt Expenses	(9,236)	(9,825)
Net Non-Operating Income (Expenses)	(78,199)	(459,856)
Net Income (Loss)	(913,564)	(1,370,746)
Capital Contributions	2,743,277	8,918,958
Change in Net Position	1,829,713	7,548,212
Net Position – Beginning	101,860,989	94,312,777
Net Position – Ending	$103,690,702	$101,860,989

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2019, the District had $94,185,944 invested in capital assets including land, buildings, water treatment, transmission and distribution system, equipment, and vehicles, as reflected in the following schedule. This represents a net increase (additions less retirements and depreciation) of $1,079,345 primarily from the addition of new lines.

Table 3 summarizes the District's capital assets at the end of 2019 as compared to 2018.

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

	2019	2018
Land	$ 256,633	$ 256,633
Construction in Progress	280,989	165,547
Transmission Lines	130,784,839	127,245,199
Automated Meter System	1,663,110	1,663,110
Rate Study	220,578	220,578
Furniture and Fixtures	149,897	153,432
Machinery & Equipment	1,388,646	1,444,866
Buildings	1,966,385	1,966,385
Subtotal	136,711,077	133,115,750
Accumulated Depreciation	(42,525,133)	(40,009,151)
Total Capital Assets	$ 94,185,944	$ 93,106,599

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2019 and 2018.

Table 4 – Outstanding Debt at Year End

	2019	2018
Bonds Payable	$ 200,000	$ 370,000
Capitalized Lease	1,771,564	1,835,167
Notes Payable-KIA	1,698,410	1,773,450
Total Debt	$ 3,669,974	$ 3,978,617

All of the required payments were made on the District's outstanding debt in 2019.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2020 projects operating revenues to increase 1.9% while operating expenses are expected to increase approximately 2.23%. The amount budgeted for operating revenues includes an increase in the rates charged to our customers to offset an expected increase in water costs. It is an estimate since consumption is directly related to weather conditions which are unpredictable. Operating expenses are expected to increase during 2020 primarily due to expected increases in water costs, an increase in employee wages and benefits, and an increase in the cost of material and supplies. The District expects the net loss from operations to increase approximately $72,000 and capital contributions to increase slightly in 2020, so that the District's net position should decrease from what it was at the end of 2019.

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, 2019 and 2018

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	$ 564,048	$ 646,504
Investments	7,903,410	8,611,181
Reserve for depreciation, investment cash and equivalents and CDs	7,801,126	5,939,354
Accounts receivable		
Customers, net of allowance	2,304,250	2,219,581
Others	185,956	210,543
Assessments receivable	195,561	200,253
Inventories	194,279	179,848
Prepaids	31,268	24,096
Total Current Assets	19,179,898	18,031,360
Restricted Assets		
Debt service account	70,167	66,451
Debt service reserve account	33,200	32,698
Total Restricted Assets	103,367	99,149
Capital Assets		
Land, building, transmission system, equipment, and vehicles	136,430,088	132,950,203
Construction in progress	280,989	165,547
Total utility plant in service	136,711,077	133,115,750
Less accumulated depreciation	(42,525,133)	(40,009,151)
Total Capital Assets, Net	94,185,944	93,106,599
TOTAL ASSETS	113,469,209	111,237,108
DEFERRED OUTFLOW OF RESOURCES		
Deferred outflows related to pensions and OPEB	1,091,682	993,739
Deferred refunding costs on defeased bond debt	4,765	14,001
TOTAL DEFERRED OUTFLOW OF RESOURCES	1,096,447	1,007,740
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	114,565,656	112,244,848

Continued on page 9

BOONE COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION - Continued
December 31, 2019 and 2018

	2019	2018
LIABILITIES		
Current Liabilities		
Accounts payable	1,210,270	941,963
Accrued payroll and taxes	423,884	476,146
Deferred revenue on tap ins	96,805	69,445
Customer deposits	321,275	324,678
Total Current Liabilities	2,052,234	1,812,232
Current Liabilities Payable From Restricted Assets		
Bonds payable	200,000	170,000
KIA note payable	77,081	75,041
Capital lease payable	66,173	63,603
Accrued interest payable	34,630	36,679
Total Current Liabilities Payable From Restricted Assets	377,884	345,323
Long-Term Obligations		
Bonds	-	200,000
Capital lease - KRW	1,705,391	1,771,564
KIA loan payable - KRW	1,621,329	1,698,409
Net unfunded pension and OPEB liability	4,650,001	4,142,559
Total Long-Term Obligations	7,976,721	7,812,532
TOTAL LIABILITIES	10,406,839	9,970,087
DEFERRED INFLOW OF RESOURCES		
Deferred inflow related to pensions and OPEB	468,115	413,772
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	10,874,954	10,383,859
NET POSITION		
Net investment in capital assets	90,515,970	89,127,982
Restricted	73,502	76,471
Unrestricted	13,101,230	12,656,536
TOTAL NET POSITION	$ 103,690,702	$ 101,860,989

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, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Water revenue	$ 15,622,495	$ 14,302,007
Forfeited discounts	239,788	214,175
Other water revenues	170,087	137,999
TOTAL OPERATING REVENUES	16,032,370	14,654,181
OPERATING EXPENSES		
Water purchased	10,464,161	9,583,211
Operation and maintenance expense	3,638,068	3,374,374
Depreciation	2,765,506	2,607,486
TOTAL OPERATING EXPENSES	16,867,735	15,565,071
OPERATING LOSS	(835,365)	(910,890)
NON-OPERATING INCOME (EXPENSE)		
Interest income	69,856	34,122
Investment (loss) income	433,166	70,428
Gain on sale of assets	20,705	9,219
Net effect of change in pension and OPEB expense	(463,842)	(423,652)
Interest on long-term obligations	(128,848)	(140,148)
Amortization of bond discounts	(9,236)	(9,825)
NET NON-OPERATING INCOME (EXPENSE)	(78,199)	(459,856)
NET LOSS	(913,564)	(1,370,746)
CAPITAL CONTRIBUTIONS	2,743,277	8,918,958
CHANGE IN NET POSITION	1,829,713	7,548,212
NET POSITION, JANUARY 1	101,860,989	94,312,777
PRIOR PERIOD ADJUSTMENT	-	-
NET POSITION, DECEMBER 31	$ 103,690,702	$ 101,860,989

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

BOONE COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
For Years Ending December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	$ 15,976,980	$ 14,425,833
Paid to suppliers for goods and services	(12,511,706)	(11,554,136)
Paid to or on behalf of employees for services	(1,372,124)	(1,282,754)
NET CHANGE IN CASH FROM OPERATING ACTIVITIES	2,093,150	1,588,943
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases and sales of investments	(180,916)	-
Interest on investments	64,186	35,849
NET CHANGE IN CASH FROM INVESTING ACTIVITIES	(116,730)	35,849
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long-term debt	(308,644)	(429,188)
Transfers of reserve for depreciation, cash and certificates of deposit	(720,835)	43,635
Interest paid on long-term debt	(130,897)	(143,292)
Acquisition and construction of fixed assets	(1,342,804)	(2,006,519)
Proceeds on sale of assets	30,580	12,563
Contributed capital received	417,942	566,531
(Increase) decrease in restricted funds		
Debt service account	(3,716)	17,609
Debt service reserve account	(502)	327,092
Renewal and replacement account	-	-
NET CHANGE IN CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(2,058,876)	(1,611,569)
CHANGE IN CASH AND CASH EQUIVALENTS	(82,456)	13,223
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	646,504	633,281
CASH AND CASH EQUIVALENTS-END OF YEAR	$ 564,048	$ 646,504
RECONCILIATION OF OPERATING INCOME TO NET CHANGE IN CASH FROM OPERATING ACTIVITIES		
Operating loss	$ (835,365)	$ (910,890)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,765,506	2,607,486
Change in operating assets and liabilities		
(Increase) decrease in receivables	(55,390)	(228,348)
(Increase) decrease in inventories	(14,431)	10,983
(Increase) decrease in prepaid assets	(7,172)	4,805
Increase (decrease) in accounts payable	268,307	60,861
Increase (decrease) in accrued payroll and taxes	(52,262)	32,849
Increase (decrease) in deferred revenue on tap ins	27,360	5,710
Increase (decrease) in customer deposits	(3,403)	5,487
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 2,093,150	$ 1,588,943
Non-Cash Capital and Related Financing Activities:		
Capital assets (transmission mains, hydrants, etc.) contributed to the District	$ 2,325,335	$ 8,404,595
Supplemental Information		
Interest paid	$ (130,897)	$ (143,292)

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

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 applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements, and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

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.

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 $30,500 and $27,000 at 2019 and 2018, 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, 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 balances for Cash and Cash Equivalents were \$8,365,174 and \$6,585,858 at December 31, 2019 and 2018, respectively. The balances for Restricted Assets were \$103,367 and \$99,149 at December 31, 2019 and 2018, 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

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, 2019:

		Fair Value Measurements Using		
Investments	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Debt securities:				
U.S. treasuries	$ 2,891,309	$ 2,891,309	$ -	$ -
U.S. agencies (FNMA, etc.)	2,955,264	2,955,264	-	-
Municipal bonds	201,825	-	201,825	-
Total debt securities	6,048,398	5,846,573	201,825	-
Equity securities:				
Mutual funds	1,855,012	1,855,012	-	-
Total equity securities	1,855,012	1,855,012	-	-
Subtotal investments	7,903,410	7,701,585	201,825	-
Cash and Cash Equivalents				
Money market funds	1,599,616	1,599,616	-	-
Total investments	$ 9,503,026	$ 9,301,201	$ 201,825	$ -

Investments' fair value measurements are as follows at December 31, 2018:

		Fair Value Measurements Using		
Investments	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Debt securities:				
U.S. treasuries	$ 3,095,823	$ 3,095,823	$ -	$ -
U.S. agencies (FNMA, etc.)	3,343,192	3,343,192	-	-
Municipal bonds	300,082	-	300,082	-
Total debt securities	6,739,097	6,439,015	300,082	-
Equity securities:				
Mutual funds	1,872,084	1,872,084	-	-
Total equity securities	1,872,084	1,872,084	-	-
Subtotal investments	8,611,181	8,311,099	300,082	-
Cash and Cash Equivalents				
Money market funds	456,273	456,273	-	-
Total investments	$ 9,067,454	$ 8,767,372	$ 300,082	$ -

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 $33,200 and $32,698 in bond sinking funds held in investments in federally backed US Treasury Obligations rated AAA/Aaa at December 31, 2019 and 2018, respectively. The market risk on these investments is negligible.

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,

	2019	2018
Debt Service Account	$ 70,167	$ 66,451
Debt Service Reserve Account	33,200	32,698
Subtotal - Restricted Assets	103,367	99,149
Deferred refunding costs on defeased bond debt	4,765	14,001
Less: non-capital payables to be paid from restricted assets: accrued interest payable	(34,630)	(36,679)
Total Restricted Portion of Net Position	$ 73,502	$ 76,471

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	5-10 years
Automated meter system	50 years
Transmission lines	50 years
Rate Study	4 years

Asset Type	Balance at December 31, 2018	Additions	Retirements	Balance at December 31, 2019
Land	$ 256,633	$ -	$ -	$ 256,633
Transmission lines	127,245,199	3,539,640	-	130,784,839
Automated meter system	1,663,110	-	-	1,663,110
Buildings	1,966,385	-	-	1,966,385
Machinery and equipment	1,444,866	191,450	(247,670)	1,388,646
Furniture and fixtures	153,432	8,195	(11,730)	149,897
Rate study	220,578	-	-	220,578
Construction in progress	165,547	927,340	(811,898)	280,989
Subtotal	133,115,750	4,666,625	(1,071,298)	136,711,077
Accumulated depreciation	(40,009,151)	(2,765,506)	249,524	(42,525,133)
Fixed Assets, net	$ 93,106,599	$ 1,901,119	$ (821,774)	$ 94,185,944

NOTE 6 – LONG TERM DEBT

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

Debt type	Balance at December 31 2018	Additions	Principal Payments	Balance at December 31 2019	Current Portion
2011 Refunding Bond	$ 370,000	$ -	$ (170,000)	$ 200,000	$ 200,000
KIA Loan	1,773,451	-	(75,041)	1,698,410	77,081
BCFC Capital Lease	1,835,167	-	(63,603)	1,771,564	66,173
Totals	$ 3,978,618	$ -	$ (308,644)	$ 3,669,974	$ 343,254

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
2020	1.05 - 2.00%	$ 200,000	$ 4,000	$ 204,000

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:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2020	2.00%	$ 66,173	$ 70,207	$ 136,380
2021	2.00%	68,846	67,534	136,380
2022	2.00%	71,627	64,753	136,380
2023	2.00%	74,521	61,859	136,380
2024	2.00%	77,532	58,848	136,380
2025-2029	2.00%	437,251	244,649	681,900
2030-2034	2.00%	533,007	148,893	681,900
2035-2037	2.00%	442,607	34,153	476,760
Totals		$ 1,771,564	$ 750,896	$ 2,522,460

Note Payable – Kentucky Infrastructure Authority

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2020	2.70%	$ 77,081	$ 48,699	$ 125,780
2021	2.70%	79,176	46,448	125,624
2022	2.70%	81,328	44,137	125,465
2023	2.70%	83,539	41,762	125,301
2024	2.70%	85,810	39,323	125,133
2025-2029	2.70%	465,331	157,647	622,978
2030-2034	2.70%	532,107	85,925	618,032
2035-2037	2.70%	294,038	12,905	306,943
Totals		$ 1,698,410	$ 476,846	$ 2,175,256

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, 2019 are as follows:

Year	2001 Series Bond	1993 Series A
2020	$ 190,000	$ -
2021	200,000	-
	$ 390,000	$ -

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, 2019 and 2018. The balance of losses incurred on the 2001 Series Bonds defeasement was $4,765 in 2019 and $10,483 in 2018. The balance of losses incurred on the 1993 Series A Bonds defeasement was $0 in 2019 and $3,518 in 2018.

NOTE 7 – COUNTY EMPLOYEES' RETIREMENT SYSTEM

Plan description - Employees are covered by CERS (County Employees Retirement System), a cost-sharing multiple-employer defined benefit pension and health insurance (Other Post-Employment Benefits; OPEB) plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statue ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from http://kyret.ky.gov/.

The Plan is divided into both a **Pension Plan** and **Health Insurance Fund Plan** (Other Post-Employment Benefits; OPEB) and each plan is further sub-divided based on ***Non-Hazardous*** duty and ***Hazardous*** duty covered-employee classifications. The Boone County Water District has only Non-Hazardous employees.

Membership in CERS consisted of the following at June 30, 2019:

	Non-hazardous	Hazardous	Total
Active Plan Members	84,632	9,402	94,034
Inactive Plan Members	85,300	2,702	88,002
Retired Members	58,933	8,000	66,933
	228,865	20,104	248,969
		Number of participating employers	1,140

PENSION PLAN

Non-Hazardous Pension Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to Non-Hazardous duty Plan employees and beneficiaries. Employees are vested in the plan after five years of service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old
		At least 25 years service and any age
Tier 2	Participation rate	September 1, 2008 - December 31,2013
	Unreduced retirement	At least 5 years service and 65 years old
		or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old
		or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years of service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months or service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are $5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and $10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions – Required pension plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	5%
Tier 2	5%
Tier 3	5%

Contributions

For non-hazardous duty employees, the District contributed 21.48% (from January – June 2019) of which 16.22% was for the pension fund and 5.26% was for the health insurance fund, and 24.06% (from July – December 2019) of which 19.30% was for the pension fund and 4.76% was for the health insurance fund, of the non-hazardous duty covered-employee's compensation during the fiscal year ended December 31, 2019.

The District made all required contributions for the non-hazardous Plan obligation for the fiscal year in the amount of $316,933, of which $247,340 was for the pension fund and $69,593 was for the health insurance fund.

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

At December 31, 2019, the District reported a liability of $3,752,762 as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2019, the District's non-hazardous employer allocation proportion was 0.05336% of the total CERS non-hazardous duty employees. For the year ended June 30, 2019, the District recognized pension expense of $447,029 in addition to its $247,340 pension contribution.

At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Non-Hazardous	
	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	$ 95,819	$ (15,856)
Net difference between projected actual earnings on plan investments	72,038	(132,534)
Changes of assumptions	379,822	-
Changes in proportion and differences between contributions and proportionate share of contributions	76,549	-
Contributions subsequent to the measurement date	136,717	-
	$ 760,945	$ (148,390)

The District's contributions subsequent to the measurement date of $136,717 will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending December 31,	Net Deferral
2019	$ 307,853
2020	120,262
2021	43,430
2022	4,293
	$ 475,838

Actuarial Assumptions

The total pension liability as of December 31, 2019 is based on an actuarial valuation date of June 30, 2017, rolled forward to June 30, 2019, and determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2017
Experience study	July 1, 2008 – June 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Amortization period	26 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized

Payroll growth	2.00%
Inflation	2.30%
Salary increase	3.05-3.30%, minimum, including inflation
Investment rate of return	6.25%, net of pension plan expense, including inflation

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.

Changes of Assumptions

There have been no changes in actuarial assumptions since June 2017. In 2017, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows:

- The assumed investment rate was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of wage inflation was reduced from 4.00% to 3.05%.
- The asset valuation method changed from *5-Year Smoothed* to *20% of the difference between market and actuarial values*.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- 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 (set-back 1 year 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 assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	CERS Pensions (Haz & Non-Haz) Target Allocation	Long Term Expected Nominal Return
Combined equity	31.5%	4.55%
Specialty credit / high yield	15.0%	2.60%
Real return (diversified inflation strategies)	15.0%	4.10%
Absolute return (diversified hedge funds)	3.0%	2.97%
Private equity	7.0%	6.65%
Real estate	5.0%	4.85%
Global bonds	20.5%	1.35%
Cash	3.0%	0.20%

Discount Rate

The discount rate used to measure the total pension liability was 6.25%. 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 6.25%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate 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 6.25 percent, 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 (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Proportionate Share of Net Pension Liability		
	1% Decrease 5.25%	Current Rate 6.25%	1% Increase 7.25%
Non-hazardous	$ 4,693,641	$ 3,752,762	$ 2,968,549

<u>HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS</u>

Non-Hazardous OPEB Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to non-hazardous duty plan employees and beneficiaries. Health insurance coverage is provided through payment/partial payment of insurance premiums for both non-Medicare-eligible and Medicare-eligible retirees.

Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance
	Percentage of member premium paid by the plan	< 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100%
Tier 2	Participation date	July 1, 2003 - August 31, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement
	Member premium paid by the plan	$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was $12.99 per month.
Tier 3	Participation date	On or after September 1, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement
	Member premium paid by the plan	$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was $12.99 per month.

Contributions – Required health insurance plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	None
Tier 2	1%
Tier 3	1%

Contributions

Contribution requirements for covered employees and participating governmental entities are established and may be amended by the KRS Trustees. The contractually required contribution rate for governmental entities for January - June 2019, was 5.26% and for July – December 2019 was 4.76% of covered-employee payroll for non-hazardous duty employees, actuarially determined as an amount that is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were $69,593 for non-hazardous duty employees for the year ended December 31, 2019.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2019, the District reported a liability of $897,239 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all governmental entities, actuarially determined. At June 30, 2019, the District's proportion of the non-hazardous plan was 0.05336%.

For the year ended December 31, 2019, the District recognized an OPEB expense of $16,813. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Non-Hazardous	
	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	$ -	$ (270,718)
Net difference between projected actual earnings on plan investments	5,910	(45,761)
Changes of assumptions	265,501	(1,775)
Changes in proportion and differences between contributions and proportionate share of contributions	25,607	(1,471)
Contributions subsequent to the measurement date	33,719	-
	$ 330,737	$ (319,725)

The District's contributions subsequent to the measurement date, $33,719 for non-hazardous duty employees will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Fiscal Year Ending December 31,	Net Deferral
2019	$ (1,466)
2020	(1,466)
2021	11,204
2022	(13,080)
2023	(15,142)
Thereafter	(2,757)
	$ (22,707)

Actuarial Assumptions

The total OPEB liability as of December 31, 2019 is based on an actuarial valuation date of June 30, 2017, rolled forward to June 30, 2019, and determined using the following actuarial assumptions, applied to all periods included in the measurement:
:

Valuation date	June 30, 2017
Experience study	July 1, 2008 – June 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Amortization period	26 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Payroll growth	2.00%
Inflation	2.30%

Salary increase	3.05-3.30%, minimum, including inflation
Investment rate of return	6.25%, net of pension plan expense, including inflation,
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Healthcare trend rates (Pre-65):	Initial trend starting at 7.25% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Healthcare trend rates (Post-65):	Initial trend starting at 5.10% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are 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 by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are as follows:

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	CERS Health Insurance Target Allocation	Long Term Expected Nominal Return
Combined equity	31.5%	4.55%
Specialty credit / high yield	15.0%	2.60%
Real return (diversified inflation strategies)	15.0%	4.10%
Absolute return (diversified hedge funds)	3.0%	2.97%
Private equity	7.0%	6.65%
Real estate	5.0%	4.85%
Global bonds	20.5%	1.35%
Cash	3.0%	0.20%

Changes of Assumptions

In 2017, the demographic and economic assumptions that affect the measurement of the total OPEB liability were updated as follows:

- The assumed investment return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of salary increase was reduced from 4.00% to 3.05%.
- The asset valuation method changed from *5-Year Smoothed* to *20% of the difference between market and actuarial values*.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- 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).

In 2018 the following changes were made to the discount rates:

- For the non-hazardous plan, the single discount rate changed from 5.84% to 5.85%

In 2019 the following changes were made to the discount rates:

- For the non-hazardous plan, the single discount rate changed from 5.85% to 5.68%

Discount Rate

The discount rate used to measure the total OPEB liability was 5.68% for the non-hazardous plan and 5.69% for the hazardous plan. The projection of cash flows used to determine the discount rate assumed that contributions from governmental entities will be made at contractually required rates, actuarially determined. Based on this assumption, the Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the proportionate share of the net OPEB liability calculated using the discount rates of 5.68% for the non-hazardous plan, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Discount rate, non-hazardous	4.68%	5.68%	6.68%
Net OPEB liability, non-hazardous	$ 1,201,931	$ 897,239	$ 646,193

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the proportionate share of the net OPEB liability, as well as what the proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Proportionate Share of Net OPEB Liability		
Healthcare cost trend rate	1.00% Decrease	Current Rate	1.00% Increase
Net OPEB liability, non-hazardous	$ 667,281	$ 897,239	$ 1,176,090

Plan Fiduciary Net Position

Both the Pension Plan and the Health Insurance Plan issue publicly available financial report that include financial statements and required supplementary information, and detailed information about each Plan's fiduciary net position. These reports may be obtained, in writing, from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

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 2019 and 2018, the District purchased $10,464,161 and $9,583,211, respectively. During 2019 and 2018, the District leased office space to the Commission at a cost of $12,000 per year. The District also provided maintenance services to the Water Commission lines and towers and was reimbursed $62,165 and $71,906 for those services during 2019 and 2018, 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.

NOTE 10 – SUBSEQUENT EVENTS

Management has considered subsequent events through April 30, 2020, which represents the date the financial statements were available to be issued. The District did not have any events subsequent to December 31, 2019 through April 30, 2020 to disclose.

BOONE COUNTY WATER DISTRICT
MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN-NON-HAZARDOUS
Last Ten Fiscal Years

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net pension liability	0.053360%	0.052670%	0.050773%	0.049998%	0.051020%					
Proportionate share of the net pension liability (asset)	$ 3,752,792	$ 3,207,520	$ 2,971,900	$ 2,461,715	$ 2,193,686					
Covered employee payroll in year of measurement	$ 1,345,944	$ 1,305,317	$ 1,143,696	$ 1,179,827	$ 1,151,543					
Share of the net pension liability (asset) as a percentage of its covered employee payroll	278.82%	245.73%	259.85%	208.65%	190.50%					
Plan fiduciary net position as a percentage of total pension liability	50.45%	53.54%	53.30%	55.50%	59.97%					

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	$ 247,340	$ 205,408	$ 179,614	$ 142,047	$ 150,428	$ 158,222				
Actual contribution	(247,340)	(205,408)	(179,614)	(142,047)	(150,428)	(158,222)				
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -				
Covered employee payroll	$ 1,393,882	$ 1,335,691	$ 1,238,229	$ 1,143,696	$ 1,179,827	$ 1,151,543				
Contributions as a percentage of covered employee payroll	17.74%	15.38%	14.51%	12.42%	12.75%	13.74%				

Notes to Required Supplementary Information
for the Year Ended December 31, 2019

The net pension liability as of December 31, 2019, is based on the June 30, 2019, actuarial valuation. The changes to the elements of the pension expense, i.e. the differences between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, the changes in proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date are detailed in NOTE 7 in the Notes to the Financial Statements.

BOONE COUNTY WATER DISTRICT
MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT OPEB PLAN-NON-HAZARDOUS
Last Ten Fiscal Years

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net pension liability	0.053350%	0.052660%								
Proportionate share of the net pension liability (asset)	$ 897,239	$ 935,039								
Covered employee payroll in year of measurement	$ 1,345,944	$ 1,305,317								
Share of the net pension liability (asset) as a percentage of its covered employee payroll	66.66%	71.63%								
Plan fiduciary net position as a percentage of total pension liability	60.44%	57.62%								

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	$ 69,593	$ 66,640	$ 61,453							
Actual contribution	$ (69,593)	(66,640)	(61,453)							
Contribution deficiency (excess)	$ -	$ -	$ -							
Covered employee payroll	$ 1,393,882	$ 1,335,691	$ 1,238,229							
Contributions as a percentage of covered employee payroll	4.99%	4.99%	4.96%							

Notes to Required Supplementary Information
for the Year Ended December 31, 2019

The net OPEB liability as of December 31, 2019, is based on the June 30, 2019, actuarial valuation. The changes to the elements of the pension expense, i.e. the differences between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, the changes in proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date are detailed in NOTE 7 in the Notes to the Financial Statements.

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

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

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

To the Board of Commissioners
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, 2019 and 2018, 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 April 30, 2020.

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.

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

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
April 30, 2020