

BULLOCK PEN WATER DISTRICT
FINANCIAL STATEMENTS

For the Years Ending December 31, 2016 and 2015

BULLOCK PEN WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2016 and 2015

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BULLOCK PEN WATER DISTRICT

BOARD OF COMMISSIONERS

December 31, 2016 and 2015

Bobby Burgess, Chair

Andrea Walton, Vice-Chair

Charles Givin, Treasurer

William Wethington, Secretary

Rodger Bingham, Commissioner

Of Counsel

Thomas R. Nienaber, Esq.

Administration

William L. Catlett, General Manager



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

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

Independent Auditor's Report

To the Board of Commissioners
Bullock Pen Water District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Bullock Pen Water District (District), as of and for the years ended December 31, 2016 and 2015, 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 respective financial position of the business-type activities of Bullock Pen Water District as of December 31, 2016 and 2015, 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



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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8 and the pension disclosures on page 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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 Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bullock Pen Water District's basic financial statements. The schedules of operations, maintenance and administrative expenses, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of operations, maintenance and administrative expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2017, on our consideration of Bullock Pen Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bullock Pen Water District's internal control over financial reporting and compliance.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
May 16, 2017

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, 2016. The information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent year by \$15,703,102 (net position). This was an increase of \$254,357 in comparison to the prior year's increase of \$272,284. Even though the District's net position from operating income and capital contributions exceeded the 2015 amount by \$35,231, its non-operating expense increased by \$53,158. This increase in non-operating expenses was primarily due to the net effect of the change in pension expense created when the District booked its proportionate share of the unfunded pension liability for 2016. As a result the District's increase in net position was \$17,927 less than in 2015.
- At the end of the current year, unrestricted net position was \$2,033,918.

USING THIS ANNUAL REPORT

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

Basis of Accounting

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

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

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

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

SUMMARY OF NET POSITION

Table 1 provides a summary of the District's net position at December 31, 2016 and 2015.

**Table 1
Net Position**

| | <u>2016</u> | (Restated) <u>2015</u> |
|---|----------------------------|----------------------------|
| Current Assets | \$ 2,986,520 | \$ 2,631,101 |
| Restricted Assets | 1,535,139 | 1,493,447 |
| Noncurrent Assets/Capital Assets | 18,857,934 | 19,226,488 |
| Deferred Outflow of Resources | <u>333,923</u> | <u>249,022</u> |
| Total Assets and Deferred Outflow of Resources | <u>23,713,516</u> | <u>23,600,058</u> |
| Current Liabilities | 310,000 | 280,350 |
| Liabilities from Restricted Assets | 765,407 | 821,938 |
| Long - Term Liabilities | 6,935,007 | 7,049,025 |
| Deferred Inflow of Resources | <u>-</u> | <u>-</u> |
| Total Liabilities and Deferred Inflow of Resources | <u>8,010,414</u> | <u>8,151,313</u> |
| Net Position: | | |
| Net Investment in Capital Assets | 12,909,898 | 12,896,772 |
| Restricted | 759,286 | 738,887 |
| Unrestricted | <u>2,033,918</u> | <u>1,813,086</u> |
| Total Net Position | <u>\$15,703,102</u> | <u>\$15,448,745</u> |

The District's net position for 2016 increased 1.65% or \$254,357 as compared to a 1.79% or \$272,284 increase in the previous year. Although the District's 2016 operating income and customer contributions increased, resulting in an increase in net position between years of \$35,231, this increase was offset by an increase in non-operating expenses of \$53,158 primarily due to booking the District's portion of unfunded pension liability and the related deferred inflows and outflows.

The largest portion of the District's net position (82.2%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt.

An additional portion of the District's net position (4.8%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The unrestricted net position may be used to meet the District's ongoing obligations to customers and creditors.

SUMMARY OF CHANGES IN NET POSITION

Operating Revenues

The District's operating revenues increased by \$169,257 or 4.2%. This increase in operating revenues is primarily the result of increased water sales due to a dryer year and an increase in the number of customers served by the District.

Operating Expenses

The District's operating expenses increased \$147,896. Water costs accounted for \$78,544 of this increase due to increased water sales and rate increases from 2 of the 4 entities that supply water to the District. Operation and maintenance expenses increased by \$67,468 primarily due to increases in employee wages, employee benefits, materials and supplies and the cost of purchased power.

Net Effect On Change Of Pension Expense

The District is required to report its proportionate share of the estimated unfunded pension liability associated with its participation in the County Employee Retirement System in its financial statements. The amount that appears as a non-operating expense, \$115,439, is the result of booking the change in the liability and the related deferred inflows and outflows less any amortization of those inflows and outflows between June 30, 2016 and June 30, 2015. See Note 9 to the financial statements for a more complete explanation of this unfunded liability and the related deferred inflows and outflows.

Capital Contributions

Capital contributions increased \$13,870. This was primarily due to an increase in tap on fees paid by new customers.

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 (CERS). The prior period adjustment of \$36,961 reported in the statement of changes in net position as well as the restatement of 2015 statements, accounts for a correction of the estimated net pension liability reported at June 30, 2015 by CERS as well as corrections in the calculation of deferred inflows and outflows by the District for both 2014 and 2015. See note 9 to the financial statements for a more complete explanation of this unfunded pension liability and the related deferred inflows and outflows.

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

Table 2
Changes in Net Position

| | <u>2016</u> | (Restated) <u>2015</u> |
|--|---------------------|---------------------------|
| Operating Revenues: | | |
| Water Sales | \$ 3,908,635 | \$ 3,719,057 |
| Forfeited Discounts | 94,558 | 99,915 |
| Miscellaneous Services Revenues | 34,711 | 48,750 |
| Management Fee | <u>123,846</u> | <u>124,771</u> |
| Total Operating Revenues | <u>4,161,750</u> | <u>3,992,493</u> |
| Operating Expenses: | | |
| Water Purchased | 1,278,166 | 1,199,622 |
| Operations and Maintenance Expense | 1,898,772 | 1,831,304 |
| Depreciation & Amortization | <u>599,489</u> | <u>597,605</u> |
| Total Operating Expenses | <u>3,776,427</u> | <u>3,628,531</u> |
| Net Operating Income | <u>385,323</u> | <u>363,962</u> |
| Non-Operating Income(Expenses) | | |
| Investment Income | 8,854 | 7,502 |
| Gain/(Loss) on Disposition of Assets | (5,746) | 1,328 |
| Interest on Long-Term Debt and Customer Deposits | (180,687) | (193,143) |
| Amortization of Debt Discount and Expenses | (2,711) | (2,711) |
| Net Effect on Change of Pension Expense | <u>(115,439)</u> | <u>(55,547)</u> |
| Net Non-Operating Expenses | <u>(295,729)</u> | <u>(242,571)</u> |
| Income Before Capital Contributions | 89,594 | 121,391 |
| Capital Contributions | <u>164,763</u> | <u>150,893</u> |
| Change in Net Position | 254,357 | 272,284 |
| Net Position – January 1 | 15,448,745 | 15,213,422 |
| Prior Period Adjustment | - | (36,961) |
| Net Position – December 31 | <u>\$15,703,102</u> | <u>\$15,448,745</u> |

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2016, the District had \$18,855,718 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 \$367,354. This decrease is mainly due to the fact that depreciation expense of \$597,856 was less than the cost of new assets purchased during 2016.

Table 3 Summarizes the District's capital assets at the end of 2016 as compared to 2015.

Table 3
Capital Assets at Year End

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|---------------------|---------------------|
| Land | \$ 200,283 | \$ 200,283 |
| Buildings and Improvements | 1,572,952 | 1,582,964 |
| Construction in Progress | 56,622 | 281,227 |
| Other Plant & Miscellaneous Equipment | 663,584 | 706,653 |
| Transportation Equipment | 307,012 | 306,862 |
| Transmission and Distribution System | 25,677,196 | 25,248,061 |
| Furniture and Fixtures | 65,503 | 81,346 |
| Subtotal | <u>28,543,152</u> | <u>28,407,396</u> |
| Accumulated Depreciation | <u>(9,687,434)</u> | <u>(9,184,324)</u> |
| Total Capital Assets | <u>\$18,855,718</u> | <u>\$19,223,072</u> |

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2016 compared to 2015.

Table 4
Outstanding Debt at Year End

| | <u>2016</u> | <u>2015</u> |
|--------------------------|---------------------|---------------------|
| Bond Payable Obligations | \$ 905,000 | \$ 1,017,000 |
| Notes Payable | 4,313,963 | 4,336,530 |
| Capitalized Leases | <u>838,911</u> | <u>1,045,654</u> |
| Total | <u>\$ 6,057,874</u> | <u>\$ 6,399,184</u> |

At year-end, the District had \$6,057,874 in outstanding long-term debt compared to \$6,399,184 last year. This is a decrease of \$341,310.

During 2016, the District drew \$230,983 on a \$364,278 loan. The funds were borrowed to finance the construction of various looped water lines to eliminate dead end connections and reduce the amount of flushing as well as decrease service disruptions to customers during line repairs. The loan will be repaid over 20 years at 1.75% interest.

All of the required payments were made on the District's outstanding debt during 2016. The total payments on long-term debt amounted to \$572,293.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2017 projects a year very similar to 2016. Water revenues are expected to remain about the same. On the other hand, operation expenses are expected to increase primarily due to increases in employee wages and benefits. The 2017 change in net position is expected to be approximately \$222,757. This amount is lower than in 2016 just as the increase in net position for 2016 was lower than in 2015.

FINANCIAL CONTACT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administrative Office at Farrell Drive, Crittenden, Kentucky 41030.

William Catlett, General Manager
Bullock Pen Water District

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| BULLOCK PEN WATER DISTRICT STATEMENTS OF NET POSITION December 31, 2016 and 2015 |
|---|

| ASSETS | 2016 | (Restated) 2015 |
|--|-------------------|----------------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 1,311,165 | \$ 1,887,153 |
| Certificates of deposit | 802,069 | - |
| Accounts receivable | | |
| Customers, net of allowance | 501,067 | 488,767 |
| Other | 145,037 | 32,665 |
| Restitution receivable - Thurman | 1,200 | 1,200 |
| Inventories | 164,868 | 174,016 |
| Prepays | 55,867 | 42,956 |
| Accrued interest receivable | 903 | - |
| Unamortized expenses | 4,344 | 4,344 |
| Total Current Assets | 2,986,520 | 2,631,101 |
| Restricted Assets | | |
| Current reserve fund - USDA Rural Development | 150,606 | 150,152 |
| Debt payment account | 385,273 | 399,238 |
| Current construction fund | 2,877 | 7,525 |
| Accounts receivable - surcharges | 13,094 | 12,755 |
| FSA/HRA account | 10,605 | 7,930 |
| Customer deposits | 229,548 | 236,205 |
| Maintenance and replacement reserve | 743,136 | 679,642 |
| Total Restricted Assets | 1,535,139 | 1,493,447 |
| Noncurrent Assets | | |
| Restitution receivable - Thurman | 2,216 | 3,416 |
| Total Noncurrent Assets | 2,216 | 3,416 |
| Capital Assets | | |
| Land, building, transmission system, equipment, and vehicles | 28,486,530 | 28,126,169 |
| Construction in progress | 56,622 | 281,227 |
| Total utility plant in service | 28,543,152 | 28,407,396 |
| Less: accumulated depreciation | (9,687,434) | (9,184,324) |
| Total Capital Assets, net of depreciation | 18,855,718 | 19,223,072 |
| TOTAL ASSETS | 23,379,593 | 23,351,036 |
| DEFERRED OUTFLOW OF RESOURCES | | |
| Unamortized debt discounts | 9,346 | 12,058 |
| Unamortized tap-in expense | 38,781 | 40,414 |
| Deferred outflows related to pensions | 285,796 | 196,550 |
| TOTAL DEFERRED OUTFLOW OF RESOURCES | 333,923 | 249,022 |
| TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES | 23,713,516 | 23,600,058 |

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

(Continued on Page 10)

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| BULLOCK PEN WATER DISTRICT STATEMENTS OF NET POSITION (Continued from Page 9) December 31, 2016 and 2015 |
|---|

| LIABILITIES | 2016 | (Restated) 2015 |
|---|----------------------|----------------------------|
| Current Liabilities | | |
| Accounts payable | 153,579 | 140,921 |
| Accrued and withheld liabilities | 156,421 | 139,429 |
| Total Current Liabilities | <u>310,000</u> | <u>280,350</u> |
| Current Liabilities Payable From Restricted Assets | | |
| Revenue bonds - current portion | 113,000 | 112,000 |
| Notes payable - current portion | 275,959 | 261,679 |
| Lease obligations - current portion | 168,854 | 206,742 |
| Customer deposits | 177,471 | 168,693 |
| Accrued interest payable | 30,123 | 34,235 |
| Accounts payable - construction | - | 38,589 |
| Total Current Liabilities Payable From Restricted Assets | <u>765,407</u> | <u>821,938</u> |
| Long-Term Obligations | | |
| Bonds | 792,000 | 905,000 |
| Notes payable | 4,038,004 | 4,074,851 |
| Capital lease obligations | 670,057 | 838,914 |
| Net unfunded pension liability | 1,434,946 | 1,230,260 |
| Total Long-Term Obligations | <u>6,935,007</u> | <u>7,049,025</u> |
| TOTAL LIABILITIES | 8,010,414 | 8,151,313 |
| DEFERRED INFLOW OF RESOURCES | | |
| Deferred inflow related to pensions | - | - |
| TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES | <u>8,010,414</u> | <u>8,151,313</u> |
| NET POSITION | | |
| Net investment in capital assets | 12,909,898 | 12,896,772 |
| Restricted | 759,286 | 738,887 |
| Unrestricted | 2,033,918 | 1,813,086 |
| TOTAL NET POSITION | <u>\$ 15,703,102</u> | <u>\$ 15,448,745</u> |

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

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| BULLOCK PEN WATER DISTRICT STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Years Ending December 31, 2016 and 2015 |
|---|

| | <u>2016</u> | <u>(Restated) 2015</u> |
|--|-----------------------------|-----------------------------|
| OPERATING REVENUES | | |
| Water revenue | \$ 4,037,904 | \$ 3,867,722 |
| Management fees | 123,846 | 124,771 |
| TOTAL OPERATING REVENUES | <u>4,161,750</u> | <u>3,992,493</u> |
| OPERATING EXPENSES | | |
| Water purchased | 1,278,166 | 1,199,622 |
| Operations, maintenance, and administrative expenses | 1,898,772 | 1,831,304 |
| Depreciation and amortization | 599,489 | 597,605 |
| TOTAL OPERATING EXPENSES | <u>3,776,427</u> | <u>3,628,531</u> |
| OPERATING INCOME | <u>385,323</u> | <u>363,962</u> |
| NON-OPERATING INCOME (EXPENSE) | | |
| Investment income | 8,854 | 7,502 |
| (Loss) gain on sale of assets | (5,746) | 1,328 |
| Net effect on change of pension expense | (115,439) | (55,547) |
| Interest on long-term obligations | (180,687) | (193,143) |
| Amortization of bond discounts | (2,711) | (2,711) |
| NET NON-OPERATING EXPENSES | <u>(295,729)</u> | <u>(242,571)</u> |
| NET INCOME | 89,594 | 121,391 |
| CAPITAL CONTRIBUTIONS | <u>164,763</u> | <u>150,893</u> |
| CHANGE IN NET POSITION | 254,357 | 272,284 |
| NET POSITION, JANUARY 1 | 15,448,745 | 15,213,422 |
| PRIOR PERIOD ADJUSTMENT | <u>-</u> | <u>(36,961)</u> |
| NET POSITION, DECEMBER 31 | <u><u>\$ 15,703,102</u></u> | <u><u>\$ 15,448,745</u></u> |

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

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| BULLOCK PEN WATER DISTRICT STATEMENTS OF CASH FLOWS For the Years Ending December 31, 2016 and 2015 |
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| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Received from customers | \$ 4,038,278 | \$ 4,055,328 |
| Paid to suppliers for goods and services | (2,017,761) | (1,918,221) |
| Paid to or on behalf of employees for services | (1,133,290) | (1,132,096) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>887,227</u> | <u>1,005,011</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition and construction of fixed assets | (274,837) | (493,348) |
| Interest on investments | 7,951 | 7,502 |
| Proceeds from sale of fixed assets | - | 1,328 |
| NET CASH USED FOR INVESTING ACTIVITIES | <u>(266,886)</u> | <u>(484,518)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Contributed capital received | 164,763 | 150,893 |
| Increase in customer deposits | 8,778 | 5,562 |
| Interest paid on long term debt | (184,799) | (196,767) |
| Loan proceeds | 230,983 | 133,295 |
| Principal paid on long term debt | (572,293) | (542,534) |
| Increase in restricted assets | (41,692) | (59,670) |
| NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(394,260)</u> | <u>(509,221)</u> |
| INCREASE IN CASH AND CASH EQUIVALENTS | 226,081 | 11,272 |
| CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR | <u>1,887,153</u> | <u>1,875,881</u> |
| CASH AND CASH EQUIVALENTS-END OF YEAR | <u>\$ 2,113,234</u> | <u>\$ 1,887,153</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | | |
| Operating income | \$ 385,323 | \$ 363,962 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 599,489 | 597,605 |
| Change in operating assets and liabilities | | |
| (Increase) decrease in receivables | (123,472) | 62,835 |
| Decrease (increase) in inventories | 9,148 | (9,261) |
| (Increase) decrease in prepaid assets | (12,911) | 7,317 |
| Increase (decrease) in accounts payable | 12,658 | (18,351) |
| Increase in other accrued liabilities | 16,992 | 904 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 887,227</u> | <u>\$ 1,005,011</u> |
| SUPPLEMENTAL INFORMATION | | |
| Interest paid | <u>\$ 184,799</u> | <u>\$ 196,767</u> |
| Non-cash contribution to fixed assets | <u>\$ -</u> | <u>\$ -</u> |

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

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| BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015 |
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NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Regulatory Requirements

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

Basis of Accounting

The District's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) Opinions of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) are segregated into "invested in capital assets, net of related liabilities"; "restricted"; and "unrestricted" components.

Cash Equivalents

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

Budgets

In accordance with Kentucky Revised Statute 65A, the District is required to upload a balanced budget to the Kentucky Department of Local Government website by 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. Cost is determined under the First-In, First-Out (FIFO) method. Market is determined on the basis of estimated realizable market values.

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| <p>BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015</p> |
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Distribution System, Building, and Equipment

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

Construction in Progress

Capitalizable costs incurred on projects which are not in use or ready for use at year end are held as "Construction in Progress". When the asset under construction is ready for use, related costs are transferred to the asset account. The Construction in Progress account was \$56,622 and \$281,227 at December 31, 2016 and 2015, respectively.

Miscellaneous Deferred Charges

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

Capital Contributions

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

During 2016 and 2015 these contributions consisted of the following:

| <u>Source</u> | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Tap in fees and construction costs paid by new customers | \$ 65,159 | \$ 54,000 |
| Surcharges - Phases 5, 6, 7, 8, and 10 | 99,604 | 96,893 |
| Total income received in aid of construction | 164,763 | 150,893 |
| Waterlines and related infrastructure received without cost | - | - |
| Total capital contributions | <u>\$ 164,763</u> | <u>\$ 150,893</u> |

Income Tax Status

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

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-Operating Revenues

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

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| BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015 |
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NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits consist of checking accounts and are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the statements of net position as “Cash and Cash Equivalents,” “Certificates of Deposit,” and “Restricted Assets”. The balances for “Cash and Cash Equivalents” were \$1,311,165 and \$1,887,153 at December 31, 2016 and 2015, respectively. The balances for “Certificates of Deposit” were \$802,069 and \$0 at December 31, 2016 and 2015, respectively. The balances for “Restricted Assets,” net of accounts receivable - surcharges were \$1,522,045 and \$1,480,692 at December 31, 2016 and 2015, respectively. The District has amounts on deposit with two banks in excess of FDIC insured amounts. The banks have pledged collateral agreements to cover such excess amounts. At December 31, 2016, all amounts held on deposit by the District were sufficiently collateralized.

Investments are reported at fair value which is determined using the selected basis. Short term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair market value.

The District’s investments are categorized to give an indication of the level of risk assumed by the District at December 31, 2016. The categories are described as follows:

Category 1 – Insured and registered, with securities held by the entity or its agent in the entity’s name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty’s trust department or agent in the entity’s name;

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity’s name.

| At December, 31, 2016 | Category 1 | Category 2 | Category 3 | Fair Value/ Carrying Cost | Cost |
|---------------------------------|---------------------|-------------|-------------------|------------------------------|---------------------|
| Operation and maintenance | \$ 2,123,839 | \$ - | \$ - | \$ 2,123,839 | \$ 2,123,839 |
| Customer deposits | 229,548 | - | - | 229,548 | 229,548 |
| Debt payment accounts | 234,530 | - | 150,743 | 385,273 | 385,273 |
| Current and replacement reserve | 893,742 | - | - | 893,742 | 893,742 |
| Construction funds | 2,877 | - | - | 2,877 | 2,877 |
| Total | \$ 3,484,536 | \$ - | \$ 150,743 | \$ 3,635,279 | \$ 3,635,279 |

NOTE 3 – RESTRICTED NET POSITION

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

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| BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015 |
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The following amounts are included in restricted net position at December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|-----------------------------------|-----------------------|-----------------------|
| Current reserve fund - USRDA | \$ 143,400 | \$ 143,400 |
| Debt payment account | 166,722 | 162,864 |
| Accrued interest payable | (17,120) | (19,197) |
| Portion of bonds payable | (113,000) | (112,000) |
| Maintenance and replacement | <u>579,284</u> | <u>563,820</u> |
| Total Restricted Net Position | <u>\$ 759,286</u> | <u>\$ 738,887</u> |

NOTE 4 – UTILITY PLANT IN SERVICE

All property, plant and equipment including infrastructure assets are recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss included in the results of operations. Repair and maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred.

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

| | |
|--|-------------|
| Buildings and improvements | 10-50 years |
| Furniture and fixtures | 3-10 years |
| Machinery and equipment | 5-25 years |
| Transportation equipment | 3-13 years |
| Transmission lines and distribution systems | 50 years |

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| BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015 |
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The fixed asset balances at December 31, 2016 and 2015 are as follows:

| Asset Type | Balance at December 31, 2015 | Additions | Retirements | Balance at December 31, 2016 |
|--|------------------------------------|-------------------|---------------------|------------------------------------|
| Land | \$ 200,283 | \$ - | \$ - | \$ 200,283 |
| Buildings and improvements | 1,582,964 | - | (10,012) | 1,572,952 |
| Construction in progress | 281,227 | 283,959 | (508,564) | 56,622 |
| Distribution reservoirs and standpipes | 3,926,053 | - | - | 3,926,053 |
| Furniture and fixtures | 81,346 | 5,900 | (21,743) | 65,503 |
| Hydrants | 1,289,016 | 6,209 | - | 1,295,225 |
| Meter system and installation | 4,115,200 | 62,852 | - | 4,178,052 |
| Other plant and misc. equipment | 440,514 | 17,839 | (4,517) | 453,836 |
| Pumping equipment | 53,991 | 2,987 | (20,572) | 36,406 |
| Tools and lab equipment | 86,305 | 1,830 | (12,677) | 75,458 |
| Transmission mains | 15,917,792 | 360,074 | - | 16,277,866 |
| Transportation equipment | 306,862 | 3,162 | (3,012) | 307,012 |
| Water treatment equipment | 125,843 | - | (27,959) | 97,884 |
| Subtotal | 28,407,396 | 744,812 | (609,056) | 28,543,152 |
| Accumulated depreciation | (9,184,324) | (597,856) | 94,746 | (9,687,434) |
| Fixed Assets, net | <u>\$ 19,223,072</u> | <u>\$ 146,956</u> | <u>\$ (514,310)</u> | <u>\$ 18,855,718</u> |

NOTE 5 – BONDED INDEBTEDNESS

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

On August 6, 1982, the District sold \$125,000 of revenue bonds for the purpose of financing the costs of major water system facilities. All bonds mature on January 1st of each year beginning in 1984 and ending in 2022. Interest is payable on January 1st and July 1st of each year and principal is due in annual installments on January 1st through 2022. The remaining debt service is as follows:

| Year | Interest Rates | Principal Amount | Interest Amount | Total Debt Service |
|--------|----------------|------------------|-----------------|--------------------|
| 2017 | 5.00% | \$ 6,000 | \$ 1,800 | \$ 7,800 |
| 2018 | 5.00% | 6,000 | 1,500 | 7,500 |
| 2019 | 5.00% | 6,000 | 1,200 | 7,200 |
| 2020 | 5.00% | 7,000 | 875 | 7,875 |
| 2021 | 5.00% | 7,000 | 525 | 7,525 |
| 2022 | 5.00% | 7,000 | 175 | 7,175 |
| Totals | | <u>\$ 39,000</u> | <u>\$ 6,075</u> | <u>\$ 45,075</u> |

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| BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015 |
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Kentucky Rural Water Finance Corporation Revenue Bonds, Series 2001C - Refinancing

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

| <u>Year</u> | <u>Interest Rates</u> | <u>Principal Amount</u> | <u>Interest Amount</u> | <u>Total Debt Service</u> |
|-------------|-----------------------|-------------------------|------------------------|---------------------------|
| 2017 | 4.60-5.00% | \$ 35,000 | \$ 8,575 | \$ 43,575 |
| 2018 | 4.70-5.00% | 37,000 | 6,900 | 43,900 |
| 2019 | 4.80-5.00% | 39,000 | 5,095 | 44,095 |
| 2020 | 4.90-5.00% | 41,000 | 3,155 | 44,155 |
| 2021 | 5.00% | 43,000 | 1,075 | 44,075 |
| Totals | | <u>\$ 195,000</u> | <u>\$ 24,800</u> | <u>\$ 219,800</u> |

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

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

| <u>Year</u> | <u>Interest Rates</u> | <u>Principal Amount</u> | <u>Interest Amount</u> | <u>Total Debt Service</u> |
|-------------|-----------------------|-------------------------|------------------------|---------------------------|
| 2017 | 4.52% | \$ 35,000 | \$ 2,599 | \$ 37,599 |
| 2018 | 4.52% | 40,000 | 904 | 40,904 |
| Totals | | <u>\$ 75,000</u> | <u>\$ 3,503</u> | <u>\$ 78,503</u> |

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

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

| <u>Year</u> | <u>Interest Rates</u> | <u>Principal Amount</u> | <u>Interest Amount</u> | <u>Total Debt Service</u> |
|-------------|-----------------------|-------------------------|------------------------|---------------------------|
| 2017 | 4.12% | \$ 7,000 | \$ 762 | \$ 7,762 |
| 2018 | 4.12% | 7,000 | 474 | 7,474 |
| 2019 | 4.12% | 8,000 | 165 | 8,165 |
| Totals | | <u>\$ 22,000</u> | <u>\$ 1,401</u> | <u>\$ 23,401</u> |

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| BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015 |
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Kentucky Rural Water Finance Corporation Revenue Bonds, Series 2005B - Phase 8

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

| <u>Year</u> | <u>Interest Rates</u> | <u>Principal Amount</u> | <u>Interest Amount</u> | <u>Total Debt Service</u> |
|---------------|-----------------------|-------------------------|------------------------|---------------------------|
| 2017 | 4.090-4.590% | \$ 19,000 | \$ 15,643 | \$ 34,643 |
| 2018 | 4.090-4.590% | 19,000 | 14,865 | 33,865 |
| 2019 | 4.090-4.590% | 20,000 | 14,068 | 34,068 |
| 2020 | 4.190-4.590% | 20,000 | 13,240 | 33,240 |
| 2021 | 4.215-4.590% | 21,000 | 12,378 | 33,378 |
| 2022-2026 | 4.290-4.590% | 117,000 | 47,563 | 164,563 |
| 2027-2031 | 4.465-4.590% | 151,000 | 17,777 | 168,777 |
| Totals | | \$ 367,000 | \$ 135,534 | \$ 502,534 |

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

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

| <u>Year</u> | <u>Interest Rates</u> | <u>Principal Amount</u> | <u>Interest Amount</u> | <u>Total Debt Service</u> |
|---------------|-----------------------|-------------------------|------------------------|---------------------------|
| 2017 | 4.090-4.590% | \$ 11,000 | \$ 8,815 | \$ 19,815 |
| 2018 | 4.090-4.590% | 11,000 | 8,365 | 19,365 |
| 2019 | 4.090-4.590% | 11,000 | 7,915 | 18,915 |
| 2020 | 4.190-4.590% | 11,000 | 7,460 | 18,460 |
| 2021 | 4.215-4.590% | 12,000 | 6,977 | 18,977 |
| 2022-2026 | 4.290-4.590% | 67,000 | 26,705 | 93,705 |
| 2027-2031 | 4.465-4.590% | 84,000 | 9,924 | 93,924 |
| Totals | | \$ 207,000 | \$ 76,161 | \$ 283,161 |

NOTE 6 – NOTES PAYABLE

Kentucky Infrastructure Authority - Drinking Water Supply Project 2002

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

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| BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015 |
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The remaining debt service is as follows:

| Year | Interest Rates | Principal Amount | Interest Amount | Total Debt Service |
|--------|----------------|-------------------|------------------|--------------------|
| 2017 | 3.80% | \$ 20,271 | \$ 4,898 | \$ 25,169 |
| 2018 | 3.80% | 21,049 | 4,120 | 25,169 |
| 2019 | 3.80% | 21,856 | 3,313 | 25,169 |
| 2020 | 3.80% | 22,695 | 2,474 | 25,169 |
| 2021 | 3.80% | 23,565 | 1,604 | 25,169 |
| 2022 | 3.80% | 24,469 | 700 | 25,169 |
| Totals | | <u>\$ 133,905</u> | <u>\$ 17,109</u> | <u>\$ 151,014</u> |

Kentucky Infrastructure Authority - Drinking Water Supply Project 2003

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

| Year | Interest Rates | Principal Amount | Interest Amount | Total Debt Service |
|-----------|----------------|-------------------|------------------|--------------------|
| 2017 | 3.00% | \$ 65,364 | \$ 15,748 | \$ 81,112 |
| 2018 | 3.00% | 67,339 | 13,772 | 81,111 |
| 2019 | 3.00% | 69,375 | 11,737 | 81,112 |
| 2020 | 3.00% | 71,471 | 9,641 | 81,112 |
| 2021 | 3.00% | 73,632 | 7,480 | 81,112 |
| 2022-2024 | 3.00% | 193,964 | 8,814 | 202,778 |
| Totals | | <u>\$ 541,145</u> | <u>\$ 67,192</u> | <u>\$ 608,337</u> |

Kentucky Infrastructure Authority – Drinking Water Supply Project 2010

During 2009, the District executed a drawdown loan with the Kentucky Infrastructure Authority for \$2,192,700 to finance the Phase 6 waterline extension project. The final draw on this loan was taken on February 15, 2011. Water system revenues serve as collateral for this loan. The loan carries an interest rate of 3.0% and matures on December 1, 2030. The balance on this loan at December 31, 2016 was \$1,665,768.

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| BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015 |
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The remaining debt service is as follows:

| Year | Interest Rates | Principal Amount | Interest Amount | Total Debt Service |
|-----------|----------------|---------------------|-------------------|---------------------|
| 2017 | 3.00% | \$ 97,343 | \$ 49,248 | \$ 146,591 |
| 2018 | 3.00% | 100,285 | 46,306 | 146,591 |
| 2019 | 3.00% | 103,316 | 43,275 | 146,591 |
| 2020 | 3.00% | 106,439 | 40,152 | 146,591 |
| 2021 | 3.00% | 109,656 | 36,936 | 146,592 |
| 2022-2026 | 3.00% | 600,045 | 132,910 | 732,955 |
| 2027-2029 | 3.00% | 548,684 | 37,682 | 586,366 |
| Totals | | <u>\$ 1,665,768</u> | <u>\$ 386,509</u> | <u>\$ 2,052,277</u> |

Kentucky Infrastructure Authority – Drinking Water State Revolving Loan Fund 2012

During 2012, the District executed a drawdown loan with the Kentucky Infrastructure Authority for \$1,796,300 to finance the Phase 12 500,000 gallon water tower storage tank. Water system revenues serve as collateral for this loan. The loan carries an interest rate of 2.0% and matures on June 1, 2034. The final draw on this loan was deposited on October 23, 2014. The remaining debt service is as follows:

| Year | Interest Rates | Principal Amount | Interest Amount | Total Debt Service |
|-----------|----------------|---------------------|-------------------|---------------------|
| 2017 | 2.00% | \$ 77,624 | \$ 31,791 | \$ 109,415 |
| 2018 | 2.00% | 79,184 | 30,231 | 109,415 |
| 2019 | 2.00% | 80,776 | 28,639 | 109,415 |
| 2020 | 2.00% | 82,399 | 27,016 | 109,415 |
| 2021 | 2.00% | 84,055 | 25,360 | 109,415 |
| 2022-2026 | 2.00% | 446,308 | 100,764 | 547,072 |
| 2027-2031 | 2.00% | 493,002 | 54,071 | 547,073 |
| 2032-2034 | 2.00% | 265,519 | 8,018 | 273,537 |
| Totals | | <u>\$ 1,608,867</u> | <u>\$ 305,890</u> | <u>\$ 1,914,757</u> |

Kentucky Infrastructure Authority - Drinking Water State Revolving Loan Fund 2015

On September 10, 2015, the District executed a drawdown loan with the Kentucky Infrastructure Authority in order to finance its Phase 14 looped lines. Water system revenues serve as collateral for this loan. The loan carries an interest rate of 1.75% and matures on June 1, 2036. The final draw on this loan was deposited on August 25, 2016. The balance on this loan at December 31, 2016 was \$364,278.

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| BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015 |
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The remaining debt service is as follows:

| Year | Interest Rates | Principal Amount | Interest Amount | Total Debt Service |
|---------------|----------------|-------------------|------------------|--------------------|
| 2017 | 1.75% | \$ 15,358 | \$ 6,308 | \$ 21,666 |
| 2018 | 1.75% | 15,628 | 6,038 | 21,666 |
| 2019 | 1.75% | 15,902 | 5,764 | 21,666 |
| 2020 | 1.75% | 16,182 | 5,484 | 21,666 |
| 2021 | 1.75% | 16,466 | 5,200 | 21,666 |
| 2022-2026 | 1.75% | 86,776 | 21,552 | 108,328 |
| 2027-2031 | 1.75% | 94,674 | 13,654 | 108,328 |
| 2032-2036 | 1.75% | 103,292 | 5,035 | 108,327 |
| Totals | | \$ 364,278 | \$ 69,035 | \$ 433,313 |

NOTE 7 – CAPITAL LEASES

BB&T - 2013

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

| Year | Interest Rate | Principal Amount | Interest Amount | Total Lease Payment |
|---------------|---------------|-------------------|------------------|---------------------|
| 2017 | 2.80% | \$ 73,854 | \$ 14,628 | \$ 88,482 |
| 2018 | 2.80% | 75,979 | 12,503 | 88,482 |
| 2019 | 2.80% | 78,164 | 10,318 | 88,482 |
| 2020 | 2.80% | 80,387 | 8,095 | 88,482 |
| 2021 | 2.80% | 82,724 | 5,758 | 88,482 |
| 2022 -2023 | 2.80% | 157,803 | 4,412 | 162,215 |
| Totals | | \$ 548,911 | \$ 55,714 | \$ 604,625 |

Grant County Fiscal Court – 2010

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

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| BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015 |
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Future minimum lease payments are as follows:

| Year | Interest Rates | Principal Amount | Interest Amount | Total Lease Payment |
|--------|----------------|-------------------|------------------|---------------------|
| 2017 | 3.00-3.30% | \$ 95,000 | \$ 7,812 | \$ 102,812 |
| 2018 | 3.25-3.30% | 95,000 | 4,844 | 99,844 |
| 2019 | 3.30% | 100,000 | 1,650 | 101,650 |
| Totals | | <u>\$ 290,000</u> | <u>\$ 14,306</u> | <u>\$ 304,306</u> |

NOTE 8 – INDEBTEDNESS SUMMARY

The changes in long-term indebtedness for 2016 are as follows:

| Debt Instrument | Balance at December 31, 2015 | Additions | Retirements | Balance at December 31, 2016 |
|---|------------------------------|-------------------|---------------------|------------------------------|
| USDA revenue bonds of 1982 | \$ 44,000 | \$ - | \$ (5,000) | \$ 39,000 |
| KRW series 2001C bonds - Refinancing | 228,000 | - | (33,000) | 195,000 |
| KRW series 2004D bonds - Phase 7 | 29,000 | - | (7,000) | 22,000 |
| KRW series 2001G bonds - Dry Ridge | 115,000 | - | (40,000) | 75,000 |
| KRW series 2005B bonds - Phase 8 | 384,000 | - | (17,000) | 367,000 |
| KRW series 2005B bonds - Phase 10 | 217,000 | - | (10,000) | 207,000 |
| Note payable - KIA 2002 | 153,427 | - | (19,522) | 133,905 |
| Note payable - KIA 2003 | 604,591 | - | (63,446) | 541,145 |
| Construction loan - KIA | 1,760,255 | - | (94,487) | 1,665,768 |
| Construction loan -Phase 12 - KIA | 1,684,961 | - | (76,094) | 1,608,867 |
| Note payable - KIA 2015 | 133,295 | 230,983 | - | 364,278 |
| Capital lease - Grant County Fiscal Court | 425,000 | - | (135,000) | 290,000 |
| Capital lease - The Bank of Kentucky | 620,655 | - | (71,744) | 548,911 |
| Subtotal | <u>6,399,184</u> | <u>\$ 230,983</u> | <u>\$ (572,293)</u> | <u>6,057,874</u> |
| Less: current portion of long-term debt | <u>(580,419)</u> | | | <u>(557,813)</u> |
| Total Long-Term Indebtedness | <u>\$ 5,818,765</u> | | | <u>\$ 5,500,061</u> |

NOTE 9 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM

The District’s eligible employees are covered by the County Employees Retirement System.

General information about the County Employees Retirement System Non-Hazardous (“CERS”)

Plan description-Employees are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System 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/>.

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| BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015 |
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Benefits provided- CERS provides retirement and death and disability benefits to 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 Date | 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 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 of 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 contributions by the employee are based on the tier:

| | <u>Required Contribution</u> |
|--------|------------------------------|
| Tier 1 | 5% |
| Tier 2 | 5% + 1% for insurance |
| Tier 3 | 5% + 1% for insurance |

Contributions

The District contributed 17.06% (from January – June of 2016) of which 12.42% was for the pension fund and 4.64% was for the health insurance fund, and 18.68% (from July – December of 2016) of which 13.95% was for the pension fund and 4.73% was for the health insurance fund, of the non-hazardous duty employee's compensation during the fiscal year ended December 31, 2016. The District made all required contributions for the Plan pension obligation for the fiscal year ended December 31, 2016 in the amount of \$125,613, of which \$92,695 was for the pension fund and \$32,918 was for the health insurance fund.

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| BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015 |
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Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At December 31, 2016, the District reported a liability of \$1,434,946 its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the District's employer allocation proportion was 0.02914% of the total CERS non-hazardous duty. The District's proportion was an increase of .000530% from its proportion measured as of June 30, 2015. For the year ended December 31, 2016, the District recognized a pension expense of \$115,439.

At December 31, 2016, 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 | \$ 6,265 | \$ - |
| Net difference between projected and actual earnings on plan investments | 134,900 | - |
| Changes of assumptions | 76,016 | - |
| Changes in proportion and differences between District's contributions and proportionate share of contributions | 19,025 | - |
| District's contributions subsequent to the measurement date | <u>49,590</u> | <u>-</u> |
| Total | <u>\$ 285,796</u> | <u>\$ -</u> |

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, differences between projected and actual earnings on plan investments, changes of assumptions, 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 all of which are deferred over the weighted average years of working lifetime of all plan participants (active and inactive) which is determined to be 3.51 years. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5 year period.

Deferred Outflows and Inflows of Resources

In FY 2016, \$285,796 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 and differences between the District's contributions and proportionate share of contributions, and e) the District's contributions subsequent to the measurement date. In FY 2016, \$0 was recognized

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| BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015 |
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as a deferred inflow of resources resulting from changes in proportion share.

The District's contributions subsequent to the measurement date of \$49,590 will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. 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 June 30, | Net Deferral Amortization |
|--------------------------------|---------------------------------|
| 2017 | \$ 89,757 |
| 2018 | 61,493 |
| 2019 | 54,986 |
| 2020 | 29,970 |
| 2021 | - |
| | <u>\$ 236,206</u> |

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|-------------------------------|--|
| Valuation Date | June 30, 2016 |
| 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 | 3.25% |
| Salary Increase | 4.0%, average, including inflation |
| Investment Rate of Return | 7.5%, 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 (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 the margin will be reviewed 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

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| BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015 |
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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

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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 Hazardous & Non-Hazardous Target Allocation | Long Term Expected Nominal Return |
|---|---|---|
| Combined equity | 44% | 5.40% |
| Combined fixed income | 19% | 1.50% |
| Real return (diversified inflation strategies) | 10% | 3.50% |
| Real estate | 5% | 4.50% |
| Absolute return (diversified hedge funds) | 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 7.5%. 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 7.5%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

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| BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2016 and 2015 |
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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 7.5%, 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 (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

| | Discount Rate | District's Proportionate Share of Net Pension Liability |
|-----------------------|------------------|--|
| 1% decrease | 6.5% | \$ 3,067,696 |
| Current discount rate | 7.5% | 1,434,946 |
| 1% increase | 8.5% | 2,271,104 |

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.

NOTE 10 – 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 11 – RELATED PARTY TRANSACTIONS

The staff of the Bullock Pen Water District operates the Grant County Sewer District as well. The District receives a management fee from the Grant County Sewer District for these services. This fee was \$123,846 and \$124,771 in 2016 and 2015, respectively. The Chairman of the Board of Commissioners and two other commissioners of the District serve on the boards of both the Bullock Pen Water District and the Grant County Sewer District.

NOTE 12 – ECONOMIC DEPENDENCY/CREDIT RISK

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

BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 13 – CONCENTRATIONS

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

NOTE 14 – RESTITUTION RECEIVABLE

The District has a receivable balance due from Jonathan Thurman as restitution for past unpaid water charges. This restitution balance is unsecured and non-interest bearing, and is to be paid over multiple years. The entire account balance becomes immediately due and payable upon default of the monthly payment. The balance of this account was \$3,416 and \$4,616 at December 31, 2016 and December 31, 2015, respectively.

NOTE 15 – RESTATEMENT OF PRIOR YEAR STATEMENTS

The District has recorded an adjustment to the Beginning Net Position of (\$36,961) at December 31, 2015. This adjustment accounts for the estimated net pension liability at June 30, 2015, and is being recorded in accordance with Government Accounting Standards Board Statement No. 68.

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated events through May 16, 2017, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2016 through May 16, 2017 to disclose.

**BULLOCK PEN 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)**

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|--|--------------|--------------|------|------|------|------|------|------|------|------|
| Proportion of net pension liability | 0.02914% | 0.028610% | | | | | | | | |
| Proportionate share of the net pension liability (asset) | \$ 1,434,946 | \$ 1,230,260 | | | | | | | | |
| Covered employee payroll in year of measurement | 666,667 | 670,047 | | | | | | | | |
| Share of the net pension liability (asset) as a percentage of its covered employee payroll | 215.24% | 183.61% | | | | | | | | |
| Plan fiduciary net position as a percentage of total pension liability | 55.50% | 59.97% | | | | | | | | |

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

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|-----------|-----------|-----------|------|------|------|------|------|------|------|
| Contractually required contribution | \$ 82,800 | \$ 85,431 | \$ 89,218 | | | | | | | |
| Actual contribution | 82,800 | 85,431 | 89,218 | | | | | | | |
| Contribution deficiency (excess) | - | - | - | | | | | | | |
| Covered employee payroll | 666,667 | 670,047 | 649,330 | | | | | | | |
| Contributions as a percentage of covered employee payroll | 12.42% | 12.75% | 13.74% | | | | | | | |

**Notes to Required Supplementary Information
 for the Year Ended December 31, 2016**

The net pension liability as of December 31, 2016, is based on the June 30, 2016, 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 9 in the Notes to the Financial Statements.

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| BULLOCK PEN WATER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ended December 31, 2016 and 2015 |
|---|

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES | | |
| Salaries and wages - employees | \$ 749,546 | \$ 733,369 |
| Employee pension and benefits | 387,936 | 386,131 |
| Advertising | 99 | 546 |
| Bad debt expense | 30,095 | 26,344 |
| Chemicals | 73,469 | 93,488 |
| Commissioners' fees | 12,800 | 13,500 |
| Contractual services - accounting | 48,943 | 46,588 |
| Contractual services - engineering | 5,260 | 11,315 |
| Contractual services - legal | 11,935 | 12,125 |
| Contractual services - management | 2,492 | 2,432 |
| Contractual services - water test | 14,518 | 17,886 |
| Contractual services - other | 124,192 | 116,293 |
| Insurance - general liability | 22,691 | 21,166 |
| Insurance - other | 9,097 | 8,925 |
| Insurance - vehicle | 5,154 | 4,702 |
| Insurance - workers' compensation | 9,249 | 7,341 |
| Materials and supplies | 197,431 | 162,355 |
| Miscellaneous | 2,414 | 126 |
| Payroll taxes | 55,825 | 53,701 |
| Purchased power | 88,992 | 70,883 |
| Rental of property and equipment | 9,571 | 7,887 |
| Transportation | 29,556 | 26,632 |
| Utility regulatory assessment | 7,507 | 7,569 |
| TOTAL OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES | <u>\$ 1,898,772</u> | <u>\$ 1,831,304</u> |



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

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**To the Board of Commissioners
Bullock Pen Water District**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Bullock Pen Water District, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise Bullock Pen Water District's basic financial statements, and have issued our report thereon dated May 16, 2017.

Internal Control over Financial Reporting

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

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

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



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

Compliance and Other Matters

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

Purpose of this Report

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

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
May 16, 2017