

BULLOCK PEN WATER DISTRICT
FINANCIAL STATEMENTS

For the Years Ending December 31, 2017 and 2016

BULLOCK PEN WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2017 and 2016

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BULLOCK PEN WATER DISTRICT

BOARD OF COMMISSIONERS

December 31, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, 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 31 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 June 18, 2018, on our consideration of Bullock Pen Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bullock Pen Water District's internal control over financial reporting and compliance.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
June 18, 2018

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, 2017. 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 \$15,770,469 (net position). This was an increase of \$67,367 in comparison to the prior year's increase of \$254,357. During 2017 the District experienced increases in both operating and non-operating expenses primarily due to increases in salaries and employee benefits, the cost of purchased power and the net effect of the change in pension liability created when the District booked its proportionate share of the unfunded pension liability. Since these increases in expenses were not offset by increases in water sales, the District's increase in net position was significantly less than in 2016.
- At the end of the current year, unrestricted net position was \$1,849,218.

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 82. 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, 2017 and 2016.

Table 1
Net Position

	<u>2017</u>	<u>2016</u>
Current assets	\$ 3,004,153	\$ 2,986,520
Restricted assets	1,626,039	1,535,139
Noncurrent assets/capital assets	18,399,910	18,857,934
Deferred outflow of resources	<u>591,108</u>	<u>333,923</u>
Total assets and deferred outflow of resources	<u>23,621,210</u>	<u>23,713,516</u>
Current liabilities	361,185	310,000
Liabilities from restricted assets	776,382	765,407
Long - term liabilities	6,552,288	6,935,007
Deferred inflow of resources	<u>160,886</u>	<u>-</u>
Total liabilities and deferred inflow of resources	<u>7,850,741</u>	<u>8,010,414</u>
Net position:		
Net investment in capital assets	13,140,705	12,909,898
Restricted	780,546	759,286
Unrestricted	<u>1,849,218</u>	<u>2,033,918</u>
Total net position	<u>\$15,770,469</u>	<u>\$15,703,102</u>

The District's net position for 2017 increased .429% or \$67,367 as compared to a 1.65% or \$254,357 increase in the previous year. As discussed in the financial highlights section above, both operating and non-operating expenses increased without being offset by increases in metered water sales resulting in a much smaller increase in net position than in the previous year.

The largest portion of the District's net position (83.3%) 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 (4.9%) 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 \$24,186 or .581%. This small increase in operating revenues is primarily due to the fact that the summer of 2017 was wet and cool which hampered increased water sales.

Operating Expenses

The District's operating expenses increased \$167,483. Water costs accounted for \$51,794 of this increase due to rate increases from 3 of the 4 entities that supply water to the District that were not passed on to the customers until the billing for March of 2018. Operation and maintenance expenses

increased by \$114,595 primarily due to increases in employee wages, employee benefits, 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, \$209,812, 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, 2017 and June 30, 2016. This expense increased \$94,373 from the amount reported in 2016. 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 \$21,736. This was primarily due to an increase in tap on fees paid by new customers.

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

Table 2
Changes in Net Position

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Water sales	\$ 3,880,648	\$ 3,908,635
Forfeited discounts	95,652	94,558
Miscellaneous services revenues	82,933	34,711
Management fee	<u>126,703</u>	<u>123,846</u>
Total operating revenues	<u>4,185,936</u>	<u>4,161,750</u>
Operating expenses:		
Water purchased	1,329,960	1,278,166
Operations, maintenance, and administrative expenses	2,013,367	1,898,772
Depreciation & amortization	<u>600,583</u>	<u>599,489</u>
Total operating expenses	<u>3,943,910</u>	<u>3,776,427</u>
Net operating income	<u>242,026</u>	<u>385,323</u>
Non-operating income(expenses)		
Investment income	13,079	8,854
Gain/(loss) on sale of capital assets	1,674	(5,746)
Interest on long-term debt and customer deposits	(163,388)	(180,687)
Amortization of debt discount and expenses	(2,711)	(2,711)
Net effect on change of pension expense	<u>(209,812)</u>	<u>(115,439)</u>
Net non-operating expenses	<u>(361,158)</u>	<u>(295,729)</u>
(Loss) income before capital contributions	(119,132)	89,594
Capital contributions	<u>186,499</u>	<u>164,763</u>
Change in net position	67,367	254,357
Net position – January 1	<u>15,703,102</u>	<u>15,448,745</u>
Net position – December 31	<u>\$15,770,469</u>	<u>\$15,703,102</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2017, the District had \$18,398,894 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 \$456,824. This decrease is mainly due to the fact that depreciation expense of \$598,950 was more than the cost of new assets purchased during 2017.

Table 3 Summarizes the District's capital assets at the end of 2017 as compared to 2016.

Table 3
Capital Assets at Year End

	<u>2017</u>	<u>2016</u>
Land	\$ 200,283	\$ 200,283
Buildings and improvements	1,572,952	1,572,952
Construction in progress	39,942	56,622
Other plant & miscellaneous equipment	729,046	663,584
Transportation equipment	308,512	307,012
Transmission and distribution system	25,765,657	25,677,196
Furniture and fixtures	<u>65,503</u>	<u>65,503</u>
Subtotal	28,681,895	28,543,152
Accumulated depreciation	<u>(10,283,001)</u>	<u>(9,687,434)</u>
Total capital assets	<u>\$18,398,894</u>	<u>\$18,855,718</u>

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2017 compared to 2016.

Table 4
Outstanding Debt at Year End

	<u>2017</u>	<u>2016</u>
Bond Payable Obligations	\$ 792,000	\$ 905,000
Notes Payable	3,914,467	4,313,963
Capitalized Leases	<u>670,056</u>	<u>838,911</u>
Total	<u>\$ 5,376,523</u>	<u>\$ 6,057,874</u>

At year-end, the District had \$5,376,523 in outstanding long-term debt compared to \$6,057,874 last year. This is a decrease of \$681,351.

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.

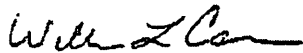
All of the required payments were made on the District's outstanding debt during 2017.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2018 projects a year very similar to 2017. Water revenues are expected to increase due to a purchased water rate adjustment which passes the increased water costs of 2017 on to the customer. On the other hand, operation expenses are expected to increase primarily due to increases in the cost of purchased water and employee benefits. The additional income from the pass through rate adjustment is expected to offset the increase in expenses so that the change in net position during 2018 is expected to be approximately the same as in 2017.

FINANCIAL CONTACT

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



William Catlett, General Manager
Bullock Pen Water District

BULLOCK PEN WATER DISTRICT STATEMENTS OF NET POSITION December 31, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 1,448,712	\$ 1,311,165
Certificates of deposit	809,356	802,069
Accounts receivable		
Customers, net of allowance	495,181	501,067
Other	67,481	145,037
Restitution receivable - Thurman	1,200	1,200
Inventories	154,186	164,868
Prepays	23,460	55,867
Accrued interest receivable	938	903
Unamortized expenses	3,639	4,344
Total current assets	3,004,153	2,986,520
Restricted assets		
Current reserve fund - USDA Rural Development	150,070	150,606
Debt payment account	422,503	385,273
Current construction fund	-	2,877
Accounts receivable - surcharges	12,643	13,094
FSA/HRA account	-	10,605
FSA account	4,949	-
Customer deposits	229,218	229,548
Maintenance and replacement reserve	806,656	743,136
Total restricted assets	1,626,039	1,535,139
Noncurrent assets		
Restitution receivable - Thurman	1,016	2,216
Total noncurrent assets	1,016	2,216
Capital assets		
Land, building, transmission system, equipment, and vehicles	28,641,953	28,486,530
Construction in progress	39,942	56,622
Total utility plant in service	28,681,895	28,543,152
Less: accumulated depreciation	(10,283,001)	(9,687,434)
Total capital assets, net of depreciation	18,398,894	18,855,718
Total assets	23,030,102	23,379,593
Deferred outflow of resources		
Unamortized debt discounts	7,340	9,346
Unamortized tap-in expense	37,149	38,781
Deferred outflows related to pensions	546,619	285,796
Total deferred outflow of resources	591,108	333,923
Total assets and deferred outflow of resources	23,621,210	23,713,516

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

(Continued on Page 10)

BULLOCK PEN WATER DISTRICT STATEMENTS OF NET POSITION (Continued from Page 9) December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Liabilities		
Current liabilities		
Accounts payable	171,668	153,579
Accrued and withheld liabilities	<u>189,517</u>	<u>156,421</u>
Total current liabilities	<u>361,185</u>	<u>310,000</u>
Current liabilities payable from restricted assets		
Revenue bonds - current portion	120,000	113,000
Notes payable - current portion	277,951	275,959
Lease obligations - current portion	170,979	168,854
Customer deposits	181,432	177,471
Accrued interest payable	<u>26,020</u>	<u>30,123</u>
Total current liabilities payable from restricted assets	<u>776,382</u>	<u>765,407</u>
Long-term obligations		
Bonds	672,000	792,000
Notes payable	3,636,516	4,038,004
Capital lease obligations	499,077	670,057
Net unfunded pension liability	<u>1,744,695</u>	<u>1,434,946</u>
Total long-term obligations	<u>6,552,288</u>	<u>6,935,007</u>
Total liabilities	7,689,855	8,010,414
Deferred inflow of resources		
Deferred inflow related to pensions	<u>160,886</u>	<u>-</u>
Total liabilities and deferred inflow of resources	<u>7,850,741</u>	<u>8,010,414</u>
Net position		
Net investment in capital assets	13,140,705	12,909,898
Restricted	780,546	759,286
Unrestricted	<u>1,849,218</u>	<u>2,033,918</u>
Total net position	<u>\$ 15,770,469</u>	<u>\$ 15,703,102</u>

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

BULLOCK PEN WATER DISTRICT STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Years Ending December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues		
Water revenue	\$ 4,059,233	\$ 4,037,904
Management fees	<u>126,703</u>	<u>123,846</u>
Total operating revenues	<u>4,185,936</u>	<u>4,161,750</u>
Operating expenses		
Water purchased	1,329,960	1,278,166
Operations, maintenance, and administrative expenses	2,013,367	1,898,772
Depreciation and amortization	<u>600,583</u>	<u>599,489</u>
Total operating expenses	<u>3,943,910</u>	<u>3,776,427</u>
Operating income	<u>242,026</u>	<u>385,323</u>
Non-operating income (expense)		
Investment income	13,079	8,854
Gain (loss) on sale of capital assets	1,674	(5,746)
Net effect on change of pension expense	(209,812)	(115,439)
Interest on long-term obligations	(163,388)	(180,687)
Amortization of bond discounts	<u>(2,711)</u>	<u>(2,711)</u>
Net non-operating expenses	<u>(361,158)</u>	<u>(295,729)</u>
Net (loss) income	(119,132)	89,594
Capital contributions	<u>186,499</u>	<u>164,763</u>
Change in net position	67,367	254,357
Net position, January 1	<u>15,703,102</u>	<u>15,448,745</u>
Net position, December 31	<u><u>\$ 15,770,469</u></u>	<u><u>\$ 15,703,102</u></u>

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

BULLOCK PEN WATER DISTRICT STATEMENTS OF CASH FLOWS For the Years Ending December 31, 2017 and 2016
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	2017	2016
Cash flows from operating activities		
Received from customers	\$ 4,270,578	\$ 4,038,278
Paid to suppliers for goods and services	(2,029,945)	(2,017,761)
Paid to or on behalf of employees for services	(1,219,108)	(1,133,290)
Net change in cash for operating activities	<u>1,021,525</u>	<u>887,227</u>
Cash flows from investing activities		
Acquisition and construction of capital assets	(142,126)	(274,837)
Interest on investments	13,044	7,951
Proceeds from disposal of capital assets	1,674	-
Net change in cash for investing activities	<u>(127,408)</u>	<u>(266,886)</u>
Cash flows from capital and related financing activities		
Contributed capital received	186,499	164,763
Increase in customer deposits	3,961	8,778
Interest paid on long term debt	(167,491)	(184,799)
Loan proceeds	-	230,983
Principal paid on long term debt	(681,352)	(572,293)
Increase in restricted assets	(90,900)	(41,692)
Net change in cash for capital and related financing activities	<u>(749,283)</u>	<u>(394,260)</u>
Change in cash and cash equivalents	144,834	226,081
Cash and cash equivalents-beginning of year	<u>2,113,234</u>	<u>1,887,153</u>
Cash and cash equivalents-end of year	<u>\$ 2,258,068</u>	<u>\$ 2,113,234</u>
Recnciliation of operating income to net cash provided by (used for) operating activities		
Operating income	\$ 242,026	\$ 385,323
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	600,583	599,489
Change in operating assets and liabilities		
Decrease (increase) in receivables	84,642	(123,472)
Decrease in inventories	10,682	9,148
Decrease (increase) in prepaid assets	32,407	(12,911)
Increase in accounts payable	18,089	12,658
Increase in other accrued liabilities	33,096	16,992
Net cash provided by operating activities	<u>\$ 1,021,525</u>	<u>\$ 887,227</u>
Supplemental information		
Interest paid	\$ 167,491	\$ 184,799
Non-cash contribution to fixed assets	\$ -	\$ -

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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016
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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.

BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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 \$39,942 and \$56,622 at December 31, 2017 and 2016, 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 2017 and 2016 these contributions consisted of the following:

Source	2017	2016
Tap in fees and construction costs paid by new customers	\$ 82,600	\$ 65,159
Surcharges - Phases 5, 6, 7, 8, and 10	103,899	99,604
Total income received in aid of construction	186,499	164,763
Waterlines and related infrastructure received without cost	-	-
Total capital contributions	<u>\$ 186,499</u>	<u>\$ 164,763</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.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016
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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 \$1,448,712 and \$1,311,165 at December 31, 2017 and 2016, respectively. The balances for "Certificates of Deposit" were \$809,356 and \$802,069 at December 31, 2017 and 2016, respectively. The balances for "Restricted Assets," net of accounts receivable - surcharges were \$1,613,396 and \$1,522,045 at December 31, 2017 and 2016, 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, 2017, 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, 2017. 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, 2017	Category 1	Category 2	Category 3	Fair Value/ Carrying Cost	Cost
Operation and maintenance	\$ 2,263,017	\$ -	\$ -	\$ 2,263,017	\$ 2,263,017
Customer deposits	229,218	-	-	229,218	229,218
Debt payment accounts	266,628	-	155,875	422,503	422,503
Current and replacement reserve	956,726	-	-	956,726	956,726
Construction funds	-	-	-	-	-
Total	<u>\$ 3,715,589</u>	<u>\$ -</u>	<u>\$ 155,875</u>	<u>\$ 3,871,464</u>	<u>\$ 3,871,464</u>

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.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016
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The following amounts are included in restricted net position at December 31, 2017 and 2016:

	2017	2016
Current reserve fund - USRDA	\$ 143,400	\$ 143,400
Debt payment account	177,312	166,722
Accounts receivable - surcharge	94	-
Accrued interest payable	(15,008)	(17,120)
Portion of bonds payable	(120,000)	(113,000)
Maintenance and replacement	594,748	579,284
Total Restricted Net Position	<u>\$ 780,546</u>	<u>\$ 759,286</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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016
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The capital asset balances at December 31, 2017 and 2016 are as follows:

Asset Type	Balance at December 31, 2016	Additions	Retirements	Balance at December 31, 2017
Land	\$ 200,283	\$ -	\$ -	\$ 200,283
Buildings and improvements	1,572,952	-	-	1,572,952
Construction in progress	56,622	10,656	(27,336)	39,942
Distribution reservoirs and standpipes	3,926,053	-	-	3,926,053
Furniture and fixtures	65,503	-	-	65,503
Hydrants	1,295,225	-	-	1,295,225
Meter system and installation	4,178,052	63,392	-	4,241,444
Other plant and misc. equipment	453,836	3,786	(3,383)	454,239
Pumping equipment	36,406	-	-	36,406
Tools and lab equipment	75,458	50,840	-	126,298
Transmission mains	16,277,866	25,069	-	16,302,935
Transportation equipment	307,012	1,500	-	308,512
Water treatment equipment	97,884	14,219	-	112,103
Subtotal	28,543,152	169,462	(30,719)	28,681,895
Accumulated depreciation	(9,687,434)	(598,950)	3,383	(10,283,001)
Capital assets, net	\$ 18,855,718	\$ (429,488)	\$ (27,336)	\$ 18,398,894

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
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		\$ 33,000	\$ 4,275	\$ 37,275

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016
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Kentucky Rural Water Finance Corporation Revenue Bonds, Series 2001C - Refinancing

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2018	4.60-5.00%	\$ 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		\$ 160,000	\$ 16,225	\$ 176,225

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2018	4.52%	\$ 40,000	\$ 904	\$ 40,904
Totals		\$ 40,000	\$ 904	\$ 40,904

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2018	4.12%	\$ 7,000	\$ 474	\$ 7,474
2019	4.12%	8,000	165	8,165
Totals		\$ 15,000	\$ 639	\$ 15,639

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:

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016
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Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2018	4.090-4.590%	\$ 19,000	\$ 15,643	\$ 34,643
2019	4.090-4.590%	20,000	14,865	34,865
2020	4.090-4.590%	20,000	14,068	34,068
2021	4.190-4.590%	21,000	13,240	34,240
2022	4.215-4.590%	21,000	11,485	32,485
2023-2027	4.290-4.590%	124,000	42,283	166,283
2028-2031	4.465-4.590%	123,000	11,572	134,572
Totals		<u>\$ 348,000</u>	<u>\$ 123,156</u>	<u>\$ 471,156</u>

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
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	4.290-4.590%	12,000	6,466	18,466
2023-2027	4.340-4.590%	70,000	23,704	93,704
2028-2031	4.465-4.590%	69,000	6,459	75,459
Totals		<u>\$ 196,000</u>	<u>\$ 67,346</u>	<u>\$ 263,346</u>

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. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
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>\$ 113,634</u>	<u>\$ 12,211</u>	<u>\$ 125,845</u>

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016
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Kentucky Infrastructure Authority - Drinking Water Supply Project 2003

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2018	3.00%	\$ 67,339	\$ 13,773	\$ 81,112
2019	3.00%	69,375	11,736	81,111
2020	3.00%	71,471	9,641	81,112
2021	3.00%	73,632	7,480	81,112
2022	3.00%	75,857	5,255	81,112
2023-2024	3.00%	118,107	3,560	121,667
Totals		<u>\$ 475,781</u>	<u>\$ 51,445</u>	<u>\$ 527,226</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, 2017 was \$1,568,426. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
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	36,935	146,591
2022	3.00%	112,970	33,622	146,592
2023-2027	3.00%	618,182	114,773	732,955
2028-2030	3.00%	417,578	22,197	439,775
Totals		<u>\$ 1,568,426</u>	<u>\$ 337,260</u>	<u>\$ 1,905,686</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:

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016
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Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
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	2.00%	85,745	23,670	109,415
2023-2027	2.00%	455,279	91,793	547,072
2028-2032	2.00%	502,911	44,162	547,073
2033-2034	2.00%	160,894	3,228	164,122
Totals		<u>\$ 1,531,243</u>	<u>\$ 274,099</u>	<u>\$ 1,805,342</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, 2017 was \$225,383. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2018	1.75%	\$ 10,095	\$ 3,900	\$ 13,995
2019	1.75%	10,272	3,723	13,995
2020	1.75%	10,453	3,542	13,995
2021	1.75%	10,636	3,359	13,995
2022	1.75%	10,823	3,172	13,995
2023-2027	1.75%	57,037	12,937	69,974
2028-2032	1.75%	62,229	7,745	69,974
2033-2036	1.75%	53,838	2,140	55,978
Totals		<u>\$ 225,383</u>	<u>\$ 40,518</u>	<u>\$ 265,901</u>

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:

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016
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Year	Interest Rate	Principal Amount	Interest Amount	Total Lease Payment
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	2.80%	85,103	3,379	88,482
2023	2.80%	72,699	1,035	73,734
Totals		<u>\$ 475,056</u>	<u>\$ 41,088</u>	<u>\$ 516,144</u>

Grant County Fiscal Court – 2010

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Lease Payment
2018	3.25-3.30%	\$ 95,000	\$ 4,844	\$ 99,844
2019	3.30%	100,000	1,650	101,650
Totals		<u>\$ 195,000</u>	<u>\$ 6,494</u>	<u>\$ 201,494</u>

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016
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NOTE 8 – INDEBTEDNESS SUMMARY

The changes in long-term indebtedness for 2017 are as follows:

Debt Instrument	Balance at December 31, 2016	Additions	Retirements	Balance at December 31, 2017
USDA revenue bonds of 1982	\$ 39,000	\$ -	\$ (6,000)	\$ 33,000
KRW series 2001C bonds - Refinancing	195,000	-	(35,000)	160,000
KRW series 2004D bonds - Phase 7	22,000	-	(7,000)	15,000
KRW series 2001G bonds - Dry Ridge	75,000	-	(35,000)	40,000
KRW series 2005B bonds - Phase 8	367,000	-	(19,000)	348,000
KRW series 2005B bonds - Phase 10	207,000	-	(11,000)	196,000
Note payable - KIA 2002	133,905	-	(20,271)	113,634
Note payable - KIA 2003	541,145	-	(65,364)	475,781
Construction loan - KIA	1,665,768	-	(97,342)	1,568,426
Construction loan -Phase 12 - KIA	1,608,867	-	(77,624)	1,531,243
Note payable - KIA 2015	364,278	-	(138,895)	225,383
Capital lease - Grant County Fiscal Court	290,000	-	(95,000)	195,000
Capital lease - The Bank of Kentucky	548,911	-	(73,855)	475,056
Subtotal	6,057,874	\$ -	\$ (681,351)	5,376,523
Less: current portion of long-term debt	(557,813)			(568,930)
Total Long-Term Indebtedness	<u>\$ 5,500,061</u>			<u>\$ 4,807,593</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/>.

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.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016
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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 18.68% (from January – June of 2017) of which 13.95% was for the pension fund and 4.73% was for the health insurance fund, and 19.18% (from July – December of 2017) of which 14.48% was for the pension fund and 4.70% was for the health insurance fund, of the non-hazardous duty employee's compensation during the fiscal year ended December 31, 2017. The District made all required contributions for the Plan pension obligation for the fiscal year ended December 31, 2017 in the amount of \$139,774, of which \$104,958 was for the pension fund and \$34,816 was for the health insurance fund.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016
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Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the District reported a liability of \$1,744,695 its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the District's employer allocation proportion was 0.02981% of the total CERS non-hazardous duty. The District's proportion was an increase of .00067% from its proportion measured as of June 30, 2016. For the year ended December 31, 2017, the District recognized a pension expense of \$314,773.

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 2,164	\$ 44,288
Net difference between projected and actual earnings on plan investments	138,178	116,598
Changes of assumptions	321,944	-
Changes in proportion and differences between District's contributions and proportionate share of contributions	31,022	-
District's contributions subsequent to the measurement date	53,311	-
Total	<u>\$ 546,619</u>	<u>\$ 160,886</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 3.50 to 3.51 years for 2017 and 2016, respectively. 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 related to the District's contributions subsequent to the measurement date are not amortized.

Deferred Outflows and Inflows of Resources

In FY 2017, \$546,619 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 2017, \$160,886 was recognized as a deferred inflow of resources resulting from changes in proportion share.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016
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The District's contributions subsequent to the measurement date of \$53,311 will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. 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 Amortization
2018	\$ 149,310
2019	142,769
2020	62,744
2021	(22,401)
2022	-
	<u>\$ 332,422</u>

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was 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, 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	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 (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 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.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2017 and 2016
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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 7.5% 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 1.00% to 0.75%.
- 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 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 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.

BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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%, 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%) or 1-percentage-point higher (7.25%) than the current rate:

	Discount Rate	District's Proportionate Share of Net Pension Liability
1% decrease	5.25%	\$ 2,200,438
Current discount rate	6.25%	1,744,695
1% increase	7.25%	1,363,470

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 \$126,703 and \$123,846 in 2017 and 2016, respectively. The District has \$53,485 in accounts receivable from Grant County Sanitary Sewer District. This receivable represents additional labor, services, and expenses billed by the District to assist the Sewer District in its' recovery from a fire at the Sewer District's plant in July of 2017. 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, 2017 and 2016
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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 \$2,216 and \$3,416 at December 31, 2017 and December 31, 2016, respectively.

NOTE 15 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*

Statement No. 77 – *Tax Abatement Disclosures*

Statement No. 78 – *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*

Statement No. 79 – *Certain External Investment Pools and Pool Participants*

Statement No. 80 – *Blending Requirements for Certain Component Unites – an Amendment of GASB Statement No. 14*

Statement No. 82 – *Pension Issues – an Amendment of GASB Statements No. 67, 68, and 73*

NOTE 16 – FUTURE ACCOUNTING STANDARDS

Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – Implementation in FY 2018

Statement No. 81 – *Irrevocable Split-Interest Agreements* – Implementation in FY 2018

Statement No. 83 – *Certain Asset Retirement Obligations* – Implementation in FY 2019

Statement No. 84 – *Fiduciary Activities* – Implementation in FY 2020

Statement No. 85 – *Omnibus 2017* – Implementation in FY 2018

Statement No. 86 – *Certain Debt Extinguishment Issues* – Implementation in FY 2018

Statement No. 87 – *Leases* – Implementation in FY 2021

BULLOCK PEN WATER DISTRICT <i>NOTES TO THE FINANCIAL STATEMENTS</i> December 31, 2017 and 2016

NOTE 17 – SUBSEQUENT EVENTS

Management has considered subsequent events through June 18, 2018, which represents the date financial statements were available to be issued. The District did not have any events subsequent to December 31, 2017 through June 18, 2018 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)**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Proportion of net pension liability	0.02981%	0.02914%	0.028610%							
Proportionate share of the net pension liability (asset)	\$ 1,744,695	\$ 1,434,946	\$ 1,230,260							
Covered employee payroll in year of measurement	666,667	670,047	649,330							
Share of the net pension liability (asset) as a percentage of its covered employee payroll	261.70%	214.16%	189.47%							
Plan fiduciary net position as a percentage of total pension liability	55.50%	59.97%	66.80%							

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 101,240	\$ 82,800	\$ 85,431	\$ 89,218						
Actual contribution	101,240	82,800	85,431	89,218						
Contribution deficiency (excess)	-	-	-	-						
Covered employee payroll	725,718	666,667	670,047	649,330						
Contributions as a percentage of covered employee payroll	13.95%	12.42%	12.75%	13.74%						

**Notes to Required Supplementary Information
for the Year Ended December 31, 2017**

The net pension liability as of December 31, 2017, is based on the June 30, 2017, 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.

BULLOCK PEN WATER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ended December 31, 2017 and 2016

	2017	2016
Operations, maintenance and administrative expenses		
Salaries and wages - employees	\$ 787,367	\$ 749,546
Employee pension and benefits	452,237	387,936
Advertising	465	99
Bad debt expense	28,164	30,095
Chemicals	75,851	73,469
Commissioners' fees	12,600	12,800
Contractual services - accounting	56,684	48,943
Contractual services - engineering	6,785	5,260
Contractual services - legal	8,703	11,935
Contractual services - management	2,144	2,492
Contractual services - water test	18,849	14,518
Contractual services - other	123,662	124,192
Insurance - general liability	24,792	22,691
Insurance - other	9,035	9,097
Insurance - vehicle	6,019	5,154
Insurance - workers' compensation	12,011	9,249
Materials and supplies	190,225	197,431
Miscellaneous	(709)	2,414
Payroll taxes	58,770	55,825
Purchased power	105,698	88,992
Rental of property and equipment	3,581	9,571
Transportation	22,374	29,556
Utility regulatory assessment	8,060	7,507
Total operations, maintenance and administrative expenses	\$ 2,013,367	\$ 1,898,772



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, 2017 and 2016, 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 June 18, 2018.

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
June 18, 2018