

BULLOCK PEN WATER DISTRICT
FINANCIAL STATEMENTS

For the Years Ending December 31, 2019 and 2018

BULLOCK PEN WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2019 and 2018

Table of Contents

	<u>Pages</u>
Board of Commissioners	1
Independent Auditor's Report	2-4
Management's Discussion and Analysis	5-9
Statements of Net Position	10-11
Statements of Revenues, Expenses, and Changes in Net Position	12
Statements of Cash Flows	13
Notes to the Financial Statements	14-34
Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure - Non-Hazardous Plan	35
Multiple Employer, Cost Sharing, Defined Benefit OPEB Plan Disclosure - Non-Hazardous Plan	36
Schedules of Operations, Maintenance and Administrative Expenses	37
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 <i>Government Auditing Standards</i>	38-39

BULLOCK PEN WATER DISTRICT

BOARD OF COMMISSIONERS

December 31, 2019 and 2018

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

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, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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, 2019 and 2018, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-9 and the pension and OPEB disclosure information on pages 35 and 36 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 on page 37 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.



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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2020, 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 28, 2020

BULLOCK PEN WATER DISTRICT

**1 Farrell Drive
Crittenden, Kentucky 41030**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2019. The information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent year by \$15,187,559 (net position). This was a decrease of \$91,378 in comparison to the prior year's increase of \$12,239. During 2019, the District's operating revenues increased 0.17% or \$7,263 while operating expenses increased 2.46% or \$105,345.
- At the end of the current year, unrestricted net position was \$956,998.

USING THIS ANNUAL REPORT

The financial statements presented herein include all the activities of the District accounted for within a single proprietary (enterprise) reporting entity. The financial statements include a statement of net position, statement of revenues, expenses and changes in net position, 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, 2019 and 2018.

**Table 1
Net Position**

	<u>2019</u>	<u>2018</u>
Current assets	\$ 3,088,630	\$ 3,018,037
Restricted assets	1,823,335	1,604,702
Capital assets, net of depreciation	17,383,154	17,908,164
Deferred outflow of resources	<u>597,954</u>	<u>578,477</u>
Total assets and deferred outflow of resources	<u>22,893,073</u>	<u>23,109,380</u>
Current liabilities	378,028	325,053
Liabilities payable from restricted assets	657,137	645,441
Long - term liabilities	6,388,147	6,624,713
Deferred inflow of resources	<u>282,202</u>	<u>235,236</u>
Total liabilities and deferred inflow of resources	<u>7,705,514</u>	<u>7,830,443</u>
Net position:		
Net investment in capital assets	13,201,686	13,275,419
Restricted	1,028,875	788,306
Unrestricted	<u>956,998</u>	<u>1,215,212</u>
Total net position	<u>\$15,187,559</u>	<u>\$15,278,937</u>

The District's net position for 2019 decreased .60% or \$91,378 as compared to a .08% or \$12,239 increase in the previous year.

The largest portion of the District's net position 86.9% reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt.

An additional portion of the District's net position (6.8%) 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 \$7,263 or .17%. Water sales decreased due to weather conditions while the management fee charged to the sewer district increased as a result of renegotiating the contract with the sewer district during 2018.

Operating Expenses

The District's operating expenses increased \$105,345. Water costs accounted for \$56,914 of this increase due to rate increases from 3 of the 4 entities that supply water to the District. Operation and maintenance expenses increased by \$45,355 primarily due to increases in employee salaries and benefits.

Net Effect On Change Of Pension and OPEB Expense

The District is required to report its proportionate share of the estimated unfunded pension and OPEB liability associated with its participation in the County Employee Retirement System in its financial statements. The amount that appears as a non-operating expense, \$241,275, 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, 2018 and June 30, 2019. This expense increased \$40,474 from the amount reported in 2018. 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 \$9,693. During 2018, the District refunded excess surcharge funds collected from Phase 7 customers in the amount of \$16,763. This off-set the surcharge income received from other surcharge customers and reduced the capital contributions reported in 2018. Surcharge collections actually declined \$7,070 during 2019, due to reductions in the monthly surcharge amounts charged to customers as required in the Public Service Commission order approving the surcharge.

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

Table 2
Changes in Net Position

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Water sales	\$ 4,052,110	\$ 4,071,280
Forfeited discounts	96,843	100,057
Miscellaneous services revenues	54,783	52,276
Management fee	<u>160,052</u>	<u>132,912</u>
Total operating revenues	<u>4,363,788</u>	<u>4,356,525</u>
Operating expenses:		
Water purchased	1,516,464	1,459,550
Operations, maintenance, and administrative expenses	2,150,202	2,104,847
Depreciation and amortization	<u>608,977</u>	<u>605,901</u>
Total operating expenses	<u>4,275,643</u>	<u>4,170,298</u>
Operating income	<u>88,145</u>	<u>186,227</u>
Non-operating income (expense)		
Investment income	19,712	15,563
Loss on sale of capital assets	(25)	(3,195)
Interest on long-term obligations	(127,750)	(144,581)
Amortization of bond discounts	(911)	(2,007)
Net effect on change of pension and OPEB expense	<u>(241,275)</u>	<u>(200,801)</u>
Net non-operating expenses	<u>(350,249)</u>	<u>(335,021)</u>
Net loss	(262,104)	(148,794)
Capital contributions	<u>170,726</u>	<u>161,033</u>
Change in net position	(91,378)	12,239
Net position – January 1	<u>15,278,937</u>	<u>15,266,698</u>
Net position – December 31	<u>\$15,187,559</u>	<u>\$15,278,937</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2019, the District had \$17,383,154 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 \$525,010. This decrease is mainly due to the fact that depreciation expense of \$607,344 was more than the cost of new assets purchased during 2019.

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

Table 3
Capital Assets at Year End

	<u>2019</u>	<u>2018</u>
Land	\$ 200,283	\$ 200,283
Buildings and improvements	1,572,952	1,572,952
Construction in progress	39,942	39,942
Other plant & miscellaneous equipment	745,907	739,945
Transportation equipment	315,340	312,145
Transmission and distribution system	25,901,285	25,832,217
Furniture and fixtures	<u>67,656</u>	<u>65,822</u>
Subtotal	28,843,365	28,763,306
Accumulated depreciation	<u>(11,460,211)</u>	<u>(10,855,142)</u>
Total capital assets	<u>\$17,383,154</u>	<u>\$17,908,164</u>

Debt Outstanding

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

Table 4
Outstanding Debt at Year End

	<u>2019</u>	<u>2018</u>
Bond Payable Obligations	\$ 588,000	\$ 664,000
Notes Payable	3,350,921	3,636,515
Capitalized Leases	<u>320,908</u>	<u>399,126</u>
Total	<u>\$ 4,259,829</u>	<u>\$ 4,699,641</u>

At year-end, the District had \$4,259,829 in outstanding long-term debt compared to \$4,699,641 last year. This is a decrease of \$439,812 which is the amount of principal paid on the District's debt during 2019.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2020 projects a year very similar to 2019. Water revenues are expected to increase due to a water purchase rate adjustment in early 2020 that passed rate increases from our water suppliers on to our customers. Operation expenses are expected to increase primarily due to increases in employee wages and benefits. The increase in operating income is expected to be offset by the increase in operating expenses so that the decrease in net position during 2020 is expected to be about \$5,000 less than it was in 2019.

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 1 Farrell Drive, Crittenden, Kentucky 41030.

A handwritten signature in black ink, appearing to read "William Catlett".

William Catlett, General Manager
Bullock Pen Water District

BULLOCK PEN WATER DISTRICT STATEMENTS OF NET POSITION December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,465,986	\$ 1,375,167
Certificates of deposit	824,633	811,349
Accounts receivable		
Customers, net of allowance	578,602	589,946
Other	23,548	21,237
Inventories	155,428	159,721
Prepays	35,261	54,692
Accrued interest receivable	2,628	3,381
Unamortized expenses	2,544	2,544
Total current assets	<u>3,088,630</u>	<u>3,018,037</u>
Restricted assets		
Current reserve fund - USDA Rural Development	151,778	151,512
Debt payment account	395,196	287,283
Accounts receivable - surcharges	9,920	12,182
FSA account	3,922	4,081
Customer deposits	327,397	279,261
Maintenance and replacement reserve	935,122	870,383
Total restricted assets	<u>1,823,335</u>	<u>1,604,702</u>
Capital assets		
Land, building, transmission system, equipment, and vehicles	28,803,423	28,723,364
Construction in progress	39,942	39,942
Total utility plant in service	28,843,365	28,763,306
Less: accumulated depreciation	(11,460,211)	(10,855,142)
Total capital assets, net of depreciation	<u>17,383,154</u>	<u>17,908,164</u>
Total assets	<u>22,295,119</u>	<u>22,530,903</u>
Deferred outflow of resources		
Unamortized debt discounts	5,518	6,429
Unamortized tap-in expense	33,883	35,516
Deferred outflows related to pensions and OPEB	558,553	536,532
Total deferred outflow of resources	<u>597,954</u>	<u>578,477</u>
Total assets and deferred outflow of resources	<u>22,893,073</u>	<u>23,109,380</u>

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

(Continued on Page 11)

BULLOCK PEN WATER DISTRICT STATEMENTS OF NET POSITION (Continued from Page 10) December 31, 2019 and 2018
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	2019	2018
Liabilities		
Current liabilities		
Accounts payable	169,297	151,546
Accrued and withheld liabilities	208,731	173,507
Total current liabilities	378,028	325,053
Current liabilities payable from restricted assets		
Revenue bonds - current portion	79,000	76,000
Notes payable - current portion	293,456	285,594
Lease obligations - current portion	80,387	78,164
Customer deposits	186,073	185,627
Accrued interest payable	18,221	20,056
Total current liabilities payable from restricted assets	657,137	645,441
Long-term obligations		
Bonds	509,000	588,000
Notes payable	3,057,465	3,350,921
Capital lease obligations	240,521	320,962
Net unfunded pension and OPEB liability	2,581,161	2,364,830
Total long-term obligations	6,388,147	6,624,713
Total liabilities	7,423,312	7,595,207
Deferred inflow of resources		
Deferred inflows related to pensions and OPEB	282,202	235,236
Total liabilities and deferred inflow of resources	7,705,514	7,830,443
Net position		
Net investment in capital assets	13,201,686	13,275,419
Restricted	1,028,875	788,306
Unrestricted	956,998	1,215,212
Total net position	\$ 15,187,559	\$ 15,278,937

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues		
Water revenue	\$ 4,203,736	\$ 4,223,613
Management fees	<u>160,052</u>	<u>132,912</u>
Total operating revenues	<u>4,363,788</u>	<u>4,356,525</u>
Operating expenses		
Water purchased	1,516,464	1,459,550
Operations, maintenance, and administrative expenses	2,150,202	2,104,847
Depreciation and amortization	<u>608,977</u>	<u>605,901</u>
Total operating expenses	<u>4,275,643</u>	<u>4,170,298</u>
Operating income	<u>88,145</u>	<u>186,227</u>
Non-operating income (expense)		
Investment income	19,712	15,563
Loss on sale of capital assets	(25)	(3,195)
Net effect on change of pension and OPEB expense	(241,275)	(200,801)
Interest on long-term obligations	(127,750)	(144,581)
Amortization of bond discounts	<u>(911)</u>	<u>(2,007)</u>
Net non-operating expenses	<u>(350,249)</u>	<u>(335,021)</u>
Net loss	(262,104)	(148,794)
Capital contributions	<u>170,726</u>	<u>161,033</u>
Change in net position	(91,378)	12,239
Net position, January 1	<u>15,278,937</u>	<u>15,266,698</u>
Net position, December 31	<u><u>\$ 15,187,559</u></u>	<u><u>\$ 15,278,937</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, 2019 and 2018
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	2019	2018
Cash flows from operating activities		
Received from customers	\$ 4,372,821	\$ 4,310,220
Paid to suppliers for goods and services	(2,336,953)	(2,392,355)
Paid to or on behalf of employees for services	(1,253,014)	(1,244,941)
Net change in cash for operating activities	782,854	672,924
Cash flows from investing activities		
Acquisition and construction of capital assets	(83,559)	(117,370)
Interest on investments	20,465	13,120
Proceeds from sale of capital assets	1,200	637
Net change in cash for investing activities	(61,894)	(103,613)
Cash flows from capital and related financing activities		
Contributed capital received	170,726	161,033
Increase in customer deposits	446	4,195
Interest paid on long term debt	(129,583)	(150,547)
Principal paid on long term debt	(439,812)	(676,882)
(Increase) decrease in restricted assets	(218,633)	21,337
Net change in cash for capital and related financing activities	(616,856)	(640,864)
Change in cash and cash equivalents	104,104	(71,553)
Cash and cash equivalents-beginning of year	2,186,516	2,258,068
Cash and cash equivalents-end of year	\$ 2,290,620	\$ 2,186,516
Reconciliation of operating income to net cash provided by (used for) operating activities		
Operating income	\$ 88,145	\$ 186,227
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	608,977	605,901
Change in operating assets and liabilities		
Decrease (increase) in receivables	9,033	(46,305)
Decrease (increase) in inventories	4,293	(5,535)
Decrease (increase) in prepaid assets	19,431	(31,232)
Increase (decrease) in accounts payable	17,751	(20,122)
Increase (decrease) in other accrued liabilities	35,224	(16,010)
Net cash provided by operating activities	\$ 782,854	\$ 672,924
Supplemental information		
Interest paid	\$ 129,583	\$ 150,547
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, 2019 and 2018
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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. Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles for state and local governments in the United States of America.

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, 2019 and 2018
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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 \$39,942 at both December 31, 2019 and 2018.

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 2019 and 2018 these contributions consisted of the following:

Source	2019	2018
Tap in fees and construction costs paid by new customers	\$ 83,000	\$ 81,800
Surcharges - Phases 5, 6, 8, and 10	87,726	79,233
Total income received in aid of construction	170,726	161,033
Waterlines and related infrastructure received without cost	-	-
Total capital contributions	<u>\$ 170,726</u>	<u>\$ 161,033</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, 2019 and 2018
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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 \$1,465,986 and \$1,375,167 at December 31, 2019 and 2018, respectively. The balances for “Certificates of Deposit” were \$824,633 and \$811,349 at December 31, 2019 and 2018, respectively. The balances for “Restricted Assets,” net of accounts receivable - surcharges were \$1,813,415 and \$1,592,520 at December 31, 2019 and 2018, 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, 2019, 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, 2019. 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, 2019	Category 1	Category 2	Category 3	Fair Value/ Carrying Cost	Cost
Operation and maintenance	\$ 2,294,541	\$ -	\$ -	\$ 2,294,541	\$ 2,294,541
Customer deposits	327,397	-	-	327,397	327,397
Debt payment accounts	295,994	-	99,202	395,196	395,196
Current and replacement reserve	1,086,900	-	-	1,086,900	1,086,900
Total	<u>\$ 4,004,832</u>	<u>\$ -</u>	<u>\$ 99,202</u>	<u>\$ 4,104,034</u>	<u>\$ 4,104,034</u>

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2019 and 2018
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NOTE 3 – RESTRICTED NET POSITION

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

The following amounts are included in restricted net position at December 31, 2019 and 2018:

	2019	2018
Current reserve fund - USRDA	\$ 143,400	\$ 143,400
Debt payment account	157,261	112,484
Customer deposits - current	186,073	-
Account receivable - surcharge	3,918	22
Accrued interest payable	(11,153)	(12,612)
Portion of bonds payable	(79,000)	(67,000)
Maintenance and replacement	628,376	612,012
Total restricted net position	<u>\$ 1,028,875</u>	<u>\$ 788,306</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, 2019 and 2018

The capital asset balances at December 31, 2019 and 2018 are as follows:

Asset Type	Balance at December 31, 2018	Additions	Retirements	Balance at December 31, 2019
Land	\$ 200,283	\$ -	\$ -	\$ 200,283
Buildings and improvements	1,572,952	-	-	1,572,952
Construction in progress	39,942	-	-	39,942
Distribution reservoirs and standpipes	3,926,053	-	-	3,926,053
Furniture and fixtures	65,822	1,834	-	67,656
Hydrants	1,295,225	-	-	1,295,225
Meter system and installation	4,308,004	69,068	-	4,377,072
Other plant and misc. equipment	454,239	-	-	454,239
Pumping equipment	42,854	5,962	-	48,816
Tools and lab equipment	127,249	-	-	127,249
Transmission mains	16,302,935	-	-	16,302,935
Transportation equipment	312,145	6,695	(3,500)	315,340
Water treatment equipment	115,603	-	-	115,603
Subtotal	28,763,306	83,559	(3,500)	28,843,365
Accumulated depreciation	(10,855,142)	(607,344)	2,275	(11,460,211)
Capital Assets, net	<u>\$ 17,908,164</u>	<u>\$ (523,785)</u>	<u>\$ (1,225)</u>	<u>\$ 17,383,154</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
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>\$ 21,000</u>	<u>\$ 1,575</u>	<u>\$ 22,575</u>

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
2020	5.00%	\$ 41,000	\$ 3,155	\$ 44,155
2021	5.00%	43,000	1,075	44,075
Totals		<u>\$ 84,000</u>	<u>\$ 4,230</u>	<u>\$ 88,230</u>

Kentucky
Rural

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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2019 and 2018
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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. This bond was paid in full in February 2018.

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. This bond was paid in full during fiscal year 2018.

Kentucky Rural Water Finance Corporation Revenue Bonds, Series 2005B - Phase 8

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2020	4.190-4.590%	\$ 20,000	\$ 13,240	\$ 33,240
2021	4.215-4.590%	21,000	12,378	33,378
2022	4.290-4.590%	21,000	11,485	32,485
2023	4.340-4.590%	22,000	10,557	32,557
2024	4.340-4.590%	23,000	9,581	32,581
2025-2029	4.390-4.590%	138,000	30,733	168,733
2030-2031	4.59%	64,000	2,984	66,984
Totals		<u>\$ 309,000</u>	<u>\$ 90,958</u>	<u>\$ 399,958</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
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	4.340-4.590%	12,000	5,949	17,949
2024	4.340-4.590%	14,000	5,384	19,384
2025-2029	4.390-4.590%	77,000	17,178	94,178
2030-2031	4.59%	36,000	1,652	37,652
Totals		<u>\$ 174,000</u>	<u>\$ 51,066</u>	<u>\$ 225,066</u>

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2019 and 2018
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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
2020	3.80%	\$ 22,695	\$ 2,474	\$ 25,169
2021	3.80%	23,565	1,604	25,169
2022	3.80%	24,469	699	25,168
Totals		<u>\$ 70,729</u>	<u>\$ 4,777</u>	<u>\$ 75,506</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
2020	3.00%	\$ 71,472	\$ 9,640	\$ 81,112
2021	3.00%	73,632	7,480	81,112
2022	3.00%	75,857	5,254	81,111
2023	3.00%	78,150	2,961	81,111
2024	3.00%	39,956	600	40,556
Totals		<u>\$ 339,067</u>	<u>\$ 25,935</u>	<u>\$ 365,002</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 remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2020	3.00%	\$ 106,439	\$ 40,152	\$ 146,591
2021	3.00%	109,656	36,935	146,591
2022	3.00%	112,970	33,621	146,591
2023	3.00%	116,385	30,206	146,591
2024	3.00%	119,903	26,688	146,591
2025-2029	3.00%	656,115	76,841	732,956
2030	3.00%	143,357	3,235	146,592
Totals		<u>\$ 1,364,825</u>	<u>\$ 247,678</u>	<u>\$ 1,612,503</u>

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2019 and 2018
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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
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	2.00%	87,468	21,947	109,415
2024	2.00%	89,226	20,188	109,414
2025-2029	2.00%	473,766	73,308	547,074
2030-2034	2.00%	468,625	23,741	492,366
Totals		<u>\$ 1,371,284</u>	<u>\$ 215,230</u>	<u>\$ 1,586,514</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 remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
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	1.75%	11,013	2,982	13,995
2024	1.75%	11,207	2,788	13,995
2025-2029	1.75%	59,060	10,914	69,974
2030-2034	1.75%	64,436	5,538	69,974
2035-2036	1.75%	27,388	600	27,988
Totals		<u>\$ 205,016</u>	<u>\$ 32,895</u>	<u>\$ 237,911</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.

BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018

Future minimum lease payments are as follows:

Year	Interest Rate	Principal Amount	Interest Amount	Total Lease Payment
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%	72,694	986	73,680
Totals		<u>\$ 320,908</u>	<u>\$ 18,218</u>	<u>\$ 339,126</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. This lease was paid in full during fiscal year 2018.

NOTE 8 – INDEBTEDNESS SUMMARY

The changes in long-term indebtedness for 2019 are as follows:

Debt Instrument	Balance at December 31, 2018	Additions	Retirements	Balance at December 31, 2019
USDA revenue bonds of 1982	\$ 27,000	\$ -	\$ (6,000)	\$ 21,000
KRW series 2001C bonds - Refinancing	123,000	-	(39,000)	84,000
KRW series 2005B bonds - Phase 8	329,000	-	(20,000)	309,000
KRW series 2005B bonds - Phase 10	185,000	-	(11,000)	174,000
Note payable - KIA 2002	92,585	-	(21,856)	70,729
Note payable - KIA 2003	408,442	-	(69,375)	339,067
Construction loan - KIA	1,468,141	-	(103,316)	1,364,825
Construction loan -Phase 12 - KIA	1,452,059	-	(80,775)	1,371,284
Note payable - KIA 2015	215,288	-	(10,272)	205,016
Capital lease - BB&T	399,126	-	(78,218)	320,908
Subtotal	<u>4,699,641</u>	<u>\$ -</u>	<u>\$ (439,812)</u>	<u>4,259,829</u>
Less: current portion of long-term debt	<u>(439,758)</u>			<u>(452,843)</u>
Total Long-Term Indebtedness	<u>\$ 4,259,883</u>			<u>\$ 3,806,986</u>

NOTE 9 - COUNTY EMPLOYEES' RETIREMENT SYSTEM

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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2019 and 2018
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The Plan is divided into both a **Pension Plan** and **Health Insurance Fund Plan** (Other Post-Employment Benefits; OPEB) and each plan is further sub-divided based on **Non-Hazardous** duty and **Hazardous** duty covered-employee classifications. The Bullock Pen Water District has only Non-Hazardous employees.

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

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

PENSION PLAN

Non-Hazardous Pension Plan Description

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

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years of service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months 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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2019 and 2018
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of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

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

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

Contributions

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

The District made all required contributions for the non-hazardous Plan obligation for the fiscal year in the amount of \$173,086, of which \$135,076 was for the pension fund and \$38,010 was for the health insurance fund.

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

At December 31, 2019, the District reported a liability of \$2,083,117 as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2019, the District's non-hazardous employer allocation proportion was 0.02962% of the total CERS non-hazardous duty employees. For the year ended December 31, 2019, the District recognized pension expense of \$234,885 in addition to its \$135,076 pension contribution.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2019 and 2018
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At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Non-Hazardous	
	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 53,188	\$ (8,802)
Net difference between projected actual earnings on plan investments	39,988	(73,568)
Changes of assumptions	210,835	-
Changes in proportion and differences between contributions and proportionate share of contributions	9,598	(13,905)
Contributions subsequent to the measurement date	74,616	-
	<u>\$ 388,225</u>	<u>\$ (96,275)</u>

The District's contributions subsequent to the measurement date of \$74,616 will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending December 31,	Net Deferral
2020	\$ 147,860
2021	48,318
2022	18,773
2023	2,383
	<u>\$ 217,334</u>

Actuarial Assumptions

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

Valuation date	June 30, 2017
Experience study	July 1, 2008 – June 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll
Amortization period	26 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Payroll growth	2.00%
Inflation	2.30%
Salary increase	3.05-3.30%, minimum, including inflation
Investment rate of return	6.25%, net of pension plan expense, including inflation

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2019 and 2018
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The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (1 year set-back for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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

Changes of Assumptions

In June 2019, based on the 2018 Actuarial Experience Study for the period ending June 30, 2018, the following actuarial assumptions were updated:

- Annual salary increases were updated.
- Annual rates of retirement, disability, withdrawal, and mortality were updated.
- The percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members and 50% for hazardous duty members.

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

- The assumed investment rate was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of wage inflation was reduced from 4.00% to 3.05%.
- The asset valuation method changed from *5-Year Smoothed* to *20% of the difference between market and actuarial values*.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- The mortality table used for active members is RP-2000 Combined mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2019 and 2018
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be reviewed again when the next experience investigation is conducted.

- The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

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

Asset Class	CERS Pensions (Haz & Non-Haz)	Long Term
	Target Allocation	Expected Nominal Return
Combined equity	37.5%	4.55%
Specialty credit / high yield	15.0%	2.60%
Real return (diversified inflation strategies)	15.0%	4.10%
Absolute return (diversified hedge funds)	3.0%	2.97%
Private equity	10.0%	6.65%
Real estate	5.0%	4.85%
Global bonds	13.5%	1.35%
Cash	1.0%	0.20%

Discount Rate

The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Proportionate Share of Net Pension Liability		
	1% Decrease	Current Rate	1% Increase
	5.25%	6.25%	7.25%
Non-hazardous	\$ 2,605,389	\$ 2,083,117	\$ 1,647,809

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2019 and 2018
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HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS

Non-Hazardous OPEB Plan Description

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

Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance
	Percentage of member premium paid by the plan	< 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100%
Tier 2	Participation date	July 1, 2003 - August 31, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2018, the contribution was \$13.38 per month.
Tier 3	Participation date	On or after September 1, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2018, the contribution was \$13.38 per month.

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

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

Contributions

Contribution requirements for covered employees and participating governmental entities are established and may be amended by the KRS Trustees. The contractually required contribution rate for governmental entities for the period January - June 2019, was 5.26% and for July – December 2019 was 4.76% of covered-employee payroll for non-hazardous duty employees, actuarially determined as an amount that is expected to finance the cost of benefits earned by employees during the year, with an additional

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2019 and 2018
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amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$38,010 for non-hazardous duty employees for the year ended December 31, 2019.

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

At December 31, 2019, the District reported a liability of \$498,044 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all governmental entities, actuarially determined. At December 31, 2019, the District's proportion of the non-hazardous plan was .02961%.

For the year ended December 31, 2019, the District recognized an OPEB expense of \$6,390. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Non-Hazardous	
	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ -	\$ (150,271)
Net difference between projected actual earnings on plan investments	3,281	(25,401)
Changes of assumptions	147,376	(985)
Changes in proportion and differences between contributions and proportionate share of contributions	1,268	(9,270)
Contributions subsequent to the measurement date	18,403	-
	<u>\$ 170,328</u>	<u>\$ (185,927)</u>

The District's contributions subsequent to the measurement date, \$18,403 for non-hazardous duty employees will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Fiscal Year Ending December 31,	Net Deferral
2020	\$ (5,270)
2021	(5,270)
2022	1,763
2023	(11,706)
2024	(11,365)
Thereafter	(2,156)
	<u>\$ (34,004)</u>

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2019 and 2018
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Actuarial Assumptions

The total OPEB liability as of December 31, 2019 is based on an actuarial valuation date of June 30, 2017, rolled forward to June 30, 2019, and 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
Amortization period	26 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Payroll growth	2.00%
Inflation	2.30%
Salary increase	3.05-3.30%, minimum, including inflation
Investment rate of return	6.25%, net of pension plan expense, including inflation
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Healthcare trend rates (Pre-65)	Initial trend starting at 7.25% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Healthcare trend rates (Post-65)	Initial trend starting at 5.10% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2019 and 2018
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The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	CERS Health Insurance Target Allocation	Long Term Expected Nominal Return
Combined equity	37.5%	4.55%
Specialty credit / high yield	15.0%	2.60%
Real return (diversified inflation strategies)	15.0%	4.10%
Absolute return (diversified hedge funds)	3.0%	2.97%
Private equity	10.0%	6.65%
Real estate	5.0%	4.85%
Global bonds	13.5%	1.35%
Cash	1.0%	0.20%

Changes of Assumptions

In June 2019, based on the 2018 Actuarial Experience Study for the Period Ending June 30, 2018, the following actuarial assumptions were updated:

- Annual salary increases were updated.
- Annual rates of retirement, disability, withdrawal, and mortality were updated.
- The percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members and 50% for hazardous duty members.

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

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

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

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

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

- The assumed investment return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of salary increase was reduced from 4.00% to 3.05%.
- The asset valuation method changed from *5-Year Smoothed* to *20% of the difference between market and actuarial values*.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- The mortality table used for active members is RP-2000 Combined mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2019 and 2018
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Discount Rate

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

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

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

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Discount rate, non-hazardous	4.68%	5.68%	6.68%
Net OPEB liability, non-hazardous	\$ 667,174	\$ 498,044	\$ 358,692

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

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

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Healthcare cost trend rate			
Net OPEB liability, non-hazardous	\$ 370,398	\$ 498,044	\$ 652,830

Plan Fiduciary Net Position

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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2019 and 2018
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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 \$160,052 and \$132,912 in 2019 and 2018, respectively. The District has \$22,636 in accounts receivable from Grant County Sanitary Sewer District at December 31, 2019. 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, Boone, Kenton, Pendleton, and Gallatin Counties in Kentucky.

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 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 83 – *Certain Asset Retirement Obligations* – Periods beginning after 6/15/2019

Statement No. 88 – *Certain Disclosures Related to Debt* – Periods beginning after 6/15/2019

NOTE 15 – FUTURE ACCOUNTING STANDARDS

Statement No. 84 – *Fiduciary Activities* – Periods beginning after 12/15/2019

Statement No. 87 – *Leases* – Periods beginning after 6/15/2021

Statement No. 89 – *Accounting for Interest Cost in Construction* – Periods beginning after 12/15/2020

Statement No. 90 – *Majority Equity Interests* – Periods beginning after 12/15/2019

Statement No. 91 – *Conduit Debt Obligations* – Periods beginning after 12/15/2021

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2019 and 2018
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Statement No. 92 – *Omnibus 2020* – Periods beginning after 6/15/2021

Statement No. 93 – *Replacement of Interbank Offered Rates* – Periods beginning after 6/15/2021

NOTE 16 – SUBSEQUENT EVENTS

Management has considered subsequent events through May 28, 2020, which represents the date financial statements were available to be issued. The District did not have any events subsequent to December 31, 2019 through May 28, 2020 to disclose.

BULLOCK PEN WATER DISTRICT MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN DISCLOSURE - NON-HAZARDOUS Last Ten Fiscal Years
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Schedule of the District's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net pension liability	0.02962%	0.02981%	0.02981%	0.02914%	0.028610%					
Proportionate share of the net pension liability (asset)	\$ 2,083,117	\$ 1,831,050	\$ 1,744,695	\$ 1,434,946	\$ 1,230,260					
Covered payroll in year of measurement (July - June)	\$ 747,119	\$ 745,154	\$ 725,718	\$ 695,170	\$ 657,389					
Share of the net pension liability (asset) as a percentage of its covered payroll	278.82%	245.73%	240.41%	206.42%	187.14%					
Plan fiduciary net position as a percentage of total pension liability	50.45%	53.54%	55.50%	59.97%	66.80%					

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 135,077	\$ 115,310	\$ 101,240	\$ 82,800	\$ 85,431	\$ 89,218				
Actual contribution	\$ 135,077	\$ 115,310	\$ 101,240	\$ 82,800	\$ 85,431	\$ 89,218				
Contribution deficiency (excess)	-	-	-	-	-	-				
Covered payroll in District's fiscal year (Jan. - Dec.)	\$ 759,365	\$ 751,353	\$ 738,397	\$ 702,547	\$ 681,485	\$ 658,224				
Contributions as a percentage of covered payroll	17.79%	15.35%	13.71%	11.79%	12.54%	13.55%				

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

The net pension liability as of December 31, 2019, is based on the June 30, 2019, actuarial valuation. The changes to the elements of the pension expense, i.e. the differences between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, the changes in proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date are detailed in NOTE 9 in the Notes to the Financial Statements.

BULLOCK PEN WATER DISTRICT MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT OPEB PLAN DISCLOSURE - NON-HAZARDOUS Last Ten Fiscal Years

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net pension liability	0.029610%	0.030060%								
Proportionate share of the net pension liability (asset)	\$ 498,044	\$ 533,780								
Covered payroll in year of measurement (July - June)	\$ 747,119	\$ 745,154								
Share of the net pension liability (asset) as a percentage of its covered payroll	66.66%	71.63%								
Plan fiduciary net position as a percentage of total pension liability	60.44%	57.62%								

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 38,010	\$ 37,410	\$ 36,647							
Actual contribution	\$ (38,010)	\$ (37,410)	\$ (36,647)							
Contribution deficiency (excess)	-	-	-							
Covered payroll in District's fiscal year (Jan. - Dec.)	\$ 759,365	\$ 751,353	\$ 738,397							
Contributions as a percentage of covered payroll	5.01%	4.98%	4.96%							

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

The net OPEB liability as of December 31, 2019, is based on the June 30, 2019, actuarial valuation. The changes to the elements of the pension expense, i.e. the differences between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, the changes in proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date are detailed in NOTE 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, 2019 and 2018**

	2019	2018
Operations, maintenance and administrative expenses		
Salaries and wages - employees	\$ 800,969	\$ 769,940
Employee pension and benefits	474,869	445,791
Advertising	9	36
Bad debt expense	31,154	26,215
Chemicals	54,422	48,448
Commissioners' fees	12,400	13,200
Contractual services - accounting	52,928	45,189
Contractual services - engineering	9,520	8,240
Contractual services - legal	14,276	8,075
Contractual services - management	2,104	1,856
Contractual services - water test	20,016	22,968
Contractual services - other	96,756	96,720
Insurance - general liability	18,420	22,840
Insurance - other	2,137	5,709
Insurance - vehicle	8,102	7,385
Insurance - workers' compensation	10,218	12,374
Materials and supplies	352,099	374,505
Miscellaneous	1,667	202
Payroll taxes	61,108	61,279
Purchased power	88,510	90,344
Rental of property and equipment	3,856	2,932
Transportation	26,141	32,227
Utility regulatory assessment	8,521	8,372
Total operations, maintenance and administrative expenses	\$ 2,150,202	\$ 2,104,847

**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, 2019 and 2018, 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 28, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bullock Pen Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. Noncompliance could have a direct and material effect on the determination of financial statement amounts.



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

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 28, 2020