

DAVID A. KOENIG

ATTORNEY AT LAW

223 Main Street
P.O. Box 6205
Florence, KY 41022-6205

Phone: (859) 525-6161
Fax: (859) 525-6194

March 11, 2010

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601

RECEIVED

MAR 12 2010

PUBLIC SERVICE
COMMISSION

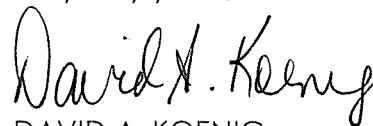
Re: **Case No. 2010-00065**

Dear Mr. Derouen:

Enclosed please find original and ten (10) copies of a supplemental filing filed on behalf of the Boone County Fiscal Court and Boone County Water District in the case set forth above. The purpose of this supplemental filing is to correct the deficiencies set forth in the letter from the Public Service Commission dated February 25, 2010.

With kindest regards, I remain,

Very truly yours,



DAVID A. KOENIG

DAK:as
enclosure

**BEFORE THE PUBLIC SERVICE COMMISSION
FRANKFORT, KENTUCKY**

IN THE MATTER OF THE APPLICATION OF:)
BOONE COUNTY FISCAL COURT AND)
BOONE COUNTY WATER DISTRICT)
FOR TRANSFER OF CONTROL OF WATER)
SYSTEM; TO TERMINATE AN EXISTING)
OPERATION AND MAINTENANCE)
AGREEMENT BETWEEN THE APPLICANTS;)
AND APPROVAL OF AGREEMENTS)
BETWEEN THE BOONE COUNTY FISCAL)
COURT AND BOONE COUNTY WATER)
DISTRICT AND KENTUCKY INFRASTRUCTURE)
AUTHORITY AND BOONE COUNTY WATER)
DISTRICT AS DEBT INSTRUMENTS)

CASE NO. 2010-00065

RECEIVED

MAR 12 2010

**PUBLIC SERVICE
COMMISSION**

SUPPLEMENTAL FILING

COME NOW the Boone County Fiscal Court (Fiscal Court) and Boone County Water District (BCWD) and respectfully state:

1. Applicants reaffirm, reiterate, and restate all of the information contained in the application, same to be incorporated herein.

2. Copies of all deeds.

a) Copy of deed for BCWD office building and shop building dated February 17, 1998, and recorded in Deed Book 723, Page 45, of the Boone County Clerk's Records at Burlington, Kentucky. (Exhibit 11)

b) Copy of deed for 21,887.5 square feet, site of former elevated water storage facility in Union, Kentucky, dated August 2, 1967, and recorded in Deed Book 177, Page 263, of the Boone County Clerk's Records at Burlington, Kentucky. (Exhibit 12)

c) Copy of deed for 24,951 square feet, site of former elevated

Water storage facility in Hebron, Kentucky, dated August 25, 1967, and recorded in Deed Book 177, Page 226, of the Boone County Clerk's Records at Burlington, Kentucky. (Exhibit 13)

3. The BCWD has no mortgages in force securing its assets.

4. Bonds. The BCWD has authorized the issuance of \$4,725,000.00 in bonds and have issued bonds in the total principal amount of \$4,725,000.00 in two separate bond issues as follows:

a) Water Revenue Bonds, Series 2001. BCWD issued \$2,750,000.00 of Water Revenue Bonds, Series 2001, in October, 2001. The bonds have annual maturities through 2021, with the final maturity date October, 2021. The bonds are secured by a pledge of revenues.

b) Revenue Refunding Bonds, Series 2004. The BCWD issued \$1,975,000.00 worth of Revenue Refunding Bonds, Series 2004, in November, 2004. The bonds have annual maturities with the final maturity date of November, 2018. These bonds are secured by a pledge of revenues. (Additional information relative to bonded indebtedness is contained in Exhibit 14, Page 16;)

c) BCWD paid \$127,803.00 in interest on bonds in 2009. (Exhibit 14, Page 9)

5. Detailed income statement and balance sheet. BCWD's audited financial statement for the year ending December 31, 2009, is attached as Exhibit 14.

DATED AT BURLINGTON, KENTUCKY, THIS ____ DAY OF MARCH, 2010.

BOONE COUNTY FISCAL COURT

BY: *Roger Peterman by DAC*

ROGER PETERMAN
Peck, Shaffer & Williams
Attorneys at Law
50 E. RiverCenter Blvd.
Suite 1150
Covington, KY 41011
(859) 431-7000


BOONE COUNTY WATER DISTRICT

BY: *David A. Koenig*

DAVID A. KOENIG
Attorney at law
P.O. Box 6205
Florence, KY 41022-6205

VERIFICATION

COMES NOW Phil Trzop, Manager of the Boone County Water District, and being duly sworn and cautioned, states that pursuant to KRS 278.300(2) the information contained herein is true and accurate to the best of his knowledge and belief.

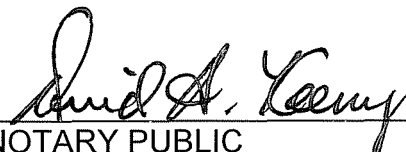


PHIL TRZOP, MANAGER
BOONE COUNTY WATER DISTRICT

COMMONWEALTH OF KENTUCKY
COUNTY OF BOONE

Subscribed and sworn to before me by Phil Trzop, Manager of the Boone County Water District, on this the 8 day of March, 2010.

My commission expires: 9/20/11



NOTARY PUBLIC

EXHIBIT 11

**COPY OF DEED FOR
BCWD OFFICE AND SHOP**

RECEIVED

1998 DEC 30 P 4:04

DEED

BOOK 723 PAGE 45

Exempt per KRS 142.050(7)(b)

Transfer to agency of county government

Property Transfer Tax Paid \$ Exempt
Jerry Rouse, Clerk D.C. EMD, C.

12/30/98

JERRY W. ROUSE
BOONE COUNTY CLERK

KNOW ALL MEN BY THESE PRESENTS:

THAT

JACOBS MANAGEMENT COMPANY, LLC, a Kentucky Limited Liability Company, GRANTOR,

for and in consideration of One Million, four hundred thirty thousand, one hundred and forty-four dollars and 56 cents (\$1,430,144.56)

the receipt whereof is hereby acknowledged, convey to Boone County Water and Sewer District, a public utility created pursuant to KRS Chapter 74, its successors and assigns forever, the following described real estate, lying in Burlington, Boone County, Kentucky, to-wit:

GRANTOR'S ADDRESS: 7740 Plantation Drive, Florence, Ky 41048
GRANTEE MAILING ADDRESS P.O. Box 18, Burlington, Kentucky 41005 GROUP NO. 2030
PROPERTY ADDRESS 2475 Burlington Pike, Burlington, Kentucky 41005

Located generally on the South side of Kentucky Highway #18 about 0.5 mile East of Burlington and described thus: BEGINNING at a point which is S 47-16-23 E 367 feet and S 42-43-37 W 66 feet from a concrete right-of-way monument, the most Northerly corner of the Hobert Roberts farm tract of 79.089 acres in the Southwest line of Kentucky Highway, #18 as the revised and relocated; thence with the South line of an access strip, S 47-16-23 E 50 feet; thence partitioning said Hobert Roberts farm tract, S 42-43-37 W 232.34 feet, S 23-45 W 726.97 feet to the Southwest line of said farm tract; thence therewith, N 64-15 W 297.5 feet to a corner thereof; thence with the West line of said tract, N 23-45 E 811.98 feet to an iron pipe a corner with a 1.00 acre tract; thence with lines thereof, S 47-16-23 E 262.18 feet, N 42-43-37 E 232.81 feet to the place of beginning, containing 5.503 acres and subject to legal easements of record and in existence.

Also granted herewith is the right of use of an access strip 50 feet in width, the centerline of which is described thus: BEGINNING at a point which is S 47-16-23 E 235 feet and S 42-423-37 W 41 feet from a concrete monument, the most Northerly corner of the original Hobert Roberts farm tract of 79.089 acres in the Southwest line of Kentucky Highway #18 as revised and relocated; thence S 47-16-23 E 157 feet, N 42-43-37 E 41 feet or sufficient to reach the South line of Kentucky State Highway #18 revised.

Subject to all easements and restrictions of record.

Being the same property conveyed to Jacobs Management Company, LLC, a Kentucky Limited Liability Company, by deed from Leslie Jacobs and Peggy Jacobs, husband and wife, dated June 20, 1997, and recorded in Deed Book 654, page 286, of the Boone County Clerk's records at Burlington, Kentucky.

Together with all the privileges and appurtenances to the same belonging.

TO HAVE AND TO HOLD the same to the said Boone County Water and Sewer District, a public utility created pursuant to KRS Chapter 74, Grantees, its successors and assigns forever, with covenants of general warranty.

IN WITNESS whereof the said Jacobs Management Company, LLC, hereunto sets its hands this 17 day February, 1998.

JACOBS MANAGEMENT COMPANY, LLC

BY Leslie R. Jacobs

LESLIE JACOBS, MEMBER

Peggy Jacobs

PEGGY JACOBS, MEMBER

STATE OF KENTUCKY
SCT
COUNTY OF BOONE

I, David A. Koenig a Notary Public in and for the county and state aforesaid, do certify that the foregoing instrument of writing from JACOBS MANAGEMENT COMPANY, LLC, TO BOONE COUNTY WATER AND SEWER DISTRICT, was this day presented to me in my county by the parties and then and there acknowledged by the said Leslie Jacobs and Peggy Jacobs, members of JACOBS MANAGEMENT COMPANY, LLC, a Kentucky Limited Liability Company, on behalf of Jacobs Management Company, LLC, as their free and voluntary act and deed. Whereupon the same and this certificate are certified to the proper office for record.

RETURN TO: David Koenig

20

GIVEN UNDER MY HAND and seal of office this 17 day of ^{February} January, 1998

MY COMMISSION EXPIRES: 9/22/99

David A. Koenig
NOTARY PUBLIC

CONSIDERATION CERTIFICATE

Jacobs Management Company, LLC, Grantor and Boone County Water and Sewer District, Grantees, do hereby certify pursuant to K.R.S. Chapter 382 that the property herein conveyed is transferred pursuant to the consideration set forth herein. We understand that a falsification of the stated consideration is a Class D felony, subject to one to five years imprisonment and fines up to \$10,000.00.

JACOBS MANAGEMENT CO., LLC
GRANTORS: BY: Leslie R Jacobs
LESLIE JACOBS, MEMBER

BY: Peggy Jacobs
PEGGY JACOBS, MEMBER

ADDRESS: 7740 Plantation Drive
Florence, Kentucky 41042

STATE OF KENTUCKY

COUNTY OF BOONE

The foregoing ^{February} Consideration Certificate was acknowledged and sworn to before me this the 17 day of ~~January~~ February, 1998, by Leslie Jacobs and Peggy Jacobs, members of JACOBS MANAGEMENT COMPANY, LLC, a Kentucky Limited Liability Company, herein, to be their act and deed on behalf of said Jacobs Management Co., LLC.

My Commission Expires: 9/22/99

David A. Koenig
NOTARY PUBLIC

GRANTEE: BOONE COUNTY WATER
AND SEWER DISTRICT

BY: Ronald Crume
RONALD CRUME, CHAIRMAN

ADDRESS: P.O. Box 18
Burlington, Kentucky

STATE OF KENTUCKY
COUNTY OF BOONE

The foregoing Consideration Certificate was acknowledged and sworn to before me this the 17 day of ^{February} January, 1998, by Ronald Crume, Chairman of the Boone County Water and Sewer District, on behalf of the Boone County Water and Sewer District, Grantees herein, to be its act and deed.

My Commission Expires: 9/22/98

David A. Koenig
NOTARY PUBLIC

STATE OF KENTUCKY
SCT
COUNTY OF BOONE

BOOK 723 PAGE 47

I, Jerry Rouse Clerk of the County Court in and for the County and State aforesaid, do certify that the foregoing instrument of writing from Jacobs Management Company, LLC, to Boone County Water and Sewer District, was this 30 day of Dec., 1998 produced to me, certified as above and lodged for record at 4:04 o'clock P.M.

WHEREUPON, the same with foregoing and this certificate have been duly recorded in my office.

GIVEN UNDER MY HAND, THIS 30 DAY OF Dec. 1998

Jerry W. Rouse Clerk
by Andrea J. Nelson D.C.

THIS INSTRUMENT PREPARED BY:

David A. Koening
DAVID A. KOENIG
Attorney at Law
7992 Dixie Highway
P.O. Box 6205
Florence, KY 41042
(606) 525-6161

49844

EXHIBIT 12

**COPY OF DEED
DATED AUGUST 2, 1967**

DEED

KNOW ALL MEN BY THESE PRESENTS:

That

HAZEL K. GRAVEN, a widow

for and in consideration of One (\$1.00) Dollar and other good and valuable consideration to her paid by the BOONE COUNTY WATER DISTRICT

the receipt whereof is hereby acknowledged, do ~~es~~ hereby bargain, sell and convey to the said

BOONE COUNTY WATER DISTRICT, its successors

~~HEK~~ and assigns forever, the following described real estate, lying and being in Boone County, Kentucky to wit:

Located generally on the North side of Kentucky Highway #536 (Frogtown Road) about a mile East of U. S. Highway #42 and described particularly thus;

BEGINNING at the common corner of lots numbers 1 and 2 of the Doan Estate Farm Division #2 (Plat Book 4 page 31) in the North line of said Kentucky Highway #536; thence along said line of said highway S 87-15 E 87.55 feet to the common corner of lots numbers 2 and 3; thence with the common line thereof N 2-45 E 250.0 feet to a point therein; thence on a line partitioning said lot #2, N 87-15 W 87.55 feet to a point in the common line of lots numbers 1 and 2; thence therewith S 2-45 W 250.0 feet to the place of beginning containing 21,887.5 square feet.

The above boundary comprises part of lot #2 of said Doan Estate Farm Division #2 in Plat Book 4, page 31.

The above legal description was prepared by Noel Walton, Kentucky Registered Land Surveyor #91.

Being part of the same property conveyed to the Grantor by Gilbert Borchers, et al by deed dated 20th day of JULY 1957 and recorded in deed book 128 page 489, in the

office of the Clerk of the Boone County Court, Burlington, Kentucky.

Together with all the privileges and appurtenances to the same belonging. To have and to hold the same to the said

BOONE COUNTY WATER DISTRICT, its successors

and assigns forever, with covenants of general warranty.

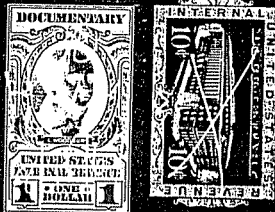
In witness whereof the said HAZEL K. GRAVEN, a widow

hereunto set her hand this 2nd day of August, 1967.

Hazel K. Graven

CERTIFICATE
I hereby certify that the foregoing Deed was prepared by ROBERT F. GREENE, Attorney at Law, Burlington, Kentucky.

Robert F. Greene
ROBERT F. GREENE



STATE OF KENTUCKY,
SCT.
County of Boone Kenton

I, Robert F. Greene a Notary Public in and for the county and state aforesaid, do certify that the foregoing instrument of writing from HAZEL K. GRAVEN, a widow to BOONE COUNTY WATER DISTRICT

was this day presented to me in my county by the parties and then and there acknowledged by the said

HAZEL K. GRAVEN, a widow

to be

act and deed. Whereupon the same and this certificate are certified to the proper office for record.

Given under my hand and seal of office this 2nd day of August, 1967.

Robert F. Greene
Notary Public.
State-at-Large

My Commission expires
February 23, 1968



WARRANTY DEED

HAZEL K. GRAVEN, a widow

TO

BOONE COUNTY WATER DISTRICT

Acknowledged

Left for Record

8-15-67

at 9:00 A.M.

By Harold O. Rogers Clerk

By Barbara O. Davis D. C.

Recorded in Deed Book

No. 177

Page 203

Recording \$ 3.50

Stamps \$ 1.10

STATE OF KENTUCKY,
SCT.
County of Boone

I, Harold O. Rogers Clerk of the County Court in and for the County and State aforesaid, do certify that the foregoing instrument of writing from HAZEL K. GRAVEN, a widow to BOONE COUNTY WATER DISTRICT was this 15th day of August, 1967 produced to me, certified as above and lodged for record at 9:00 o'clock A. M.

Whereupon, the same with foregoing and this certificate have been duly recorded in my office.
Given under my hand, this 15th day of AUGUST 1967.

HAROLD O. ROGERS Clerk

By Barbara O. Davis D. C.

EXHIBIT 13

COPY OF DEED

DATED AUGUST 25, 1967

DEED

KNOW ALL MEN BY THESE PRESENTS:

That

BOONE COUNTY BOARD OF EDUCATION by its chairman, Bernard J. Hogan; and secretary, Rector Jones, pursuant to a resolution duly adopted for and in consideration of One (\$1.00) Dollar and other good and valuable consideration to it paid by the BOONE COUNTY WATER DISTRICT

the receipt whereof is hereby acknowledged, do es hereby bargain, sell and convey to the said

BOONE COUNTY WATER DISTRICT, its successors

~~XXXX~~ and assigns forever, the following described real estate, lying and being in Boone County, Kentucky to wit:

Located generally in Hebron #2 Precinct of Boone County on the Southeast side of the Elijah Creek Road about .1 mile Northeast of Kentucky Highway #237 and described particularly thus;

BEGINNING at the intersection of the Southwest line of Russell Drive of Hodge Subdivision with the Southeast right-of-way line (20 feet from centerline) of the Elijah Creek Road; thence with said line of Russell Drive S 37°30' E 257.19 feet to a point; thence on a line partitioning the old Hebron High School property, S 54-51 W 100.08 feet; thence N 37-30 W 241.83 feet to a point in said Southeast line of the Elijah Creek Road; thence therewith N 46-44 E 100.54 feet to the place of beginning containing 24,951 square feet.

The above property is subject to an easement over which the Boone County Board of Education retains the right to maintain, improve and construct or reconstruct the existing sewer which lies on said property. Said sewer begins at a point in the Southeast line of the above described tract 35 feet Southwest of the most Easterly corner thereof and runs in a Northwesterly direction to the most Northeasterly corner of the above described parcel.

The above legal description was prepared by Noel Walton, Ky. Registered Land Surveyor #91.

Being part the same property conveyed to the Grantor by J. H. MANNIN, et ux. by deed dated 15th day of August, 19 22 and recorded in deed book 63 page 402; in the

office of the Clerk of the Boone County Court, Burlington, Kentucky.

Together with all the privileges and appurtenances to the same belonging To have and to hold the same to the said

BOONE COUNTY WATER DISTRICT, its successors

and assigns forever, with covenants of general warranty.

In witness whereof the said BOONE COUNTY BOARD OF EDUCATION by its chairman, Bernard J. Hogan, and secretary, Rector Jones, pursuant to a resolution duly adopted

hereunto set their hands this 25th day of August, 1967.

CERTIFICATE

I hereby certify that the foregoing Deed was prepared by ROBERT F. GREENE, Attorney at Law, Burlington Kentucky.

ROBERT F. GREENE

STATE OF KENTUCKY, SCT. County of Boone.



Bernard J. Hogan CHAIRMAN

Rector J. Jones, Secy. SECRETARY

I, Robert F. Greene a Notary Public in and for the county and state aforesaid, do certify that the foregoing instrument of writing from BOONE COUNTY BOARD OF EDUCATION by its chairman, Bernard J. Hogan and secretary, Rector Jones, pursuant to resolution duly adopted

to BOONE COUNTY WATER DISTRICT was this day presented to me in my county by the parties and then and there acknowledged by the said BOONE COUNTY BOARD OF EDUCATION by its chairman, Bernard J. Hogan, and secretary, Rector Jones, pursuant to a resolution duly adopted

and deed. Whereupon the same and this certificate are certified to the proper office for record. Given under my hand and seal of office this 25th day of August, 1967.

My Commission expires February 23, 1968

Notary Public signature

WARRANTY DEED

BOONE COUNTY BOARD OF EDUCATION

TO

BOONE COUNTY WATER DISTRICT

Acknowledged

Left for Record

at 3:39 P.M.

Harold O. Rogers, Clerk

By Barbara A. Davis, D.C.

Recorded in Deed Book

No. 177 Page 326

Recording \$ 6.00 Stamps \$ 5.50

STATE OF KENTUCKY, SCT. County of BOONE,

I, Harold O. Rogers Clerk of the County Court in and for the County and State aforesaid, do certify that the foregoing instrument of writing from BOONE COUNTY BOARD OF EDUCATION to BOONE COUNTY WATER DISTRICT was this 28th day of August, 1967, produced to me, certified as above and lodged for record at 3:39 o'clock P.M.

Whereupon, the same with foregoing and this certificate have been duly recorded in my office.

Given under my hand, this 28th day of August, 1967.

HAROLD O. ROGERS

Clerk

By Barbara A. Davis D.C.

EXHIBIT 14

BCWD AUDITED FINANCIAL STATEMENT FOR 2009

BOONE COUNTY WATER DISTRICT
FINANCIAL STATEMENTS

For the Years Ended December 31, 2009 and 2008

BOONE COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
December 31, 2009 and 2008

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BOONE COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
December 31, 2009 and 2008

Board of Commissioners

Charlie Cain, Chairman

Steven Smith, Vice Chairman

James Daugherty, Treasurer

Tim Alexander, Jr., Secretary

Mike Giordano

Of Counsel

David Koenig, Esq.

Administration

Phillip Trzop, General Manager

Independent Auditor's Report

To the Board of Commissioners Boone County Water District

We have audited the accompanying balance sheets of the Boone County Water District (District) as of December 31, 2009 and 2008 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. 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. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Boone County Water District as of December 31, 2009 and 2008, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 3, 2010 on our consideration of the Boone County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3-7 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Van Gorder, Walker & Company, Inc.
Erlanger, Kentucky
March 3, 2010

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, 2009. The information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

Net assets increased \$145,847 from 2008 to 2009 compared to an increase of \$2,377,168 from 2007 to 2008. This change is mainly attributable to the decrease in capital contributions of donated lines and tap-in fees.

USING THIS ANNUAL REPORT

The financial statements presented include all of the activities of the District as prescribed by GASB Statement No. 34. The financial statements include a balance sheet, statement of revenues, expenses and change in net assets, statement of cash flows, notes to the financial statements and supplemental schedules. These statements show the condition of the District's finances and the sources of income and the funds expended.

SUMMARY OF NET ASSETS

The following table reflects a summary of Net Assets compared to the prior year.

Table 1
Net Assets

	2009	2008
Current Assets	\$ 5,824,765	\$ 5,194,569
Restricted Assets	2,385,937	2,349,221
Noncurrent Assets/Capital Assets	<u>70,263,874</u>	<u>70,781,598</u>
Total Assets	<u>78,474,576</u>	<u>78,325,388</u>
Current Liabilities	1,019,190	792,665
Liabilities from Restricted Assets	255,334	257,625
Long-Term Liabilities	<u>2,689,610</u>	<u>2,910,503</u>
Total Liabilities	<u>\$ 3,964,134</u>	<u>\$ 3,960,793</u>

	2009	2008
Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$67,251,053	\$67,538,191
Restricted	2,130,603	2,091,596
Unrestricted	<u>5,128,786</u>	<u>4,734,808</u>
Total Net Assets	<u>\$74,510,442</u>	<u>\$74,364,595</u>

The net assets are divided into three categories: 1) invested in capital assets, net of related debt, 2) restricted and 3) unrestricted.

The majority of the net assets of the District are included in the first category which consist of capital assets: land, buildings, transmission lines and equipment net of accumulated depreciation. This classification accounts for 90% of the total net assets. Net assets increased \$145,847 from the prior year.

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

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

SUMMARY OF CHANGES IN NET ASSETS

Revenues

Water revenues decreased 8% from 2008 to 2009. The decrease was a result of abundant rain during the summer months of 2009 compared to normal weather conditions in 2008.

Operating & Maintenance Expenses

Operating & maintenance expenses decreased \$91,244 or 3% from 2008 to 2009. This is consistent with the decrease in water revenues.

Depreciation

Depreciation expense continues to increase each year. Annually the District, with the assistance of their engineers, calculates the cost associated with the new lines that have been dedicated by contractors to the District. During 2009 it was estimated that \$424,800 was contributed to the District in the form of new lines as compared to \$1,320,360 in 2008. The slow down of economic growth in Boone County is reflected in these numbers.

Investment Income

Investment income decreased \$43,495 from 2008 to 2009. This number reflects the decrease in interest rates available at the financial institutions.

Grants Approved

During 2009 the District received notice of approved grants from the Kentucky Infrastructure Authority (KIA) totaling \$3,205,000. These funds will contribute to the construction costs of the following extension projects: Williams Road and Merrell Road (\$1,000,000), KY 338/Big Bone Church Road (\$1,005,000) and KY 20 Ashby Fork to Petersburg (\$1,200,000). No funds were received on these grants during 2009.

The District and Boone County Fiscal Court have been working on a Community Block Grant during 2009 (pending approval April 2010) in the amount of \$1,000,000 which will contribute to the construction cost of the water main extension in the Town of Petersburg. No funds were received on this grant in 2009.

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

Table 2
Changes In Net Assets

	2009	2008
Operating Revenues:		
Water Sales	\$10,066,943	\$10,991,446
Forfeited Discounts	204,042	218,894
Other Water Revenues	<u>79,449</u>	<u>75,411</u>
Total Operating Revenues	<u>10,350,434</u>	<u>11,285,751</u>
Operating Expenses:		
Water Purchased	6,103,579	6,775,945
Operating & Maintenance	2,863,683	2,954,927
Depreciation	<u>1,859,695</u>	<u>1,830,932</u>
Total Operating Expenses	<u>10,826,957</u>	<u>11,561,804</u>
Net Operating Income (Loss)	<u>(476,523)</u>	<u>(276,053)</u>
Non-Operating Income(Expenses):		
Investment Income	127,265	170,760
Gain/Loss of Disposal of Assets	9,351	9,098
Interest on Long-Term Debt	(127,803)	(137,010)
Amortization of Debt Expenses	<u>(13,798)</u>	<u>(13,798)</u>
Net Non-Operating Income Expenses	<u>(4,985)</u>	<u>29,050</u>
Net Income/Loss	<u>(481,508)</u>	<u>(247,003)</u>
Capital Contributions	<u>627,355</u>	<u>2,624,171</u>
Change In Net Assets	145,847	2,377,168
Net Assets-Beginning	<u>74,364,595</u>	<u>71,987,427</u>
Net Assets-Ending	<u>\$74,510,442</u>	<u>\$74,364,595</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2009, the District had \$70,165,663 invested in capital assets including land, buildings, water systems, equipment and vehicles, as reflected in the following schedule, which represents a net decrease (additions less retirements and depreciation) of \$508,031. During 2009 depreciation recorded on capital assets exceeded capital asset additions.

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

	2009	2008
Land	\$ 256,633	\$ 256,633
Construction In Progress	661,728	-0-
Transmission Lines	85,961,068	85,297,713
Furniture & Fixtures	139,412	138,108
Machinery & Equipment	1,105,621	1,110,478
Buildings	<u>1,801,967</u>	<u>1,795,655</u>
Subtotal	89,926,429	88,598,587
Accumulated Depreciation	<u>(19,760,766)</u>	<u>(17,924,893)</u>
Total Capital Assets	<u>\$70,165,663</u>	<u>\$70,673,694</u>

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2009 compared to 2008.

Table 4
Outstanding Debt, at Year-end

	2009	2008
Bonds Payable	\$2,955,000	\$ 3,180,000

ECONOMIC FACTORS

The District's budget for 2010 reflects the anticipated increase in revenues, expenditures and debt service related to the proposed agreement between the District and the Boone County Fiscal Court for the transfer of the Rural Water Sub districts. The transfer is pending the Public Service Commission approval. The water revenue is strictly an estimate since consumption is directly related to weather conditions which are unpredictable.

FINANCIAL CONTACT

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

Phillip Trzop
Manager
Boone County Water District

BOONE COUNTY WATER DISTRICT BALANCE SHEETS December 31, 2009 and 2008
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ASSETS

	2009	2008
Current Assets		
Cash and cash equivalents	\$ 2,812,572	\$ 2,093,926
Certificates of deposit	950,817	944,508
Accounts receivable		
Customers, net of allowance	1,562,608	1,601,442
Others	32,889	40,406
Assessments receivable	289,862	304,949
Inventories	128,574	160,327
Prepays	34,329	36,177
Accrued interest income	3,423	3,143
Current portion of deferred charges	9,691	9,691
Total Current Assets	<u>5,824,765</u>	<u>5,194,569</u>
Restricted Assets		
Debt service account	100,577	106,463
Debt service reserve account	535,360	526,923
Renewal and replacement account	1,750,000	1,715,835
Total Restricted Assets	<u>2,385,937</u>	<u>2,349,221</u>
Noncurrent Assets		
Miscellaneous deferred charges	98,211	107,904
Capital Assets		
Land, building, transmission system, equipment, and vehicles	89,264,701	88,598,587
Construction in progress	661,728	-
Total utility plant in service	89,926,429	88,598,587
Less accumulated depreciation	(19,760,766)	(17,924,893)
Total Capital Assets, Net	<u>70,165,663</u>	<u>70,673,694</u>
TOTAL ASSETS	<u>78,474,576</u>	<u>78,325,388</u>
LIABILITIES		
Current Liabilities		
Accounts payable	804,806	559,005
Accrued payroll and taxes	89,779	106,819
Customer deposits	124,605	126,841
Total Current Liabilities	<u>1,019,190</u>	<u>792,665</u>
Current Liabilities Payable From Restricted Assets		
Bonds payable	225,000	225,000
Accrued interest payable	30,334	32,625
Total Current Liabilities Payable From Restricted Assets	<u>255,334</u>	<u>257,625</u>
Long-Term Obligations		
Bonds	2,689,610	2,910,503
Total Long-Term Obligations	<u>2,689,610</u>	<u>2,910,503</u>
TOTAL LIABILITIES	<u>3,964,134</u>	<u>3,960,793</u>
NET ASSETS		
Invested in capital assets, net of related debt	67,251,053	67,538,191
Restricted	2,130,603	2,091,596
Unrestricted	5,128,786	4,734,808
TOTAL NET ASSETS	<u>\$ 74,510,442</u>	<u>\$ 74,364,595</u>

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

BOONE COUNTY WATER DISTRICT STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Years Ended December 31, 2009 and 2008
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OPERATING REVENUES	<u>2009</u>	<u>2008</u>
Water revenue	\$ 10,066,943	\$ 10,991,446
Forfeited discounts	204,042	218,894
Other water revenues	<u>79,449</u>	<u>75,411</u>
TOTAL OPERATING REVENUES	<u>10,350,434</u>	<u>11,285,751</u>
OPERATING EXPENSES		
Water purchased	6,103,579	6,775,945
Operation and maintenance expense	2,863,683	2,954,927
Depreciation	<u>1,859,695</u>	<u>1,830,932</u>
TOTAL OPERATING EXPENSES	<u>10,826,957</u>	<u>11,561,804</u>
OPERATING INCOME (LOSS)	<u>(476,523)</u>	<u>(276,053)</u>
NON-OPERATING INCOME (EXPENSE)		
Investment income	127,265	170,760
Gain/(loss) on sale of assets	9,351	9,098
Interest on long-term obligations	(127,803)	(137,010)
Amortization of bond discounts and expenses	<u>(13,798)</u>	<u>(13,798)</u>
NET NON-OPERATING INCOME	<u>(4,985)</u>	<u>29,050</u>
NET INCOME (LOSS)	<u>(481,508)</u>	<u>(247,003)</u>
CAPITAL CONTRIBUTIONS	<u>627,355</u>	<u>2,624,171</u>
CHANGE IN NET ASSETS	145,847	2,377,168
NET ASSETS, JANUARY 1	<u>74,364,595</u>	<u>71,987,427</u>
NET ASSETS, DECEMBER 31	<u>\$ 74,510,442</u>	<u>\$ 74,364,595</u>

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

BOONE COUNTY WATER DISTRICT STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2009 and 2008
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	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 10,411,872	\$ 11,347,754
Paid to suppliers for goods and services	(7,733,054)	(8,981,801)
Paid to or on behalf of employees for services	(974,082)	(916,143)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,704,736</u>	<u>1,449,810</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	126,985	167,617
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>126,985</u>	<u>167,617</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on bonds	(220,893)	(205,892)
Purchased certificates of deposit	(6,309)	(5,468)
Interest paid on bonds	(130,094)	(138,674)
Acquisition and construction of fixed assets	(938,216)	(1,677,329)
Proceeds on sale of assets	16,598	12,555
Contributed capital received	202,555	1,303,812
(Increase)/decrease in restricted funds		
Debt service account	5,886	9,124
Debt service reserve account	(8,437)	(7,497)
Renewal and replacement account	(34,165)	(116,977)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,113,075)</u>	<u>(826,346)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	718,646	791,081
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>2,093,926</u>	<u>1,302,845</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 2,812,572</u>	<u>\$ 2,093,926</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (476,523)	\$ (276,053)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,859,695	1,830,932
Change in operating assets and liabilities		
Decrease (Increase) in receivables	61,438	62,003
Decrease (Increase) in inventories	31,753	7,033
Decrease (Increase) in prepaid assets	1,848	5,197
Increase (Decrease) in accounts payable	245,801	(181,523)
Increase (Decrease) in accrued payroll and taxes	(17,040)	14,825
Increase (Decrease) in customer deposits	(2,236)	(12,604)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,704,736</u>	<u>\$ 1,449,810</u>
Non-Cash Capital and Related Financing Activities:		
Capital assets (transmission mains, hydrants, etc.) contributed to the District	<u>\$ 424,800</u>	<u>\$ 1,320,359</u>
Supplemental Information		
Interest paid	<u>\$ (130,094)</u>	<u>\$ (138,674)</u>

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

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2009 and 2008

NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Regulatory Requirements

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

Basis of Accounting

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

The District has adopted GASB Statements 33 through 50, and related interpretations issued through December 31, 2009. Statement No. 33 required capital contributions to be recorded in the statement of revenues, expenses and changes in net assets. Statement 34 and subsequent statements and interpretations required certain other changes in terminology, format and content, as well as inclusion of the management's discussion and analysis as required supplementary information.

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 balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into "invested in capital assets, net of related liabilities"; "restricted"; and "unrestricted" components.

Assessments Receivable

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

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2009 and 2008

Allowance for Bad Debts

The District maintained an allowance for bad debts of \$28,000 in both 2009 and 2008.

Cash Equivalents

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

Inventories

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

Distribution System, Building, and Equipment

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

Construction in Progress

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

Miscellaneous Deferred Charges

The costs of issuance of the District's Series 2001 and 2004 Revenue Bonds, as well as the \$55,000 discount on the 2001 Series Bonds are recorded as deferred charges and are being amortized over the life of the bond issues. The defeased bond loss associated with the 1993 Bonds is being amortized over fifteen years.

Capital Contributions

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

Income Tax Status

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

Use of Estimates

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

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2009 and 2008

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

Operating Revenues and Non-Operating Revenues

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

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits consist of checking and savings accounts. They are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the balance sheet as “Cash and Cash Equivalents” and “Restricted Assets”. At December 31, 2009 and 2008, the bank balances were \$2,812,572 and \$2,093,926, respectively, which were the same as the carrying amount.

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

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

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2009 and 2008

- f) A pool or fund made up entirely of U.S. Government obligations or obligations guaranteed both as to principal and interest by the U.S. Government ; or
- g) Repurchase agreements for U.S. Government Obligations, secured in the same manner as is provided in (d) above for other deposits.

Effective January 1, 1998, 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.

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

The District's investments are categorized to give an indication of the level of risk assumed by the District at December 31, 2009. 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.

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
Deposits	\$ 5,613,966	\$ -	\$ -	\$ 5,613,966
Investments	-	-	535,360	535,360
Total	<u>\$ 5,613,966</u>	<u>\$ -</u>	<u>\$ 535,360</u>	<u>\$ 6,149,326</u>

In accordance with GASB 40, the District has \$535,360 in bond sinking funds held in investments in federally backed US Treasury Obligations rated AAA/Aaa. The market risk on these investments is negligible.

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2009 and 2008

NOTE 3 – RESTRICTED NET ASSETS

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

Included in restricted net assets at December 31,

	<u>2009</u>	<u>2008</u>
Debt Service Account	\$ 100,577	\$ 106,463
Debt Service Reserve Account	535,360	526,923
Renewal and Replacement Account	<u>1,750,000</u>	<u>1,715,835</u>
Total Restricted Net Assets	<u>\$ 2,385,937</u>	<u>\$ 2,349,221</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 as detailed in Note 1. Repair and maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred.

Asset Type	Balance at December 31, 2008	Additions	Retirements	Balance at December 31, 2009
Land	\$ 256,633	\$ -	\$ -	\$ 256,633
Transmission lines	83,414,025	663,355	-	84,077,380
Automated meter system	1,663,110	-	-	1,663,110
Buildings	1,795,655	6,312	-	1,801,967
Machinery and equipment	1,110,478	26,197	(31,054)	1,105,621
Furniture and fixtures	138,108	1,304	-	139,412
Rate study	220,578	-	-	220,578
Construction in progress	-	661,728	-	661,728
Subtotal	<u>88,598,587</u>	<u>1,358,896</u>	<u>(31,054)</u>	<u>89,926,429</u>
Accumulated depreciation	<u>(17,924,893)</u>	<u>(1,859,695)</u>	<u>23,822</u>	<u>(19,760,766)</u>
Fixed Assets, net	<u>\$ 70,673,694</u>	<u>\$ (500,799)</u>	<u>\$ (7,232)</u>	<u>\$ 70,165,663</u>

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2009 and 2008

NOTE 5 – BONDED INDEBTEDNESS

Water Revenue Bonds, Series 2001

In October of 2001, the District sold \$2,750,000 of revenue bonds for the purpose of providing funds to pay and discharge a bond anticipation note belonging to the District, to fund a debt service reserve and to pay costs of issuance of bonds. The bond anticipation note was originally issued in the amount of \$2,500,000 to finance the costs of major water system facilities consisting of a waterline extension, an administrative building, and an automated meter reading system. All bonds are issued in denominations of \$5,000, are numbered and mature on October 1st of each year beginning in 2003 and ending in 2021. Interest is payable on April 1st and October 1st of each year. The Series 2001 bonds, dated September 15, 2001 are scheduled to mature as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2010	3.90%	\$ 125,000	\$ 84,662	\$ 209,662
2011	4.00%	130,000	79,787	209,787
2012	4.00%	135,000	74,587	209,587
2013	4.10%	140,000	69,188	209,188
2014	4.25%	145,000	63,448	208,448
2015-2021	4.40%-4.75%	1,235,000	241,704	1,476,704
Totals		<u>\$ 1,910,000</u>	<u>\$ 613,376</u>	<u>\$ 2,523,376</u>

Revenue Refunding Bonds, Series 2004

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2010	3.00%	\$ 100,000	\$ 36,673	\$ 136,673
2011	3.10%	105,000	33,672	138,672
2012	3.375%	110,000	30,418	140,418
2013	3.400%	115,000	26,705	141,705
2014	3.500%	115,000	22,796	137,796
2015-2018	3.60%-3.90%	500,000	48,299	548,299
Totals		<u>\$ 1,045,000</u>	<u>\$ 198,563</u>	<u>\$ 1,243,563</u>

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2009 and 2008

Defeased District Revenue Bonds

The District has irrevocably placed \$1,426,101 from the 1993 Series A Bond proceeds in trust to be used solely for satisfying scheduled payments of both interest and principal of the prior bond issue of 1967. This defeasance was completed in 2007.

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

These defeased revenue bonds outstanding at December 31, 2009 are as follows:

<u>Year</u>	<u>1993 Series A</u>	<u>1967 Issue</u>	<u>Principal Total</u>
2010	\$ 95,000	\$ -	\$ 95,000
2011	100,000	-	100,000
2012	105,000	-	105,000
2013	115,000	-	115,000
2014	115,000	-	115,000
2015-2018	520,000	-	520,000
	<u>\$ 1,050,000</u>	<u>\$ -</u>	<u>\$ 1,050,000</u>

These revenue bonds are considered extinguished and do not appear as liabilities on the accompanying balance sheets as of December 31, 2009 and 2008. The balance of losses incurred on defeasement was \$40,390 in 2009 and \$44,497 in 2008. This loss is being amortized over fifteen years.

NOTE 6 – EMPLOYEE RETIREMENT SYSTEM

County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System (CERS) of Kentucky. It is a cost sharing multiple-employer defined benefit pension plan created by and operated under Kentucky law. CERS covers substantially all regular full-time employees of each county and school board, and any additional local agencies electing to participate in the system. The plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments are provided at the discretion of the state legislature.

For the years ended December 31, 2009 and 2008 plan members were required to contribute 5% of their annual creditable compensation.

Employer contribution rates are actuarially determined. Such contribution rates are determined by the Board of Trustees of the Kentucky Retirement System. They may amend contribution rates as of the first day of July, if it is determined necessary to satisfy requirements determined in

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2009 and 2008

accordance with actuarial basis adopted by the Board. From January 2009 until July 2009 the employer contribution rates were 13.50%. From July 2009 until December 2009, the employer contribution rates were 16.16%. From January 2008 until July 2008 the employer contribution rates were 16.17%. From July 2008 until December 2008, the employer contribution rates were 13.50%.

The District has made 100% of all required contributions for each of the years ended December 31, 2009, 2008, 2007, 2006, and 2005. Information about the contributions made by the District and the employees, as well as gross payroll and covered payroll for the past five years follows:

	2009	2008	2007	2006	2005
Gross Payroll-All Employees	\$ 1,049,417	\$ 1,050,422	\$ 1,030,643	\$ 1,098,416	\$ 1,075,385
Gross Payroll-Covered Employees	1,003,540	1,002,967	1,002,837	1,047,574	1,009,283
Employee Contribution	51,125	50,150	53,620	54,885	53,949
Employer Contribution (expense)	146,918	149,106	154,808	126,721	101,781

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 7 – RELATED PARTY TRANSACTIONS

The District purchases water from the joint Boone-Florence Water Commission (Commission). Two of the District's board members also serve as commissioners on the Boone-Florence Water Commission. The Commission is the District's sole source of wholesale water. The Commission was created in a joint venture with the City of Florence, Kentucky to purchase water from the City of Cincinnati, Ohio. During 2009 and 2008, the District purchased \$6,103,579 and \$6,775,945, respectively. During 2009 and 2008, the District leased office space to the Commission at a cost of \$6,000 per year. The District also provided maintenance services to the Water Commission lines, towers and was reimbursed \$11,750 and \$14,388 for those services during 2009 and 2008, respectively.

NOTE 8 – ECONOMIC DEPENDENCY/CREDIT RISK

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

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

**To the Board of Commissioners
Boone County Water District**

We have audited the financial statements of the Boone County Water District as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated March 3, 2010. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Boone County Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Boone County Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Boone County Water District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Boone County Water District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Boone County Water District's financial statements that is more than inconsequential will not be prevented or detected by the Boone County Water District's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Lack of Segregation of Duties

Condition: We noted that, due to the size of the District and financial considerations, some of the execution and recording of transactions are performed by the same person.

Criteria: Segregation of duties is a necessary part of any system of internal control. Segregating the processes of authorizing, executing and recording transactions is essential.

Effect: Lack of segregation of duties could allow receipts to be diverted away from the District and expenses not attributed to the District could be paid for from the District's cash account. The District has determined that the cost of mitigation is not justified when compared to the risk of the related transactions.

Recommendation: Due to the size of the District and other financial considerations, internal controls should be implemented, to the highest appropriate level, to segregate the duties of the personnel. Controls should then be monitored to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

Management's Response: The Office Manager at the District performs recordkeeping duties and also has check signing authority, which results in the lack of segregation of duties comment above. This person, however, is not a regular signer of checks, and only signs checks when the General Manager is not available, i.e. on District-required one-week vacation. In order to expedite payments that would otherwise be awaiting the General Manager's signature, the Office Manager signs checks during those times, along with a required second signature. It is the District's opinion that maintaining someone who is very familiar with the District's operations as a signer in the General Manager's absence is more secure than allowing an employee with less experience sign checks.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Boone County Water District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Boone County Water District's financial statements are free of material misstatement, we performed tests of its

compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee and the District Commissioners and is not intended to be and should not be used by anyone other than these specified parties.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
March 3, 2010