

PUBLIC SERVICE COMMISSION
ANNUAL REPORT BRANCH

JUN 21 2012

RECEIVED
EXAMINED BY _____

**BRACKEN COUNTY WATER DISTRICT
BROOKSVILLE, KENTUCKY
AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010**



Penny R. Stanfield, CPA & Co., PLLC

2202 Old Main Street, Maysville, KY 41056

Phone: (606) 759-0606

BRACKEN COUNTY WATER DISTRICT
BROOKSVILLE, KENTUCKY
Years Ended December 31, 2011 and 2010

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements	
Statements of Net Assets.....	3
Statements of Revenues, Expenses and Changes In Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements.....	6-13
 <u>Supplemental Information</u>	
Supplemental Information Required by Rural Development.....	14
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>	15-16



Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Bracken County Water District
Brooksville, Kentucky 41004

I have audited the accompanying financial statements of Bracken County Water District as of and for the years ended December 31, 2011 and 2010, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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. Those standards require that I plan and perform the 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Bracken County Water District as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated June 15, 2012, on my consideration of the Bracken County Water District's internal control over financial reporting and on my 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 my 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 considered in assessing the results of my audit.

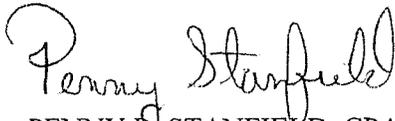
The Bracken County Water District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

2202 Old Main Street, Maysville, KY 41056

Phone: (606) 759-0606 Fax: (606) 759-8606 Email: pstanfield@windstream.net

Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bracken County Water District's financial statements as a whole. The accompanying supplemental information on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



PENNY R. STANFIELD, CPA & CO., PLLC
Maysville, Kentucky

June 15, 2012

**BRACKEN COUNTY WATER DISTRICT
STATEMENTS OF NET ASSETS
PROPRIETARY FUND
December 31, 2011 and 2010**

	2011	2010
ASSETS		
Current Assets		
Cash and Cash Equivalents - Unrestricted	\$ 419,130	\$ 169,963
Cash and Cash Equivalents - Restricted	171,598	188,302
KRWFC Sinking Fund	135,247	135,357
KIA Sinking Fund	63,156	121,227
Unbilled Revenue	41,341	48,323
Accounts Receivable - Customers, Net of Allowance for Uncollectible (\$13,055)	132,901	145,097
Inventory of Supplies - at cost	44,594	40,825
Prepaid Insurance	12,401	10,372
Total Current Assets	1,020,368	859,466
Noncurrent Assets		
Bond Issue Costs	104,819	107,916
Nondepreciable Capital Assets:		
Land	14,491	14,491
Construction in Progress	43,427	-
Depreciated Capital Assets:		
Property, Plant and Equipment	14,678,372	14,611,340
Less: Accumulated Depreciation	(4,162,163)	(3,901,110)
Total Noncurrent Assets	10,678,946	10,832,637
TOTAL ASSETS	\$ 11,699,314	\$ 11,692,103
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 82,111	\$ 44,090
Customer Deposits	55,650	57,241
Accrued Wages and Vacation Pay	19,698	19,782
Taxes Payable	6,781	8,299
Accrued Interest	63,939	66,548
Current Portion of Long-Term Debt	247,443	241,197
Total Current Liabilities	475,622	437,157
Long-term Liabilities		
Notes Payable, Net of Current Portion	4,272,350	4,532,794
City of Augusta Undercharge Payable	-	9,416
Total Long-term Liabilities	4,272,350	4,542,210
TOTAL LIABILITIES	4,747,972	4,979,367
Net Assets		
Investment in Capital Assets, Net of Related Debt	6,054,334	5,950,730
Restricted Net Assets	370,001	444,886
Unrestricted Net Assets	527,007	317,120
TOTAL NET ASSETS	6,951,342	6,712,736
TOTAL LIABILITIES AND NET ASSETS	\$ 11,699,314	\$ 11,692,103

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

BRACKEN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
For The Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Water Sales	\$ 1,429,350	\$ 1,346,094
Service Charges and Other Revenue	72,505	46,545
Total Operating Revenues	<u>1,501,855</u>	<u>1,392,639</u>
 OPERATING EXPENSES		
Water Purchased	366,164	381,368
Salaries	195,762	205,833
Employee Pensions and Benefits	48,422	48,925
Electricity	36,652	39,858
Maintenance	140	466
Operation Supplies and Expenses	27,744	24,189
Insurance	24,419	21,781
Office Supplies and Expense	31,462	22,146
Outside Services	45,216	23,392
Transportation	22,325	14,044
Miscellaneous	3,761	4,482
Regulatory Commission Expense	2,155	1,841
Depreciation and Amortization	264,150	268,263
Payroll Taxes	15,303	15,647
Total Operating Expenses	<u>1,083,675</u>	<u>1,072,235</u>
 OPERATING INCOME (LOSS)	 418,180	 320,404
 Nonoperating Revenues (Expenses)		
Customer Tap Fees	22,044	24,700
Interest Income	433	354
Interest Expense	(202,051)	(211,449)
Total Nonoperating Revenues (Expenses)	<u>(179,574)</u>	<u>(186,395)</u>
 NET INCOME (LOSS) BEFORE CONTRIBUTIONS	 238,606	 134,009
 STATE CONTRIBUTIONS IN AID OF CONSTRUCTION	 <u>-</u>	 <u>-</u>
 NET INCOME AFTER CONTRIBUTIONS	 238,606	 134,009
 NET ASSETS, BEGINNING OF YEAR	 <u>6,712,736</u>	 <u>6,578,727</u>
 NET ASSETS, END OF YEAR	 <u><u>\$ 6,951,342</u></u>	 <u><u>\$ 6,712,736</u></u>

The accompanying notes are an integral part of the financial statements

BRACKEN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
For The Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts From Customers	\$ 1,446,937	\$ 1,286,049
Payments to Suppliers	(529,333)	(573,361)
Payments to Employees	(259,571)	(266,932)
Other Receipts (Payments)	72,505	46,545
Net Cash Provided (Used) by Operating Activities	730,538	492,301
CASH FLOWS FROM INVESTING ACTIVITIES		
KIA Sinking Fund	58,071	(21,674)
KRWFC Sinking Fund	110	14,067
Interest Income	433	354
Net Cash Provided (Used) by Investing Activities	58,614	(7,253)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Paid on Capital Debt	(263,614)	(1,427,971)
Purchases of Capital Assets	(110,459)	(117,398)
Contributed Capital - Tap Fees	22,044	24,700
Interest Paid on Capital Debt	(204,660)	(211,449)
Net Cash Provided (Used) by Financing Activities	(556,689)	(1,732,118)
NET INCREASE (DECREASE) IN CASH	232,463	(1,247,070)
Cash and Cash Equivalents - At Beginning of Year	358,265	1,605,335
CASH AND CASH EQUIVALENTS - AT END OF YEAR	\$ 590,728	\$ 358,265
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 418,180	\$ 320,404
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	261,053	265,166
Amortization Expense	3,097	3,097
Change in Assets and Liabilities:		
Accounts Receivable, Net	19,178	(60,436)
Inventories	(3,769)	(391)
Prepaid Expense	(2,029)	367
Accounts Payable and Other Payables	36,503	(39,770)
Customer Deposits	(1,591)	391
Accrued Wages and Vacation	(84)	3,473
Net Cash Provided (Used) by Operating Activities	\$ 730,538	\$ 492,301

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

BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bracken County Water District was created and organized as a public body corporate in Bracken County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Bracken County Fiscal Court to operate a water distribution system.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Bracken County Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of government authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service and financing relations. The entities included in the financial statements are the general operations of the District. Bracken County Water District No. 1 merged with Western Bracken County Water District effective December 27, 1995 by order of the Public Service Commission.

Based on the foregoing criteria there are no other organizations included in these financial statements.

The District, presented as an enterprise fund, does not apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989.

Basis of Accounting

The accounts of the District are maintained on the accrual basis of accounting. The District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Inventory

Inventory is valued at the lower of cost or market.

Fixed Assets

Fixed assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Depreciation is applied on the straight-line method over the estimated useful life of the asset, using rates determined by reference to Utility Standards Rates (NARUC). Asset lives range

BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

from 75 years for system lines and plant, to 20 years for pumping equipment, 20 years for meters, and from 5 to 20 years for vehicles and office equipment. The provisions for depreciation in 2010 reflect those standard rates by asset class.

Unbilled Revenue

The District records revenue as billed to its customers on monthly meter reading cycle. At the end of each year, water service that has been rendered from the latest date of each meter reading to the year-end is unbilled.

Power Costs

The cost of power purchases for pumping water is charged to expense as used.

Income Tax Status

The District is a political subdivision created under Kentucky Revised Statutes 74.012, and as such, is exempt from federal and state income taxes. Accordingly, the financial statements include no provision for income taxes.

Cash Flows

For purposes of the statement of cash flows, the District uses the direct method of reporting net cash flow from operating activities, and considers certificates of deposit with a maturity of six months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Net Assets

Net assets represent the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

NOTE 2: CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash and cash equivalents consist of checking and savings accounts with local banks. The District does not have a deposit policy for custodial credit risk. As of December 31, 2011, \$420,749 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank	\$420,749
--	-----------

NOTE 3: LONG-TERM DEBT

On May 9, 1989, the Kentucky Infrastructure Authority made three loans to the Bracken County Water District. These loans retired the Farmers Home Administration Bonds, paid the bond interest from January 1 through May 9, 1989, and created three reserves at the Kentucky Infrastructure Authority (KIA). These loans were refinanced on September 8, 1993 at a lower rate of 5.38% to reduce net interest costs by \$134,853 over the life of the issue.

In 2004, the KIA restructured the 1989 loan by applying the reserve to be used for the final year of payment on the loan, in order to reduce the outstanding loan balance to \$200,000 and to adjust the interest rate to 3.00%. The effect of this adjustment, creating the KIA issue 2004 A/B was to apply \$194,447 of the debt service reserve, leaving \$61,354 in reserve, held by KIA, to be applied to the final year of the 2004 issue, which will mature in 2012.

In connection with two major construction projects, the District obtained new loans to pay for construction not otherwise covered by Federal or State grants or by local funds. On October 7, 2004, the District finalized a long-term loan with USDA Rural Development in the amount of \$980,000 for the Southwestern Project. On August 31, 2004, the District finalized a \$928,000 loan from KIA for the Berlin-Lenoxburg Project.

The Rural Development loan is for 40 years, 4.5%, principal payable on December 1 of each year and interest paid semi-annually. The KIA loan is for 20 years, 3.0%, principal and interest payable monthly.

The Delisle Curve and office building projects were funded by loans through the Kentucky Rural Water Finance Corporation (KRWFC). In April 2008, the District obtained short-term financing in the amount of \$3,085,000 to begin construction on these projects. In August 2008, bonds were issued in the amount of \$3,350,000 to payoff the short-term financing and for additional construction costs. The loan is for 20 years, 4.175% to 4.550%, principal and interest payments made monthly into the sinking fund at KRWFC.

BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2011 and 2010

NOTE 3: LONG-TERM DEBT (CONTINUED)

The following is a summary of changes in long-term debt for the year ended December 31, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$791,334, 02-10 KIA For construction through December 31, 2003, loan maximum \$928,000, interest at 3.00%	\$ 704,991	\$ -	\$ 41,198	\$ 663,793
\$200,000, 2004 A/B KIA dated 08/31/04, due 08/31/12, payable monthly, principal in varying annual amounts, interest at 3.00%	150,000	-	75,000	75,000
\$980,000, 2004 Rural Development dated 10/07/04, due 2044, principal payable annually on Dec. 1 and interest payable semi-annually at 4.5%	914,000	-	13,000	901,000
\$3,350,000, Kentucky Rural Water Finance Corp. Series 2007 D, dated 07/30/07, principal payable annually, interest payable semi-annually at 4.175-4.55%	<u>3,005,000</u>	<u>-</u>	<u>125,000</u>	<u>2,880,000</u>
	\$ 4,773,991	\$ -	\$ 254,198	\$ 4,519,793
Less: Current Maturities	<u>241,197</u>			<u>247,443</u>
Totals	<u>\$ 4,532,794</u>			<u>\$ 4,272,350</u>

The following is a schedule of long-term debt maturities:

	<u>Principal</u>	<u>Interest</u>
2012	247,443	171,499
2013	191,726	181,018
2014	199,047	173,283
2015	206,409	165,249
2016	212,812	156,937
2017-2021	1,210,628	646,706
2022-2026	1,361,728	374,368
2027-2031	386,000	140,962
2032-2036	177,000	94,253
2037-2041	225,000	49,162
2042-2043	102,000	7,898
	<u>\$ 4,519,793</u>	<u>\$ 2,161,335</u>

BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

NOTE 4: RESERVES

The Bracken County Water District is required to comply with the KIA and Rural Development bond agreements as follows:

A. SINKING FUND

On or before the 20th day of each month and after the required payment to the Operation and Maintenance Fund Account, the District is required to set aside an amount into a special account known as the "Bracken County Water District Waterworks, Bond and Interest Sinking Fund". The amount to be set aside and paid into the Sinking Fund each month shall be sums equal to the following amounts:

- (1) A sum equal to one-sixth of the interest becoming due on the next succeeding interest due date, with respect to all outstanding Bond Issues.

- (2) A sum equal to one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding January 1.

The District had set aside \$223,182 at December 31, 2011 into the restricted account. Deposits were made to the sinking fund on a monthly basis as required in (1) and (2).

B. DEPRECIATION FUND

The District is required to deposit \$470 and \$310 for Rural Development and KIA each month into the Depreciation Fund account as well as the proceeds from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of extensions, additions and/or improvements to the project, plus the proceeds of any property damage insurance not immediately used to replace damaged or destroyed property. Monies in the Depreciation Fund shall be available and shall be withdrawn and used, upon appropriate certification to Rural Development and KIA, for the purpose of paying the cost of constructing replacements, extensions, additions and/or improvements to the project. Whenever the balance in the Depreciation Fund shall equal \$56,400 (\$37,000 for KIA) the monthly payments may be discontinued, or by the order of the governing body of the District, may be diverted into the Sinking Fund Account to be held as a part of the Sinking Fund Reserve and may then be used to redeem Bonds; however, the payments into the Depreciation Fund must be resumed whenever necessary to restore the balance. The District had set aside \$70,954 at December 31, 2011 into restricted accounts.

BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2011 and 2010

NOTE 5: FIXED ASSETS

Capital asset activity for the fiscal year ended December 31, 2011 was as follows:

<u>Business-Type Activities</u>	Balance Jan. 1, 2011	Additions	Deductions	Balance Dec. 31, 2011
<i>Cost:</i>				
Land	\$ 14,491	\$ -	\$ -	\$ 14,491
Plant in Service	14,202,537	65,677	-	14,268,214
Other Depreciable Assets	408,803	1,355	-	410,158
Construction in Progress	-	43,427	-	43,427
Totals at historical cost	<u>14,625,831</u>	<u>110,459</u>	<u>-</u>	<u>14,736,290</u>
<i>Less accumulated depreciation:</i>				
Land & Land Rights	835	-	-	835
Plant in Service	3,677,337	231,944	-	3,909,281
Other Depreciable Assets	222,938	29,109	-	252,047
Total accumulated depreciation	<u>3,901,110</u>	<u>261,053</u>	<u>-</u>	<u>4,162,163</u>
Business-Type Activities Capital Assets - Net	<u>\$ 10,724,721</u>	<u>\$ (150,594)</u>	<u>\$ -</u>	<u>\$ 10,574,127</u>

Capital asset activity for the fiscal year ended December 31, 2010 was as follows:

<u>Business-Type Activities</u>	Balance Jan. 1, 2010	Additions	Deductions	Balance Dec. 31, 2010
<i>Cost:</i>				
Land	\$ 14,491	\$ -	\$ -	\$ 14,491
Plant in Service	14,103,339	99,198	-	14,202,537
Other Depreciable Assets	390,603	18,200	-	408,803
Construction in Progress	-	-	-	-
Totals at historical cost	<u>14,508,433</u>	<u>117,398</u>	<u>-</u>	<u>14,625,831</u>
<i>Less accumulated depreciation:</i>				
Land & Land Rights	835	-	-	835
Plant in Service	3,448,394	228,943	-	3,677,337
Other Depreciable Assets	186,715	36,223	-	222,938
Total accumulated depreciation	<u>3,635,944</u>	<u>265,166</u>	<u>-</u>	<u>3,901,110</u>
Business-Type Activities Capital Assets - Net	<u>\$ 10,872,489</u>	<u>\$ (147,768)</u>	<u>\$ -</u>	<u>\$ 10,724,721</u>

BRACKEN COUNTY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2011 and 2010

NOTE 6: SURCHARGES

On March 5, 1997, in connection with the merger of the Western Bracken Water District into Bracken County Water District, the Public Service Commission ordered that customers pay a surcharge on their water bills in order to retire long-term debt to KIA and First National Bank of Brooksville. The District stopped collecting the surcharge in February 2009 due to an adequate balance in the account to cover future debt payments.

The following is a summary of transactions related to the surcharge accounts:

Separate Cash Account-- Beginning of Year	\$ 41,001
Collections from Customers	-0-
Interest Earned	25
Loan Payments:	
KIA	(24,728)
First National Bank of Brooksville	<u>-0-</u>
Separate Cash Account – End of Year	<u>\$ 16,298</u>

NOTE 7: ECONOMIC DEPENDENCY

The District purchases all of its water from the District of Augusta Water Treatment Plant, through a long-term contract at rates determined annually on the basis of operating costs of the Water Treatment Plant.

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of losses related to torts - theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by the District's managements.

BRACKEN COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For the Years Ended December 31, 2011 and 2010

NOTE 9: CONSTRUCTION COMMITMENT

The District has committed to construction of two projects, a system upgrade project (\$621,000) and system improvement and upgrade project (\$475,000). These projects will be funded by KIA loans. The estimated costs and funding sources for the projects will be the following:

KIA – Fund C Loan	\$ 621,000	\$ -
KIA – Fund B Loan	<u>-</u>	<u>475,000</u>
	<u>\$ 621,000</u>	<u>\$ 475,000</u>

Cost of the Project is estimated as follows:

Engineering	\$ 48,200	\$ 67,000
Construction	389,250	350,000
Other Costs	23,000	17,250
Contingency	<u>160,550</u>	<u>40,750</u>
	<u>\$621,000</u>	<u>\$475,000</u>

SUPPLEMENTAL INFORMATION

BRACKEN COUNTY WATER DISTRICT
 SUPPLEMENTAL INFORMATION REQUIRED BY RURAL DEVELOPMENT
 December 31, 2011

Schedule of Insurance in Force

<u>Insurance Coverage</u>	<u>Amount of Coverage</u>	<u>Expiration Date of Policy</u>
General Liability	\$3,000,000	07-01-12
Property - Building & Contents	\$4,446,800	07-01-12
Equipment & Vehicles	\$ 318,139	07-01-12
Treasurer and Commissioners	\$300,000 and \$10,000	04-25-12
Workers Compensation	Statutory	07-01-12

Aged Accounts Receivable

A detailed schedule of aged accounts receivable is prepared on a monthly basis. At December 31, 2011, accounts receivable were aged as follows:

	<u>Number Of Accounts</u>	<u>Amount</u>
Current	2,379	\$ 131,526
Over 30 Days	-	-
Over 60 Days	40	1,831
Over 90 Days	<u>182</u>	<u>12,599</u>
Total	<u>2,601</u>	<u>\$ 145,956</u>

During 2011, the District carried a reserve for possible uncollectible accounts of \$13,055. Accounts in arrears have been collected or are covered by deposits.

The District had a total of 2,489 customers at December 31, 2011. Of these customers, 2,467 were residential, 20 were commercial, and 2 were resale.



Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

**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**

Board of Commissioners
Bracken County Water District
Brooksville, Kentucky 41004

I have audited the financial statements of Bracken County Water District as of and for the year ended December 31, 2011, which collectively comprise the Bracken County Water District's basic financial statements and have issued my report thereon dated June 15, 2012. I conducted my 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 my audit, I considered Bracken County Water District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bracken County Water District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Bracken County Water District's internal control over financial reporting.

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 a 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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

2202 Old Main Street, Maysville, KY 41056

Phone: (606) 759-0606 Fax: (606) 759-8606 Email: pstanfield@windstream.net

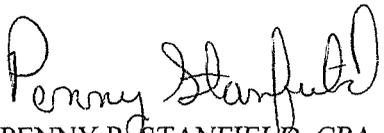
Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bracken County Water District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of Bracken County Water District in a separate letter dated June 15, 2012.

This report is intended solely for the information and use of the Board of Commissioners and management, and appropriate grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.



PENNY R. STANFIELD, CPA & CO., PLLC
Maysville, Kentucky

June 15, 2012