



BULLOCK PEN WATER DISTRICT
FINANCIAL STATEMENTS

For the Years Ended December 31, 2011 and 2010

BULLOCK PEN WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2011 and 2010

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BULLOCK PEN WATER DISTRICT
FINANCIAL STATEMENTS
December 31, 2011 and 2010

Board of Commissioners

Bobby Burgess, Chairman

Charles Givin, Treasurer

Jimmie King, Secretary

Billy Frank Simpson, Commissioner

Andrea Walton, Commissioner

Of Counsel

Thomas R. Nienaber, Esq.

Administration

William L. Catlett, General Manager



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

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

Independent Auditor's Report

To the Board of Commissioners Bullock Pen Water District

We have audited the accompanying balance sheets of the Bullock Pen Water District (District) as of December 31, 2011 and 2010 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 audits 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 Bullock Pen Water District as of December 31, 2011 and 2010, 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 April 6, 2012 on our consideration of the Bullock Pen Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 audits.

The management's discussion and analysis on pages 3-7 and the supplementary schedules on page 26 are not a required part of the basic financial statements, but are 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
April 6, 2012

BULLOCK PEN WATER DISTRICT BALANCE SHEETS December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 819,164	\$ 457,719
Accounts receivable		
Customers, net of allowance	581,581	563,820
Other	31,037	18,528
Restitution receivable - Thurman	1,200	-
Inventories	130,471	175,138
Prepays	55,288	34,825
Unamortized expenses	23,140	23,694
Total Current Assets	<u>1,641,881</u>	<u>1,273,724</u>
Restricted Assets		
Debt service reserve fund - Kentucky Infrastructure Authority	18,053	19,689
Current reserve fund - USDA Rural Development	148,363	147,807
Debt payment account	345,629	272,888
Construction fund	-	15,391
Accounts receivable - surcharges	12,318	10,864
Customer deposits	165,011	153,996
Maintenance and replacement reserve	430,661	369,883
Total Restricted Assets	<u>1,120,035</u>	<u>990,518</u>
Noncurrent Assets		
Restitution receivable - Thurman	8,316	-
Miscellaneous deferred charges		
Unamortized issue costs	91,900	105,380
Unamortized tap-in expense	46,946	48,579
Deferred rate case expense	16,054	24,081
Total Noncurrent Assets	<u>163,216</u>	<u>178,040</u>
Capital Assets		
Land, building, transmission system, equipment, and vehicles	25,633,274	25,508,089
Construction in progress	44,433	31,795
Total utility plant in service	<u>25,677,707</u>	<u>25,539,884</u>
Less: accumulated depreciation	<u>(6,935,663)</u>	<u>(6,404,648)</u>
Total Capital Assets, net of depreciation	<u>18,742,044</u>	<u>19,135,236</u>
TOTAL ASSETS	<u><u>\$ 21,667,176</u></u>	<u><u>\$ 21,577,518</u></u>

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

BULLOCK PEN WATER DISTRICT BALANCE SHEETS December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 135,176	\$ 156,717
Accrued liabilities	<u>70,083</u>	<u>55,838</u>
Total Current Liabilities	<u>205,259</u>	<u>212,555</u>
Current Liabilities Payable From Restricted Assets		
Revenue bonds - current portion	178,000	166,000
Notes payable - current portion	216,698	232,683
Lease obligations - current portion	171,206	173,781
Customer deposits	151,036	140,537
Accrued interest payable	54,962	57,904
Accounts payable - construction	<u>5,000</u>	<u>100,515</u>
Total Current Liabilities Payable From Restricted Assets	<u>776,902</u>	<u>871,420</u>
Long-Term Obligations		
Bonds	2,195,000	2,373,000
Notes payable	3,040,174	3,210,757
Capital lease obligations	<u>848,808</u>	<u>1,024,585</u>
Total Long-Term Obligations	<u>6,083,982</u>	<u>6,608,342</u>
TOTAL LIABILITIES	<u>7,066,143</u>	<u>7,692,317</u>
NET ASSETS		
Invested in capital assets, net of related debt	12,288,892	12,073,844
Restricted	628,183	565,324
Unrestricted	<u>1,683,958</u>	<u>1,246,033</u>
TOTAL NET ASSETS	<u>14,601,033</u>	<u>13,885,201</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,667,176</u>	<u>\$ 21,577,518</u>

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

BULLOCK PEN WATER DISTRICT STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS For the Years Ended December 31, 2011 and 2010
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	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Water revenue	\$ 3,895,879	\$ 4,010,790
Management fees	<u>122,939</u>	<u>142,093</u>
TOTAL OPERATING REVENUES	<u>4,018,818</u>	<u>4,152,883</u>
OPERATING EXPENSES		
Water purchased	921,669	968,851
Operations, maintenance, and administrative expenses	1,697,225	1,727,357
Depreciation and amortization	<u>573,314</u>	<u>533,908</u>
TOTAL OPERATING EXPENSES	<u>3,192,208</u>	<u>3,230,116</u>
OPERATING INCOME	<u>826,610</u>	<u>922,767</u>
NON-OPERATING INCOME (EXPENSE)		
Investment income	5,450	7,711
Loss on sale of assets	(105)	(1,436)
Interest on long-term obligations	(251,287)	(249,096)
Amortization of bond discounts and expenses	<u>(14,034)</u>	<u>(13,270)</u>
NET NON-OPERATING INCOME (EXPENSE)	<u>(259,976)</u>	<u>(256,091)</u>
NET INCOME	566,634	666,676
CAPITAL CONTRIBUTIONS	<u>149,198</u>	<u>169,876</u>
CHANGE IN NET ASSETS	715,832	836,552
NET ASSETS, JANUARY 1	<u>13,885,201</u>	<u>13,048,649</u>
NET ASSETS, DECEMBER 31	<u><u>\$ 14,601,033</u></u>	<u><u>\$ 13,885,201</u></u>

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

BULLOCK PEN WATER DISTRICT STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 3,979,032	\$ 4,011,399
Paid to suppliers for goods and services	(1,588,354)	(1,639,389)
Paid to or on behalf of employees for services	(1,013,632)	(1,114,640)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,377,046</u>	<u>1,257,370</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of fixed assets	(267,933)	(1,152,081)
Interest on investments	5,450	7,711
Proceeds from sale of fixed assets	1,851	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>(260,632)</u>	<u>(1,144,370)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributed capital received	149,198	130,312
Increase in customer deposits	10,499	14,771
Interest paid on long term debt	(254,229)	(295,459)
Loan proceeds	45,384	1,993,866
Principal paid on long term debt	(576,304)	(1,554,126)
Payment of rate case expenses	-	(4,000)
(Increase)/decrease in restricted assets	(129,517)	(21,362)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(754,969)</u>	<u>264,002</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	361,445	377,002
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>457,719</u>	<u>80,717</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 819,164</u>	<u>\$ 457,719</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income/(loss)	\$ 826,610	\$ 922,767
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	573,314	533,908
Change in operating assets and liabilities		
Decrease (increase) in receivables	(39,786)	(141,484)
Decrease (increase) in inventories	44,667	(25,947)
Decrease (increase) in prepaid assets	(20,463)	4,079
Increase (decrease) in accounts payable	(21,541)	13,200
Increase (decrease) in other accrued liabilities	14,245	(49,153)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,377,046</u>	<u>\$ 1,257,370</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ 254,229</u>	<u>\$ 295,459</u>
Non-cash contribution to fixed assets	<u>\$ -</u>	<u>\$ 42,067</u>

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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010
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NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Regulatory Requirements

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

Basis of Accounting

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

The District has adopted GASB Statements 33 through 49, along with related interpretations, issued through December 31, 2011. 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 sheets. 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.

Cash Equivalents

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

<p>BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010</p>

Inventories

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

Distribution System, Building, and Equipment

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

Construction in Progress

Capitalizable costs incurred on projects which are not in use or ready for use at year end are held as "Construction in Progress". When the asset under construction is ready for use, related costs are transferred to the asset account. The Construction in Progress account was \$44,433 and \$31,795 at December 31, 2011 and 2010, respectively.

Miscellaneous Deferred Charges

The costs of issuance of the District's Revenue Bonds are deferred and recorded as unamortized issue costs and are being amortized over the life of the bond issues. The District amortizes expenses related to tapping into the Northern Kentucky Water District. The District also amortizes costs associated with the preparation, filing, and completion of its rate case proceedings.

Capital Contributions

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District's income statement. These contributions represent customer tap-in fees and other contributions to recover the costs of extensions of the distribution system. The District also includes estimated cost figures for those lines contributed by outside contractors. During 2011 and 2010 these contributions consisted of the following:

Source	2011	2010
Tap in fees and construction costs paid by new customers	\$ 60,171	\$ 48,000
Surcharges - Phases 5, 6, 7, 8, and 10	89,026	82,312
Total income received in aid of construction	149,197	130,312
Waterlines and related infrastructure received without cost	-	39,564
Total capital contributions	\$ 149,197	\$ 169,876

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,

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010
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liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-operating Revenues

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

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits consist of checking accounts and certificates of deposit. They are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the balance sheets as "Cash and Cash Equivalents" and "Restricted Assets". At December 31, 2011 and 2010, the bank balances were \$1,926,881 and \$1,437,373, respectively, which were the same as the carrying amount.

Funds in excess of current expenses or obligations of the District are invested in certificates of deposit issued by, or other interest bearing accounts of, banks that are insured by the Federal Deposit Insurance Corporation.

The District has amounts on deposit with two banks in excess of FDIC insured amounts. The banks have pledged collateral agreements to cover such excess amounts. At December 31, 2011, all amounts held on deposit by the District were sufficiently collateralized.

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. The District's investments are categorized to give an indication of the level of risk assumed by the District at December 31, 2011. 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.

<p>BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010</p>

At December, 31, 2011	Category 1	Category 2	Category 3	Fair Value/ Carrying Cost	Cost
Operation and maintenance	\$ 819,164	\$ -	\$ -	\$ 819,164	\$ 819,164
Customer deposits	165,011	-	-	165,011	165,011
Debt payment accounts	157,337	-	206,345	363,682	363,682
Current and replacement reserve	579,024	-	-	579,024	579,024
Construction funds	-	-	-	-	-
Total	<u>\$ 1,720,536</u>	<u>\$ -</u>	<u>\$ 206,345</u>	<u>\$ 1,926,881</u>	<u>\$ 1,926,881</u>

In accordance with GASB 40, the District has \$188,292 in bond sinking funds and unused construction funds held in investments in federally backed US Treasury Obligations rated AAA/Aaa. The market risk on these investments is negligible. The District also has \$18,053 held in fiduciary trust by the Kentucky Infrastructure Authority.

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,

	2011	2010
Accounts receivable	\$ 5,290	\$ 3,278
Construction accounts payable	-	(100,515)
Construction fund	-	15,391
Current reserve fund - USRDA	143,400	143,400
Debt payment account	205,845	197,674
Accrued interest payable	(37,316)	(57,904)
Portion of bonds payable	(114,000)	-
Maintenance and replacement	<u>424,964</u>	<u>364,000</u>
Total Restricted Net Assets	<u>\$ 628,183</u>	<u>\$ 565,324</u>

NOTE 4 – UTILITY PLANT IN SERVICE

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

<p>BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010</p>

Asset Type	Balance at	Additions	Retirements	Balance at
	December 31,			December 31,
	2010			2011
Land	\$ 161,757	\$ -	\$ -	\$ 161,757
Buildings and improvements	1,494,323	47,607	(1,708)	1,540,222
Construction in progress	31,795	72,940	(60,302)	44,433
Distribution reservoirs and standpipes	2,127,209	-	-	2,127,209
Furniture and fixtures	72,545	3,630	-	76,175
Hydrants	1,273,130	-	-	1,273,130
Meter system and installation	3,897,054	51,267	-	3,948,321
Other plant and misc. equipment	331,996	12,356	(12,430)	331,922
Pumping equipment	46,238	2,134	-	48,372
Tools and lab equipment	54,580	12,036	(10,225)	56,391
Transmission mains	15,678,136	17,496	-	15,695,632
Transportation equipment	277,880	3,738	(14,000)	267,618
Water treatment equipment	93,241	14,016	(732)	106,525
Subtotal	25,539,884	237,220	(99,397)	25,677,707
Accumulated depreciation	(6,404,648)	(563,654)	32,639	(6,935,663)
Fixed Assets, net	<u>\$ 19,135,236</u>	<u>\$ (326,434)</u>	<u>\$ (66,758)</u>	<u>\$ 18,742,044</u>

During 2011, the District capitalized \$0 of the depreciation expense on the backhoe used for setting meters. In 2010, the District capitalized \$2,503, reducing depreciation expense from \$526,751 to \$524,248.

NOTE 5 – BONDED INDEBTEDNESS

Water Works System Revenue Bonds, U.S. Department of Agriculture 1978

On December 21, 1978, the District sold \$1,330,000 of revenue bonds for the purpose of financing the costs of major water system facilities. All bonds mature on January 1st of each year beginning in 1981 and ending in 2018. Interest is payable on January 1st and July 1st of each year and principal is due in annual installments on January 1st through 2018. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2012	5.00%	\$ 59,000	\$ 20,000	\$ 79,000
2013	5.00%	62,000	17,050	79,050
2014	5.00%	65,000	13,950	78,950
2015	5.00%	68,000	10,700	78,700
2016	5.00%	71,000	7,300	78,300
2017-2018	5.00%	75,000	3,750	78,750
Totals		<u>\$ 400,000</u>	<u>\$ 72,750</u>	<u>\$ 472,750</u>

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

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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010
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The remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2012	5.00%	\$ 5,000	\$ 2,950	\$ 7,950
2013	5.00%	5,000	2,700	7,700
2014	5.00%	5,000	2,450	7,450
2015	5.00%	5,000	2,200	7,200
2016	5.00%	6,000	1,950	7,950
2017-2022	5.00%	33,000	5,100	38,100
Totals		<u>\$ 59,000</u>	<u>\$ 17,350</u>	<u>\$ 76,350</u>

Kentucky Rural Water Finance Corporation Bonds, Series 2001C - Surcharge

On May 15, 2002, the District participated in the Kentucky Rural Water Finance Corporation's first Flexible Term Finance Program Remarketing. The District's total share of the bond proceeds was \$715,000 for Phase V of the District's waterline extension; \$374,000 of that amount was funded by customer surcharges. These surcharges are paid by customers who benefited from the waterline extension and are used to provide refunding for the bonds. All surcharge bonds mature on February 1st of each year beginning in 2004 and ending in 2027. Interest is payable on February 1st and August 1st of each year and principal is due in annual installments on February 1st through 2027. The remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2012	5.15-5.45%	\$ 14,000	\$ 15,459	\$ 29,459
2013	5.15-5.45%	14,000	14,738	28,738
2014	5.15-5.45%	13,000	14,043	27,043
2015	5.15-5.45%	13,000	13,373	26,373
2016	5.15-5.45%	16,000	12,627	28,627
2017-2027	5.15-5.45%	225,000	73,523	298,523
Totals		<u>\$ 295,000</u>	<u>\$ 143,763</u>	<u>\$ 438,763</u>

Kentucky Rural Water Finance Corporation Revenue Bonds, Series 2001C - Phase V

As mentioned above, on May 15, 2002, the District participated in the Kentucky Rural Water Finance Corporation's first Flexible Term Finance Program Remarketing. The District's total share of the bond proceeds was \$715,000 for Phase V of the District's waterline extension; \$341,000 of that amount was funded by District revenue. The Revenue Bonds are refunded by District water revenue. All bonds mature on February 1st of each year beginning in 2004 and ending in 2027. Interest is payable on February 1st and August 1st of each year and principal is due in annual installments on February 1st through 2027.

<p>BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010</p>

The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2012	5.15-5.45%	\$ 11,000	\$ 13,937	\$ 24,937
2013	5.15-5.45%	11,000	13,371	24,371
2014	5.15-5.45%	12,000	12,779	24,779
2015	5.15-5.45%	12,000	12,161	24,161
2016	5.15-5.45%	14,000	11,491	25,491
2017-2027	5.15-5.45%	205,000	67,041	272,041
Totals		\$ 265,000	\$ 130,780	\$ 395,780

Kentucky Rural Water Finance Corporation Revenue Bonds, Series 2001C - Refinancing

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2012	4.03-5.00%	\$ 29,000	\$ 15,432	\$ 44,432
2013	4.15-5.00%	30,000	14,226	44,226
2014	4.15-5.00%	31,000	12,960	43,960
2015	4.40-5.00%	33,000	11,591	44,591
2016	4.50-5.00%	33,000	10,123	43,123
2017-2021	4.60-5.00%	195,000	24,800	219,800
Totals		\$ 351,000	\$ 89,132	\$ 440,132

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2012	4.12-4.52%	\$ 31,000	\$ 10,447	\$ 41,447
2013	4.52%	32,000	9,085	41,085
2014	4.52%	35,000	7,571	42,571
2015	4.52%	35,000	5,989	40,989
2016	4.52%	40,000	4,294	44,294
2017-2018	4.52%	75,000	3,503	78,503
Totals		\$ 248,000	\$ 40,889	\$ 288,889

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

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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010
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Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2012	3.50-4.12%	\$ 6,000	\$ 2,131	\$ 8,131
2013	3.62-4.12%	7,000	1,898	8,898
2014	4.12%	7,000	1,627	8,627
2015	4.12%	7,000	1,339	8,339
2016	4.12%	7,000	1,051	8,051
2017-2019	4.12%	22,000	1,401	23,401
Totals		<u>\$ 56,000</u>	<u>\$ 9,447</u>	<u>\$ 65,447</u>

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2012	4.09-4.59%	\$ 15,000	\$ 18,997	\$ 33,997
2013	4.09-4.59%	15,000	18,383	33,383
2014	4.09-4.59%	16,000	17,749	33,749
2015	4.09-4.59%	17,000	17,074	34,074
2016	4.09-4.59%	17,000	16,379	33,379
2017-2031	4.09-4.59%	367,000	135,534	502,534
Totals		<u>\$ 447,000</u>	<u>\$ 224,116</u>	<u>\$ 671,116</u>

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2012	4.09-4.59%	\$ 8,000	\$ 10,717	\$ 18,717
2013	4.09-4.59%	9,000	10,369	19,369
2014	4.09-4.59%	9,000	10,001	19,001
2015	4.09-4.59%	9,000	9,633	18,633
2016	4.09-4.59%	10,000	9,245	19,245
2017-2031	4.09-4.59%	207,000	76,161	283,161
Totals		<u>\$ 252,000</u>	<u>\$ 126,126</u>	<u>\$ 378,126</u>

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010
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NOTE 6 – NOTES PAYABLE

Kentucky Infrastructure Authority - 1991

On August 29, 1991, the District signed a note from the Kentucky Infrastructure Authority for \$437,655. Water system revenues serve as collateral for this loan. This note was refunded and refinanced on December 19, 2002 and again on August 1, 2004. The most recent note carries a variable interest rate between 2.25-4.84% and matured on June 1, 2011. This note has been paid off, and therefore has a balance of \$0 at December 31, 2011.

Kentucky Infrastructure Authority - 1993

On April 7, 1993, the District signed a note from the Kentucky Infrastructure Authority for \$582,599. Water system revenues serve as collateral for this loan. This note was refunded and refinanced on December 19, 2002 and again on August 1, 2004. The most recent note carries a variable interest rate between 2.25-5.19% and matures on June 1, 2013. The remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2012	5.04-5.19%	\$ 35,000	\$ 2,698	\$ 37,698
2013	5.19%	17,500	908	18,408
Totals		<u>\$ 52,500</u>	<u>\$ 3,606</u>	<u>\$ 56,106</u>

Kentucky Infrastructure Authority - Drinking Water Supply Project 2002

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2012	3.80%	\$ 16,793	\$ 8,376	\$ 25,169
2013	3.80%	17,438	7,731	25,169
2014	3.80%	18,106	7,063	25,169
2015	3.80%	18,801	6,368	25,169
2016	3.80%	19,522	5,647	25,169
2017-2022	3.80%	<u>133,906</u>	<u>17,105</u>	<u>151,011</u>
Totals		<u>\$ 224,566</u>	<u>\$ 52,290</u>	<u>\$ 276,856</u>

Kentucky Infrastructure Authority - Drinking Water Supply Project 2003

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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010
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The remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2012	3.00%	\$ 56,322	\$ 24,790	\$ 81,112
2013	3.00%	58,024	23,088	81,112
2014	3.00%	59,778	21,334	81,112
2015	3.00%	61,585	19,527	81,112
2016	3.00%	63,446	17,666	81,112
2017-2024	3.00%	541,145	67,188	608,333
Totals		<u>\$ 840,300</u>	<u>\$ 173,593</u>	<u>\$ 1,013,893</u>

Kentucky Infrastructure Authority – Drinking Water Supply Project 2010

During 2009, the District executed a drawdown loan with the Kentucky Infrastructure Authority in order to finance its Phase 6 waterline extension project. The District continued to draw on this loan during 2011. Water system revenues serve as collateral for this loan. The loan carries an interest rate of 3.0% and matures on December 1, 2030. The balance on this loan at December 31, 2011 is \$2,111,284. The remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2012	3.00%	\$ 83,877	\$ 62,714	\$ 146,591
2013	3.00%	86,412	60,179	146,591
2014	3.00%	89,024	57,567	146,591
2015	3.00%	91,715	54,876	146,591
2016	3.00%	94,487	52,104	146,591
2017-2030	3.00%	1,665,769	386,509	2,052,278
Totals		<u>\$ 2,111,284</u>	<u>\$ 673,949</u>	<u>\$ 2,785,233</u>

Forcht Bank – Vehicle Notes Payable

On June 28, 2010, the District executed a loan payable for a 2010 Chevrolet Silverado truck in the amount of \$39,599. Payments of \$19,795 were made on this loan during the year. This loan carries an interest rate of 4.50%, and matures on June 28, 2012. The vehicle serves as collateral for this loan.

Remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2012	4.50%	\$ 10,235	\$ 135	\$ 10,370
Totals		<u>\$ 10,235</u>	<u>\$ 135</u>	<u>\$ 10,370</u>

On October 5, 2010, the District executed a second loan payable for a 2011 Ford Ranger truck in the amount of \$17,388. Payments of \$7,864 were made on this loan during the year. This loan carries an interest rate of 4.50%, and matures on October 4, 2012. The vehicle serves as collateral for this loan.

<p>BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010</p>

Remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2012	4.50%	\$ 7,435	\$ 154	\$ 7,589
Totals		\$ 7,435	\$ 154	\$ 7,589

Software Solutions – Note Payable

On May 29, 2010, the District executed a loan payable for the purchase and integration of new software, through Software Solutions Incorporated, in the amount of \$21,105. Payments of \$7,035 were made on this loan during the year. This loan carries no interest, and matures on May 29, 2013. The software serves as collateral for this loan. Remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2012	0.00%	\$ 7,035	\$ -	\$ 7,035
2013	0.00%	3,517	-	3,517
Totals		\$ 10,552	\$ -	\$ 10,552

Forcht Bank - Line of Credit

On April 1, 2004, the District opened a \$300,000 line of credit from Forcht Bank (formerly Eagle Bank) in anticipation of a 2005 bond issue. The loan was used as interim financing to fund early portions of the Phase 10 waterline extension project. System revenues serve as collateral for this loan. As of December 2010, the District had paid off the balance on this line of credit in its entirety. Therefore, this line of credit carried a balance of \$0 at both December 31, 2011 and 2010.

NOTE 7 – CAPITAL LEASES

Kentucky Association of Counties Leasing Trust - 1995

On September 7, 1995, the District signed a capital lease agreement for \$1,500,000 for a water tower, waterlines and associated infrastructure. The leased assets are included on the fixed asset summary in Note 4, and also serve as collateral for this debt. The lease was set to mature on January 20, 2019, but the balance of \$877,000 was paid off early in 2010 by the execution of a new capital lease through the Grant County Fiscal Court.

Kentucky Association of Counties Leasing Trust - 1996

On November 20, 1996 the District signed a capital lease agreement for \$336,000 for water lines, meters, and hydrants. The fixed assets are included in transmission mains, meters, and hydrants on the fixed asset summary in Note 4, and also serve as collateral for this debt. The lease was set to mature on January 20, 2016, but the balance of \$171,000 was paid off early in 2010 by the execution of a new capital lease through the Grant County Fiscal Court.

Grant County Fiscal Court - 2010

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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010
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collateral for this debt. The lease matures on February 1, 2019. Amortization of the lease is included in the depreciation expense. Future minimum lease payments are as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Lease Payment
2012	1.40-3.30%	\$ 115,000	\$ 21,413	\$ 136,413
2013	1.70-3.30%	120,000	19,588	139,588
2014	2.00-3.30%	120,000	17,368	137,368
2015	2.40-3.30%	120,000	14,728	134,728
2016	3.00-3.30%	135,000	11,263	146,263
2017-2019	3.00-3.30%	290,000	14,306	304,306
Totals		<u>\$ 900,000</u>	<u>\$ 98,666</u>	<u>\$ 998,666</u>

Old National Bank - 2003

On September 1, 2003 the District signed a capital lease agreement for \$477,050 for water meter automated read heads. The interest rate is 4.5%. These read heads are included in meters on the fixed asset summary in Note 4, and also serve as collateral on this debt. The lease matures on February 5, 2014. Amortization of the lease is included in the depreciation expense. Future minimum lease payments are as follows:

Year	Principal Amount	Interest Amount	Total Lease Payment
2012	\$ 55,996	\$ 4,461	\$ 60,457
2013	58,569	1,888	60,457
2014	5,449	56	5,505
Totals	<u>\$ 120,014</u>	<u>\$ 6,405</u>	<u>\$ 126,419</u>

Old National Bank - 2004

On March 5, 2004 the District signed a capital lease agreement for \$170,450 for water meter automated read heads. The interest rate is 4.5%. These read heads are included in meters on the fixed asset summary in Note 4, and also serve as collateral on this debt. The lease matured on March 5, 2011 and final payment was made during the year.

<p>BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010</p>

NOTE 8 – INDEBTEDNESS SUMMARY

The changes in long-term indebtedness for 2011 are as follows:

Debt Instrument	Balance at December 31, 2010	Additions	Retirements	Balance at December 31, 2011
USDA revenue bonds of 1978	\$ 456,000	\$ -	\$ (56,000)	\$ 400,000
USDA revenue bonds of 1982	63,000	-	(4,000)	59,000
KRW series 2001C bonds - Surcharge	305,000	-	(10,000)	295,000
KRW series 2001C bonds - Phase V	275,000	-	(10,000)	265,000
KRW series 2001C bonds - Refinancing	380,000	-	(29,000)	351,000
KRW series 2004D bonds - Phase 7	62,000	-	(6,000)	56,000
KRW series 2001G bonds - Dry Ridge	277,000	-	(29,000)	248,000
KRW series 2005B bonds - Phase 8	461,000	-	(14,000)	447,000
KRW series 2005B bonds - Phase 10	260,000	-	(8,000)	252,000
Note payable - KIA 1991	12,500	-	(12,500)	-
Note payable - KIA 1993	85,000	-	(32,500)	52,500
Note payable - KIA 2002	240,739	-	(16,173)	224,566
Note payable - KIA 2003	894,970	-	(54,670)	840,300
Note payable - Software Solutions	17,587	-	(7,035)	10,552
Note payable - 2010 Chevrolet Silverado	30,030	-	(19,795)	10,235
Note payable - 2011 Ford Ranger	15,299	-	(7,864)	7,435
Construction loan - KIA	2,147,316	45,384	(81,416)	2,111,284
Capital lease - Grant County Fiscal Court	1,020,000	-	(120,000)	900,000
Capital lease - Old National 2003	173,751	-	(53,737)	120,014
Capital lease - Old National 2004	4,614	-	(4,614)	-
Subtotal	7,180,806	\$ 45,384	\$ (576,304)	6,649,886
Less: current portion of long-term debt	(572,464)			(565,904)
Total Long-Term Indebtedness	\$ 6,608,342			\$ 6,083,982

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM

County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System of Kentucky (CERS). 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, 2011 and 2010 plan members were required to contribute 5% of their annual creditable compensation. Members hired on or after September 1, 2008 are required to contribute 6%. The additional 1% is considered a health insurance contribution.

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 accordance with actuarial basis adopted by the Board. From January until July 2011 the employer contribution rate was 16.93%. From July until December 2011, the employer rate was

<p>BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2011 and 2010</p>

18.96%. From January until July 2010 the employer contribution rate was 16.16%. From July until December 2010, the employer rate was 16.93%.

The District has made 100% of all required contributions for each of the years ended December 31, 2011, 2010, 2009, 2008, and 2007. Information about the contributions made by the District and the employees, as well as gross payroll and covered payroll follows:

	2011	2010	2009	2008	2007
Gross Payroll - All Employees	\$684,217	\$ 685,089	\$660,208	\$763,492	\$703,985
Gross Payroll - Covered Employees	634,083	648,571	620,617	701,020	660,940
Employee Contribution	31,353	32,691	31,051	35,051	33,047
Employer Contribution (expense)	109,960	107,283	92,028	106,700	97,345

NOTE 10 – RELATED PARTY TRANSACTIONS

The staff of the Bullock Pen Water District operates the Grant County Sewer District as well. The District receives a management fee from the Grant County Sewer District for these services. This fee was \$122,939 and \$142,093 in 2011 and 2010, respectively. The Chairman of the Board of Commissioners and two other commissioners of the District serve on the boards of both the Bullock Pen Water District and the Grant County Sewer District.

NOTE 11 – ECONOMIC DEPENDENCY/CREDIT RISK

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

NOTE 12 – CONCENTRATIONS

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

NOTE 13 – RESTITUTION RECEIVABLE

The District has a receivable balance due from Jonathan Thurman as restitution for past unpaid water charges. This restitution balance is unsecured and non-interest bearing, and is to be paid over multiple years. The entire account balance becomes immediately due and payable upon default of the monthly payment. The balance of this account was \$9,516 as December 31, 2011.

BULLOCK PEN WATER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operations, Maintenance and Administrative Expenses		
Salaries and wages - employees	\$ 646,881	\$ 650,312
Employee pension and benefits	368,196	401,975
Advertising	793	1,253
Bad debt expense	27,309	36,015
Chemicals	96,139	82,354
Commissioners' fees	12,800	13,200
Contractual services - accounting	59,877	58,302
Contractual services - engineering	20,433	21,248
Contractual services - legal	10,051	19,122
Contractual services - management	2,137	3,114
Contractual services - water test	14,375	17,784
Contractual services - other	68,230	58,529
Insurance - general liability	11,106	13,362
Insurance - other	7,792	6,668
Insurance - vehicle	4,504	3,806
Insurance - workers' compensation	11,892	16,718
Materials and supplies	145,162	142,325
Miscellaneous	836	527
Payroll taxes	48,430	48,896
Purchased power	80,779	73,955
Rental of property and equipment	10,974	12,775
Transportation	42,396	40,633
Utility regulatory assessment	6,133	4,484
	<u> </u>	<u> </u>
Total Operations, Maintenance and Administrative Expenses	<u>\$ 1,697,225</u>	<u>\$ 1,727,357</u>



Van Gorder, Walker & Co., Inc.
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

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

We have audited the financial statements of the business-type activities of the Bullock Pen Water District as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated April 6, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

Lack of Segregation of Duties

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



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

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 for 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.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance

As part of obtaining reasonable assurance about whether the Bullock Pen Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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*.

We noted certain matters that we reported to management of the Bullock Pen Water District in a separate letter dated April 6, 2012.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, and federal awarding agencies and pass-through entities 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
April 6, 2012