

PUBLIC SERVICE COMMISSION  
ANNUAL REPORT BRANCH

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**TRIMBLE COUNTY WATER DISTRICT #1**

**BASIC FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORTS**

**At December 31, 2011 and 2010**

**TRIMBLE COUNTY WATER DISTRICT #1  
BASIC FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORTS**

**Years Ended December 31, 2011 and 2010**

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To the Commissioners of the  
Trimble County Water District #1  
Bedford, Kentucky 40006

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of Trimble County Water District #1 as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of Trimble County Water District #1'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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the 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 Trimble County Water District #1 as of December 31, 2011 and 2010, and the changes in financial position and cash flows, 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, we have also issued our report dated March 20, 2012, on our consideration of the Trimble County Water District #1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Raisor, Zapp & Woods, PSC*

RAISOR, ZAPP & WOODS, PSC  
Certified Public Accountants

March 20, 2012

**TRIMBLE COUNTY WATER DISTRICT #1**  
**STATEMENT OF NET ASSETS**  
December 31, 2011 and 2010

	2011	2010
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash	\$ 82,346	\$ 24,192
Accounts Receivable (Net)	81,844	83,682
Other Receivables	2,682	2,243
Inventory	63,350	31,369
Prepaid Expenses	17,040	10,271
<b>Total Current Assets</b>	<b>\$ 247,262</b>	<b>\$ 151,757</b>
<b>Noncurrent Assets:</b>		
<b>Restricted Assets:</b>		
Cash, Including Time Deposits	\$ 210,557	\$ 257,718
Interest Receivable	38	126
Unamortized Bond Issue Costs (Net)	9,991	10,262
<b>Capital Assets (Net)</b>	4,260,065	4,454,378
<b>Total Noncurrent Assets</b>	<b>\$ 4,480,651</b>	<b>\$ 4,722,484</b>
<b>Total Assets</b>	<b>\$ 4,727,913</b>	<b>\$ 4,874,241</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 29,914	\$ 17,261
Construction Accounts Payable	-	19,984
Construction Retainage Payable	-	16,791
Accrued Compensated Absences	6,083	7,315
Accrued Salaries, Wages & Benefits	4,799	3,221
Accrued Payroll Taxes/Employee Withholding	1,081	939
Utility Tax Payable	1,725	1,661
Sales Tax Payable	624	522
Capital Lease Obligation	2,725	2,519
<b>Current Liabilities Payable from Restricted Assets:</b>		
Revenue Bonds Payable	55,380	51,440
Accrued Interest Payable - Revenue Bonds Payable	200	284
<b>Total Current Liabilities</b>	<b>\$ 102,531</b>	<b>\$ 121,937</b>
<b>Noncurrent Liabilities:</b>		
Revenue Bonds Payable	\$ 2,062,120	\$ 2,117,500
Deferred Loss - Early Debt Retirement	(1,787)	(3,311)
Capital Lease Obligation	-	2,725
<b>Noncurrent Liabilities Payable from Restricted Assets:</b>		
Customer Deposits Payable	30,734	30,621
<b>Total Noncurrent Liabilities</b>	<b>\$ 2,091,067</b>	<b>\$ 2,147,535</b>
<b>Total Liabilities</b>	<b>\$ 2,193,598</b>	<b>\$ 2,269,472</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	\$ 2,154,343	\$ 2,271,670
Restricted for Capital Projects	40,055	100,021
Restricted for Debt Service	135,474	123,551
Unrestricted	204,443	109,527
<b>Total Net Assets</b>	<b>\$ 2,534,315</b>	<b>\$ 2,604,769</b>

**TRIMBLE COUNTY WATER DISTRICT #1**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
For the Years Ended December 31, 2011 and 2010

	2011	2010
<b>Operating Revenues:</b>		
<b>Charges for Services:</b>		
Water Charges (Net of Estimated Bad Debts)	\$ 686,165	\$ 689,321
Bulk Water Charges	716	1,281
Sewer Billing Charges	1,200	1,200
Hydrant Rental Charges	1,548	1,548
<b>Total Charges for Services</b>	<b>\$ 689,629</b>	<b>\$ 693,350</b>
<b>Other Charges and Miscellaneous:</b>		
Connect, Reconnect and Disconnect Charges	\$ 25,855	\$ 21,330
Forfeited Discounts	16,293	17,102
Miscellaneous	11,718	3,984
<b>Total Other Charges and Miscellaneous</b>	<b>\$ 53,866</b>	<b>\$ 42,416</b>
<b>Total Operating Revenues</b>	<b>\$ 743,495</b>	<b>\$ 735,766</b>
 <b>Operating Expenses:</b>		
Accounting and Collecting Labor	\$ 92,320	\$ 104,290
Chemicals	3,989	4,221
Commissioner Fees	18,000	18,000
Contractual Service	-	1,400
Dues	325	935
Employee Benefits	28,547	26,462
Insurance	25,416	21,296
Maintenance of Mains	39,378	42,267
Miscellaneous	2,959	7,735
Office Supplies and Expense	41,842	37,980
Operating Labor	171,513	170,229
Other Interest Expense	50	51
Payroll Taxes	21,759	22,223
Professional Services	14,370	15,774
Regulatory Fees	1,134	1,217
Rental of Equipment	433	1,520
Retirement Expense	7,473	7,550
Transportation Expense	18,368	18,005
Utilities	47,161	46,531
Depreciation Expense	197,260	135,901
<b>Total Operating Expenses</b>	<b>\$ 732,297</b>	<b>\$ 683,587</b>
<b>Net Operating Income</b>	<b>\$ 11,198</b>	<b>\$ 52,179</b>
<b>Nonoperating Revenue (Expense):</b>		
Investment Income	\$ 2,748	\$ 5,029
Insurance Proceeds	-	52,000
Contractor Repayment	5,500	6,000
Interest Expense	(99,810)	(101,352)
Amortization of Bond Issuance Costs	(1,795)	(1,568)
<b>Total Nonoperating Revenues (Expense)</b>	<b>\$ (93,357)</b>	<b>\$ (39,891)</b>
<b>Net Income Before Contributions</b>	<b>\$ (82,159)</b>	<b>\$ 12,288</b>
<b>Capital Contributions</b>	<b>11,705</b>	<b>98,851</b>
<b>Net Income</b>	<b>\$ (70,454)</b>	<b>\$ 111,139</b>
<b>Net Assets--Beginning of Year</b>	<b>2,604,769</b>	<b>2,493,630</b>
<b>Net Assets--End of Year</b>	<b>\$ 2,534,315</b>	<b>\$ 2,604,769</b>

TRIMBLE COUNTY WATER DISTRICT #1  
STATEMENT OF CASH FLOWS  
For the Years Ended December 31, 2011 and 2010

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	\$ 745,060	\$ 745,571
Payments to Suppliers	(294,889)	(243,045)
Payments to Employees	(281,487)	(288,535)
Other Receipts (Payments)	113	4,733
Net Cash Provided (Used) by Operating Activities	\$ 168,797	\$ 218,724
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Contributions	\$ 11,705	\$ 98,851
Insurance Proceeds	-	52,000
Contractor Repayment	5,500	6,000
Purchases of Capital Assets	(23,992)	(512,545)
Capitalized Interest Paid	-	(25,911)
Principal Paid on Capital Debt	(51,440)	(288,540)
Principal Proceeds from Capital Debt	-	301,000
Bond Issue Costs Paid	-	(10,306)
Principal Paid on Interim Financing	-	(723,403)
Principal Paid on Capital Lease	(2,519)	(2,327)
Interest Paid on Capital Debt	(99,894)	(101,522)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (160,640)	\$ (1,206,703)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	\$ (2,329)	\$ (86,761)
Interest	2,836	4,903
Net Cash Provided (Used) by Investing Activities	\$ 507	\$ (81,858)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 8,664	\$ (1,069,837)
Balances-Beginning of the Year	189,830	1,259,667
Balances-End of the Year	\$ 198,494	\$ 189,830

	Balances Per December 31, 2011 Statement of Net Assets	Balances Per December 31, 2011 Statement of Cash Flows
Cash	\$ 82,346	\$ 82,346
Restricted Cash	116,148	116,148
Restricted Time Deposits	94,409	-
Total Cash and Cash Equivalents, End of Year	\$ 292,903	\$ 198,494
	Balances Per December 31, 2010 Statement of Net Assets	Balances Per December 31, 2010 Statement of Cash Flows
Cash	\$ 24,192	\$ 24,192
Restricted Cash	165,638	165,638
Restricted Time Deposits	92,080	-
Total Cash and Cash Equivalents, End of Year	\$ 281,910	\$ 189,830

(Continued)

**TRIMBLE COUNTY WATER DISTRICT #1  
STATEMENT OF CASH FLOWS (CONTINUED)  
For the Years Ended December 31, 2011 and 2010**

	2011	2010
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 11,198	\$ 52,179
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	197,260	135,901
Change in Assets and Liabilities:		
Receivables, Net	1,838	9,592
Other Receivables	(439)	213
Inventories	(31,981)	3,868
Prepaid Expenses	(6,769)	2,452
Accounts and Other Payables	(3,077)	5,802
Accrued Expenses	654	2,938
Customer Meter Deposits Payable	113	5,779
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 168,797</b>	<b>\$ 218,724</b>

**SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

At December 31, 2010, Trimble County Water District #1 had outstanding obligations for construction accounts payable, construction retainage payable, and capital assets (included in accounts payable) of \$19,984, \$16,791 and \$3,554, respectively.

At December 31, 2011, Trimble County Water District #1 had an outstanding obligation for capital asset acquisitions (included in accounts payable) of \$19,284.

TRIMBLE COUNTY WATER DISTRICT #1  
NOTES TO BASIC FINANCIAL STATEMENTS  
December 31, 2011 and 2010

**NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES**

**Description of entity:** Trimble County Water District #1 is a rural water company serving approximately 1,400 customers in Trimble County, Kentucky, and is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water district was formed under the laws of the above-mentioned county through its Fiscal Court and began operations in March, 1956.

In evaluating how to define Trimble County Water District #1 for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

A summary of the District's significant accounting policies follows:

**Basis of presentation and accounting:** As stated in Kentucky Revised Statutes (KRS) 278.015, "any water district shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission." In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). 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 with GASB pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds 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 (expenses, 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.

Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted; and unrestricted components.

**Revenues and expenses:** Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

The District adheres to the use restrictions established by Bond Agreements when expenses are incurred for which both restricted and unrestricted net assets are available. The District has no policy defining which resources (restricted or unrestricted) to use first.

TRIMBLE COUNTY WATER DISTRICT #1  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2011 and 2010

**NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and equipment:** Property and equipment purchased or constructed is stated at cost. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Costs associated with hook-up fees are capitalized as meters, installations and services. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives by type of asset is as follows:

- Structures & Improvements	15-40 years
- Distribution System	33 years
- Wells	33 years
- Machinery & Equipment	5-33 years

**Inventory:** Inventories are stated at latest cost.

**Compensated absences:** See Note 9 for the District's policy on vacation and sick pay.

**Income taxes:** The Trimble County Water District #1 is not subject to income taxes.

**Contributed capital:** Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues, in the statement of revenues, expenses and changes in fund net assets. Grants of \$8,030 and \$92,611 were received by the District for the years ended December 31, 2011 and 2010, respectively. Tap on fees of \$3,675 and \$6,240 were received by the District for the years ended December 31, 2011 and 2010, respectively.

**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 debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. 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.

**Estimates:** The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Statement of Cash Flows:** For the purpose of the Statement of Cash Flows, Trimble County Water District #1 considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

**NOTE 2 – DEBT RESTRICTIONS AND COVENANTS**

The Bond and Interest Sinking Account was established with the original RECD bond issue. Under the bond resolution which established this account, it was provided that a minimum balance be maintained in this account as security to the bondholders. In order to attain the minimum balance, the monthly transfer to be made into the account for the 1992, 1997, 2000, 2009, and 2010 Bond Issues is as follows:

	one sixth (1/6) of the next semiannual interest payment
+	<u>one twelfth (1/12) of the next annual principal payment</u>
=	monthly transfer

Transfers sufficient to meet the total obligation outstanding on all issues were made timely during the years ended December 31, 2011 and 2010.

TRIMBLE COUNTY WATER DISTRICT #1  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2011 and 2010

**NOTE 2 – DEBT RESTRICTIONS AND COVENANTS (Continued)**

Upon the issuance of the original 1992 Rural Development bonds, a Depreciation Account was established to provide funds for extraordinary repairs and extensions to the system and/or make up any deficiency in the Bond and Interest Sinking Account. After monthly deposits are made into the Bond and Interest Account, monthly transfers are required to be made to the Depreciation Account. The 1992 Bond Resolution required a monthly transfer of \$315 to accumulate to a balance of \$37,800. The 1997 Bond Resolution ratified and confirmed the creation of the 1992 Depreciation Fund. The 2000 Bond Resolution also ratifies and confirms the creation of prior bond funds, and requires an additional \$275 monthly transfer until bonds are paid in full. Monthly transfers were made as required by all bond resolutions. The 2009 Bond Resolution requires an additional \$570 to be transferred to the Depreciation Account until \$68,400 has been accumulated. The 2010 Bond Resolution ratifies and confirms the creation of prior bond funds, but does not require additional transfers. At year-end, the account was fully funded.

**NOTE 3 – CASH AND INVESTMENTS**

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities, including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

Trimble County Water District #1's policies regarding deposits of cash are discussed above. The table presented below is designed to disclose the level of custody credit risk assumed by the District based upon how its deposits were insured or secured with collateral at December 31, 2011 and 2010. The categories of credit risk are defined as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the District (public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name; or collateralized with no written or approved collateral agreement.

**December 31, 2011**

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Checking & Savings Deposits	\$ 261,806	\$ 239,587	\$ 22,219	\$ -	\$ 195,964
Certificates of Deposit	94,409	94,409	-	-	94,409
<b>Total Deposits</b>	<b>\$ 356,215</b>	<b>\$ 333,996</b>	<b>\$ 22,219</b>	<b>\$ -</b>	<b>\$ 290,373</b>

**December 31, 2010**

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Checking & Savings Deposits	\$ 251,627	\$ 232,474	\$ 19,153	\$ -	\$ 189,235
Certificates of Deposit	92,080	92,080	-	-	92,080
<b>Total Deposits</b>	<b>\$ 343,707</b>	<b>\$ 324,554</b>	<b>\$ 19,153</b>	<b>\$ -</b>	<b>\$ 281,315</b>

**TRIMBLE COUNTY WATER DISTRICT #1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2011 and 2010

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

Reconciliation to Statement of Net Assets:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Unrestricted Cash	\$ 82,346	\$ 24,192
Restricted Cash, Including Time Deposits	210,557	257,718
Less: Cash on Hand	(2,530)	(595)
	<u>\$ 290,373</u>	<u>\$ 281,315</u>

**NOTE 4 – RESTRICTED ASSETS**

Restricted assets consist of the following:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Cash, Including Time Deposits	\$ 22,781	\$ 17,927
Bond and Interest Sinking Account	112,855	105,782
Depreciation Account	34,866	33,988
Customer Deposits	40,055	100,021
Construction Accounts	<u>\$ 210,557</u>	<u>\$ 257,718</u>
Total Cash, Including Time Deposits		
Interest Receivable	<u>\$ 38</u>	<u>\$ 126</u>

**NOTE 5 – CUSTOMER DEPOSITS/ESCROW**

Customer deposits are collected upon installation of water service. This amount is to be refunded to the customer upon discontinuation of service (after the customer's bill has been paid in full). Deposits received from customers are held in an interest bearing account (which is included in the financial statements as restricted cash). Records are maintained which detail the accrued interest on each customer's deposit based on the current annual rate. Accrued interest is paid annually and when the deposit is refunded.

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2011 and 2010, was as follows:

	Balance at January 1, 2011	Additions	Disposals	Balance at December 31, 2011
Land & Land Rights	\$ 23,957	\$ -	\$ -	\$ 23,957
Structures & Improvements	543,325	-	-	543,325
Distribution System	4,708,398	313,748	-	5,022,146
Wells	144,976	-	-	144,976
Machinery & Equipment	1,251,111	19,284	-	1,270,395
Construction in Process	330,085	-	(330,085)	-
Totals at Historical Cost	<u>\$ 7,001,852</u>	<u>\$ 333,032</u>	<u>\$ (330,085)</u>	<u>\$ 7,004,799</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ (112,559)	\$ (15,543)	\$ -	\$ (128,102)
Distribution System	(1,734,587)	(129,111)	-	(1,863,698)
Wells	(61,284)	(4,162)	-	(65,446)
Machinery & Equipment	(639,044)	(48,444)	-	(687,488)
Total Accumulated Depreciation	<u>\$ (2,547,474)</u>	<u>\$ (197,260)</u>	<u>\$ -</u>	<u>\$ (2,744,734)</u>
Capital Assets, Net	<u>\$ 4,454,378</u>	<u>\$ 135,772</u>	<u>\$ (330,085)</u>	<u>\$ 4,260,065</u>

**TRIMBLE COUNTY WATER DISTRICT #1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2011 and 2010**

**NOTE 6 – CAPITAL ASSETS (Continued)**

	Balance at January 1, 2010	Additions	Disposals	Balance at December 31, 2010
Land & Land Rights	\$ 23,957	\$ -	\$ -	\$ 23,957
Structures & Improvements	543,325	-	-	543,325
Distribution System	2,959,783	1,748,615	-	4,708,398
Wells	100,295	44,681	-	144,976
Machinery & Equipment	781,252	469,859	-	1,251,111
Construction in Process	2,068,607	515,004	(2,253,526)	330,085
Totals at Historical Cost	<u>\$ 6,477,219</u>	<u>\$ 2,778,159</u>	<u>\$ (2,253,526)</u>	<u>\$ 7,001,852</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ (97,017)	\$ (15,542)	\$ -	\$ (112,559)
Distribution System	(1,654,215)	(80,372)	-	(1,734,587)
Wells	(57,906)	(3,378)	-	(61,284)
Machinery & Equipment	(602,435)	(36,609)	-	(639,044)
Total Accumulated Depreciation	<u>\$ (2,411,573)</u>	<u>\$ (135,901)</u>	<u>\$ -</u>	<u>\$ (2,547,474)</u>
Capital Assets, Net	<u>\$ 4,065,646</u>	<u>\$ 2,642,258</u>	<u>\$ (2,253,526)</u>	<u>\$ 4,454,378</u>

Included under the District's Plant Assets at December 31, 2011 and 2010, was \$1,204,354 and \$1,166,349 of fully depreciated assets, respectively. Land and land rights and construction in process are capital assets not being depreciated.

\$11,709 of GPS equipment is recorded under a capital lease. At December 31, 2011 and 2010, accumulated depreciation of \$9,367 and \$7,025 is associated with these assets, respectively.

Depreciation expense aggregated \$197,260 and \$135,901 in 2011 and 2010, respectively.

**NOTE 7 – CUSTOMER ACCOUNTS RECEIVABLE**

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$4,803 and \$5,537 at December 31, 2011 and 2010, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

**NOTE 8 – LONG-TERM DEBT**

As of December 31, 2011 and 2010, long-term debt payable consisted of the following:

**Bonds Payable:**

	December 31, 2011	December 31, 2010
RECD Revenue Bonds of 1992, original issue amount of \$425,000, secured by water revenues. Interest is charged at the rate of 5.625% per annum. Final maturity is January 1, 2030.	\$ 330,700	\$ 339,440
RECD Revenue Bonds of 1997, original issue amount of \$60,000, secured by water revenues. Interest is charged at the rate of 5.00% per annum. Final maturity is January 1, 2037.	50,400	51,400

TRIMBLE COUNTY WATER DISTRICT #1  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2011 and 2010

**NOTE 8 – LONG-TERM DEBT (Continued)**

	December 31, 2011	December 31, 2010
RECD Revenue Bonds of 2000, original issue amount of \$550,000, secured by water revenues. Interest is charged at the rate of 5.00% per annum. Final maturity is July 1, 2040.	\$ 493,800	\$ 501,300
RECD Revenue Bonds of 2009, original issue amount of \$931,000, secured by water revenues. Interest is charged at the rate of 4.25% per annum. Final maturity is July 1, 2047.	910,100	920,800
RECD Revenue Bonds of 2010 (Build America Bonds – Direct Payment), original issue amount of \$301,000 secured by water revenues. Interest is charged at the rate of 3.75% per annum. Final maturity is July 1, 2048.	297,500	301,000
Kentucky Infrastructure Authority (KIA) Bonds (Dated 8/4/2004), original issue amount of \$175,000, secured by water revenues. Interest is charged at the rate of 2.25% to 5.19% per annum. Final maturity is June 1, 2013.	35,000	55,000
Total Bonds Payable	\$ 2,117,500	\$ 2,168,940
Current Portion	\$ 55,380	\$ 51,440
Noncurrent Portion	2,062,120	2,117,500
Total Bonds Payable	\$ 2,117,500	\$ 2,168,940
<b>Capital Lease Obligation:</b>		
Kansas State Bank of Manhattan fixed rate lease agreement dated December 26, 2007. 5 years, 7.92% interest rate, secured by GPS equipment. Monthly payments with final maturity of December 26, 2012.	\$ 2,725	\$ 5,244
Current Portion	\$ 2,725	\$ 2,519
Noncurrent Portion	-	2,725
Total Capital Lease Obligation	\$ 2,725	\$ 5,244
<b>Accrued Compensated Absences:</b>		
Current Accrued Compensated Absences (All Current)	\$ 6,083	\$ 7,315

**Note Payable – Farmer’s Bank of Milton**

In May, 2006, the construction of the District’s new administrative building was complete. Interim financing on the project was provided by a 4.5% twelve month construction loan line-of-credit through Farmer’s Bank of Milton. On January 28, 2007, permanent financing was approved through Farmer’s Bank of Milton. The note payable is for ten years, at 4.5% for the first five years, with monthly installments of \$3,938, and is collateralized by the building. In the sixth year, the interest rate will be renegotiated. The District received a \$73,470 grant from the Kentucky Authority Tobacco Fund, of which \$40,000 was applied to this principal balance. At December 31, 2009, the note payable balance was \$242,100 with \$90 of related accrued interest payable. In October, 2010, the loan was paid off.

TRIMBLE COUNTY WATER DISTRICT #1  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2011 and 2010

**NOTE 8 – LONG-TERM DEBT (Continued)**

**Revenue Bonds of 1992 - RECD**

At original issue, \$425,000 of RECD bonds were outstanding at the interest rate of 5.625% per annum with maturity dates ranging from 1994-2030. On December 31, 2011, \$330,700 of bonds were outstanding on this issue. On December 31, 2010, \$339,440 of bonds were outstanding on this issue.

**Revenue Bonds of 1997 - RECD**

At original issue, \$60,000 of RECD bonds were outstanding at the interest rate of 5.00% per annum with maturity dates ranging from 2001-2037. On December 31, 2011, \$50,400 of bonds were outstanding on this issue. On December 31, 2010, \$51,400 of bonds were outstanding on this issue.

**Revenue Bonds of 2000 - RECD**

At original issue, \$550,000 of RECD bonds were outstanding at the interest rate of 5.00% per annum with maturity dates ranging from 2004-2040. On December 31, 2011, \$493,800 of bonds were outstanding on this issue. On December 31, 2010, \$501,300 of bonds were outstanding on this issue.

**Revenue Bonds of 2009 – RECD**

At original issue, \$931,000 of RECD bonds were outstanding at the interest rate of 4.25% per annum with maturity dates ranging from 2010-2047. On December 31, 2011, \$910,100 of bonds were outstanding on this issue. On December 31, 2010, \$920,800 of bonds were outstanding on this issue.

**Revenue Bonds of 2010 – Build America Bonds – RECD U.S. Department of Agriculture**

On October 21, 2010, the Trimble County Water District #1 issued \$301,000 taxable Waterworks Revenue Bonds, Series 2010 with an interest rate of 3.75%. The proceeds were used to finance the water main steam crossing replacement project which began in 2010. The first interest payment was due January 1, 2011. The first principal payment was due July 1, 2011. The final payment will be due July 1, 2048. These bonds are taxable Build America Bonds. As such, the District will receive annual federal credit payments toward the debt service of approximately 35% of each interest payment due. The credit will amount to \$94,277 over the life of the issue. \$10,306 of bond issue costs were incurred with this bond issue. This noncurrent asset is amortized over the life of the bond issue and shown in the statement of net assets net of amortization at \$9,991 and \$10,262 at December 31, 2011 and 2010.

**Bonds - Kentucky Infrastructure Authority**

At original issue, \$369,462 of bonds were outstanding with interest rates that range from 4.60% to 5.75% per annum with maturity dates ranging from 1993-2013. On December 1, 2002, bonds were refinanced to lower interest rates that range from 2.50% to 4.25% per annum with maturity dates ranging through 2013. The resulting deferred loss of \$10,964 on the transaction is shown as a contra-liability account and will be amortized over the life of the new bonds. On August 4, 2004, the bonds were restructured under an amendment agreement with Kentucky Infrastructure Authority. The restructured bond principal is in the amount of \$175,000. Interest rates range from 2.25% to 5.19% per annum with the same final maturity of June 1, 2013. The resulting deferred loss of \$3,889 on the transaction is shown as a contra-liability account and is amortized over the life of the new bonds. On December 31, 2011, \$35,000 of bonds were outstanding on this issue. On December 31, 2010, \$55,000 of bonds were outstanding on this issue.

**Capital Lease Obligation – Kansas State Bank of Manhattan**

The amount shown in the accompanying financial statements as capital lease obligation represents Trimble County Water District #1's future obligation to make lease payments under its fixed lease agreement with Kansas State Bank of Manhattan, aggregating \$2,725 and \$5,244 at December 31, 2011 and 2010, respectively (original principal balance of the lease was \$11,709). The lease is for a period of five years for new GPS equipment.

**TRIMBLE COUNTY WATER DISTRICT #1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2011 and 2010

**NOTE 8 – LONG-TERM DEBT (Continued)**

**Interim Financing – Kentucky Rural Water Finance Corporation**

A \$931,000 loan through Kentucky Rural Water Finance Corporation was obtained to assist in financing a \$2.181 million Water System Improvement Project. At December 31, 2008, the interim financing balance was \$547,249 with a related accrued interest balance of \$1,292. During 2009, additional draws of \$1,099,045 were made. In April, 2009, principal of \$922,891 and accrued interest was repaid. At December 31, 2009, the interim financing balance was \$723,403 with a related accrued interest balance of \$25,911. In January, 2010, the loan was paid off.

**Changes in Long-term Debt**

The following is a summary of changes in long-term debt for the years ended December 31, 2011 and 2010.

**December 31, 2011**

	Balance at January 1, 2011	Additions	Repayments	Balance at December 31, 2011	Current Portion
Bonds Payable	\$ 2,168,940	\$ -	\$ (51,440)	\$ 2,117,500	\$ 55,380
Capital Lease Obligation	5,244	-	(2,519)	2,725	2,725
Accrued Compensated Absences	7,315	-	(1,232)	6,083	6,083
Total Long-Term Debt	<u>\$ 2,181,499</u>	<u>\$ -</u>	<u>\$ (55,191)</u>	<u>\$ 2,126,308</u>	<u>\$ 64,188</u>

**December 31, 2010**

	Balance at January 1, 2010	Additions	Repayments	Balance at December 31, 2010	Current Portion
Interim Financing	\$ 723,403	\$ -	\$ (723,403)	\$ -	\$ -
Note Payable	242,100	-	(242,100)	-	-
Bonds Payable	1,914,380	301,000	(46,440)	2,168,940	51,440
Capital Lease Obligation	7,571	-	(2,327)	5,244	2,519
Accrued Compensated Absences	3,432	3,883	-	7,315	7,315
Total Long-Term Debt	<u>\$ 2,890,886</u>	<u>\$ 304,883</u>	<u>\$ (1,014,270)</u>	<u>\$ 2,181,499</u>	<u>\$ 61,274</u>

The annual requirements for all long-term debt outstanding at December 31, 2011, are as follows:

Due	Bonds	Bond Interest	Federal Credit Interest Payment	Capital Lease	Capital Lease Interest	Total Principal & Interest
2012	\$ 55,380	\$ 93,114	\$ 3,905	\$ 2,725	\$ 118	\$ 155,242
2013	47,070	90,357	3,859	-	-	141,286
2014	36,720	88,037	3,813	-	-	128,570
2015	38,610	86,295	3,760	-	-	128,665
2016	40,570	84,450	3,708	-	-	128,728
2017-2021	238,890	390,823	17,679	-	-	647,392
2022-2026	311,840	326,389	16,007	-	-	654,236
2027-2031	340,020	245,018	13,966	-	-	599,004
2032-2036	314,300	177,369	11,439	-	-	503,108
2037-2041	341,300	104,215	8,322	-	-	453,837
2042-2046	276,900	41,696	4,528	-	-	323,124
2047-2049	75,900	2,028	548	-	-	78,476
	<u>\$ 2,117,500</u>	<u>\$ 1,729,791</u>	<u>\$ 91,534</u>	<u>\$ 2,725</u>	<u>\$ 118</u>	<u>\$ 3,941,668</u>

**TRIMBLE COUNTY WATER DISTRICT #1**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2011 and 2010

**NOTE 8 – LONG-TERM DEBT (Continued)**

The annual requirements for all long-term debt outstanding, excluding Interim Financing at December 31, 2010, are as follows:

Due	Bonds	Bond Interest	Federal Credit Interest Payment	Capital Lease	Capital Lease Interest	Total Principal & Interest
2011	\$ 51,440	\$ 93,386	\$ 2,743	\$ 2,519	\$ 325	\$ 150,413
2012	55,380	93,114	3,905	2,725	118	155,242
2013	47,070	90,357	3,859	-	-	141,286
2014	36,720	88,037	3,813	-	-	128,570
2015	38,610	86,295	3,760	-	-	128,665
2016-2020	226,460	401,697	17,974	-	-	646,131
2021-2025	295,730	340,747	16,368	-	-	652,845
2026-2030	354,330	261,142	14,413	-	-	629,885
2031-2035	300,800	190,462	11,983	-	-	503,245
2036-2040	360,900	119,855	8,998	-	-	489,753
2041-2045	265,200	52,018	5,349	-	-	322,567
2046-2047	136,300	6,067	1,112	-	-	143,479
	<u>\$ 2,168,940</u>	<u>\$ 1,823,177</u>	<u>\$ 94,277</u>	<u>\$ 5,244</u>	<u>\$ 443</u>	<u>\$ 4,092,081</u>

**NOTE 9 – COMPENSATED ABSENCES**

Vacation and sick pay are considered an expense in the year incurred. Upon termination, the employee is compensated for any accrued but unused vacation. At December 31, 2011, a liability for accrued vacation was recorded in the amount of \$6,083. At December 31, 2010, a liability for accrued vacation was recorded in the amount of \$7,315. Sick days are accrued at the rate of one day per month. At December 31, 2011 and 2010 the District had an unrecorded sick pay liability to its employees of \$11,595 and \$14,249, respectively. The estimated liabilities include required salary related payments.

**NOTE 10 – FUND EQUITY- RESTRICTED NET ASSETS**

	December 31, 2011	December 31, 2010
Restricted for Capital Projects:		
Monies Restricted for Future Projects		
Cash	\$ 40,055	\$ 100,021
Add: Accrued Interest Receivable	-	-
Less: Accrued Interest Payable	-	-
Total Restricted for Capital Projects	<u>\$ 40,055</u>	<u>\$ 100,021</u>
Restricted for Debt Service:		
RECD Revenue Bonds of 1992, 1997, 2000, 2009 & 2010		
Kentucky Infrastructure Authority Bonds		
Cash	\$ 135,636	\$ 123,709
Add: Accrued Interest Receivable	38	126
Less: Accrued Interest Payable	(200)	(284)
Total Restricted for Debt Service	<u>\$ 135,474</u>	<u>\$ 123,551</u>

**NOTE 11 – BAD DEBT EXPENSE**

At December 31, 2011 and 2010, water revenue charges have been netted with an estimated bad debt expense of \$3,403 and \$5,786, respectively.

**NOTE 12 – INTEREST EXPENSE**

Interest expense incurred for the years ended December 31, 2011 and 2010 was \$99,860 and \$101,403, respectively. No interest expense was capitalized in 2011 or 2010.

TRIMBLE COUNTY WATER DISTRICT #1  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2011 and 2010

**NOTE 13 – OPERATING LEASE**

On October 16, 2007, Trimble County Water District #1 entered into a 36 month operating lease with Duplicator Sales & Service based in Louisville, Kentucky for an office copier. The District pays \$237 a month. A \$79 filing fee was due prior to the first payment. Rental expenditures for this lease for the years ended December 31, 2011 and 2010, were \$0 and \$2,384, respectively. The lease expired in October, 2010.

**NOTE 14 – WHOLESALE WATER RATES**

Trimble County Water District #1 supplies water for resale to the West Carroll Water District. The wholesale rate charged to West Carroll Water District is as follows: \$205.50 minimum for the first 50,000 gallons plus an additional \$3.60 per 1,000 gallons over the first 50,000 gallons. These rates became effective with the January, 2009 billing. There is no minimum purchase amount.

**NOTE 15 – INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. and is also subject to the risks associated with employee injury. Each of these risks is covered through the purchase of commercial insurance.

**NOTE 16 – PENSION PLAN**

In December, 2008, the District adopted a 401(K) Deferred Compensation Plan through Kentucky Public Employees' Deferred Compensation Authority. Each plan year, the District agrees to provide contributions on behalf of each participant based on a discretionary percentage of the participant's compensation. For 2011 and 2010, the District contributed 3% of eligible participants' compensation or \$7,473 and \$7,550, respectively. The plan members contributed a total of \$6,732 and \$4,040 for 2011 and 2010, respectively.

**NOTE 17 – ECONOMIC DEPENDENCY**

Trimble County Water District No. 1 provides water services to residential, commercial and industrial customers. It should be noted that 5.38% and 4.98% of total charges for services was received from Louisville Gas & Electric Company for the years ended December 31, 2011 and 2010, respectively.

**NOTE 18 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS**

**WATER WORKS IMPROVEMENT PROJECT**

In October, 2008, the construction of a \$2.181 million water works improvement project began. The project consisted of the construction and installation of approximately 28 miles of water line on 25 rural roadways; a 100,000 gallon ground water storage tank; a new booster pumping station; and upgrades to an existing booster pumping station.

The engineer on the project was Sisler-Maggard Engineering, PLLC. Contract #1 for waterline extensions was awarded to D-3 Underground, Inc. for \$1,403,822. Contract #2 for water treatment plant improvements was awarded to Winelco, Inc. for \$388,000.

D-3 Underground, Inc., the contractor for the project's waterline extensions, defaulted in its contract in October, 2009. A claim was made on the Company's performance bond through Travelers Insurance Company, for Trimble County Water District's damages. Damages of \$100,182 needed to pay existing contracts for engineering, bond counsel, legal counsel services, and to complete the project, which was still in process, were submitted. In March, 2010, the District received \$52,000 in settlement of this claim.

TRIMBLE COUNTY WATER DISTRICT #1  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2011 and 2010

NOTE 18 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS (Continued)

KINGS RIDGE WATER TOWER LAWSUIT

In 2008, the District filed a lawsuit in the Trimble Circuit Court against Thomas Brand Siding Company as a result of its default in a painting contract for the Kings Ridge Water Tower. As a result of the default, the District employed an inspector, a paint contractor, and incurred labor expenses to complete the job. In addition, the District lost water services and incurred expenses for work it performed to complete the contract. Claims were filed with the performance bond insurance company which total approximately \$26,000, and were denied. The contractor has voluntarily paid two of the claims, reducing the amount at issue to \$18,463. The case was settled in March, 2010. The balance of the claim, \$16,481 (\$18,463 claim less \$1,982 retainage held by the District), is to be repaid in monthly installments of \$500 each until the judgment is paid in full. \$5,500 and \$6,000 was repaid in 2011 and 2010 and is reported as nonoperating revenue on the statement of revenues, expenses and changes in fund net assets. Due to the contingent nature of the receivable, revenue will be recorded when received.

A claim has been made by Sisler-Maggard Engineering, PLLC for unpaid fees in the amount of approximately \$54,000. The District is contesting the validity of the claim. The disposition of this claim had not been finalized at December 31, 2011.

FEMA ASSISTANCE – AUGUST 4, 2009 FLOOD

Due to damages caused by Barebone and Daughtery Creeks flooding on August 4, 2009, Trimble County Water District #1 received assistance from the Federal Emergency Management Agency (FEMA) to offset the District's costs of replacing damaged water lines. The District received \$92,611 in FEMA money in 2010.

WATER MAIN STREAM CROSSING REPLACEMENTS

During the August, 2009 flood, the District lost one creek crossing. A temporary crossing was installed until the District could document the loss to FEMA. With a projected budget of \$418,000, the project replaced two creek crossings and eliminated one creek crossing by installing over one mile of 12 inch water line. The project was financed with Rural Development Build America Bonds of \$301,000, Federal Emergency Management Assistance funds of \$92,611 as described above and \$25,000 of District funds. The engineer on the project was Kentucky Engineering Group, PLLC. POC Contracting of Olympia, Kentucky was awarded the construction bid for \$268,860.

For this project, there were \$19,984 and \$16,791 of outstanding construction accounts payable and retainage payable, respectively, as of December 31, 2010. At December 31, 2010, construction in process was \$330,085. The project was substantially complete at year end December 31, 2010, the project was finalized and placed in service in 2011.

NOTE 19 – RELATED PARTY TRANSACTIONS

During 2010, the District rented equipment from Mr. Tommy Smith. The equipment was used in the completion of the water works improvement project. \$82,263 was paid to Mr. Smith and capitalized as part of the project. Mr. Smith is a relative of Mr. Wayne Smith, a District Commissioner.

Additionally, during 2010, the District purchased a 16-foot trailer from Wayne's Farm Equipment for \$1,600. This business is owned by Mr. Wayne Smith. The District also purchased a mini-excavator for \$10,400 directly from Mr. Wayne Smith.

To the Commissioners of the  
Trimble County Water District #1  
Bedford, KY 40006

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

We have audited the financial statements of Trimble County Water District #1, as of and for the year ended December 31, 2011, and have issued our report thereon dated March 20, 2012. 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 Trimble County Water District #1'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 Trimble County Water District #1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Trimble County Water District #1'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (Items 11-1 and 11-2).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies (Item 11-3 and 11-4).

Commissioners of the  
Trimble County Water District #1  
Page Two

**COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether Trimble County Water District #1'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 or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of Trimble County Water District #1 in a separate letter dated March 20, 2012.

Trimble County Water District #1's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Trimble County Water District #1's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Rural Economic Community Development Service, Kentucky Infrastructure Authority, other lending agencies, and the Public Service Commission, and is not intended to be and should not be used by anyone other than these specified parties.

*Raisor, Zapp & Woods, P.S.C.*

RAISOR, ZAPP, & WOODS P.S.C.  
Certified Public Accountants

March 20, 2012

TRIMBLE COUNTY WATER DISTRICT #1  
SCHEDULE OF FINDINGS AND RESPONSES  
December 31, 2011

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of Trimble County Water District #1.
2. Four deficiencies in internal control related to the audit of the financial statements are reported in the *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*. Items 11-1 and 11-2 were reported as material weaknesses. Item 11-3 and 11-4 were reported as significant deficiencies.
3. No instances of noncompliance material to the financial statements of Trimble County Water District #1, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

**GOVERNMENT AUDITING STANDARDS**

**DEFICIENCIES IN INTERNAL CONTROL**

**11-1 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES**

**CONDITION:**

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative positions. This limits internal control. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2010 as 10-1.

**CRITERIA:**

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and allow timely preparation of financial data consistent with management assertions.

**CAUSE:**

Responsibilities associated with individual positions limit the availability of individuals to rotate duties and implement checking procedures.

**EFFECT:**

This limitation may affect the ability to timely record, process, summarize and report financial data.

**RECOMMENDATION:**

Management should strive to provide cross-training for administrative staff and implement checking processes.

**RESPONSE:**

We concur with the recommendation. Management believes adequate resources have been expended and control procedures implemented, that are commensurate with the staff size and responsibility of financial personnel.

TRIMBLE COUNTY WATER DISTRICT #1  
SCHEDULE OF FINDINGS AND RESPONSES (Continued)  
December 31, 2011

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)**

**GOVERNMENT AUDITING STANDARDS (Continued)**

**DEFICIENCIES IN INTERNAL CONTROL (Continued)**

**11-2 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES**

**CONDITION:**

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2010 as 10-2.

**CRITERIA:**

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

**CAUSE:**

The draft accrual basis financial statements and disclosures are prepared during the audit process. The entries are entered into the District's general ledger/financial reports.

**EFFECT:**

Management engaged the auditor to prepare the draft of the financial statements, including the related notes to the financial statements. Management reviewed, approved, and accepted responsibility for the financial statements prior to their issuance.

**RECOMMENDATION:**

District management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

**RESPONSE:**

The outsourcing of this service is a result of management's cost benefit decision to use others' accounting expertise rather than incur internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities.

**11-3 RECONCILIATION OF ACCOUNTS RECEIVABLE AND CUSTOMER DEPOSITS**

**CONDITION:**

General ledger accounts receivable and customer deposits payable were not reconciled to subsidiary ledgers at year-end. This condition was also cited as a significant deficiency in the schedule of findings and responses for the year ended December 31, 2010 as 10-3.

**CRITERIA:**

Significant accounts in the general ledger, such as accounts receivable and customer deposits payable, should be reconciled to subsidiary ledgers in a timely manner.

TRIMBLE COUNTY WATER DISTRICT #1  
SCHEDULE OF FINDINGS AND RESPONSES (Continued)  
December 31, 2011

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)**

**GOVERNMENT AUDITING STANDARDS (Continued)**

**DEFICIENCIES IN INTERNAL CONTROL (Continued)**

**11-3 RECONCILIATION OF ACCOUNTS RECEIVABLE AND CUSTOMER DEPOSITS (Continued)**

**CAUSE:**

Proper reconciliations were not performed.

**EFFECT:**

The general ledger accounts receivable and customer deposits payable balances were adjusted to subsidiary balances upon completion of annual audit.

**RECOMMENDATION:**

On a monthly basis, general ledger accounts receivable and customer deposits payable balances should be reconciled to subsidiary ledgers.

**RESPONSE:**

We concur with the recommendation.

**11-4 FAILURE TO SEEK BUILD AMERICA BOND INTEREST REIMBURSEMENTS**

**CONDITION:**

The District did not file the necessary forms to secure Build America Bond interest reimbursements as required for its Revenue Bonds of 2010.

**CRITERIA:**

Form 8038-CP, Return for Credit Payments to Issuers of Qualified Bonds, must be filed timely to receive reimbursements available under the Build America Bond program.

**CAUSE:**

Form 8038-CP was not filed by the District.

**EFFECT:**

Reimbursements available of approximately \$3,900 have not been received.

**RECOMMENDATION:**

Forms should be filed when notification of payments due are received. Additionally, a calendar of necessary payments and filings should be developed to assist personnel in meeting filing deadlines.

**RESPONSE:**

The District will develop procedures to insure forms are timely filed to receive reimbursements available under its Build America Bond agreement.

To the Commissioners of the  
Trimble County Water District #1  
Bedford, Kentucky 40006

**RURAL DEVELOPMENT COMPLIANCE LETTER**

We have audited the financial statements of Trimble County Water District #1 as of and for the year ended December 31, 2011, and have issued our report thereon dated March 20, 2012. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Trimble County Water District #1 for the year ended December 31, 2011, we considered its 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 Trimble County Water District #1's internal control over financial reporting. After obtaining an understanding of the control environment and the flow of transactions through the accounting system, we did not rely on the system of internal accounting controls because of the size of the entity. Our review identified material weaknesses in the internal accounting control system as disclosed in the schedule of Findings and Responses.

The following information is presented as supplemental information in accordance with USDA Rural Development's requirements.

1. The accounting records of Trimble County Water District #1 appear adequate.
2. Control over fixed assets is adequate. A supply inventory has been taken.
3. USDA Rural Development loan agreements for the 1992, 1997, 2000, 2009 and 2010 issues require transfers to be made monthly to the Bond and Interest Sinking Account and Depreciation Account. All accounts are properly funded as of December 31, 2011.
4. The general accounting records were kept on forms and in the manner suggested by Rural Development.
5. All bank accounts were confirmed directly by the depository and reconciled to the cash balances as shown in these financial statements. The accounts are insured up to \$333,996 by the Federal Deposit Insurance Corporation. An additional \$22,219 has been pledged to the Trimble County Water District #1. All of the District's deposits were insured or collateralized at December 31, 2011.

6. Insurance coverage may be summarized as follows:

<u>General and Public Officials Liability</u>	\$	6,000,000	
<u>Vehicles &amp; Equipment</u>	\$	1,000,000	Liability/Each Accident
<u>Property, Buildings, Tanks &amp; Equipment</u>	\$	3,245,736	
<u>Surety Bond</u>	\$	200,000	
<u>Fidelity Bond</u> Officers	\$	25,000	
<u>Employee Dishonesty Bond</u>	\$	10,000	
<u>Workmen's Compensation</u> All employees			Statutory

7. Trimble County Water District #1 is a governmental unit and thus exempt from income taxes.

8. Accounts receivable as of December 31, 2011, may be aged as follows.

<u>Total Accounts Receivable</u>	<u>1-30 Days</u>	<u>31-60 Days</u>	<u>Over 60</u>
\$ 86,647	\$ 80,953	\$ 404	\$ 5,290

<u>Total Accounts Receivable</u>	<u>Allowance for Uncollectibles</u>	<u>Net Accounts Receivable</u>
\$ 86,647	\$ 4,803	\$ 81,844

Respectfully submitted,

*Raisor, Zapp & Woods, PSC*

RAISOR, ZAPP & WOODS, PSC  
 Certified Public Accountants

March 20, 2012