

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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NOV 21 2012

PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF EAST PENDLETON COUNTY)
WATER DISTRICT FOR AUTHORITY TO ENTER) CASE NO. 2012-_____
INTO A LOAN AGREEMENT WITH THE)
KENTUCKY INFRASTRUCTURE AUTHORITY)

APPLICATION

East Pendleton County Water District ("East Pendleton District"), by counsel, pursuant to KRS 278.300, petitions the Commission for authority to execute a loan agreement with the Kentucky Infrastructure Authority ("KIA") for an amount not to exceed \$160,000. The following information is filed in accordance with the Commission's regulations:

1. East Pendleton District's office address is P.O. Box 29, Falmouth, Kentucky 41040. Its principal officers are listed in its 2011 Annual Report, which is on file with the Commission.
2. East Pendleton District is a non-profit water district organized under KRS Chapter 74 and has no articles of incorporation.
3. A description of East Pendleton District's water system and its property stated at original cost by accounts is contained in its 2011 Annual Report, a copy of which is attached to this Application as Exhibit A, and its 2011 Audit Report, a copy of which is attached as Exhibit B.
4. East Pendleton District proposes to enter into a loan agreement with KIA to borrow an amount not to exceed \$160,000. The loan will have an interest rate of two point seven five (2.75) percent per annum, which shall commence with the first draw of funds. The loan must be repaid over a period of 20 years. The terms and conditions of

the proposed loan are set forth in the KIA Infrastructure Revolving Loan Fund Conditional Commitment Letter, dated August 7, 2012, a copy of which is attached as Exhibit C. An amortization schedule for the proposed loan is attached as Exhibit D.

5. The proceeds of the proposed loan will be used to sandblast and repaint existing 150,000 gallon water tower.

6. East Pendleton District has the following outstanding long-term loans:

A. East Pendleton County Water District has a note with KIA. The original amount of this note was \$244,589.98. The current balance is \$70,000. Principal and interest payments are due monthly for 20 years. The note has an interest rate of 5.25 percent. Last payment due is 06/01/2017.

B. East Pendleton County Water District has a note with Bank Of New York. The original amount was \$1,015,000. Principal and interest payments are due annually for 27 years. The note has an interest rate of 5. percent. As of December 31, 2011, the balance was \$660,000. Last payment due is 07/01/2025

C. East Pendleton County Water District has a note with Rural Development. The original amount was \$ 479,000. Principal and interest payments are due annually for 38 years. The note has an interest rate of 4.75 percent. As of December 31, 2011 the balance was \$ 430,000. Last payment due is 01/01/2041

D. East Pendleton County Water District has a note with Rural Development. The original amount was \$100,000. Principal and interest payments are due annually for 38 years. The note has an interest rate of 4.125 percent. As of December 31, 2011 the balance was \$94,100. Last payment due is 01/01/2045


7. East Pendleton District requests and moves for a deviation, pursuant to 807 KAR 5:001, Section 14, from the requirements of 807 KAR 5:001, Section 11(2)(a), which requires that the financial exhibit filed with the Application be for a twelve (12) month period ending within ninety (90) days of the filing of the Application. There has been no change that is material in nature in its financial condition or operation of the District since December 31, 2011. The financial information contained in Exhibits A and B is for the twelve (12) month period ending December 31, 2011. This is the most recent published financial data available.

WHEREFORE, the Applicant, East Pendleton Water District requests that the Public Service Commission of Kentucky grant to the Applicant:

A. An order approving the issuance of evidences of indebtedness in the form of a loan from the Kentucky Infrastructure Authority in the approximate amount of \$160,000; and,

B. Applicant's motion for a deviation from the 90-day requirement for financial information as required by 807 KAR 5:001, Section (11)(2)(a).

Respectfully submitted,




S. Beth Moore
P.O. Box 3
Falmouth, KY 41040

COUNSEL FOR EAST PENDLETON
COUNTY WATER DISTRICT

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF EAST PENDLETON)

The undersigned, William Thompson, being duly sworn, deposes and states that he is the Chairman of the East Pendleton County Water District, Applicant, in the above proceedings; that he has read the foregoing Application and has noted the contents thereof; that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and as to those matters, he believes same to be true.

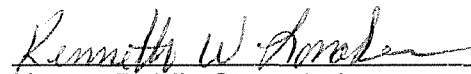
IN TESTIMONY WHEREOF, witness the signature of the undersigned on this 13 day of November, 2012.



William Thompson, Chairman
East Pendleton County Water District

Subscribed and sworn to before me by William Thompson, Chairman of the East Pendleton County Water District, on this 13 day of November, 2012.

My commission expires: August 8-2016



Kenneth W. Dore
Notary Public State-At-Large
ID # 472176

LIST OF EXHIBITS

| <u>Exhibit</u> | <u>Document</u> |
|----------------|---|
| A | 2011 Annual Report |
| B | 2011 Audit Report |
| C | KIA Infrastructure Revolving Loan Fund Conditional Commitment Letter |



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PUBLIC SERVICE
COMMISSION

Steven L. Beshear
Governor

KENTUCKY INFRASTRUCTURE AUTHORITY

1024 Capital Center Drive, Suite 340
Frankfort, Kentucky 40601
Phone (502) 573-0260
Fax (502) 573-0157
<http://kia.ky.gov>

John E. Covington III
Executive Director

August 7, 2012

Mr. William Thompson, Chairman
East Pendleton County Water District
601 Woodson Road
Falmouth, KY 41040

KENTUCKY INFRASTRUCTURE AUTHORITY
INFRASTRUCTURE REVOLVING LOAN FUND
CONDITIONAL COMMITMENT LETTER (B12-05)

Dear Mr. Thompson:

The Kentucky Infrastructure Authority ("the Authority") commends your efforts to improve public service facilities in your community. On August 2, 2012, the Authority approved your loan for the Water Tank Refurbishment project subject to the conditions stated below. The total cost of the project shall not exceed \$160,000 of which the Authority loan shall provide \$160,000 of the funding. The final loan amount will be equal to the Authority's portion of estimated project cost applied to the actual project cost. Attachment A incorporated herein by reference fully describes the project.

An Assistance Agreement will be executed between the Authority and the East Pendleton County Water District upon satisfactory performance of the conditions set forth in this letter. A period of twelve months from the date of this letter (8/7/2013) will be allowed for you to meet the conditions set forth in this letter and enter into an Assistance Agreement. A one-time extension of up to six months may be granted for applicants that experience extenuating circumstances. Funds will be available for disbursement only after execution of the Assistance Agreement.

The Assistance Agreement and this commitment shall be subject, but not limited to, the following terms:

1. The Authority project loan shall not exceed \$160,000.
2. The loan shall bear interest at the rate of 2.75% per annum commencing with the first draw of funds.

3. The loan shall be repaid over a period not to exceed 20 years from the date the loan is closed.
4. Interest shall be payable on the amount of actual funds received. The first payment shall be due on June 1 or December 1 immediately succeeding the date of the initial draw of funds, provided that if such June 1 or December 1 shall be less than three months since the date of the initial draw of funds, then the first interest payment date shall be the June 1 or December 1 which is at least six months from the date of the initial draw of funds. Interest payments will be due each six months thereafter until the loan is repaid.
5. Full principal payments will commence on June 1 or December 1 immediately succeeding the date of the last draw of funds, provided that if such June 1 or December 1 shall be less than three months since the date of the last draw of funds, then the first principal payment date shall be the June 1 or December 1 which is at least six months from the date of the last draw of funds. Full payments will be due each six months thereafter until the loan is repaid.
6. A loan servicing fee of 0.20% of the annual outstanding loan balance shall be payable to the Authority as a part of each interest payment.
7. Loan funds will be disbursed after execution of the Assistance Agreement as project costs are incurred.
8. The final Assistance Agreement must be approved by ordinance or resolution, as applicable, of the city council or appropriate governing board.

The following is a list of the standard conditions to be satisfied prior to execution of the Assistance Agreement or incorporated in the Assistance Agreement. Any required documentation must be submitted to the party designated.

1. Upon completion of final design of the facilities in the attached project description, favorable approval shall be obtained of such design by all appropriate parties as required by Kentucky statute or administrative regulation.
2. Applicant must provide certification from their legal counsel stating that they have prepared construction specifications in accordance with all applicable state or federal wage rate laws, and that the procurement procedures, including those for construction, land, equipment and professional services that are a part of the project, are in compliance with applicable federal, state and local procurement laws.

3. Documentation of final funding commitments from all parties other than the Authority as reflected in the Attachment A description shall be provided prior to preparation of the Assistance Agreement and disbursement of the loan monies. Rejections of any anticipated project funding or any new sources of funding not reflected in Attachment A shall be immediately reported and may cause this loan to be subject to further consideration.
4. Upon receipt of construction bids a tabulation of such bids and engineer's recommendations on compliance with bid specifications and recommendation for award, shall be forwarded to the Authority for final approval and sizing of this loan and the project.
5. Based on the final "as bid" project budget, the community must provide satisfactory proof, based on then existing conditions, that the revenue projections in the attached descriptions are still obtainable and that the projections of operating expenses have not materially changed. The "as bid" project budget shall be reviewed and approved by your consultant engineer
6. Any required adjustment in utility service rates shall be adopted by ordinance, municipal order or resolution by the appropriate governing body of the Borrower. Public hearings as required by law shall be held prior to the adoption of the service rate ordinance, order, or resolution. Any required approvals by the Kentucky Public Service Commission shall be obtained.
7. All easements or purchases of land shall be completed prior to commencement of construction. Certification of all land or easement acquisitions shall be provided to the Authority.
8. The loan must undergo review by the Capital Projects and Bond Oversight Committee of the Kentucky Legislature prior to the state's execution of the Assistance Agreement. The committee meets monthly on the third Tuesday. At this time we know of no further submission required for their review; however, they may request information as needed.
9. Documentation of Clearinghouse Endorsement and Clearinghouse Comments.
10. The Borrower must complete and return to the Authority the attached "Authorization For Electronic Deposit of Vendor Payment" Form.

Mr. William Thompson
August 7, 2012
Page 4

11. Implement the Kentucky Uniform System of Accounting (KUSoA), or an alternative approved by the Authority and assure that rates and charges for services are based upon the cost of providing such service.
12. Final Design Plans in an AutoCAD Drawing File Format (DWG), referenced to the appropriate (North, South or Single) Kentucky State Plane Coordinate System (NAD83-Survey Feet) on a Compact Disc (CD). If there is a significant deviation from the Final Design Plan during construction, As-built plans shall also be provided to the Authority in the same format.

Any special conditions listed below and/or stated in Attachment A must be resolved.

Please inform the Authority of any changes in your financing plan as soon as possible. We will assist you in a final evaluation of the financing plan when construction bids are available. We wish you every success for this project which will benefit both your community and the Commonwealth as a whole.

Sincerely,



Sandy Williams
Financial Analyst

Attachments

cc: Wayne Lonaker, Manager, East Pendleton County Water District
Bill Mitchell, Pendleton County Community Development Office
Dirk Bedarff, Peck, Shaffer & Williams LLP
State and Local Debt Office, DLG
Borrower File - East Pendleton County Water District - B12-05

Please sign and return a copy of this letter indicating your acceptance of this commitment and its terms. Also attach the completed "Authorization For Electronic Deposit of Vendor Payment" Form.



Accepted

8-14-2012

Date

OATH

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PUBLIC SERVICE COMMISSION

Commonwealth of KENTUCKY

County of East Pendleton County Water Distrcit

William Thompson makes oath and says
(Name of Officer)

that he/she is Chairman of
(Official Title of Officer)

East Pendleton County Water Distrcit
(Exact legal title or name of the respondent)

that it is his/her duty to have supervision over the books of account of the respondent and to control the manner in which such books are kept; that he/she knows that such books have, during the period covered by the foregoing report, been kept in good faith in accordance with the accounting and other orders of the Public Service Commission of Kentucky, effective during the said period; that he/she has carefully examined the said report and to have the best of his/her knowledge and belief the entries contained in the said report have, so far as they relate to matters of account, been accurately taken from the said books of account and are in exact accordance therewith; that he/she believes that all other statements of fact contained in the said report are true; and that the said report is a correct and complete statement of the business and affairs of the above-named respondent during the period of time from and including

January 1, 2011, to and including December 31, 2011

William Thompson
(Signature of officer)

Subscribed and sworn to before me, a Notary Public, in and for the

State and County above named, this 18th day of March, 2012

(Apply Seal Here)

My commission expires October 20, 2013

Jandra J. J... ID 407104
(Signature of officer authorized to administer oaths)

[Persons making willful false statements in this report may be punished by fine or imprisonment under KRS 523.040 and 523.100.]

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Title Page

| Name of Respondent | Addr Line 1 | Addr Line 2 | City | State | Zip |
|--------------------|-------------|-------------|------|-------|-----|
|--------------------|-------------|-------------|------|-------|-----|

Water
Districts/Associations

Annual Report of

| | | | | | |
|------------|---|------------------|----------|----|-------|
| Respondent | East Pendleton County Water District | 601 Woodson Road | Falmouth | KY | 41040 |
|------------|---|------------------|----------|----|-------|

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Principal Payment and Interest Information

| | Amount | Yes/No | PSC Case No. |
|--|-------------|--------|--------------|
| Amount of Principal Payment During Calendar Year | \$78,600.00 | | |
| Is Principal Current? | | y | |
| Is Interest Current? | | y | |
| Has all long-term debt been approved by the Public Service Commission? | | y | |

Services Performed by Independent CPA

Yes/No

A/G/R

Are your financial statements examined by a Certified Public Accountant?

Enter Y for Yes or N for No

y

If yes, which service is performed?

Enter an X on each appropriate line

Audit

x

Compilation

Review

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Additional Requested Information

| | Name | Electronic Info |
|---------------------------------|--------------------------------------|-----------------|
| Name of Utility and Web Address | East Pendleton County Water District | wayne@epwd.net |
| Contact Name and Email Address | Wayne Lonaker | wayne@epwd.net |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Additional Information Required

| Case Num | Date | Explain |
|----------|------|---------|
|----------|------|---------|

Major Water Projects

Provide details about each major water project which is planned but has not yet been submitted for approval to the Public Service commission.

For the limited purpose of this report, a "Major Project" is defined as one which is not in the ordinary course of business, and will increase your current utilityplant by at least 20 percent.

Brief Project Description: (Improvement, replacement, building construction, expansion. If expansion, provide the estimated number of new customers):

Projected Costs and Funding Sources/Amounts:

Approval Status: (Application for financial assistance filed, but not approved; or application approved, but have not advertised for construction bids)

Location: (community, area or nearby roads)

History-Legal Name (Ref Page: 4)

1. Exact name of utility making this report.

(Use the words "The", "Company" or "Incorporated" only when part of the corporate name.)

East Pendleton County Water District

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

History-Location (Ref Page: 4)

| Name | Address | City | State | Zip | Phone |
|------|---------|------|-------|-----|-------|
|------|---------|------|-------|-----|-------|

Give the location, including street and number, and TELEPHONE NUMBER of the principal office in KY.

| | | | | | |
|------------------------|--|----------|----|-------|------------|
| principal office in KY | East Pendleton County Water District 601 Woodson Road | Falmouth | KY | 41040 | 8596542100 |
|------------------------|--|----------|----|-------|------------|

Give name, title, address and TELEPHONE NUMBER of the officer

to whom correspondence concerning this report should be addressed.

| | | | | | |
|----------------------------------|--|----------|----|-------|------------|
| Wayne Lonaker | 601 Woodson Road | Falmouth | KY | 41040 | 8596542100 |
| Location where books are located | East Pendleton County Water District 601 Woodson Road | Falmouth | KY | | 8596542100 |

History-Date Organized (Ref Page: 4)

| | Date |
|--|------|
|--|------|

Date of Organization

1974

History-Laws of Organization (Ref Page: 4)



List

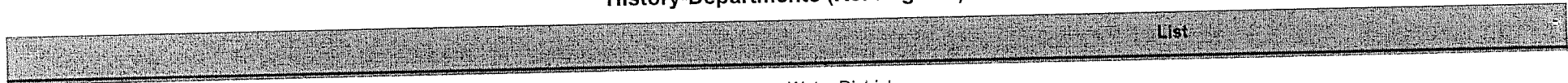
If a consolidated or merger company, name all contingent and all merged companies. Give reference to charters or general laws governing each, and all amendments of same

N/A

Date and Authority for each consolidation and each merger.

N/A

History-Departments (Ref Page: 4)



List

State whether respondent is a water district or association

Water District

Name all operating departments other than water

Sewer Department

Bracken, Carroll, Pendleton

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

History - Number of Employees (Ref Page: 5)

| | Count |
|-------------------------------|-------|
| Number of Full-time employees | 7 |
| Number of Part-time employees | 0 |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Contacts (Ref Page: 6)

| | Title | Last Name | First Name | Bus. Addr. | Salary | Term Expires |
|---------------------------------|-----------|--------------------------|------------|--|-------------|--------------|
| Person to send correspondence: | Manager | Lonaker | Wayne | 601 Woodson Road, Falmouth, KY 41040 | | |
| Person who prepared this report | CPA | Ray, Foley, Hensley & Co | | 230 Lexington Green Circle, Suite 600, Lexington, KY 40503 | | |
| Officers and Managers | | | | | | |
| | Chairman | Thompson | William | 11303 Highway 330 West, Berry, KY 41003 | \$4,800.00 | 06/30/2015 |
| | Treasurer | Pribble | David | 3738 Highway 159 North, Falmouth, KY 41040 | \$4,800.00 | 06/30/2014 |
| | Secretary | Flaughter | William | 9810 Highway 159 N, Butler, KY 41006 | \$4,800.00 | 06/30/2013 |
| | Manager | Lonaker | Wayne | 601 Woodson Road, Falmouth, KY 41040 | \$57,227.33 | |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011
 Balance Sheet - Assets and Other Debits (Ref Page: 7)

| | Previous Year | Current Year |
|---|----------------|----------------|
| UTILITY PLANT | | \$6,716,086.00 |
| Utility Plant (101-106) | \$6,651,866.00 | \$2,846,784.00 |
| Less: Accumulated Depreciation and Amortization (108-110) | \$2,677,323.00 | \$3,869,302.00 |
| Net Plant | \$3,974,543.00 | |
| Utility Plant Acquisition Adjustments (Net) (114-115) | | \$3,869,302.00 |
| Other Utility Plant Adjustments (116) | \$3,974,543.00 | |
| Total Net Utility Plant | | |
| OTHER PROPERTY AND INVESTMENTS | | |
| Nonutility Property (121) | | |
| Less: Accumulated Depreciation and Amortization (122) | | |
| Net Nonutility Property | | |
| Investment in Associated Companies (123) | | |
| Utility and Other Investments (124-125) | | |
| Sinking Funds (126) | | |
| Other Special Funds (127) | | |
| Total Other Property and Investments | | \$830,652.00 |
| CURRENT AND ACCRUED ASSETS | \$922,681.00 | |
| Cash (131) | | |
| Special Deposits (132) | | |
| Other Special Deposits (133) | | |
| Working Funds (134) | | \$62,180.00 |
| Temporary Cash Investments (135) | \$92,682.00 | |
| Accounts and Notes Receivable, Less Accumulated Provision for Uncollectible Accounts (141-144) | | |
| Accounts Receivable from Associated Companies (145) | | |
| Notes Receivable from Associated Companies (146) | \$15,468.00 | \$15,728.00 |
| Materials and Supplies (151-153) | | |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Balance Sheet - Assets and Other Debits (Ref Page: 7)

| | Previous Year | Current Year |
|--|----------------|----------------|
| Stores Expense (161) | | |
| Prepayments (162) | | |
| Accrued Interest and Dividends Receivable (171) | | |
| Rents Receivable (172) | | |
| Accrued Utility Revenues (173) | | |
| Misc. Current and Accrued Assets (174) | \$1,030,831.00 | \$908,560.00 |
| Total Current and Accrued Assets | | |
| DEFERRED DEBITS | | |
| Unamortized Debt Discount and Expense (181) | \$45,286.00 | \$41,961.00 |
| Extraordinary Property Losses (182) | | |
| Preliminary Survey and Investigation Charges (183) | | |
| Clearing Accounts (184) | | |
| Temporary Facilities (185) | | |
| Misc. Deferred Debits (186) | | |
| Research and Development Expenditure (187) | \$45,286.00 | \$41,961.00 |
| Total Deffered Debits | \$5,050,660.00 | \$4,819,823.00 |
| TOTAL ASSETS AND OTHER DEBITS | | |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011
Balance Sheet - Equity Capital and Liabilities (Ref Page: 9)

| | Previous Year | Current Year |
|--|----------------|----------------|
| EQUITY CAPITAL | \$489,837.00 | \$483,574.00 |
| Appropriated Retained Earnings (214) | (\$422,134.00) | (\$975,035.00) |
| Retained Earnings From Income before contributions (215.1) | \$3,339,002.00 | \$3,744,591.00 |
| Donated Capital (215.2) | \$3,406,705.00 | \$3,253,130.00 |
| Total Equity Capital | | \$1,356,700.00 |
| LONG-TERM DEBT | \$1,399,600.00 | |
| Bonds (221) | | |
| Reaquired Bonds (222) | | |
| Advances from Associated Companies (223) | \$80,000.00 | \$67,500.00 |
| Other Long-Term Debt (224) | \$1,479,600.00 | \$1,424,200.00 |
| Total Long Term Debt | | \$29,310.00 |
| CURRENT AND ACCRUED LIABILITIES | \$30,292.00 | \$58,400.00 |
| Accounts Payable (231) | \$77,800.00 | |
| Notes Payable (232) | | |
| Accounts Payable to Associated Co. (233) | | |
| Notes Payable to Associated Co (234) | \$29,215.00 | \$30,715.00 |
| Customer Deposits (235) | \$4,627.00 | \$3,345.00 |
| Accrued Taxes (236) | \$22,421.00 | \$20,723.00 |
| Accrued Interest (237) | | |
| Matured Long-Term Debt (239) | | |
| Matured Interest (240) | | |
| Tax Collections Payable (241) | | |
| Misc. Current and Accrued Liabilities (242) | \$164,355.00 | \$142,493.00 |
| Total Current and Accrued Liabilities | | |
| DEFFERRED CREDITS | | |
| Unamortized Premium on Debt (251) | | |
| Advances for Construction (252) | | |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Balance Sheet - Equity Capital and Liabilities (Ref Page: 9)

| | Previous Year | Current Year |
|--|----------------|----------------|
| Other Deferred Credits (253) | | |
| Total Deferred Credits | | |
| OPERATING RESERVES | | |
| Accumulated Provision For: | | |
| Property Insurance (261) | | |
| Injuries and Damages (262) | | |
| Pensions and Benefits (263) | | |
| Miscellaneous Operating Reserves (265) | | |
| Total Operating Reserves | | |
| Total Equity Capital and Liabilities | \$5,050,660.00 | \$4,819,823.00 |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Comparative Operating Statement (Ref Page: 11)

| | Previous Year | Current Year |
|--|---------------|----------------|
| UTILITY OPERATING INCOME | | |
| Operating Revenues (400) | \$939,210.00 | \$864,637.00 |
| Operating Expenses (401) | \$773,290.00 | \$779,117.00 |
| Depreciation Expenses (403) | \$175,713.00 | \$177,333.00 |
| Amortization of Utility Plant Acquisition Adjustment (406) | | \$3,325.00 |
| Amortization Expense (407) | \$3,325.00 | \$22,618.00 |
| Taxes Other Than Income (408.10-408.13) | \$20,961.00 | \$982,393.00 |
| Utility Operating Expenses | \$973,289.00 | \$117,756.00 |
| Utility Operating Income | (\$34,079.00) | |
| Income From Utility Plant Leased to Others (413) | | |
| Gains (Losses) from Disposition of Utility Property (414) | | (\$117,756.00) |
| Total Utility Operating Income | (\$34,079.00) | |
| OTHER INCOME AND DEDUCTIONS | | |
| Revenues From Merchandising, Jobbing and contract work (415) | | |
| Costs and Expenses of Merchandising, Jobbing and Contract Work (416) | | \$5,787.00 |
| Interest and Dividend Income (419) | \$8,730.00 | |
| Allowance for funds Used During Constructions (420) | | \$15,864.00 |
| Nonutility Income (421) | \$16,259.00 | \$180.00 |
| Miscellaneous Nonutility Expenses (426) | \$200.00 | \$21,471.00 |
| Total Other Income and Deductions | \$24,789.00 | |
| TAXES APPLICABLE TO OTHER INCOME | | |
| Taxes Other Than Income (408.20) | | |
| Total Taxes Applic. to Other Income | | |
| INTEREST EXPENSE | | |
| Interest Expense (427) | \$73,615.00 | \$77,370.00 |
| Amortization of Debt Discount and Exp. (428) | | \$0.00 |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Comparative Operating Statement (Ref Page: 11)

| | Previous Year | Current Year |
|---------------------------------------|---------------|----------------|
| Amortization of Premium on Debt (429) | | \$77,370.00 |
| Total Interest Expense | \$73,615.00 | |
| EXTRAORDINARY ITEMS | | \$4,728.00 |
| Extraordinary Income (433) | | |
| Extraordinary Deductions (434) | | \$4,728.00 |
| Total Extraordinary Items | | (\$168,927.00) |
| NET INCOME BEFORE CONTRIBUTIONS | (\$82,905.00) | |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Statement of Retained Earnings 2002 (Ref Page: 12)

| Description | Total |
|--|----------------|
| Appropriated Retained earnings (214) | |
| (state balance and purpose of each appropriated amount at year end:) | |
| Debt Service Reserve | \$259,900.00 |
| Depreciation Reserve | \$223,674.00 |
| | \$483,574.00 |
| Total Appropriated Retained Earnings | |
| Retained Earnings From Income Before Contributions (215.1) | (\$422,134.00) |
| Balance beginning of year | (\$168,927.00) |
| Balance transferred from Net Income Before Contributions (435) | |
| Changes to account: | |
| | (\$383,974.00) |
| Appropriations of Retained Earnings (436) | |
| Adjustments to Retained Earnings (439) | |
| (requires Commission approval prior to use): | |
| Credits | |
| Debits | |
| Balance End of Year | (\$975,035.00) |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Statement of Retained Earnings (cont. 215.2) (Ref Page: 12)

| Description | Tapping Fees | Grants | Other | Total |
|---|----------------|----------------|--------|----------------|
| Donated Capital (215.2) | | | | |
| Balance Beginning of the Year | \$1,042,379.00 | \$2,686,860.00 | \$0.00 | \$3,729,239.00 |
| Credits | | | | |
| Proceeds from capital contributions (432) | \$15,352.00 | \$0.00 | \$0.00 | \$15,352.00 |
| Other Credits (explain) | | | | |
| Debits (explain - requires Commission Approval) | | | | |
| Balance End of Year | \$1,057,731.00 | \$2,686,860.00 | \$0.00 | \$3,744,591.00 |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Net Utility Plant (Accts. 101-106) (Ref Page: 13)

| | Total |
|---|----------------|
| Utility Plant in Service (101) | \$6,716,086.00 |
| Utility Plant Leased to Others (102) | |
| Property Held for Future Use (103) | |
| Utility Plant Purchased or Sold (104) | |
| Construction Work in Progress (105) | |
| Completed Construction Not Classified (106) | |
| Total Utility Plant | \$6,716,086.00 |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Accumulated Depreciation (Acct. 108) (Ref Page: 13)

| Description | Total |
|--|----------------|
| Balance First of Year | \$2,677,323.00 |
| Credit during year | |
| Accruals Charged to Account 108.1 | \$178,689.00 |
| Accruals Charged to Account 108.2 | |
| Accruals Charged to Account 108.3 | |
| Accruals Charged to Other Accounts (specify) | |
| (specify) | |
| Salvage Value Recovered on Plant Retired | |
| Other Credits | |
| (specify) | |
| Total Credits | \$178,689.00 |
| Debits during year: | |
| Book Cost of Plant Retired | \$9,228.00 |
| Cost of Removal | |
| Other Debits | |
| (specify) | |
| Total Debits | \$9,228.00 |
| Balance at End of Year | \$2,846,784.00 |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Water Utility Plant Accounts (Ref Page: 14)

| | Prev Year (c) | Additions (d) | Retirement (e) | Current Yr(f) | Intngble. Plant (g) | Supply & Pump | Water Treatmnt. | Trans. and Distr. | General Plant |
|--|----------------|---------------|----------------|----------------|---------------------|---------------|-----------------|-------------------|----------------|
| Organization (301) | \$7,200.00 | \$0.00 | \$0.00 | \$7,200.00 | \$7,200.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Franchises (302) | | | | | | | | | |
| Land and Land Rights (303) | \$17,325.00 | \$0.00 | \$0.00 | \$17,325.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$17,325.00 |
| Structures and Improvements (304) | \$4,034,378.00 | \$49,910.00 | \$0.00 | \$4,084,288.00 | \$0.00 | \$0.00 | \$1,064,478.00 | \$1,964,692.00 | \$1,055,118.00 |
| Collecting and Impounding Reservoirs (305) | | | | | | | | | |
| Lakes, Rivers and Other Intakes (306) | | | | | | | | | |
| Wells and Springs (307) | | | | | | | | | |
| Infiltration Galleries and Tunnels (308) | | | | | | | | | |
| Supply Mains (309) | | | | | | | | | |
| Power Generation Equipment (310) | | | | | | | | | |
| Pumping Equipment (311) | \$47,111.00 | \$5,178.00 | \$0.00 | \$52,289.00 | \$0.00 | \$0.00 | \$52,289.00 | \$0.00 | \$0.00 |
| Water Treatment Equipment (320) | \$520.00 | \$0.00 | \$0.00 | \$520.00 | \$0.00 | \$0.00 | \$520.00 | \$0.00 | \$0.00 |
| Distribution Reservoirs and Standpipes (330) | \$76,394.00 | \$0.00 | \$0.00 | \$76,394.00 | \$0.00 | \$0.00 | \$0.00 | \$76,394.00 | \$0.00 |
| Transmission and Distribution Mains (331) | \$1,729,953.00 | \$0.00 | \$0.00 | \$1,729,953.00 | \$0.00 | \$0.00 | \$0.00 | \$1,729,953.00 | \$0.00 |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Water Utility Plant Accounts (Ref Page: 14)

| | Prev Year (c) | Additions (d) | Retirement (e) | Current Yr(f) | Intngble. Plant (g) | Supply & Pump | Water Treatment | Trans. and Distr. | General Plant |
|---------------------------------------|----------------|---------------|----------------|----------------|---------------------|---------------|-----------------|-------------------|----------------|
| Services (333) | \$95,335.00 | \$0.00 | \$0.00 | \$95,335.00 | \$0.00 | \$0.00 | \$0.00 | \$95,335.00 | \$0.00 |
| Meters and Meter Installations (334) | \$305,555.00 | \$7,331.00 | \$0.00 | \$312,886.00 | \$0.00 | \$0.00 | \$0.00 | \$312,886.00 | \$0.00 |
| Hydrants (335) | \$6,019.00 | \$0.00 | \$0.00 | \$6,019.00 | \$0.00 | \$0.00 | \$0.00 | \$6,019.00 | \$0.00 |
| Backflow Prevention Devices (336) | | | | | | | | | |
| Other Plant and Misc. Equipment (339) | \$7,109.00 | \$0.00 | \$0.00 | \$7,109.00 | \$0.00 | \$0.00 | \$3,554.00 | \$3,555.00 | \$0.00 |
| Office Furniture and Equip. (340) | \$37,825.00 | \$700.00 | \$0.00 | \$38,525.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$38,525.00 |
| Transportation Equipment (341) | \$116,079.00 | \$500.00 | \$0.00 | \$116,579.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$116,579.00 |
| Stores Equipment (342) | | | | | | | | | |
| Tools, Shop and Garage Equip (343) | \$14,752.00 | \$0.00 | \$0.00 | \$14,752.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$14,752.00 |
| Laboratory Equipment (344) | | | | | | | | | |
| Power Operated Equipment (345) | \$87,433.00 | \$0.00 | \$0.00 | \$87,433.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$87,433.00 |
| Communication Equipment (346) | \$68,878.00 | \$602.00 | \$0.00 | \$69,479.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$69,479.00 |
| Miscellaneous Equipment (347) | | | | | | | | | |
| Other Tangible Plant (348) | | | | | | | | | |
| Total Water Plant | \$6,651,866.00 | \$64,221.00 | \$0.00 | \$6,716,086.00 | \$7,200.00 | \$0.00 | \$1,120,841.00 | \$4,188,834.00 | \$1,399,211.00 |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Analysis of Accumulated Depreciation and Amortization by Primary Acct (Ref Page: 15)

| | Balance Beg Yr(c) | Cr-Chg Dep Exp(d) | Other Credits (e) | Charges-Plant Ret(f) | Other Charges (g) | Balance End Yr (h) |
|---|-------------------|-------------------|-------------------|----------------------|-------------------|--------------------|
| Organization (301) | | | | | | |
| Franchises (302) | | | | | | |
| Land and Land Rights (303) | | | | | | |
| Structures and Improvements (304) | \$913,016.00 | \$65,012.00 | \$0.00 | \$0.00 | \$0.00 | \$978,028.00 |
| Collecting and Impounding Reservoirs (305) | | | | | | |
| Lake, River and Other Intakes (306) | | | | | | |
| Wells and Springs (307) | | | | | | |
| Infiltration Galleries and Tunnells (308) | | | | | | |
| Supply Mains (309) | | | | | | |
| Power Generating Equipment (310) | | | | | | |
| Pumping Equipment (311) | \$30,443.00 | \$2,387.00 | \$0.00 | \$0.00 | \$0.00 | \$32,830.00 |
| Water Treatment Equipment (320) | \$520.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$520.00 |
| Distributions Reservoirs and Standpipes (330) | \$68,134.00 | \$4,763.00 | \$0.00 | \$0.00 | \$0.00 | \$72,897.00 |
| Transmission and Distribution Mains (331) | \$1,142,934.00 | \$79,901.00 | \$0.00 | \$0.00 | \$0.00 | \$1,222,835.00 |
| Services (333) | \$95,335.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$95,335.00 |
| Meters and Meter Installations (334) | \$176,111.00 | \$12,353.00 | \$0.00 | \$0.00 | \$0.00 | \$188,464.00 |
| Hydrants (335) | \$5,814.00 | \$406.00 | \$0.00 | \$0.00 | \$0.00 | \$6,220.00 |
| Backflow Prevention Devices (336) | | | | | | |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Analysis of Accumulated Depreciation and Amortization by Primary Acct (Ref Page: 15)

| | Balance Beg | Yr(c) | Cr-Chg Dep Exp(d) | Other Credits (e) | Charges-Plant Ret(f) | Other Charges (g) | Balance End Yr (h) |
|---|-------------|----------------|-------------------|-------------------|----------------------|-------------------|--------------------|
| Other Plant and Miscellaneous Equipment (339) | | \$4,624.00 | \$323.00 | \$0.00 | \$0.00 | \$0.00 | \$4,947.00 |
| Office Furniture and Equip. (340) | | \$36,716.00 | \$2,602.00 | \$0.00 | \$0.00 | \$0.00 | \$39,318.00 |
| Transportation Equipment (341) | | \$74,782.00 | \$6,657.00 | (\$9,228.00) | \$0.00 | \$0.00 | \$72,211.00 |
| Stores Equipment (342) | | | | | | | |
| Tools, Shop and Garage Equip (343) | | \$7,759.00 | \$543.00 | \$0.00 | \$0.00 | \$0.00 | \$8,302.00 |
| Laboratory Equipment (344) | | | | | | | |
| Power Operated Equipment (345) | | \$53,133.00 | \$3,742.00 | \$0.00 | \$0.00 | \$0.00 | \$56,875.00 |
| Communication Equipment (346) | | \$68,002.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$68,002.00 |
| Miscellaneous Equipment (347) | | | | | | | |
| Other Tangible Plant (348) | | | | | | | |
| Totals | | \$2,677,323.00 | \$178,689.00 | (\$9,228.00) | \$0.00 | \$0.00 | \$2,846,784.00 |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Accumulated Amortization (Acct. 110) (Ref Page: 16)

| Description | Total |
|-----------------------------------|-------|
| Balance First of Year | |
| Credit during year | |
| Accruals Charged to Account 110.1 | |
| Accruals Charged to Account 110.2 | |
| Other Credits | |
| (specify) | |
| Total Credits | |
| Debits during year: | |
| Book Cost of Plant Retired | |
| Other Debits | |
| (specify) | |
| Total Debits | |
| Balance end of Year | |

Utility Plant Acquisition Adjustments (Accts. 114-115) (Ref Page: 16)

| Description | Total |
|-------------------------------------|-------|
| Acquisition Adjustments (114) | |
| (specify) | |
| Total Plant Acquisition Adjustments | |
| Accumulated Amortization (115) | |
| (specify) | |
| Total Accumulated Amortization | |
| Net Acquisition Adjustments | |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Investments and Special Funds (Ref Page: 17)

| Description (a) | Face or Par Value (b) | Year End Book Cost |
|--|-----------------------|--------------------|
| Investment in Associated Companies (123) | | |
| Total Investment in Associated Companies | | |
| Utility Investments (124) | | |
| Total Utility Investments | | |
| Other Investments (125) | | |
| Total Other Investments | | |
| Sinking Funds (126) | | |
| Total Sinking Funds | | |
| Other Special Funds (127) | | |
| Total Other Special Funds | | |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011
Accounts and Notes Receivable - Net (Accts 141-144) (Ref Page: 18)

| Description | Total |
|--|-------------|
| Accounts and Notes Receivable | \$62,180.00 |
| Customer Accounts Receivable (141) | |
| Other Accounts Receivable (142) | |
| Total Other Accounts Receivable | |
| Notes Receivable (144) | |
| Total Notes Receivable | \$62,180.00 |
| Total Accounts and Notes Receivable | |
| Accumulated Provision for Uncollectible Accounts (143) | |
| Balance First of Year | |
| Add: | |
| Provision for uncollectibles for current year | |
| Collections of accountst previously written off | |
| Other | |
| (specify) | |
| Total Additions | |
| Deduct accounts written off during year: | |
| Other | |
| (specify) | |
| Total Deductions | |
| Balance end of Year | \$62,180.00 |
| Total Accounts and Notes Receivable - Net | |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Materials and Supplies (151-153) (Ref Page: 19)

| | | Total |
|------------------------------------|--|-------------|
| Plant Materials and Supplies (151) | | |
| Merchandise (152) | | |
| Other Materials and Supplies (153) | | \$15,728.00 |
| Total Materials and Supplies | | \$15,728.00 |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Prepayments (Acct. 162) (Ref Page: 19)

| Description | Total |
|-------------------|-------|
| Prepaid Insurance | |
| Prepaid Rents | |
| Prepaid Interest | |
| Prepaid Taxes | |
| Other Prepayments | |
| (Specify) | |
| Total Prepayments | |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Miscellaneous Deferred Debits (Acct. 186) (Ref Page: 20)

| | | Total |
|-------------------------------------|--|-------|
| Miscellaneous Deferred Debits (186) | | |
| Deferred Rate Case Expense (186.1) | | |
| Other Deferred Debits (186.2) | | |
| Regulatory Assets (186.3) | | |
| Total Miscellaneous Deferred Debits | | |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Unamortized Debt Discount and Expense and Premium on Debt (Accts 181 and 251) (Ref Page: 20)

| Description | Amt Written Off during year | Year End Balance |
|---|-----------------------------|------------------|
| Unamortized Debt Discount and Expense (181) | | |
| Bond Closing Costs | \$3,325.00 | \$41,961.00 |
| Total Unamortized Debt Discount and Expense | \$3,325.00 | \$41,961.00 |
| Unamortized Premium on Debt (251) | | |
| Total Unamortized Premium on Debt | | |

Extraordinary Property Losses (Acct. 182) (Ref Page: 21)

| | Description | Total |
|--|-------------|-------|
|--|-------------|-------|

Extraordinary Property Losses (182)

(Specify)

Total Extraordinary Property Losses

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Advances for Construction (Acct. 252) (Ref Page: 21)

| | | Total |
|----------------------------|--|-------|
| Balance First of Year | | |
| Add credits during year | | |
| Deduct charges during year | | |
| Balance end of year | | |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Long Term Debt (Ref Page: 22)

| | Description of Obligation (a) | Issue Date (b) | Mature Date (c) | Interest Expense for Year Rate (d) | Interest Expense for Year Amount(e) | Principal per Balance Sheet Date (f) |
|-------|----------------------------------|----------------|-----------------|---------------------------------------|--|---|
| | KIA Loan | 4/28/1998 | 6/1/2017 | 0.0000 | \$4,272.00 | \$67,500.00 |
| Total | | | | 0.0000 | \$4,272.00 | \$67,500.00 |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Bonds - Account 221 (Ref Page: 23)

| | Par Value of Actual Issue (1) | Cash Realized on Actual Issue (2) | Par Val of Amt. Held by or for Respondent (3) | Actually Outstanding at Close of Year (4) | Interest During Year Accrued (5) | Interest During Year Actually Paid (6) |
|-------|----------------------------------|--------------------------------------|--|--|-------------------------------------|---|
| | \$418,000.00 | \$418,000.00 | \$0.00 | \$0.00 | \$1,146.00 | \$1,146.00 |
| | \$479,000.00 | \$479,000.00 | \$0.00 | \$423,000.00 | \$20,758.00 | \$20,758.00 |
| | \$1,015,000.00 | \$1,015,000.00 | \$0.00 | \$660,000.00 | \$37,160.00 | \$37,160.00 |
| | \$195,000.00 | \$195,000.00 | \$0.00 | \$180,900.00 | \$7,673.00 | \$7,673.00 |
| | \$100,000.00 | \$100,000.00 | \$0.00 | \$92,800.00 | \$3,935.00 | \$3,935.00 |
| Total | \$2,207,000.00 | \$2,207,000.00 | \$0.00 | \$1,356,700.00 | \$70,672.00 | \$70,672.00 |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Schedule of Bond Maturities (Ref Page: 23)

| Bond Numbers (7) | Maturity Date (8) | Interest Rate (9) | Principal Amt (10) | Amounts Paid (11) | Remaining Bonds Outstanding (12) |
|------------------|-------------------|-------------------|--------------------|-------------------|----------------------------------|
| | 12/31/13 | 0.0000 | \$46,100.00 | \$0.00 | \$46,100.00 |
| | 12/31/14 | 0.0000 | \$51,300.00 | \$0.00 | \$51,300.00 |
| | 12/31/15 | 0.0000 | \$52,500.00 | \$0.00 | \$52,500.00 |
| | 12/31/16 | 0.0000 | \$57,700.00 | \$0.00 | \$57,700.00 |
| | 12/31/21 | 0.0000 | \$327,500.00 | \$0.00 | \$327,500.00 |
| | 12/31/26 | 0.0000 | \$336,700.00 | \$0.00 | \$336,700.00 |
| | 12/31/31 | 0.0000 | \$116,400.00 | \$0.00 | \$116,400.00 |
| | 12/31/36 | 0.0000 | \$147,800.00 | \$0.00 | \$147,800.00 |
| | 12/31/41 | 0.0000 | \$175,600.00 | \$0.00 | \$175,600.00 |
| | 12/31/44 | 0.0000 | \$45,100.00 | \$0.00 | \$45,100.00 |
| | | | \$1,356,700.00 | \$0.00 | \$1,356,700.00 |

Total

(The total of Column 12 must agree with the total of col 4)

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Notes Payable (Accts 232 and 234) (Ref Page: 24)

| Description | Nominal Date of Issue | Date of Maturity | Int. Rate | Int. Payment | Principal Amt Per Bal Sheet |
|---|-----------------------|------------------|-----------|--------------|-----------------------------|
| Account 232 - Notes Payable | | | 0.0000 | \$0.00 | \$58,400.00 |
| Total Account 232 | | | | \$0.00 | \$58,400.00 |
| Account 234 - Notes Payable to Associated Companies | | | | | |
| Total Account 234 | | | 0 | | |

Accounts Payable to Associated Companies (Acct. 233) (Ref Page: 24)

| Description | Total |
|-------------|-------|
|-------------|-------|

Show Payable to Each Associated Company Separately

(Specify)

Total

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Taxes Accrued (Acct. 236) (Ref Page: 25)

| | Total |
|---|-------------|
| Balance First of Year | \$4,627.00 |
| Accruals Charged: | |
| Utility regulatory assessment fees (408.10) | \$1,470.00 |
| Property taxes (408.11) | |
| Payroll taxes (employer's portion) (408.12) | |
| Other taxes and licenses (408.13) | \$21,148.00 |
| Taxes other than income, other income and deductions (408.20) | \$0.00 |
| Total taxes accrued | \$22,618.00 |
| Taxes paid during year: | |
| Utility regulatory assessment fees (408.10) | \$1,470.00 |
| Property taxes (408.11) | |
| Payroll taxes (employer's portion) (408.12) | |
| Other taxes and licenses (408.13) | \$22,430.00 |
| Taxes other than income, other income and deductions (408.20) | |
| Total Taxes Paid | \$23,900.00 |
| Balance end of year | \$3,345.00 |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Accrued Interest (Account 237) 2002 (Ref Page: 25)

| Description of Debt (a) | Balance Beg of Year (b) | Interest Accrued(c) | Interest Paid (d) | Balance End of Year (e) |
|-------------------------|-------------------------|---------------------|-------------------|-------------------------|
| Long Term Debt: | | | | |
| Bonds | 22421.0000 | \$73,098.00 | \$74,796.00 | \$20,723.00 |
| | 0.0000 | \$0.00 | \$0.00 | \$0.00 |
| Notes Payable: | | | | |
| KIA | 0.0000 | \$4,272.00 | \$4,272.00 | \$0.00 |
| Customer Deposits: | | | | |
| | 0.0000 | \$0.00 | \$0.00 | \$0.00 |
| Other | | | | |
| Total Acct. No 237 | 22421.0000 | \$77,370.00 | \$79,068.00 | \$20,723.00 |

Miscellaneous Current and Accrued Liabilities (Acct. 242) (Ref Page: 26)

| Description | Balance End Year |
|-------------|------------------|
|-------------|------------------|

| | |
|---|--|
| Total Miscellaneous Current and Accrued Liabilities | |
|---|--|

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Regulatory Commission Expense(Acct 666 and 667) (Ref Page: 26)

| Description of Case (Docket No.) (a) | Total Incurred During Year (b) | Amt Transferred to Acct 186.1 (c) | Expensed During Year Acct (d) | Expensed During Year Amount (e) |
|--------------------------------------|--------------------------------|-----------------------------------|-------------------------------|---------------------------------|
|--------------------------------------|--------------------------------|-----------------------------------|-------------------------------|---------------------------------|

Total

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Water Operating Revenue (Ref Page: 27)

| | Beginning Year Customers | Year End Customers | Amount |
|---|--------------------------|--------------------|--------------|
| Operating Revenues | | | |
| Unmetered Water Revenue (460) | | | |
| Metered Water Revenue (461) | | | |
| Sales to Residential Customers (461.1) | 2,011 | 1,907 | \$790,450.00 |
| Sales to Commercial Customers (461.2) | 10 | 7 | \$40,018.00 |
| Sales to Industrial Customers (461.3) | 1 | 1 | \$7,817.00 |
| Sales to Public Authorities (461.4) | | | |
| Sales to Multiple Family Dwellings (461.5) | | | |
| Sales through Bulk Loading Stations (461.6) | | | |
| Total Metered Sales | 2,022 | 1,915 | \$838,285.00 |
| Fire Protection Revenue (462) | | | |
| Public Fire Protection (462.1) | | | |
| Private Fire Protection (462.2) | | | |
| Total Fire Protection Revenue | | | |
| Other Sales to Public Authorities (464) | | | |
| Sales to Irrigation Customers (465) | | | |
| Sales for Resale (466) | | | |
| Interdepartmental Sales (467) | | | |
| Total Sales of Water | 2,022 | 1,915 | \$838,285.00 |
| Other Water Revenues | | | |
| Guaranteed Revenues (469) | | | |
| Forfeited Discounts (470) | | | \$26,352.00 |
| Miscellaneous Service Revenues (471) | | | |
| Rents from Water Property (472) | | | |
| Interdepartments Rents (473) | | | |
| Other Water Revenues (474) | | | \$26,352.00 |
| Total Other Water Revenues | | | |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Water Operating Revenue (Ref Page: 27)

| | Beginning Year Customers | Year End Customers | Amount |
|--------------------------------|--------------------------|--------------------|--------------|
| Total Water Operating Revenues | | | \$864,637.00 |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Water Utility Expense Accounts (Ref Page: 28)

| | Current Year (c) | Supply and Exp-Op. (d) | Supply and Exp-Maint. (e) | Water Treatmnt. Exp-Op. (f) | Water Treatmnt Exp-Maint. (g) | Trans and Dist. Exp-Op (h) | Trans and Dist. Exp- Maint. (i) | Customer Accts Exp. (j) | Admin and Gen Exp. |
|---|------------------|---------------------------|------------------------------|--------------------------------|----------------------------------|-------------------------------|------------------------------------|----------------------------|-----------------------|
| Water Resource Conservation Expense (668) | | | | | | | | | |
| Bad Debt (670) | | | | \$3,143.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$22,238.00 |
| Miscellaneous Expenses (675) | \$25,461.00 | \$0.00 | \$0.00 | | \$0.00 | | | | |
| Total | \$779,117.00 | \$241,639.00 | \$0.00 | \$19,126.00 | \$0.00 | \$40,471.00 | \$223,706.00 | \$0.00 | \$254,095.00 |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Pumping and Water Statistics - part one (Ref Page: 29)

| | Water Purchased For Resale (Omit 000's) (b) | Water Pumped from Wells (Omit 000's) (c) | Total Water Pumped and Purchased (Omit 000's) (d) | Water Sold To Customers (Omit 000's) (e) |
|--------------------|--|---|--|---|
| January | 8,542 | 0 | 8,542 | 7,279 |
| February | 10,492 | 0 | 10,492 | 8,118 |
| March | 7,232 | 0 | 7,232 | 6,208 |
| April | 7,606 | 0 | 7,606 | 7,348 |
| May | 8,874 | 0 | 8,874 | 7,412 |
| June | 8,749 | 0 | 8,749 | 9,433 |
| July | 9,850 | 0 | 9,850 | 7,845 |
| August | 8,760 | 0 | 8,760 | 8,244 |
| September | 10,038 | 0 | 10,038 | 8,636 |
| October | 10,250 | 0 | 10,250 | 6,799 |
| November | 7,412 | 0 | 7,412 | 7,414 |
| December | 7,194 | 0 | 7,194 | 6,140 |
| Total for the year | 104,999 | 0 | 104,999 | 90,876 |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Pumping and Water Statistics - part two (Ref Page: 29)

| | Gallons | Date |
|---|---------|------------|
| Maximum Gallons pumped by all methods in any one day (Omit 000's) | 428,587 | 09/06/2011 |
| Minimum Gallons pumped by all methods in any one day (Omit 000's) | 215,658 | 11/14/2011 |

Pumping and Water Statistics - part three (Ref Page: 29)

List

If water is purchased indicate the following:

| | |
|-------------------|--|
| Vendor | City of Falmouth & Bracken County Water District |
| Point of Delivery | City of Falmouth Treatment Plant & Bracken County Water District Treatment Plant |

Pumping and Water Statistics - part four (Ref Page: 29)

| Entity Receiving Water | Maximum Daily | Maximum Monthly |
|------------------------|---------------|-----------------|
|------------------------|---------------|-----------------|

If water is sold to other water utilities for redistribution, identify all entities with whom the utility has a water sales contract and the maximum quantity the utility is under contract

to provide daily and monthly. If unlimited then list "unlimited" otherwise list in thousands of gallons.

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Sales For Resale (466) (Ref Page: 30)

| Company | Gallons (Omit 000's) | Avg. Rate Per 1000 Gallons (Cents) | Amount |
|---------|----------------------|------------------------------------|--------|
|---------|----------------------|------------------------------------|--------|

| | | | |
|-------|--|--|--|
| Total | | | |
|-------|--|--|--|

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Water Statistics (Ref Page: 30)

| | Gallons (Omit 000's) | Percent |
|---|----------------------|---------|
| 1. Water Produced, Purchased and Distributed | | |
| 2. Water Produced | | |
| 3. Water Purchased | 104,999 | |
| 4. Total Produced and Purchased | 104,999 | |
| 6. Water Sales: | | |
| 7. Residential | 85,692 | |
| 8. Commercial | 847 | |
| 9. Industrial | 4,337 | |
| 10. Bulk Loading Stations | | |
| 11. Resale | | |
| 12. Other Sales | | |
| 13. Total Water Sales | 90,876 | |
| 15. Other Water Used | | |
| 16. Utility/water treatment plant | | |
| 17. Wastewater plant | | |
| 18. System flushing | 729 | |
| 19. Fire department | 121 | |
| 20. Other | | |
| 21. Total Other Water Used | 850 | |
| 23. Water Loss: | | |
| 24. Tank Overflows | | |
| 25. Line Breaks | 13,273 | |
| 26. Line Leaks | | |
| 27. Other | | |
| 28. Total Line Loss | 13,273 | |
| Note: Line 13 + Line 21 + Line 28 must equal Line 4 | | |
| 32. Water Loss Percentage | | |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Water Statistics (Ref Page: 30)

Gallons (Omit 000's)

Percent

33. Line 28 divided by Line 4

12.6411

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

Plant Statistics (Ref Page: 31)

| Give the following information | |
|--|---|
| Number of fire hydrants, by size | 4-8", 10-6", 9-4", 15-2" |
| Number of private fire hydrants, by size | None |
| If produced whether water supply is river, impounded streams, well, springs, artificial lake, or collector well | River |
| If produced whether supply is by gravity, pumping or a combination | N/A |
| Type, capacity, and elevation of reservoirs at overflow and ground level | Tank #1 - 150,000 Gallons, Tanks 2&3 - 100,000 Gallons |
| Miles of main by size and kind | 8" PVC - 25.3 Miles, 6" PVC 89.5 Miles, 4" PVC 63.4 Miles, 3" PVC - 17 Miles |
| Types of filters: gravity or pressure, number of units and total rated in capacity in gal. per min. | N/A |
| Type of disinfectant, number of units and capacity in pounds per 24 hours | N/A |
| Station Equipment. List each pump, giving type and capacity, HP of driving unit and character of driving unit (steam/electric/int. combustion) also whether pump is high/ low duty | Pumps 1&2 - 40 Horsepower @ 21,000 GPH, Pumps 3&4 - 40 Horsepower @ 13,000 GPH, Pumps 5&6 - 15 Horsepower @ 8,400 GPH |
| Quantity of fuel used: coal in lbs., gas in cu.ft., oil in gals., and electric in KWH | 265,400 |
| Give description and total cost of any sizable additions or retirements to plant and service outside the normal system of growth for the period covered by this report | N/A |
| Capacity of clear well | 9,511,000 Gallons |
| Peak month, in gallons of water sold | July - 9,433,472 Gallons |
| Peak day, in gallons of water sold | September 6, 2011 - 428,587 Gallons |

Plant Statistics - Part B (Ref Page: 31)

| | Type |
|--|------|
|--|------|

Choose one to indicate the type of Water Supply

Combination

Plant Statistics - Part C (Ref Page: 31)

| | Type |
|--|------|
|--|------|

Choose one to indicate the type of Water Supply Method

Combination

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

CheckList (2002)

| Item | Value 1 | Value 2 | Agree | Explain |
|---|------------|------------|-------|---------|
| NOTE: Any mention of page numbers or Line items refers to the annual report published and distributed for the 2002 report period. | | | | |
| Identifications pages (ref 4-6) have been completed. | | | | |
| Balance Sheet - Assets and Other Debts (ref. pg 7) | | | | |
| Utility Plant (Accts 101-106) agrees with Sched: Net Utility Plants Accts 101-106 (ref pg 13) Line: Total Utility Plant | 6716086.00 | 6716086.00 | OK | |
| Accts 108-110 Acc. Depreciation and Amort. agrees with Sched: Analysis of Acc. Dep. and Amort. (ref pg 15) Line: Total 301-348 Col h | 2846784.00 | 2846784.00 | OK | |
| Accts 114-115 Utility Plant Acquisition Adjustments agrees with Sched: Utility Plant Acquisition Adjustments (ref pg 16) Line: Net Acquisition Adjustments (114-115) | 0 | 0 | OK | |
| Accts 123 Investment in Assoc. Companies agrees with Sched: Investments and Spec. Funds (ref pg 17) Line: Total Investment in Associated Companies | 0 | 0 | OK | |
| Accts 124-125 Utility Investments agrees with Sched: Investments and Spec. Funds (ref pg 17) Sum of Lines: 124 Total Utility Investments and 125 Total Other Investments | 0 | 0 | OK | |
| Accts 126 Sinking Funds agrees with Sched: Investments and Spec. Funds (ref pg 17) Line: 126 Total Sinking Funds | 0 | 0 | OK | |
| Accts 127 Other Special Funds agrees with Sched: Investments and Spec. Funds (ref pg 17) Line: Total 127 Other Special Funds | 0 | 0 | OK | |
| Accts 141-144 Accounts and Notes Receivable agrees with Sched: Accts and Notes Receivable (ref pg 18) Line: Net Balance 141-144 | 62180.00 | 62180.00 | OK | |
| Accts 151-153 Material and Supplies agrees with Sched: Material and Supplies (ref pg 19) Line: Total 151-153 | 15728.00 | 15728.00 | OK | |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

CheckList (2002)

| Item | Value 1 | Value 2 | Agree | Explain |
|---|------------|------------|-------|---------|
| Accts 162 Prepayments agrees with Sched: Prepayments (ref pg 19) Line: Total 162 | 0 | 0 | OK | |
| Accts 181 Unamortized Debt Discount and Expense agrees with Sched: Unamortized Debt Discount and Exp. (ref pg 20) Line: Total 181 | 41961.00 | 41961.00 | OK | |
| Accts 182 Extraordinary Prop. losses agrees with Sched: Extraordinary Property Losses (ref pg 21) Line: Total 182 | 0 | 0 | OK | |
| Accts 186 Misc. Deferred Debits agrees with Sched: Misc. Deferred Debits (ref pg 20) Line: Total 186 | 0 | 0 | OK | |
| Balance Sheet - Equity Capitol and Liabilities (ref. pg 9) | | | | |
| Accts 214 Appropriated Retained Earnings agrees with Sched: Statement of Retained Earnings (ref pg 12) Line: Total Appropriated Retained Earnings 214 | 483574.00 | 483574.00 | OK | |
| Accts 215.1 Retained Earnings from Income before Contributions with Sched: Statement of Retained Earnings (ref pg 12) Line: Balance End of Year 215.1 | -975035.00 | -975035.00 | OK | |
| Accts 215.2 Donated Capital with Sched: Statement of Retained Earnings (cont. 215.2) (ref pg 12) Line: Balance End of Year 215.2 | 3744591.00 | 3744591.00 | OK | |
| Accts 221 Bonds agrees with Sched: Account 221 (ref pg 23) Line: Total Outstanding Bonds Col 4 | 1356700.00 | 1356700.00 | OK | |
| Accts 221 Bonds agrees with Sched: Schedule of Bond Maturities (ref pg 23) Line: Total Remaining Bonds (Col 12) | 1356700.00 | 1356700.00 | OK | |
| Accts 224 Other Long Term Debt agrees with Sched: Long Term Debt (ref pg 22) Line: Total Acct 224 col f | 67500.00 | 67500.00 | OK | |
| Accts 232 Notes Payable agrees with Sched: Notes Payable (Accts 232 and 234) (ref pg 24) Line: Total Acct 232 | 58400.00 | 58400.00 | OK | |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

CheckList (2002)

| Item | Value 1 | Value 2 | Agree | Explain |
|---|------------|------------|-------|---------|
| Accts 233 Accounts Payable to Associated Co. agrees with Sched: Accounts Payable to Assoc. Companies (Accts 233) (ref pg 24) Line: Total Acct 233 | 0 | 0 | OK | |
| Accts 234 Notes Payable agrees with Sched: Notes Payable (Accts 232 and 234) (ref pg 24) Line: Total Acct 234 | 0 | 0 | OK | |
| Accts 236 Taxes Accrued Balance First of Year agrees with Sched: Taxes Accrued (Accts 236) (ref pg 25) Line: Beginning Balance | 4627.00 | 4627.00 | OK | |
| Accts 236 Taxes Accrued agrees with Sched: Taxes Accrued (Accts 236) (ref pg 25) Line: Ending Balance | 3345.00 | 3345.00 | OK | |
| Accts 237 Accrued Interest Balance from Prev Year agrees with Sched: Accrued Interest (Accts 237) (ref pg 25) Line: Total 237 Balance Beginning of Year -Col b | 22421.00 | 22421.00 | OK | |
| Accts 237 Accrued Interest agrees with Sched: Accrued Interest (Accts 237) (ref pg 25) Line: Total 237 Balance End of Year -Col e | 20723.00 | 20723.00 | OK | |
| Accts 242 Misc. Current and Accrued Liabilities agrees with Sched: Misc current and Accrued Liabilities (Accts 242) (ref pg 26) Line: Total Miscellaneous and Current Accrued Liabilities | 0 | 0 | OK | |
| Accts 251 Unamortized Premium on Debt agrees with Sched: Unamortized Debt Discount and Expense and Premium on Debt (Accts 181 - 251) (ref pg 20) Line: Total 251 | 0 | 0 | OK | |
| Accts 252 Advances for Contruction agrees with Sched: Advances for Contstruction (Accts 252) (ref pg 21) Line: Total 252 | 0 | 0 | OK | |
| Total Equity Capital and Liabilities agrees with Balance Sheet - Assets and Other Debits: Total Assets and Other Debits | 4819823.00 | 4819823.00 | OK | |
| Comparitive Operating Statement (ref pg 10) | | | | |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

CheckList (2002)

| Item | Value 1 | Value 2 | Agree | Explain |
|---|------------|------------|-------|---------|
| Accts 400 Operating Revenues agrees with Sched: Water Operating Revenue (Accts 400) (ref pg 27) Line: Total Water Operating Revenues - Col e | 864637.00 | 864637.00 | OK | |
| Accts 401 Operating Expenses agrees with Sched: Water Utility Expense Accounts (ref pg 28) Line: Total Accts (601-675) - Col c | 779117.00 | 779117.00 | OK | |
| Accts 408.1 Taxes Other than Income agrees with Schedule Taxes Accrued (Acct 236) (ref pg 26) Sum of Accts 408.10 - 408.13 | 22618.00 | 22618.00 | OK | |
| Sum of Accts 408.1 and 408.2 agrees with Sched: Taxes Accrued (Acct 236) (ref pg 25) Line: Total taxes Accrued | 22618.00 | 22618.00 | OK | |
| Accts 427 Interest Expense agrees with Sched: Accrued Interest (Acct 237) (ref pg 25) Line: Total Acct No 237 Col c - Interest Accrued | 77370.00 | 77370.00 | OK | |
| Net Income agrees with Sched: Retained Earnings (Acct 237) (ref pg 12) Line: Balance Transferred from Income (Acct 435) | -168927.00 | -168927.00 | OK | |
| Miscellaneous | | | | |
| Schedule Net Utility Plant Accts 101 - 106 (ref pg 13) Utility Plant (101) agrees with Sched: Water Utility Plant Accounts (ref pg 14) Line: Total Water Plant Col f - Current Year | 6716086.00 | 6716086.00 | OK | |
| The analysis of water utility plant accounts Cols c though k has been completed (Ref pg 14) | | | | |
| The analysis of accumulated depreciation and amortization by primary account has been completed. (Ref pg 14) | | | | |
| Sched: Misc. Defferred Debits (Acct 186) Defferred Rate Case (Acct 186.1) agrees with Sched: Amort. of Rate Case (Acct 665 and 667) (ref pg 26) Line: Total Col c - Amt Transferred to 186.1 | 0 | 0 | OK | |
| Schedule of Long Term Debt has been completed (ref pg 22) | | | | |

21200 East Pendleton Water District 01/01/2011 - 12/31/2011

CheckList (2002)

| Item | Value 1 | Value 2 | Agree | Explain |
|---|---------|---------|-------|---------|
| Schedule of Bond Maturities has been completed (ref pg 23) | | | | |
| Taxes collected (example: school tax, sales tax, franchise tax) have been excluded from Operating Revenue (Ref pg 29) | | | | |
| The analysis of water opertating revenue Cols c,d and e have been completed. (Ref pg 28) | | | | |
| The analysis of water utility expense accounts Cols c through k have been completed. (Ref pg 28) | | | | |
| Schedule of Pumping and Purchased Water Statistics has been completed (Ref pg 29) | | | | |
| Sched Pumping and Water Statistics - part one (ref pg 29) Line Total for the year - Col Total (d) agrees with Sched Water Statistics (ref pg 30) Line 4. Total Produced and Purchased Col Gallons | 104999 | 104999 | OK | |
| Sched Pumping and Water Statistics - part one (ref pg 29) Line Total for the year - Col Water Sold(e) agrees with Sched Water Statistics (ref pg 30) Line Total Water Sales Col Gallons | 90876 | 90876 | OK | |
| Sched Sales for Resale (ref pg 30) 466 Total Gal agrees with Sched Water Statistics (ref pg 30) Total Water Sales | 0 | 0 | OK | |
| Oath Page Has been Completed | | | | |

Title Page

| | Name of Respondent | Addr Line 1 | Addr Line 2 | City | State | Zip |
|------------------|---|------------------|-------------|----------|-------|-------|
| Sewer Utilities | | | | | | |
| Annual Report of | | | | | | |
| Respondent | East Pendleton County Water District | 601 Woodson Road | | Falmouth | KY | 41040 |

Principal Payment and Interest Information

| | Amount | Yes/No |
|--|--------|--------|
| Amount of Principal Payment During Calendar Year | \$0.00 | |
| Is Principal Current? | Y | |
| Is Interest Current? | Y | |

Services Performed by Independent CPA

| Yes/No | A/C/R |
|--------|-------|
|--------|-------|

Are your financial statements examined by a Certified Public Accountant?

Enter Y for Yes or N for No Y

If yes, which service is performed?

Enter an X on each appropriate line

- Audit X
- Compilation
- Review

Additional Information Required

| Case Num | Date | Explain |
|----------|------|---------|
|----------|------|---------|

General Information 1. (Ref Page: 1)

Exact name of utility making this report.

(Use the words "The", "Company" or "Incorporated" only when part of the corporate name.)

East Pendleton County Water District

General Information 2 - 3 (Ref Page: 1)

| Name | Address | City | State | Phone |
|------|---------|------|-------|-------|
|------|---------|------|-------|-------|

Give the location, including street and number, and TELEPHONE NUMBER of the principal office in KY.

| | | | | | |
|------------------------|----------------|------------------|----------|----|------------|
| principal office in KY | General Office | 601 Woodson Road | Falmouth | KY | 8596542100 |
|------------------------|----------------|------------------|----------|----|------------|

Name, title, address and telephone number with area code of the person to be contacted concerning this report

| | | | | |
|---------------|------------------|----------|----|--|
| Wayne Lonaker | 601 Woodson Road | Falmouth | KY | |
|---------------|------------------|----------|----|--|

General Information 4 (Ref Page: 1)



List

Name of State under the laws of which respondent is incorporated and the date of incorporation. Kentucky, April 1, 1974

General Information 5. (Ref Page: 1)

| | Date |
|--|------|
|--|------|

Date sewer utility began operations

04/01/1974

General Information 6. (Ref Page: 1)

City or Town

Community or Subdivision

County

General Information 7. (Ref Page: 1)

| | Count |
|-------------------------------|-------|
| Number of Full-time employees | 1 |
| Number of Part-time employees | 1 |

22221200 East Pendleton Water District Division II 01/01/2011 - 12/31/2011

Principal Officers (Ref Page: 1)

| Title | Last Name | First Name | Bus. Address | Salary or Fee |
|----------|-----------|------------|--|---------------|
| Chairman | Thompson | William | 11303 Highway 330 West, Berry, KY 41040 | \$0.00 |
| Manager | Lonaker | Wayne | 601 Woodson Road, Falmouth, KY 41040 | \$0.00 |

22221200 East Pendleton Water District Division II 01/01/2011 - 12/31/2011

Balance Sheet - Assets and Other Debts (Ref Page: 2)

| | Balance First of Yr | Balance End of Yr |
|--|---------------------|-------------------|
| UTILITY PLANT | | |
| Utility Plant (101-109) | \$31,122.00 | \$34,197.00 |
| less: Accum. Prov. for Depr., Depletion and Amortization (110) | \$21,676.00 | \$23,050.00 |
| Net Utility Plant | \$9,446.00 | \$11,147.00 |
| OTHER PROPERTY AND INVESTMENTS | | |
| Non-Utility Property (121) | | |
| less: Accum. Prov for Depr. and Amort. of Non-Utility Property (122) | | |
| Net non-Utility Property | | |
| Other Investments (124) | | |
| Special Funds (125) | | |
| Total Other Property and Investments | | |
| CURRENT AND ACCRUED ASSETS | | |
| Cash and Working Funds (131) | | |
| Temporary Cash Investments (132) | | |
| Notes Receivable (141) | | |
| Customer Accounts Receivable (142) | | |
| Other Accounts Receivable (143) | | |
| Accum. Prov. For Uncollectible Accts - CR (144) | | |
| Notes Receivable from Assoc. Companies (145) | | |
| Accounts Receivable from Assoc Companies (146) | | |
| Materials and Supplies (150) | | |
| Prepayments (166) | | |
| Other Current and Accrued Assets (170) | | |
| Total Current and Accrued Assets | | |
| DEFERRED DEBITS | | |
| Unamortized Debt Expense (181) | | |

Balance Sheet - Assets and Other Debts (Ref Page: 2)

| | Balance First of Yr | Balance End of Yr |
|--------------------------------------|---------------------|--------------------|
| Extraordinary Property Losses (182) | | |
| Other Deferred Debits (183) | | |
| Total Deferred Debits | | |
| TOTAL ASSETS AND OTHER DEBITS | \$9,446.00 | \$11,147.00 |

22221200 East Pendleton Water District Division II 01/01/2011 - 12/31/2011

Balance Sheet - Liabilities and Other Credits (Ref Page: 3)

| | Balance First of Yr. | Balance End of Yr. |
|--|----------------------|--------------------|
| EQUITY CAPITAL | | |
| Common Capital Stock (201) | | |
| Preferred Capital Stock (204) | | |
| Other Paid-In Capital (207) | | |
| Discount on Capital Stock (213) | | |
| Capital Stock Expense (214) | | |
| Appropriated Retained Earnings (215) | | |
| Unappropriated Retained Earnings (216) | \$9,446.00 | \$11,147.00 |
| Non-Corporate Proprietorship (218) | | |
| Total Equity Capital | \$9,446.00 | \$11,147.00 |
| LONG-TERM DEBT | | |
| Bonds (221) | | |
| Advances From Associated Companies (223) | | |
| Other Long-Term Debt (224) | | |
| Total Long-Term Debt | | |
| CURRENT AND ACCRUED LIABILITIES | | |
| Notes Payable (231) | | |
| Accounts Payable (232) | | |
| Notes Payable to Associated Companies (233) | | |
| Accounts Payable to Associated Companies (234) | | |
| Customer Deposits (235) | | |
| Taxes Accrued (236) | | |
| Interest Accrued (237) | | |
| Other Current and Accrued Liabilities (238) | | |
| Total Current and Accrued Liabilities | | |
| DEFERRED CREDITS | | |
| Advances for Construction (252) | | |

22221200 East Pendleton Water District Division II 01/01/2011 - 12/31/2011

Balance Sheet - Liabilities and Other Credits (Ref Page: 3)

| | Balance First of Yr. | Balance End of Yr. |
|--|----------------------|--------------------|
| Other Deferred Credits (253) | | |
| Accum. Deferred Investment Tax Credits (255) | | |
| Total Deferred Credits | | |
| Operating Reserves (261-265) | | |
| Contributions in Aid of Construction (271) | | |
| ACUMULATED DEFERRED INCOME TAXES | | |
| Accum. Def. Income Taxes-Accel. Amort (281) | | |
| Accum. Def. INcome Taxes-Lib. Depr. (282) | | |
| Accum. Def. Income Taxes-Other (283) | | |
| Total Accum. Deferred Income Taxes | | |
| TOTAL LIABILITIES AND OTHER CREDITS | \$9,446.00 | \$11,147.00 |

Summary of Utility Plant (Ref Page: 4)

| | Amount |
|---|-------------|
| UTILITY PLANT | |
| In Service: | |
| Plant in Service Classified (from pg 5 line 40) (101) | \$34,197.00 |
| Completed Construction Not Classified (102) | |
| Utility Plant in Process of Reclassification (103) | |
| Utility Plant Purchased or Sold (106) | |
| Total In Service | \$34,197.00 |
| Utility Plant Leased to Others (104) | |
| Property Held for Future Use (105) | |
| Construction Work in Progress (107) | |
| Utility Plant Acquisition Adjustments (108) | |
| Other Utility Plant Adjustments (109) | |
| Total Utility Plant (to pg 2 line 4) | \$34,197.00 |
| Less: | |
| Accumulated Provision for Depreciation and Amort. of Utility Plant (to pg 2 line 6) (110) | \$23,050.00 |
| Net Utility Plant (to pg 2 line 7) | \$11,147.00 |

22221200 East Pendleton Water District Division II 01/01/2011 - 12/31/2011
 Accum. Prov. for Depreciation and Amortization of Utility Plant (Ref Page: 4)

| Item | Amount |
|--|-------------|
| Balance Beginning of Year | \$21,676.00 |
| Accruals for Year: | |
| Depreciation | \$1,374.00 |
| Amortization | |
| Other Accounts (detail) | |
| Total Accruals for Year | \$1,374.00 |
| Credit Adjustments (describe) | |
| Total Credits for Year | |
| Net Charges for Plant Retired: | |
| Book Cost of Plant Retired (same as pg 5 line 40) | |
| Add: Cost of Removal | |
| Less: Salvage | |
| Net Charges for Plant Retired | |
| Debit Adjustments (describe) | |
| Total Debit Adjustments for Year | |
| Balance End of Year | \$23,050.00 |

22221200 East Pendleton Water District Division II 01/01/2011 - 12/31/2011

Sewer Utility Plant In Service (Ref Page: 5)

| | Depr Rate | Balance Beg of Year | Additions | Retirements | ReClass (Debit-Credit) | Balance End of Year |
|---|-----------|---------------------|-----------|-------------|------------------------|---------------------|
| INTANGIBLE PLANT | | | | | | |
| Organization (301) | | | | | | |
| Franchises and Consents (302) | | | | | | |
| Misc. Intangible Plant (303) | | | | | | |
| Total Intangible Plant | | | | | | |
| LAND AND STRUCTURES | | | | | | |
| Land and Land Rights (310) | | \$1,168.00 | \$0.00 | \$0.00 | \$0.00 | \$1,168.00 |
| Structures and Improvements (311) | | | | | | |
| Total Land and Structures | | \$1,168.00 | \$0.00 | \$0.00 | \$0.00 | \$1,168.00 |
| COLLECTION PLANT | | | | | | |
| Collection Sewers - Force (352.1) | | | | | | |
| Collection Sewers - Gravity (352.2) | | | | | | |
| Other Collection Plant Facilities (353) | | | | | | |
| Services to Customers (354) | | | | | | |
| Flow Measuring Devices (355) | | | | | | |
| Total Collection Plant | | | | | | |
| PUMPING PLANT | | | | | | |
| Receiving Wells and Pump Pits (362) | | | | | | |
| Pumping Equipment - Electric (363A) | | | | | | |

22221200 East Pendleton Water District Division II 01/01/2011 - 12/31/2011

Sewer Utility Plant In Service (Ref Page: 5)

| | Depr Rate | Balance Beg of Year | Additions | Retirements | ReClass (Debit-Credit) | Balance End of Year |
|---------------------------|-----------|---------------------|------------|-------------|------------------------|---------------------|
| Pumping | | | | | | |
| Equipment-Diesel (363B) | | | | | | |
| Pumping Equipment - | | | | | | |
| Other (363C) | | | | | | |
| Total Pumping Plant (364) | | | | | | |
| TREATMENT AND | | | | | | |
| DISPOSAL PLANT | | | | | | |
| Oxidation Lagoon (372) | | | | | | |
| Treatment and Disposal | | \$19,442.00 | \$3,075.00 | \$0.00 | \$0.00 | \$22,517.00 |
| Equipment (373) | | | | | | |
| Plant Sewers (374) | | | | | | |
| Outfall Sewer Lines (375) | | \$10,512.00 | \$0.00 | \$0.00 | \$0.00 | \$10,512.00 |
| Other Treatment and | | | | | | |
| Disposal Plant Equip. | | | | | | |
| (376) | | | | | | |
| Total Treatment and | | \$29,954.00 | \$3,075.00 | \$0.00 | \$0.00 | \$33,029.00 |
| Disposal Plant (371) | | | | | | |
| GENERAL PLANT (372) | | | | | | |
| Office Furniture and | | | | | | |
| Equipment (391) | | | | | | |
| Transportation Equipment | | | | | | |
| (392) | | | | | | |
| Stores Equipment (393A) | | | | | | |
| Tools, Shop and Garage | | | | | | |
| Equipment (393B) | | | | | | |
| Laboratory Equipment | | | | | | |
| (393C) | | | | | | |
| Power Operated | | | | | | |
| Equipment (393D) | | | | | | |
| Communication Equipment | | | | | | |
| (393E) | | | | | | |

22221200 East Pendleton Water District Division II 01/01/2011 - 12/31/2011

Sewer Utility Plant In Service (Ref Page: 5)

| | Depr Rate | Balance Beg of Year | Additions | Retirements | ReClass (Debit-Credit) | Balance End of Year |
|-----------------------------------|-----------|---------------------|------------|-------------|------------------------|---------------------|
| Other Tangible Property (393F) | | | | | | |
| Total General Plant | | | | | | |
| TOTAL SEWER PLANT IN SERVICE | | \$31,122.00 | \$3,075.00 | \$0.00 | \$0.00 | \$34,197.00 |

Capital Stock (Ref Page: 6)

| Class and Series (a) | No. of Shares Auth. (b) | Par Val per Share of Par | Stated Val Per Share of | Outstanding Shares (e) | Outstanding Amount (f) |
|----------------------|-------------------------|--------------------------|-------------------------|------------------------|------------------------|
|----------------------|-------------------------|--------------------------|-------------------------|------------------------|------------------------|

Total

Long-Term Debt (Ref Page: 6)

| Class and Series | Orig. Issue Amt | Date of Issue (b) | Date of Maturity (c) | Outstanding Balance | Interest Rate (e) | Interest Amt (f) |
|------------------|-----------------|-------------------|----------------------|---------------------|-------------------|------------------|
|------------------|-----------------|-------------------|----------------------|---------------------|-------------------|------------------|

List each Original
Issue Amount Class
and Series of
Obligation

| | | |
|--|---|---|
| | 0 | 0 |
|--|---|---|

Total

Notes Payable (Ref Page: 6)

| Name of Payee (a) | Date Of Note (b) | Date of Maturity (c) | Interest Rate (d) | Balance End of Year (e) |
|--|------------------|----------------------|-------------------|-------------------------|
| (Include Notes Payable to Associated Companies Under This Heading) | | | | |
| | | | | 0 |
| | | | | 0 |
| Total | | | | |

Interest Accrued (Ref Page: 6)

| Description of Obligation (a) | Int. Acqr. Balance First of Yr | Int. Acqr. During Yr (c) | Int. Paid During Yr (d) | Int. Acqr. Balance End of Yr |
|-------------------------------|--------------------------------|--------------------------|-------------------------|------------------------------|
|-------------------------------|--------------------------------|--------------------------|-------------------------|------------------------------|

Total

Other Current and Accrued Liabilities (Ref Page: 7)

| | Description | Amount |
|--|-------------|--------|
|--|-------------|--------|

Total (must agree with pg 3 Acct 238)

22221200 East Pendleton Water District Division II 01/01/2011 - 12/31/2011

Statement of Retained Earnings For the Year (Ref Page: 7)

| Item (a) | This Year (b) | Last Year (c) |
|---|---------------|---------------|
| UNAPPROPRIATED RETAINED EARNINGS (216) | | |
| Balance Beginning of Year | \$11,811.00 | \$11,811.00 |
| Balance Transferred From Income (435) | \$15,200.00 | \$14,896.00 |
| Appropriations of Retained Earnings (436) | | |
| Dividends Declared-Preferred Stock (437) | | |
| Dividends Declared-Common Stock (438) | | |
| Adjustments to Retained Earnings (439) | (\$15,864.00) | (\$17,261.00) |
| Balance End of Year | \$11,147.00 | \$9,446.00 |

22221200 East Pendleton Water District Division II 01/01/2011 - 12/31/2011

Statement of Income for the Year (Ref Page: 8)

| Description | Number Customers (b) | Amount (c) |
|---|----------------------|-------------|
| OPERATING REVENUES | | |
| Flat Rate Revenues-General Customers: | | |
| Residential Revenues (521.1) | 48 | \$21,197.00 |
| Commercial Revenues (521.2) | | |
| Industrial Revenues (521.3) | | |
| Revenues From Public Authorities (521.4) | | |
| Total (521) | 48 | \$21,197.00 |
| Measured Revenues - General Customers: (483) | | |
| Residential Revenues (522.1) | | |
| Commercial Revenues (522.2) | | |
| Industrial Revenues (522.3) | | |
| Revenues From Public Authorities (522.4) | | |
| Total (522) | | |
| Revenues From Public Authorities (523) | | |
| Revenues From Other Systems (524) | | |
| Miscellaneous Sewage Revenues (526) | | |
| Total Sewage Service Revenues (521-526) | 48 | \$21,197.00 |
| OTHER OPERATING REVENUES | | |
| Customers Forfeited Discounts (532) | | |
| Miscellaneous Operating Revenues (536) | | |
| Total Other Operating Revenues | | |
| Total Operating Revenues | | \$21,197.00 |
| OPERATING EXPENSES | | |
| Total Sewer Operation and Maint. Expenses (from pg 9) | | \$5,333.00 |
| Depreciation Expense (403) | | \$1,374.00 |
| Amortization Expense (from pg 10) (404-407) | | |

Statement of Income for the Year (Ref Page: 8)

| Description | Number Customers (b) | Amount (c) |
|--|----------------------|-------------|
| Taxes Other Than Income taxes (from pg 10) (408.1) | | |
| Total Income Taxes-Utility Operations (from pg 10) | | \$6,707.00 |
| Total Sewage Operating Expenses | | \$14,490.00 |
| Net Operating Income | | |
| OTHER INCOME | | |
| Income from NonUtility Operations (417) | | |
| Interest and dividend Income (419) | | |
| Miscellaneous Nonoperating Income (421) | | |
| Other Accounts (Specify Acct. No & Title) | | |
| Total Other Income | | |
| OTHER DEDUCTIONS | | |
| Interest on Long-Term Debt (427) | | |
| Amortization of Debt Discount and Expense (428) | | |
| Interest on Debt to Associated Companies (430) | | |
| Other Interest Expense (431) | | |
| Taxes Other than Income Taxes 408.2 (from pg 10) | | |
| Total Income Taxes-Nonutility Operations (from pg 10) | | |
| Other Accounts (Specify Acct. No. and Title) | | |
| Total Other Deductions | | |
| Net Income | | \$14,490.00 |

Sewer Operation and Maintenance Expenses (Ref Page: 9)

| | Amount (b) |
|--|------------|
| OPERATION EXPENSES | |
| Supervision and Engineering (700) : | |
| Owner/Manager-Management Fee (700-A) | |
| Other Expenses (700-B) | |
| Labor and Expenses (701): | |
| Collection System-Labor, Materials and Expenses (701-A) | |
| Pumping System-Labor, Materials and Expenses (701-B) | |
| Treatment System (701-C) : | |
| Sludge Hauling | |
| Utility Service - Water Cost | |
| Other-Labor, Materials and Expense | \$4,593.00 |
| Rents (702) | |
| Fuel and Power Purchased for Pumping and Treatment (703) | \$140.00 |
| Chemicals (704) | |
| Miscellaneous Supplies and Expenses (705): | |
| Collection System (705-A) | |
| Pumping System (705-B) | |
| Treatment an Disposal (705-C) | \$4,733.00 |
| Total Operation Expenses | |
| MAINTENANCE EXPENSES | |
| Supervision and Engineering (710) : | |
| Routine Maintenance Service Fee (710-A) | \$600.00 |
| Internal Supervision and Engineering (710-B) | |
| Maintenance of Structures and Improvements (711) | |
| Maintenance of Collection Sewer system (712) | |
| Maintenance of Pumping System (713) | |
| Maintenance of Treatment and Disposal Plant (714) | |

22221200 East Pendleton Water District Division II 01/01/2011 - 12/31/2011

Sewer Operation and Maintenance Expenses (Ref Page: 9)

| | Amount (b) |
|--|------------|
| Maintenance of Other Plant Facilities (715) | |
| Total Maintenance Expenses | \$600.00 |
| CUSTOMER ACCOUNTS EXPENSES | |
| Supervision (901) | |
| Meter Reading Expenses and Flat Rate Inspections (902) | |
| Customer Records and Collection Expenses (903): | |
| Agency Collection Fee (903-A) | |
| Internal Labor, Materials and Expenses (903-B) | |
| Uncollectible Accounts (904) | |
| Miscellaneous Customer Accounts Expenses (905) | |
| Total Customer Accounts Expenses | |
| ADMINISTRATIVE AND GENERAL EXPENSES | |
| Administrative and General Salaries (920) | |
| Office Supplies and Other Expenses (921) | |
| Outside Services Employed (923) | |
| Insurance Expenses (924) | |
| Employee Pensions and Benefits (926) | |
| Regulatory Commission Expense (928) | |
| Transportation Expenses (929) | |
| Miscellaneous General Expenses (930) | |
| Rents (931) | |
| Maintenance of General Plant (932) | |
| Total Administrative and General Expenses | |
| TOTAL SEWER OPERATION AND MAINTENANCE EXPENSES (to pg 8) | \$5,333.00 |

Taxes Other Than Income Taxes (Ref Page: 10)

| Item (a) | Amount (b) |
|--|------------|
| Payroll Taxes | |
| Property Taxes | |
| Utility Regulatory Commission Assessment | |
| Other (specify) | |
| Total (Same as Page 8 line 27 plus 44) | |

Operating and Non-Operating Income Taxes (Ref Page: 10)

| | Amount (b) |
|---|------------|
| Income Taxes-Federal (409.1) | |
| Income Taxes - State (409.1) | |
| Income Taxes - Other (409.1) | |
| Provisions for Deferred Income Taxes (410.1) | |
| Income Taxes Deferred in Prior Years - Credit (411.1) | |
| Investment Tax Credits - Net (412.0) | |
| Total Income Taxes - Util. Operating Income (to pg 8 line 28) | |
| Income Taxes - Federal (409.2) | |
| Income Taxes - State (409.2) | |
| Income Taxes - Other (409.2) | |
| Provisions for Deferred Income (410.2) | |
| Income Taxes Deferred in Prior Years - Credit (411.2) | |
| Investment Tax Credits - Net (412.4) | |
| Total Inc. Taxes - Nonutil. Op. Income (to pg 8 line 45) | |

Amortization Expense (Ref Page: 10)

| | Amount (b) |
|---|------------|
| Amortization of Limited - Term Utility Plant (404) | |
| Amortization of Other Utility Plant (405) | |
| Amortization of Utility Plant Acquisition Adjustments (406) | |
| Amortization of Property Losses (407) | |
| Amortization of Rate Case Expense | |
| Total Amortization Expense (to pg 8 line 26) | |

Sewer Plant Statistics - Plant Valuation 1 - 3 (Ref Page: 11)

| Description | Percentage |
|---|------------|
| What method of valuation was used with reference to Sewer Utility Plant in Service Appearing on page two line four: Original Cost, Estimated Cost, Original Cost Study? | 0 |
| What percentage of Sewer Utility Plant in Service was recovered, by the developer of hte subdivision, through the sale of lots? | 0 |
| If less than one-hundred percent of the utility plant was recovered, please designate what portion (collection lines, treatment plant, etc.) of the plant that represents non-contributed plant | |

Sewer Plant Statistics - Plant Valuation 4. (Ref Page: 11)

| Last Name | First Name | Date |
|-----------|------------|------|
|-----------|------------|------|

By whom were the books of account audited?
What was the date of the last audit?

Ray, Foley, Hensley & Co

3/22/2012

If unaudited in the past twelve months, when and
by whom is the next audit anticipated?

Sewer Plant Statistics - Physical Data of Sewer Plant (Ref Page: 11)

| | |
|---|---------------|
| Date of Construction of original Plant | 1972 |
| Type of treatment process | AEM Flow |
| Date and additional GPD Capacity of subsequent additions to plant | N/A |
| Population for which plant is designed including population equivalent of Industrial waste load | 90 Households |

22221200 East Pendleton Water District Division II 01/01/2011 - 12/31/2011
 Sewer Plant Statistics - Treatment Plant Operating Statistics (Ref Page: 11)

| | Total | Cost |
|---|-------|----------|
| Total gallons received during the year | | |
| Total gallons received on maximum day | | |
| Maximum G.P.D. Capacity of the sewage treatment plant | 4,600 | |
| Routine maintenance service fee | | \$30.00 |
| Cost per month | | |
| Contract Expires | | |
| Sludge hauling | | \$150.00 |
| Cost per load | | |
| Average number of gallons per load | | |
| Number of loads this year | 4 | |

22221200 East Pendleton Water District Division II 01/01/2011 - 12/31/2011

Sewer Plant Statistics - Customer Statistics End of Year (Ref Page: 12)

| Type | Num of Customers | Bi-Month or Month Billing | Number of bills |
|-------------------------|------------------|---------------------------|-----------------|
| Residential | | | |
| Single Family | | | |
| Apartments/Condominiums | 48 | Monthly | 12 |
| Commercial | | | |
| Industrial | | | |
| Other | | | |
| Total | 48 | | 12 |

22221200 East Pendleton Water District Division II 01/01/2011 - 12/31/2011

Sewer Plant Statistics - Industrial Customers Served (Ref Page: 12)

| Name | Type of Industry | Gallons | Pretreatment of Wastes |
|------|------------------|---------|------------------------|
|------|------------------|---------|------------------------|

N/A

0

Sewer Plant Statistics - Pumping Stations (Ref Page: 12)

| Location | Size of Motor | Type of Motor | Gals per Day |
|----------------------------------|---------------|---------------|--------------|
| Jenkins Lane, Falmouth, KY 41040 | 10 Horsepower | AIR | 3,900 |

22221200 East Pendleton Water District Division II 01/01/2011 - 12/31/2011

Sewer Plant Statistics - Mains (Feet) (Ref Page: 12)

| Kind of Pipe | Diameter | Num of Feet | additions | removed | Feet End of Year |
|--------------|----------|-------------|-----------|---------|------------------|
| Low Towel | 8" | 7,500 | 0 | 0 | 7,500 |

Sewer Plant Statistics - Service Laterals and Stubs (Ref Page: 12)

| | Count |
|--|-------|
| Number of service laterals owned by the utility at end of year | 48 |
| Number of stubs as of end of year | |
| Number of service laterals owned by others | |

22221200 East Pendleton Water District Division II 01/01/2011 - 12/31/2011

CheckList

| Item | Value 1 | Value 2 | Agree | Explain |
|---|----------|----------|-------|---------|
| Balance Sheet (ref pg 2) Line Utility Plant (101-109) agrees with Sched Summary of Utility Plant (ref. pg 4) Total Utility Plant | 34197.00 | 34197.00 | OK | |
| Balance Sheet (ref pg 2) Line Less: Acct 110 agrees with Sched Summary of Utility Plant (ref pg 4) Line Total Utility Plant | 23050.00 | 23050.00 | OK | |
| Balance Sheet (ref pg 2) Line Net Utility Plant agrees with Summary of Utility Plant (ref pg 4) Line Net Utility Plant | 11147.00 | 11147.00 | OK | |
| Summary of Utility Plant (ref pg 4) Plant in Service Classified (Acct 101) agrees with Sched Sewer Plant in Service (ref pg 5) Total Sewer Plant in Service | 34197.00 | 34197.00 | OK | |
| Accum. Prov for Deprec. and Amort (Ref pg 4) Balance End of Year agrees with Sched Summary of Utility Plant (ref pg 4) Accumulated Prov. for Depr. and Amort. | 23050.00 | 23050.00 | OK | |
| Balance Sheet (ref pg 3) Sum of Common Capital Stock (201) and Preferred Capital Stock (204) agrees with Schedule Capital Stock (ref pg 6) | 0 | 0 | OK | |
| Balance Sheeet (ref pg 3) Unappropriated Retained Earnings (216) agrees with Sched Statement of Retained Earnings (ref pg 7) Balance End of Year | 11147.00 | 11147.00 | OK | |
| Balance Sheet (ref pg 3) Total Long Term Debt (224) agrees with Sched Long Term Debt (ref pg 6) Total col d | 0 | 0 | OK | |
| Balance Sheet (ref pg 3) The sum of Notes Payable (231) and (233) agrees with Sched Notes Payable (ref pg 6) Total Col e | 0 | 0 | OK | |
| Balance Sheet (ref pg 3) Interest Accrued (237) agrees with Sched interest Accrued (ref pg 6) Total Col e | 0 | 0 | OK | |
| Balance Sheet (ref pg 3) Current and Accrued Liabilities (238) agrees with Sched Other Current and Accrued Liabilities (ref pg 7) Total | 0 | 0 | OK | |

22221200 East Pendleton Water District Division II 01/01/2011 - 12/31/2011

CheckList

| Item | Value 1 | Value 2 | Agree | Explain |
|---|----------|----------|-------|---------|
| Balance Sheet (ref pg 3) Total Liabilities and Other Credits agrees with Balance Sheet (ref pg 2) Total Assets and Other Debits | 11147.00 | 11147.00 | OK | |
| Accum Prov. for Depreciation and Amortization (ref. pg 4) Depreciation agrees with Sched Statement of Income for the Year (ref pg 8) Depreciation Expense (403) | 1374.00 | 1374.00 | OK | |
| Sched Long Term Debt (ref pg 6) Total Interest Amount agrees with Sched Statement of Income (ref pg 8) Interest on Long Term Debt (427) | 0 | 0 | OK | |
| Interest Accrued (ref pg 6) Total Interest Accrued agrees with Sched Statement of Income (ref pg 8) Other Interest Expense (431) | 0 | 0 | OK | |
| Statement of Income for the Year (ref pg 8) Total Sewer Operation and Maint. Expenses agrees with Sched Sewer Operation and Maintenance Expenses (ref pg 9) Total Sewer Operation and Maint. Exp | 5333.00 | 5333.00 | OK | |
| Statement of Income for the Year (ref pg 8) Total Income taxes - Utility Operations agrees with Sched Operating and Non-Operating Income Taxes (ref pg 10) Total Income Taxes - Util Operating Income | 0 | 0 | OK | |
| Statement of Income for the Year (ref pg 8) Amortization Expense agrees with Sched Amortization Expense (ref pg 10) Total Amortization Expense | 0 | 0 | OK | |
| Statement of Income for the Year (ref pg 8) The sum of lines Taxes Other than Income Taxes 408.1 and 408.2 agrees with Taxes Other Than Income (ref pg 10) | 0 | 0 | OK | |
| Statement of Income for the Year (ref pg 8) Total Income Taxes - Nonutility Operations agrees with Sched Operating and Non-Operating Income Taxes Total Inc. Taxes - Nonutil. Op Income | 0 | 0 | OK | |
| Schedule Sewer Plant Statistics (ref pg 11 and 12) have been completed | | | | |

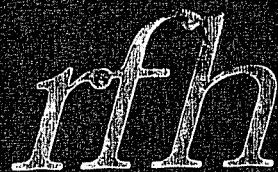
EAST PENDLETON COUNTY
WATER DISTRICT
Falmouth, Kentucky

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FINANCIAL STATEMENTS
December 31, 2011 and 2010

PUBLIC SERVICE
COMMISSION



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

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Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

Stephen R. Allen, CPA/PFS
Dennis H. England, CPA
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Lyman Hager, Jr., CPA/PFS
Jerry W. Hensley, CPA

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
East Pendleton County Water District
Falmouth, Kentucky

J. Carroll Luby, CPA

We have audited the accompanying balance sheets of East Pendleton County Water 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 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 general purpose 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 audit provides a reasonable basis for our opinion.

East Pendleton County Water District has not presented the Management Discussion and Analysis, that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Pendleton County Water District as of December 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued a report dated March 21, 2012 on our consideration of East Pendleton County Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

Ray, Foley, Hensley & Company
RAY, FOLEY, HENSLEY & COMPANY, PLLC
March 21, 2012

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www.rfhco.com

**EAST PENDLETON COUNTY WATER DISTRICT
BALANCE SHEETS
December 31,**

| ASSETS | 2011 | 2010 |
|---|---------------------|---------------------|
| Current assets | | |
| Cash | \$ 128,070 | \$ 179,897 |
| Accounts receivable customers, net | 62,180 | 82,932 |
| Other receivables | <u>-</u> | <u>9,750</u> |
| Total current assets | <u>190,250</u> | <u>272,579</u> |
| Restricted assets | | |
| Cash | 236,225 | 245,894 |
| Cash - construction | 219,008 | 252,946 |
| Certificates of deposit | <u>247,349</u> | <u>243,943</u> |
| Total restricted assets | <u>702,582</u> | <u>742,783</u> |
| Capital assets | | |
| Property, plant and equipment- Water | 6,681,889 | 6,620,745 |
| Less: accumulated depreciation- Water | (2,823,734) | (2,655,647) |
| Property, plant and equipment- Sewer | 34,197 | 31,122 |
| Less: accumulated depreciation- Sewer | <u>(23,050)</u> | <u>(21,676)</u> |
| Total capital assets | <u>3,869,302</u> | <u>3,974,544</u> |
| Other assets | | |
| Inventory | 15,728 | 15,468 |
| Bond closing costs | <u>41,961</u> | <u>45,286</u> |
| Total other assets | <u>57,689</u> | <u>60,754</u> |
| Total assets | <u>\$ 4,819,823</u> | <u>\$ 5,050,660</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable | \$ 29,310 | \$ 30,292 |
| Taxes payable | 3,345 | 4,627 |
| Customer deposits | 30,715 | 29,215 |
| Accrued interest payable | 20,723 | 22,421 |
| Current portion of debt | <u>58,400</u> | <u>74,800</u> |
| Total current liabilities | <u>142,493</u> | <u>161,355</u> |
| Long-term debt | | |
| KIA note payable | 67,500 | 80,000 |
| Bonds payable, net | <u>1,356,700</u> | <u>1,402,600</u> |
| Total long-term debt | <u>1,424,200</u> | <u>1,482,600</u> |
| Net assets | | |
| Invested in capital assets, net of related debt | 2,386,702 | 2,417,144 |
| Restricted for debt service | 259,900 | 269,206 |
| Restricted for depreciation | 223,674 | 220,631 |
| Unrestricted | <u>382,854</u> | <u>499,724</u> |
| Total net assets | <u>3,253,130</u> | <u>3,406,705</u> |
| Total liabilities and net assets | <u>\$ 4,819,823</u> | <u>\$ 5,050,660</u> |

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

EAST PENDLETON COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
for the years ended December 31,

| | 2011 | 2010 |
|---|---------------------|---------------------|
| OPERATING INCOME | | |
| Water sales | \$ 838,285 | \$ 911,160 |
| Sewer sales | 21,197 | 22,410 |
| Other revenue | <u>26,352</u> | <u>28,050</u> |
| Total operating income | <u>885,834</u> | <u>961,620</u> |
| OPERATING EXPENSES | | |
| Water purchases | 207,352 | 226,422 |
| Pumping | 34,287 | 36,645 |
| Operation | 240,662 | 228,432 |
| Maintenance | 18,043 | 9,957 |
| General and administrative | <u>305,368</u> | <u>298,946</u> |
| Total operating expense | <u>805,712</u> | <u>800,402</u> |
| Operating income before depreciation | 80,122 | 161,218 |
| Depreciation expense | (178,689) | (175,713) |
| Amortization expense | <u>(3,325)</u> | <u>(3,325)</u> |
| Total depreciation and amortization expense | <u>(182,014)</u> | <u>(179,038)</u> |
| OPERATING INCOME (LOSS) | (101,892) | (17,820) |
| Non-operating income (expenses) | | |
| Interest income | 5,787 | 8,730 |
| Gain on asset disposition | 4,728 | - |
| Interest expense related to debt | (77,370) | (73,615) |
| Fees | <u>(180)</u> | <u>(200)</u> |
| (LOSS) BEFORE CAPITAL CONTRIBUTIONS | (168,927) | (82,905) |
| Capital contributions | | |
| Grants | - | 390,241 |
| Contributed by customers | - | 25,000 |
| Tap fees | <u>15,352</u> | <u>37,421</u> |
| Change in net assets | (153,575) | 369,757 |
| Net assets, beginning of year | <u>3,406,705</u> | <u>3,036,948</u> |
| NET ASSETS, END OF YEAR | <u>\$ 3,253,130</u> | <u>\$ 3,406,705</u> |

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

EAST PENDLETON COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
for the years ended December 31,

| | 2011 | 2010 |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$ 916,336 | \$ 940,355 |
| Payments to suppliers | (374,935) | (381,072) |
| Payments for employee services and benefits | <u>(431,981)</u> | <u>(416,739)</u> |
| Net cash provided by operating activities | <u>109,420</u> | <u>142,544</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Retirement of note principal | (74,800) | (72,500) |
| Proceeds on sale of fixed assets | 5,000 | - |
| Interest paid | (79,068) | (73,615) |
| Construction in progress | - | (49,137) |
| Tap fee | 15,352 | 37,421 |
| Customer contributions | - | 25,000 |
| Purchase of fixed assets | <u>(73,719)</u> | <u>(25,275)</u> |
| Net cash used by financing activities | <u>(207,235)</u> | <u>(158,106)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment in certificates of deposit | (3,406) | (4,414) |
| Interest income | <u>5,787</u> | <u>8,730</u> |
| Net cash provided by investing activities | <u>2,381</u> | <u>4,316</u> |
| NET INCREASE (DECREASE) IN CASH | (95,434) | (11,246) |
| Cash at beginning of year | <u>678,737</u> | <u>689,983</u> |
| CASH AT END OF YEAR | <u>\$ 583,303</u> | <u>\$ 678,737</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | |
| Operating income (loss) | \$ (101,892) | \$ (17,820) |
| Noncash items included in operating income | | |
| Depreciation | 178,689 | 175,713 |
| Amortization | 3,325 | 3,325 |
| Fees | (180) | (200) |
| Changes in assets and liabilities | | |
| (Increase) decrease in accounts receivables | 20,752 | (10,658) |
| (Increase) decrease in other receivables | 9,750 | (9,750) |
| (Increase) decrease in inventory | (260) | (1,803) |
| Increase (decrease) in accounts payable | (982) | (1,039) |
| Increase (decrease) in other payables | (1,282) | 156 |
| Increase (decrease) in customer deposits | <u>1,500</u> | <u>4,560</u> |
| Net cash provided by operating activities | <u>\$ 109,420</u> | <u>\$ 142,484</u> |

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

EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

1. ORGANIZATION AND ACCOUNTING POLICIES

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

Reporting Entity

The East Pendleton County Water District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The entities included in the financial statements are the general operations of the District.

There are no other entities that are subject to the District's oversight responsibility as indicated above.

Basis of Accounting

The District's financial statements are presented in conformity with the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

The net assets of the District are classified into three categories; invested in capital assets net of related debit, restricted and unrestricted. The restricted net assets consist of reserves for bond retirement and depreciation costs relating to the construction, replacement, extension, additions and/or improvements to the system. These reserves are discussed in note 3.

When both restricted and unrestricted resources are available for use, the District's Board of Commissioners makes a determination as to which resource should be used.

The District applies all applicable Financial FASB and AICPA pronouncements issued on or before November 30, 1989 that are not in conflict with applicable GASB pronouncements.

The accrual basis of accounting is utilized by the District. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

The District reports all revenues and expenses as operating, except interest income, interest expense, amortization, gains and losses on disposal of assets, and capital contributions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District defines cash as cash on hand, cash in bank, money market funds in both unrestricted and restricted accounts, and certificates of deposit with a maturity of less than 90 days.

Accounts Receivable

The District's accounts receivable reserve represents its estimate of all uncollectible accounts. The reserves for both 2011 and were \$3,500.

EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

1. ORGANIZATION AND ACCOUNTING POLICIES, continued

Inventory

The district's inventory is composed of chemicals, equipment and supply-type items used for routine maintenance and repairs and new water lines. The inventory is stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment

Fixed assets are recorded at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the asset. Land is not subject to depreciation. Interest costs during construction of fixed assets are capitalized as a part of the cost.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS

Under Kentucky Revised Statute 66.480 the District is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks.

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. The categories of credit risk are defined as follows:

- (1) Insured or registered, or securities held by the government or its agent in the government's name.
- (2) Uninsured and unregistered, with securities held by the counterpart's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counterpart or by its trust department or agent but not in the government's name.

**EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

2. CASH AND INVESTMENTS, continued

| Type of Deposit | Category | | | Total Bank Amount | Total Carrying Amount |
|-------------------------|-------------------|-------------|-------------|-------------------------|-----------------------------|
| | 1 | 2 | 3 | | |
| Cash | \$ 605,576 | \$ - | \$ - | \$ 605,576 | \$ 583,303 |
| Certificates of Deposit | <u>247,349</u> | - | - | <u>247,349</u> | <u>247,349</u> |
| | <u>\$ 852,925</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 852,925</u> | <u>\$ 830,652</u> |

The proprietary fund type Statement of Cash Flows includes cash with the following restrictions:

| | 2011 | |
|---------------------|-------------------|-------------------|
| Cash | \$ 128,070 | \$ 179,897 |
| Cash - construction | 219,008 | 252,946 |
| Restricted cash | <u>236,225</u> | <u>245,894</u> |
| | <u>\$ 583,303</u> | <u>\$ 678,737</u> |

3. COMPLIANCE WITH BOND RESOLUTION

The bond resolution requires the District to maintain certain reserves as follows:

Reserve Fund - This reserve is to receive a monthly transfer of \$483 until a balance of \$58,000 is accumulated for all bond issues. In addition, this reserve is to receive all proceeds collected from potential customers to aid construction of extensions and any property damage insurance proceeds. Funds may be used only for the purpose of paying the cost of unusual or extraordinary maintenance and repairs not included in the budget and cost of constructing extensions or improvements to the system. The Reserve Fund has a balance of \$223,674 and \$220,631 at December 31, 2011 and 2010, respectively.

Bond and Interest Sinking Fund - This reserve is to receive a monthly transfer of 1/12 of the next interest due and 1/12 of the next principal due. In addition, this reserve is to receive any excess revenues at the close of each year after provision of anticipated operating expenses for a two-month period. This reserve can only be used to pay debt service on the bond issue. The Bond and Interest Sinking Fund has a balance of \$259,900 and \$269,206 at December 31, 2011 and 2010, respectively.

**EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

4. CAPITAL ASSETS

A summary of capital asset activity during the year follows:

| | Balance 12/31/10 | Additions | Deductions | Balance 12/31/11 |
|--------------------------------------|---------------------|---------------------|-----------------|---------------------|
| Capital Assets not depreciated: | | | | |
| Organizational Costs | \$ 7,200 | \$ - | \$ - | \$ 7,200 |
| Water Land | 16,157 | - | - | 16,157 |
| Sewer Land | <u>1,168</u> | <u>-</u> | <u>-</u> | <u>1,168</u> |
| Totals | <u>24,525</u> | <u>-</u> | <u>-</u> | <u>24,525</u> |
| Capital assets that are depreciated: | | | | |
| Water property & equipment | 6,597,388 | 70,644 | (9,500) | 6,658,532 |
| Sewer property & equipment | <u>29,954</u> | <u>3,075</u> | <u>-</u> | <u>33,029</u> |
| Totals | <u>6,627,342</u> | <u>73,721</u> | <u>(9,500)</u> | <u>6,691,561</u> |
| Less accumulated depreciation | <u>2,677,323</u> | <u>178,689</u> | <u>(9,228)</u> | <u>2,846,784</u> |
| Totals | <u>3,950,019</u> | <u>(104,968)</u> | <u>(272)</u> | <u>3,844,777</u> |
| Capital Assets, net | <u>\$ 3,974,544</u> | <u>\$ (104,968)</u> | <u>\$ (272)</u> | <u>\$ 3,869,302</u> |

5. LONG TERM DEBT REQUIREMENTS

The following is a summary of the bonds and notes outstanding for the district for the years ended December 31:

| Bonds and Notes | 2011 | |
|--|-------------|-----------|
| USDA, Rural Development Bond - \$418,000, dated 3/22/73 with payments through 2011, bearing interest at a rate of 5%. | \$ 0 | \$ 24,000 |
| Refunding Revenue Bond, series 1998 - \$1,015,000, dated 8/01/98 with payments through 2025, bearing interest at rates from 4.2% to at 5.3%. | 695,000 | 725,000 |
| Kentucky Infrastructure Authority loan - \$244,590 and restructured to \$155,000, dated 4/28/98 and restructured 08/01/04 with payments through 2017, bearing interest at rates from 3.1% - 5.25%. | 80,000 | 90,000 |
| USDA, Rural Development Bond - \$479,000, dated 4/10/02 with payments through 2042, bearing interest at a rate of 4.75%. | 430,000 | 437,000 |

EAST PENDLETON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

5. LONG TERM DEBT REQUIREMENTS, continued

| | | |
|---|-------------------------------------|-------------------------------------|
| USDA, Rural Development Bond – \$195,000, dated 2/22/07 with payments through 2042, bearing interest at a rate of 4.125%. | 183,500 | 186,000 |
| USDA, Rural Development Bond – \$100,000, dated 2/22/07 with payments through 2044, bearing interest at a rate of 4.125%. | <u>94,100</u> | <u>95,400</u> |
| Less: Current portion of debt | <u>1,482,600</u> <u>(58,400)</u> | <u>1,557,400</u> <u>(74,800)</u> |
| Long-term debt | <u>\$ 1,424,200</u> | <u>\$ 1,482,600</u> |

The annual requirements to amortize all notes and leases outstanding as of December 31, 2011 are as follows:

| Year Ending December 31 | Principle | Interest | Payment |
|----------------------------|---------------------|-------------------|---------------------|
| 2012 | \$ 58,400 | \$ 70,524 | \$ 128,924 |
| 2013 | 61,100 | 67,637 | 128,737 |
| 2014 | 66,300 | 64,596 | 130,896 |
| 2015 | 67,500 | 61,388 | 128,888 |
| 2016 | 72,700 | 58,113 | 130,813 |
| 2017-2021 | 335,000 | 253,402 | 578,402 |
| 2022-2026 | 336,700 | 155,861 | 492,561 |
| 2027-2031 | 116,400 | 100,906 | 217,306 |
| 2032-2036 | 147,800 | 71,584 | 219,384 |
| 2037-2041 | 175,600 | 34,108 | 209,708 |
| 2042-2044 | <u>45,100</u> | <u>3,987</u> | <u>49,087</u> |
| | <u>\$ 1,482,600</u> | <u>\$ 932,105</u> | <u>\$ 2,414,705</u> |

6. RETIREMENT PLAN

The East Pendleton County Water District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible 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 (COLA) adjustments are provided at the discretion of state legislature.

**EAST PENDLETON COUNTY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2011 and 2010**

6. RETIREMENT PLAN , continued

Contributions – For the year ended December 31, 2011, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is proved through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statue Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2011, participating employers contributed 16.93% through June 30 and 18.96% thereafter, of each hazardous employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution and the actual percentage contributed for the District for the current and previous two years are as follows:

| <u>Year</u> | <u>Required Contribution</u> | <u>Percentage Contributed</u> |
|-------------|----------------------------------|-----------------------------------|
| 2011 | \$ 67,176 | 100% |
| 2010 | \$ 58,108 | 100% |
| 2009 | \$ 48,833 | 100% |

7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the district also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. *Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.*

8. RECLASSIFICATIONS

Total amounts for 2010 are presented herein for comparative purposes only and in some instances have been reclassified from the amount presented in the prior year's audited financial statements.

9. SUBSEQUENT EVENTS

The District has evaluated and considered the need to recognize or disclose subsequent events through March 21, 2012, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2011, have not been evaluated by the District.

**EAST PENDLETON COUNTY WATER DISTRICT
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
East Pendleton County Water District
Falmouth, Kentucky

We have audited the financial statements of East Pendleton County Water District (the "District") as of and for the year ended December 31, 2011, and have issued our report thereon dated March 21, 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 the 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be material weaknesses in internal control over financial reporting. (2011-1).

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. 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 did not identify any deficiencies in internal control that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 or other matters that are required to be reported under **Government Auditing Standards**.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley, & Company

Ray, Foley, Hensley & Company, PLLC
March 21, 2012

**EAST PENDLETON WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2011**

FINDING:

2011-1

The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

The District lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures and thus, does not have the internal control procedures required to take responsibility for the financial statements in conformity with generally accepted accounting principles.

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

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

RESPONSE:

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.