

BULLOCK PEN WATER DISTRICT

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June 28, 2013

Public Service Commission
P.O. 615
Frankfort, KY 40602

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JUL 1 2013

PUBLIC SERVICE
COMMISSION

To Whom It May Concern:

A copy of the Bullock Pen Water District's audited financial statement and PSC Report is enclosed for your review and records.

If there are any questions, please feel free to call.
Thanks.

Sincerely,



Amy Johnson, Office Manager
Bullock Pen Water District

aj

Enclosure

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BULLOCK PEN WATER DISTRICT

FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

BULLOCK PEN WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2012 and 2011

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BULLOCK PEN WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2012 and 2011

Board of Commissioners

Bobby Burgess, Chairman

Charles Givin, Treasurer

Jimmie King, Secretary

Logan Murphy, Commissioner

Andrea Walton, Commissioner

Of Counsel

Thomas R. Nienaber, Esq.

Administration

William L. Catlett, General Manager



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

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

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Bullock Pen Water District (District), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

-Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

-Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

-Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Bullock Pen Water District as of December 31, 2012 and 2011 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 5-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

-Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bullock Pen Water District's basic financial statements. The supplementary schedules on page 28 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2013 on our consideration of Bullock Pen Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bullock Pen Water District's internal control over financial reporting and compliance.



Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
May 16, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2012. The information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent year by \$15,325,975 (net assets). This was an increase of \$724,942 in comparison to the prior year. This change is similar to the 2011 increase of \$715,832. Basically increases in revenues during 2012 were offset with increases in expenses so that the District's increase in net position remained about the same between the two years.
- At the end of the current year, unrestricted net assets were \$2,177,213.

USING THIS ANNUAL REPORT

The financial statements presented herein include all of the activities of the District as prescribed in GASB Statements No. 33 through 63. The financial statements include a balance sheet, statement of revenues, expenses and changes in net position and statement of cash flows, notes to the financial statements and a supplemental schedule. These statements show the condition of the District's finances and the sources of income and the funds expended.

Basis of Accounting

The District's financial statements are prepared using the accrual basis of accounting.

Statements of Net Position and Revenues, Expenses and Changes in Net Position

In the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position, we report the District's activities.

- The District charges rates for water usage based on the water consumption of its customers to cover all or most of the cost of certain services the District provides.

SUMMARY OF NET POSITION

Table 1 provides a summary of the District's net assets at December 31, 2012 and 2011.

**Table 1
Net Position**

	<u>2012</u>	<u>2011</u>
Current Assets	\$ 1,900,498	\$ 1,641,881
Restricted Assets	1,415,660	1,120,035
Noncurrent Assets	<u>18,762,675</u>	<u>18,905,260</u>
Total Assets	<u>\$22,078,833</u>	<u>\$21,667,176</u>
Current Liabilities	\$ 198,386	\$ 205,259
Liabilities Payable from Restricted Assets	840,732	776,902
Long Term Liabilities	<u>5,713,740</u>	<u>6,083,982</u>
Total Liabilities	<u>\$ 6,752,858</u>	<u>\$ 7,066,143</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	\$12,473,748	\$12,288,892
Restricted	675,014	628,183
Unrestricted	<u>2,177,213</u>	<u>1,683,958</u>
Total Net Position	<u>\$15,325,975</u>	<u>\$14,601,033</u>

The District's net position for 2012 increased 5% or \$724,942 as compared to a 5.2% or \$715,832 increase in the previous year. Despite the fact that income increased during 2012 it was offset by higher expenses so that the increase in net position was similar to the 2011 increase.

The largest portion of the District's net assets (81.4%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt.

An additional portion of the District's net assets (4.4%) is considered to be restricted. This amount represents resources that are subject to external restrictions on how they may be used.

The unrestricted net assets may be used to meet the District's ongoing obligations to customers and creditors.

SUMMARY OF CHANGES IN NET POSITION

Operating Revenues

The District's operating revenues increased by \$74,166 or 1.8%. This increase in operating revenues is primarily the result of increased water sales due to the fact that 2012 was a dry year in comparison to 2011 which had excessive rainfall.

Operating Expenses

The District's operating expenses increased \$128,307. Water costs accounted for \$39,565 of this increase due to increased water usage caused by the dry weather and a rate increase from the Northern Kentucky Water Service District. In addition, operation, maintenance and administrative expenses also increased \$92,668 primarily due to increases in employee salaries, employee benefits and bad debts.

Capital Contributions

Capital Contributions increased \$46,418. This was primarily due to a donation of land to be used for the construction of a water tower during 2012 and 2013. The donation was valued at \$33,500.

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

Table 2
Changes in Net Position

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Water Sales	\$ 3,830,940	\$ 3,769,235
Forfeited Discounts	107,504	100,240
Miscellaneous Services Revenues	28,120	26,404
Management Fee	<u>126,420</u>	<u>122,939</u>
Total Operating Revenues	<u>4,092,984</u>	<u>4,018,818</u>
Operating Expenses:		
Water Purchased	961,234	921,669
Operations and Maintenance Expense	1,789,893	1,697,225
Depreciation & Amortization	<u>569,388</u>	<u>573,314</u>
Total Operating Expenses	<u>3,320,515</u>	<u>3,192,208</u>
Net Operating Income	<u>772,469</u>	<u>826,610</u>
Non-Operating Income(Expenses)		
Investment Income	5,780	5,450
Loss on Disposition of Assets	(3,649)	(105)
Interest on Long-Term Debt and Customer Deposits	(231,794)	(251,287)
Amortization of Debt Discount and Expenses	<u>(13,480)</u>	<u>(14,034)</u>
Net Non-Operating Expenses	<u>(243,143)</u>	<u>(259,976)</u>
Income Before Capital Contributions	529,326	566,634
Capital Contributions	<u>195,616</u>	<u>149,198</u>
Change in Net Position	724,942	715,832
Net Position – January 1	<u>14,601,033</u>	<u>13,885,201</u>
Net Position – December 31	<u>\$15,325,975</u>	<u>\$14,601,033</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2012, the District had \$18,622,594 invested in capital assets including land, buildings, water treatment, transmission and distribution system, equipment, and vehicles, as reflected in the following schedule. This represents a net decrease (additions less retirements and depreciation) of \$119,450. This decrease is mainly due to depreciation expense in excess of the amount that the District invested in new assets during 2012.

Table 3 Summarizes the District's capital assets at the end of 2012 as compared to 2011.

**Table 3
Capital Assets at Year End**

	<u>2012</u>	<u>2011</u>
Land	\$ 195,257	\$ 161,757
Buildings and Improvements	1,542,739	1,540,222
Construction in Progress	342,185	44,433
Other Plant & Miscellaneous Equipment	492,788	494,838
Transportation Equipment	269,480	267,618
Transmission and Distribution System	23,173,068	23,092,664
Furniture and Fixtures	<u>76,175</u>	<u>76,175</u>
Subtotal	26,091,692	25,677,707
Accumulated Depreciation	<u>(7,469,098)</u>	<u>(6,935,663)</u>
Total Capital Assets	<u>\$18,622,594</u>	<u>\$18,742,044</u>

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2012 compared to 2011.

**Table 4
Outstanding Debt at Year End**

	<u>2012</u>	<u>2011</u>
Bond Payable Obligations	\$ 2,195,000	\$ 2,373,000
Notes Payable	3,212,199	3,256,872
Capitalized Leases	<u>853,589</u>	<u>1,020,014</u>
Total	<u>\$ 6,260,788</u>	<u>\$ 6,649,886</u>

At year-end, the District had \$6,260,788 in outstanding long-term debt compared to \$6,649,886 last year. This is a decrease of \$389,098.

During 2012 the District drew the first \$171,438 on a \$1,796,300 loan. This loan will fund the construction of a new water tower. The loan will be repaid over 20 years at 2% interest.

All of the required payments were made on the District's outstanding debt during 2012. The total payments on long-term debt amounted to \$560,536.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2013 projects a small decline of approximately \$18,600 in operating revenues and a 2.2% or \$73,000 increase in operating expenses. Water revenues are expected to decline slightly because the customer base remains relatively unchanged and a more normal weather pattern with more rainfall has been projected during 2013. The primary reason for the increase in operating expenses is an expected increase in water costs due to another rate increase from Northern Kentucky Water Service District coupled with an increase in employee salaries and employee benefits. Capital contributions are also expected to decline due to the fact that another land donation is not projected. The budget projects that this decline will be offset by a reduction in interest expense on long term debt. The District has requested permission from the Public Service Commission to refund two bond issues bearing interest rates that range from 5% to 5.45%. The new loan is from a bank. It will be repaid over 10 years and bear interest at 2.8%. Although this savings has been budgeted, our application has not yet been approved by the Public Service Commission.

FINANCIAL CONTACT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administrative Office at Farrell Drive, Crittenden, Kentucky 41030.



William Catlett, General Manager
Bullock Pen Water District

BULLOCK PEN WATER DISTRICT STATEMENTS OF NET POSITION December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,092,154	\$ 819,164
Accounts receivable		
Customers, net of allowance	569,899	581,581
Other	22,582	31,037
Restitution receivable - Thurman	1,200	1,200
Inventories	169,182	130,471
Prepays	23,646	55,288
Unamortized expenses	21,835	23,140
Total Current Assets	<u>1,900,498</u>	<u>1,641,881</u>
Restricted Assets		
Debt service reserve fund - Kentucky Infrastructure Authority	9,456	18,053
Current reserve fund - USDA Rural Development	148,811	148,363
Debt payment account	372,796	345,629
Water tower construction fund	171,438	-
Accounts receivable - surcharges	12,210	12,318
Customer deposits	206,947	165,011
Maintenance and replacement reserve	494,002	430,661
Total Restricted Assets	<u>1,415,660</u>	<u>1,120,035</u>
Noncurrent Assets		
Restitution receivable - Thurman	7,016	8,316
Miscellaneous deferred charges		
Unamortized issue costs	79,725	91,900
Unamortized tap-in expense	45,313	46,946
Deferred rate case expense	8,027	16,054
Total Noncurrent Assets	<u>140,081</u>	<u>163,216</u>
Capital Assets		
Land, building, transmission system, equipment, and vehicles	25,749,507	25,633,274
Construction in progress	342,185	44,433
Total utility plant in service	26,091,692	25,677,707
Less: accumulated depreciation	(7,469,098)	(6,935,663)
Total Capital Assets, net of depreciation	<u>18,622,594</u>	<u>18,742,044</u>
TOTAL ASSETS	<u>\$ 22,078,833</u>	<u>\$ 21,667,176</u>

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

BULLOCK PEN WATER DISTRICT STATEMENTS OF NET POSITION December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 125,126	\$ 135,176
Accrued and withheld liabilities	73,260	70,083
Total Current Liabilities	<u>198,386</u>	<u>205,259</u>
Current Liabilities Payable From Restricted Assets		
Revenue bonds - current portion	185,000	178,000
Notes payable - current portion	183,479	216,698
Lease obligations - current portion	178,569	171,206
Customer deposits	160,442	151,036
Accrued interest payable	52,067	54,962
Accounts payable - construction	81,175	5,000
Total Current Liabilities Payable From Restricted Assets	<u>840,732</u>	<u>776,902</u>
Long-Term Obligations		
Bonds	2,010,000	2,195,000
Notes payable	3,028,720	3,040,174
Capital lease obligations	675,020	848,808
Total Long-Term Obligations	<u>5,713,740</u>	<u>6,083,982</u>
TOTAL LIABILITIES	<u>6,752,858</u>	<u>7,066,143</u>
NET POSITION		
Invested in capital assets, net of related debt	12,473,748	12,288,892
Restricted	675,014	628,183
Unrestricted	<u>2,177,213</u>	<u>1,683,958</u>
TOTAL NET POSITION	<u>\$ 15,325,975</u>	<u>\$ 14,601,033</u>

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

BULLOCK PEN WATER DISTRICT STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Years Ended December 31, 2012 and 2011
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	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Water revenue	\$ 3,966,564	\$ 3,895,879
Management fees	126,420	122,939
TOTAL OPERATING REVENUES	<u>4,092,984</u>	<u>4,018,818</u>
OPERATING EXPENSES		
Water purchased	961,234	921,669
Operations, maintenance, and administrative expenses	1,789,893	1,697,225
Depreciation and amortization	569,388	573,314
TOTAL OPERATING EXPENSES	<u>3,320,515</u>	<u>3,192,208</u>
OPERATING INCOME	<u>772,469</u>	<u>826,610</u>
NON-OPERATING INCOME (EXPENSE)		
Investment income	5,780	5,450
Loss on sale of assets	(3,649)	(105)
Interest on long-term obligations	(231,794)	(251,287)
Amortization of bond discounts and expenses	(13,480)	(14,034)
NET NON-OPERATING INCOME (EXPENSE)	<u>(243,143)</u>	<u>(259,976)</u>
NET INCOME	529,326	566,634
CAPITAL CONTRIBUTIONS	<u>195,616</u>	<u>149,198</u>
CHANGE IN NET POSITION	724,942	715,832
NET POSITION, JANUARY 1	<u>14,601,033</u>	<u>13,885,201</u>
NET POSITION, DECEMBER 31	<u><u>\$ 15,325,975</u></u>	<u><u>\$ 14,601,033</u></u>

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

BULLOCK PEN WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 4,114,421	\$ 3,979,032
Paid to suppliers for goods and services	(1,681,414)	(1,588,354)
Paid to or on behalf of employees for services	(1,083,655)	(1,013,632)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,349,352</u>	<u>1,377,046</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of fixed assets	(327,542)	(267,933)
Interest on investments	5,780	5,450
Proceeds from sale of fixed assets	-	1,851
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>(321,762)</u>	<u>(260,632)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributed capital received	155,510	149,198
Increase in customer deposits	9,406	10,499
Interest paid on long term debt	(234,792)	(254,229)
Loan proceeds	171,438	45,384
Principal paid on long term debt	(560,537)	(576,304)
(Increase)/decrease in restricted assets	(295,625)	(129,517)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(754,600)</u>	<u>(754,969)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	272,990	361,445
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>819,164</u>	<u>457,719</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 1,092,154</u>	<u>\$ 819,164</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income/(loss)	\$ 772,469	\$ 826,610
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	569,388	573,314
Change in operating assets and liabilities		
Decrease (increase) in receivables	21,437	(39,786)
Decrease (increase) in inventories	(38,711)	44,667
Decrease (increase) in prepaid assets	31,642	(20,463)
Increase (decrease) in accounts payable	(10,050)	(21,541)
Increase (decrease) in other accrued liabilities	3,177	14,245
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,349,352</u>	<u>\$ 1,377,046</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ 234,792</u>	<u>\$ 254,229</u>
Non-cash contribution to fixed assets	<u>\$ 40,106</u>	<u>\$ -</u>

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

BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Regulatory Requirements

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

Basis of Accounting

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

The District has adopted GASB Statements 33 through 63, along with related interpretations, issued through December 31, 2012. Statement No. 33 required capital contributions to be recorded in the statement of revenues, expenses and changes in net assets. Statement 34 and subsequent statements and interpretations required certain other changes in terminology, format and content, as well as inclusion of the management's discussion and analysis as required supplementary information.

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

Cash Equivalents

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

<p>BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2012 and 2011</p>

Inventories

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

Distribution System, Building, and Equipment

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

Construction in Progress

Capitalizable costs incurred on projects which are not in use or ready for use at year end are held as "Construction in Progress". When the asset under construction is ready for use, related costs are transferred to the asset account. The Construction in Progress account was \$342,185 and \$44,433 at December 31, 2012 and 2011, respectively.

Miscellaneous Deferred Charges

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

Capital Contributions

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District's income statement. These contributions represent customer tap-in fees and other contributions to recover the costs of extensions of the distribution system. The District also includes estimated cost figures for those lines contributed by outside contractors. During 2012 and 2011 these contributions consisted of the following:

Source	2012	2011
Tap in fees and construction costs paid by new customers	\$ 66,792	\$ 60,171
Surcharges - Phases 5, 6, 7, 8, and 10	88,718	89,026
Total income received in aid of construction	155,510	149,197
Waterlines and related infrastructure received without cost	40,106	-
Total capital contributions	<u>\$ 195,616</u>	<u>\$ 149,197</u>

Income Tax Status

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

Use of Estimates

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

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

Operating Revenues and Non-operating Revenues

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

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits consist of checking accounts and certificates of deposit. They are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the balance sheets as "Cash and Cash Equivalents" and "Restricted Assets". At December 31, 2012 and 2011, the bank balances were \$2,495,604 and \$1,926,881, respectively, which were the same as the carrying amount.

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

The District has amounts on deposit with two banks in excess of FDIC insured amounts. The banks have pledged collateral agreements to cover such excess amounts. At December 31, 2012, all amounts held on deposit by the District were sufficiently collateralized.

Effective January 1, 1998, investments are reported at fair value which is determined using the selected basis. Short term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair market value. The District's investments are categorized to give an indication of the level of risk assumed by the District at December 31, 2012. The categories are described as follows:

Category 1 – Insured and registered, with securities held by the entity or its agent in the entity's name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name;

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

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At December, 31, 2012	Category 1	Category 2	Category 3	Fair Value/ Carrying Cost	Cost
Operation and maintenance	\$ 1,092,154	\$ -	\$ -	\$ 1,092,154	\$ 1,092,154
Customer deposits	206,947	-	-	206,947	206,947
Debt payment accounts	182,933	-	199,319	382,252	382,252
Current and replacement reserve	642,813	-	-	642,813	642,813
Construction funds	171,438	-	-	171,438	171,438
Total	\$ 2,296,285	\$ -	\$ 199,319	\$ 2,495,604	\$ 2,495,604

In accordance with GASB 40, the District has \$189,863 in bond sinking funds and unused construction funds held in investments in federally backed US Treasury Obligations rated AAA/Aaa. The market risk on these investments is negligible. The District also has \$9,456 held in fiduciary trust by the Kentucky Infrastructure Authority.

NOTE 3 – RESTRICTED NET POSITION

Net position is comprised of the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net position. Invested in capital assets, net of related debt, consists of all capital assets net of accumulated depreciation and reduced by outstanding debts, that is attributable to the acquisition, construction and improvement of those assets. The restricted portion of net position consists of assets, net of related liabilities, for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. The unrestricted portion of net position consists of all other assets, net of related liabilities, not included in the above categories. Included in restricted net position at December 31,

	2012	2011
Accounts receivable	\$ 3,377	\$ 5,290
Current reserve fund - USRDA	143,400	143,400
Debt payment account	195,591	205,845
Accrued interest payable	(35,282)	(37,316)
Portion of bonds payable	(118,000)	(114,000)
Maintenance and replacement	485,928	424,964
Total Restricted Net Assets	\$ 675,014	\$ 628,183

NOTE 4 – UTILITY PLANT IN SERVICE

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

BULLOCK PEN WATER DISTRICT
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Asset Type	Balance at	Additions	Retirements	Balance at
	December 31,			December 31,
	2011			2012
Land	\$ 161,757	\$ 33,500	\$ -	\$ 195,257
Buildings and improvements	1,540,222	3,920	(1,403)	1,542,739
Construction in progress	44,433	297,752	-	342,185
Distribution reservoirs and standpipes	2,127,209	-	-	2,127,209
Furniture and fixtures	76,175	-	-	76,175
Hydrants	1,273,130	-	-	1,273,130
Meter system and installation	3,948,321	56,771	-	4,005,092
Other plant and misc. equipment	331,922	12,334	(2,399)	341,857
Pumping equipment	48,372	1,744	-	50,116
Tools and lab equipment	56,391	-	(8,456)	47,935
Transmission mains	15,695,632	21,951	-	15,717,583
Transportation equipment	267,618	1,800	-	269,418
Water treatment equipment	106,525	14,155	(17,684)	102,996
Subtotal	25,677,707	443,927	(29,942)	26,091,692
Accumulated depreciation	(6,935,663)	(559,728)	26,293	(7,469,098)
Fixed Assets, net	\$ 18,742,044	\$ (115,801)	\$ (3,649)	\$ 18,622,594

During 2012 and 2011, the District capitalized \$0 of the depreciation expense on the backhoe used for setting meters.

NOTE 5 – BONDED INDEBTEDNESS

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

On December 21, 1978, the District sold \$1,330,000 of revenue bonds for the purpose of financing the costs of major water system facilities, which represent collateral on the bonds. All bonds mature on January 1st of each year beginning in 1981 and ending in 2017. Interest is payable on January 1st and July 1st of each year and principal is due in annual installments on January 1st through 2017. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2013	5.00%	\$ 62,000	\$ 17,050	\$ 79,050
2014	5.00%	65,000	13,950	78,950
2015	5.00%	68,000	10,700	78,700
2016	5.00%	71,000	7,300	78,300
2017	5.00%	75,000	3,750	78,750
Totals		\$ 341,000	\$ 52,750	\$ 393,750

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

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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2012 and 2011
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The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2013	5.00%	\$ 5,000	\$ 2,700	\$ 7,700
2014	5.00%	5,000	2,450	7,450
2015	5.00%	5,000	2,200	7,200
2016	5.00%	6,000	1,950	7,950
2017	5.00%	6,000	1,650	7,650
2018-2022	5.00%	27,000	3,450	30,450
Totals		\$ 54,000	\$ 14,400	\$ 68,400

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2013	5.15-5.45%	\$ 14,000	\$ 14,738	\$ 28,738
2014	5.15-5.45%	13,000	14,043	27,043
2015	5.15-5.45%	13,000	13,373	26,373
2016	5.15-5.45%	16,000	12,627	28,627
2017	5.15-5.45%	16,000	11,802	27,802
2018-2022	5.15-5.45%	91,000	45,099	136,099
2023-2027	5.15-5.45%	118,000	16,622	134,622
Totals		\$ 281,000	\$ 128,304	\$ 409,304

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

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

BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012 and 2011

The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2013	5.15-5.45%	\$ 11,000	\$ 13,371	\$ 24,371
2014	5.15-5.45%	12,000	12,779	24,779
2015	5.15-5.45%	12,000	12,161	24,161
2016	5.15-5.45%	14,000	11,491	25,491
2017	5.15-5.45%	14,000	10,770	24,770
2018-2022	5.15-5.45%	84,000	41,147	125,147
2023-2027	5.15-5.45%	107,000	15,124	122,124
Totals		\$ 254,000	\$ 116,843	\$ 370,843

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2013	4.15-5.00%	\$ 30,000	\$ 14,226	\$ 44,226
2014	4.15-5.00%	31,000	12,960	43,960
2015	4.40-5.00%	33,000	11,591	44,591
2016	4.50-5.00%	33,000	10,123	43,123
2017	4.60-5.00%	35,000	8,575	43,575
2018-2021	4.70-5.00%	160,000	16,225	176,225
Totals		\$ 322,000	\$ 73,700	\$ 395,700

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2013	4.52%	\$ 32,000	\$ 9,085	\$ 41,085
2014	4.52%	35,000	7,571	42,571
2015	4.52%	35,000	5,989	40,989
2016	4.52%	40,000	4,294	44,294
2017	4.52%	35,000	2,599	37,599
2018	4.52%	40,000	904	40,904
Totals		\$ 217,000	\$ 30,442	\$ 247,442

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

On October 19, 2004, the District sold \$98,000 of revenue bonds for the purpose of funding its Phase 7 waterline extension project. The waterline represents collateral on the bonds. All bonds mature on February 1st of each year beginning in 2005 and ending in 2019. Interest is

BULLOCK PEN WATER DISTRICT
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payable on February 1st and August 1st of each year and principal is due in annual installments on February 1st through 2019. The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2013	3.62-4.12%	\$ 7,000	\$ 1,898	\$ 8,898
2014	4.12%	7,000	1,627	8,627
2015	4.12%	7,000	1,339	8,339
2016	4.12%	7,000	1,051	8,051
2017	4.12%	7,000	762	7,762
2018-2019	4.12%	15,000	639	15,639
Totals		\$ 50,000	\$ 7,316	\$ 57,316

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2013	4.090-4.590%	\$ 15,000	\$ 18,383	\$ 33,383
2014	4.090-4.590%	16,000	17,749	33,749
2015	4.090-4.590%	17,000	17,074	34,074
2016	4.090-4.590%	17,000	16,379	33,379
2017	4.090-4.590%	19,000	15,642	34,642
2018-2022	4.090-4.590%	101,000	66,037	167,037
2023-2027	4.340-4.590%	124,000	42,283	166,283
2028-2031	4.465-4.590%	123,000	11,572	134,572
Totals		\$ 432,000	\$ 205,119	\$ 637,119

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2013	4.090-4.590%	\$ 9,000	\$ 10,369	\$ 19,369
2014	4.090-4.590%	9,000	10,001	19,001
2015	4.090-4.590%	9,000	9,633	18,633
2016	4.090-4.590%	10,000	9,245	19,245
2017	4.090-4.590%	11,000	8,815	19,815
2018-2022	4.090-4.590%	57,000	37,183	94,183
2023-2027	4.340-4.590%	70,000	23,704	93,704
2027-2031	4.465-4.590%	69,000	6,460	75,460
Totals		\$ 244,000	\$ 115,410	\$ 359,410

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NOTE 6 – NOTES PAYABLE

Kentucky Infrastructure Authority - 1991

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

Kentucky Infrastructure Authority - 1993

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2013	5.19%	\$ 17,500	\$ 908	\$ 18,408
Totals		\$ 17,500	\$ 908	\$ 18,408

Kentucky Infrastructure Authority - Drinking Water Supply Project 2002

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2013	3.80%	\$ 17,438	\$ 7,731	\$ 25,169
2014	3.80%	18,106	7,063	25,169
2015	3.80%	18,801	6,368	25,169
2016	3.80%	19,522	5,647	25,169
2017	3.80%	20,271	4,898	25,169
2018-2022	3.80%	113,634	12,209	125,843
Totals		\$ 207,772	\$ 43,916	\$ 251,688

Kentucky Infrastructure Authority - Drinking Water Supply Project 2003

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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2012 and 2011
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The remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2013	3.00%	\$ 58,024	\$ 23,088	\$ 81,112
2014	3.00%	59,778	21,334	81,112
2015	3.00%	61,585	19,527	81,112
2016	3.00%	63,446	17,666	81,112
2017	3.00%	65,364	15,748	81,112
2018-2022	3.00%	357,675	47,882	405,557
2023-2024	3.00%	118,106	3,560	121,666
Totals		<u>\$ 783,978</u>	<u>\$ 148,805</u>	<u>\$ 932,783</u>

Kentucky Infrastructure Authority – Drinking Water Supply Project 2010

During 2009, the District executed a drawdown loan with the Kentucky Infrastructure Authority in order to finance its Phase 6 waterline extension project. Water system revenues serve as collateral for this loan. The loan carries an interest rate of 3.0% and matures on December 1, 2030. The balance on this loan at December 31, 2011 is \$2,027,407. The remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2013	3.00%	\$ 86,412	\$ 60,179	\$ 146,591
2014	3.00%	89,024	57,567	146,591
2015	3.00%	91,715	54,876	146,591
2016	3.00%	94,487	52,104	146,591
2017	3.00%	97,343	49,248	146,591
2018-2022	3.00%	532,666	200,290	732,956
2023-2027	3.00%	618,181	114,775	732,956
2028-2030	3.00%	417,579	22,196	439,775
Totals		<u>\$ 2,027,407</u>	<u>\$ 611,235</u>	<u>\$ 2,638,642</u>

Kentucky Infrastructure Authority – Drinking Water State Revolving Loan Fund 2012

During 2012, the District executed a drawdown loan with the Kentucky Infrastructure Authority in order to finance its Phase 12-500,000 gallon water tower storage tank. The water tower will serve as collateral for this loan. The loan carries an interest rate of 2.0% and matures on December 1, 2033. As of December 31, 2012 the District has drawn \$171,438 on this loan.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2012 and 2011
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Once the loan is fully drawn, the total future remaining debt service will be as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2013	3.00%	\$ -	\$ -	\$ -
2014	3.00%	73,856	29,570	103,426
2015	3.00%	75,341	34,074	109,415
2016	3.00%	76,855	32,560	109,415
2017	3.00%	78,400	31,015	109,415
2018-2022	3.00%	416,280	130,794	547,074
2023-2027	3.00%	459,832	87,242	547,074
2028-2032	3.00%	507,941	39,133	547,074
2033	3.00%	107,795	1,620	109,415
Totals		<u>\$ 1,796,300</u>	<u>\$ 386,008</u>	<u>\$ 2,182,308</u>

Forcht Bank – Vehicle Notes Payable

On June 28, 2010, the District executed a loan payable for a 2010 Chevrolet Silverado truck in the amount of \$39,599. Payments of \$10,236 were made on this loan during the year. This loan carries an interest rate of 4.50%, and matured on June 28, 2012. The vehicle serves as collateral for this loan. This loan was paid in full during 2012.

On October 5, 2010, the District executed a second loan payable for a 2011 Ford Ranger truck in the amount of \$17,388. Payments of \$7,435 were made on this loan during the year. This loan carries an interest rate of 4.50%, and matured on October 4, 2012. The vehicle serves as collateral for this loan. This loan was paid in full during 2012.

Software Solutions – Note Payable

On May 29, 2010, the District executed a loan payable for the purchase and integration of new software, through Software Solutions Incorporated, in the amount of \$21,105. Payments of \$6,449 were made on this loan during the year. This loan carries no interest, and matures on May 29, 2013. The software serves as collateral for this loan. Remaining debt service is as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2013	0.00%	\$ 4,104	\$ -	\$ 4,104
Totals		<u>\$ 4,104</u>	<u>\$ -</u>	<u>\$ 4,104</u>

BULLOCK PEN WATER DISTRICT
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NOTE 7 – CAPITAL LEASES

Grant County Fiscal Court - 2010

On May 4, 2010, the District signed a capital lease agreement with the Grant County Fiscal Court for \$1,020,000, which served to relinquish the District's obligations on its capital lease agreements through the Kentucky Association of Counties Leasing Trust. This lease agreement therefore covers water lines, meters, hydrants, and other infrastructure associated with those leases. The fixed assets are included on the fixed asset summary in Note 4, and also serve as collateral for this debt. The lease matures on February 1, 2019. Amortization of the lease is included in the depreciation expense. Future minimum lease payments are as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Lease Payment</u>
2013	1.70-3.30%	\$ 120,000	\$ 19,588	\$ 139,588
2014	2.00-3.30%	120,000	17,368	137,368
2015	2.40-3.30%	120,000	14,728	134,728
2016	3.00-3.30%	135,000	11,263	146,263
2017	3.00-3.30%	95,000	7,813	102,813
2018-2019	3.00-3.30%	195,000	6,491	201,491
Totals		<u>\$ 785,000</u>	<u>\$ 77,251</u>	<u>\$ 862,251</u>

Old National Bank - 2003

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

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Lease Payment</u>
2013	\$ 58,568	\$ 1,889	\$ 60,457
2014	10,020	56	10,076
Totals	<u>\$ 68,588</u>	<u>\$ 1,945</u>	<u>\$ 70,533</u>

Old National Bank - 2004

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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2012 and 2011
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NOTE 8 – INDEBTEDNESS SUMMARY

The changes in long-term indebtedness for 2012 are as follows:

Debt Instrument	Balance at December 31, 2011	Additions	Retirements	Balance at December 31, 2012
USDA revenue bonds of 1978	\$ 400,000	\$ -	\$ (59,000)	\$ 341,000
USDA revenue bonds of 1982	59,000	-	(5,000)	54,000
KRW series 2001C bonds - Surcharge	295,000	-	(14,000)	281,000
KRW series 2001C bonds - Phase V	265,000	-	(11,000)	254,000
KRW series 2001C bonds - Refinancing	351,000	-	(29,000)	322,000
KRW series 2004D bonds - Phase 7	56,000	-	(6,000)	50,000
KRW series 2001G bonds - Dry Ridge	248,000	-	(31,000)	217,000
KRW series 2005B bonds - Phase 8	447,000	-	(15,000)	432,000
KRW series 2005B bonds - Phase 10	252,000	-	(8,000)	244,000
Note payable - KIA 1993	52,500	-	(35,000)	17,500
Note payable - KIA 2002	224,566	-	(16,794)	207,772
Note payable - KIA 2003	840,300	-	(56,322)	783,978
Note payable - Software Solutions	10,552	-	(6,448)	4,104
Note payable - 2010 Chevrolet Silverado	10,235	-	(10,235)	-
Note payable - 2011 Ford Ranger	7,435	-	(7,435)	-
Construction loan - KIA	2,111,284	-	(83,877)	2,027,407
Construction loan -Phase 12 - KIA	-	171,438	-	171,438
Capital lease - Grant County Fiscal Court	900,000	-	(115,000)	785,000
Capital lease - Old National 2003	120,014	-	(51,426)	68,588
Subtotal	<u>6,649,886</u>	<u>\$ 171,438</u>	<u>\$ (560,537)</u>	<u>6,260,787</u>
Less: current portion of long-term debt	<u>(565,904)</u>			<u>(547,047)</u>
Total Long-Term Indebtedness	<u>\$ 6,083,982</u>			<u>\$ 5,713,740</u>

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM

County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System of Kentucky (CERS). It is a cost sharing multiple-employer defined benefit pension plan created by and operated under Kentucky law. CERS covers substantially all regular full-time employees of each county and school board, and any additional local agencies electing to participate in the system. The plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments are provided at the discretion of the State Legislature. For the years ended December 31, 2012 and 2011 plan members were required to contribute 5% of their annual creditable compensation. Members hired on or after September 1, 2008 are required to contribute 6%. The additional 1% is considered a health insurance contribution.

Employer contribution rates are actuarially determined. Such contribution rates are determined by the Board of Trustees of the Kentucky Retirement System. They may amend contribution rates as of the first day of July, if it is determined necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. From January until July 2012 the employer contribution rate was 18.96%. From July until December 2012, the employer rate was

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2012 and 2011
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19.55%. From January until July 2011 the employer contribution rate was 16.93%. From July until December 2011, the employer rate was 18.96%.

The District has made 100% of all required contributions for each of the years ended December 31, 2012, 2011, 2010, 2009, and 2008. Information about the contributions made by the District and the employees, as well as gross payroll and covered payroll follows:

	2012	2011	2010	2009	2008
Gross Payroll - All Employees	\$675,951	\$ 684,217	\$685,089	\$660,208	\$763,492
Gross Payroll - Covered Employees	624,243	634,083	648,571	620,617	701,020
Employee Contribution	31,971	31,353	32,691	31,051	35,051
Employer Contribution (expense)	119,107	109,960	107,283	92,028	106,700

NOTE 10 – RELATED PARTY TRANSACTIONS

The staff of the Bullock Pen Water District operates the Grant County Sewer District as well. The District receives a management fee from the Grant County Sewer District for these services. This fee was \$126,420 and \$122,939 in 2012 and 2011, respectively. The Chairman of the Board of Commissioners and two other commissioners of the District serve on the boards of both the Bullock Pen Water District and the Grant County Sewer District.

NOTE 11 – ECONOMIC DEPENDENCY/CREDIT RISK

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

NOTE 12 – CONCENTRATIONS

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

NOTE 13 – RESTITUTION RECEIVABLE

The District has a receivable balance due from Jonathan Thurman as restitution for past unpaid water charges. This restitution balance is unsecured and non-interest bearing, and is to be paid over multiple years. The entire account balance becomes immediately due and payable upon default of the monthly payment. The balance of this account was \$8,216 and \$9,516 at December 31, 2012 and December 31, 2011, respectively.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated events through May 16, 2013, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2012 through May 16, 2013 to disclose.

BULLOCK PEN WATER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operations, Maintenance and Administrative Expenses		
Salaries and wages - employees	\$ 656,865	\$ 646,881
Employee pension and benefits	416,967	368,196
Advertising	1,224	793
Bad debt expense	48,762	27,309
Chemicals	98,247	96,139
Commissioners' fees	13,000	12,800
Contractual services - accounting	50,338	59,877
Contractual services - engineering	13,732	20,433
Contractual services - legal	-	10,051
Contractual services - management	2,679	2,137
Contractual services - water test	9,638	14,375
Contractual services - other	76,558	68,230
Insurance - general liability	12,718	11,106
Insurance - other	10,549	7,792
Insurance - vehicle	4,688	4,504
Insurance - workers' compensation	11,346	11,892
Materials and supplies	153,408	145,162
Miscellaneous	1,031	836
Payroll taxes	48,493	48,430
Purchased power	88,939	80,779
Rental of property and equipment	15,316	10,974
Transportation	48,562	42,396
Utility regulatory assessment	6,833	6,133
	<u> </u>	<u> </u>
Total Operations, Maintenance and Administrative Expenses	<u>\$ 1,789,893</u>	<u>\$ 1,697,225</u>



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

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

We have audited, in accordance with the 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, the financial statements of the business-type activities of Bullock Pen Water District as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements which collectively comprise Bullock Pen Water District's basic financial statements and have issued our report thereon dated May 16, 2013.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered Bullock Pen Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bullock Pen Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Bullock Pen Water District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below, that we consider significant deficiencies.

Lack of Segregation of Duties

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
May 16, 2013