

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JUN 23 2009

PUBLIC SERVICE
COMMISSION

In the Matter of:

THE APPLICATION OF BULLOCK PEN WATER)
DISTRICT FOR A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY TO CONSTRUCT) Case No. 2008-00170
PROPOSED WATERWORKS IMPROVEMENT)
PROJECT AND FOR APPROVAL OF PROPOSED)
PLAN OF FINANCING, INCREASE IN RATES,)
NONRECURRING CHARGES, AND TARIFF)
REVISIONS)

BULLOCK PEN WATER DISTRICT'S RESPONSE TO
COMMISSION STAFF'S SECOND INFORMATION REQUEST

Comes now the Bullock Pen Water District ("Bullock Pen"), by and through its Chairman, Bobby Burgess, and pursuant to the Commission's request of May 19, 2009 submits the attached final year end audited Financial Statement for the period ending December 31, 2008 as prepared by VanGorder Walker & Company, Inc. The attached final audited Financial Statement was delivered to the District by VanGorder Walker & Company, Inc. on June 22, 2009 and replaces Exhibit "22" to the District's previous filing. Pursuant to the Commission's Order, the District is attaching ten (10) copies.

BERGER, COX & NIENABER, PSC



Thomas R. Nienaber - KBA#51820
401 Madison Avenue
Covington, KY 41011
(859) 491-9088

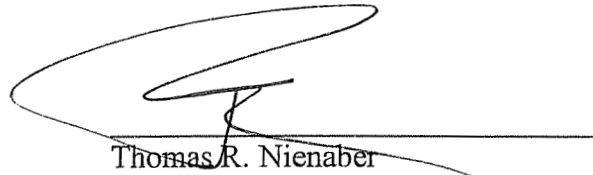
CERTIFICATE OF SERVICE

I, Thomas R. Nienaber, do hereby certify that a copy of the foregoing was mailed by regular U.S. Mail, postage prepaid, this 22nd day of June, 2009 to:

Public Service Commission
Attn: Mr. Jeff Derouen, Executive Director
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

Public Service Commission
Attn: Mr. Ryan Gatewood
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

Kentucky Attorney General
700 Capitol Avenue, Suite 118
Frankfort, KY 40601



Thomas R. Nienaber

BULLOCK PEN WATER DISTRICT
FINANCIAL STATEMENTS

For the Years Ended December 31, 2008 and 2007

BULLOCK PEN WATER DISTRICT

FINANCIAL STATEMENTS

December 31, 2008 and 2007

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BULLOCK PEN WATER DISTRICT
FINANCIAL STATEMENTS
December 31, 2008 and 2007

Board of Commissioners

Bobby Burgess, Chairman

Charles Givin, Treasurer

Jimmie King, Secretary

Billy Frank Simpson, Commissioner

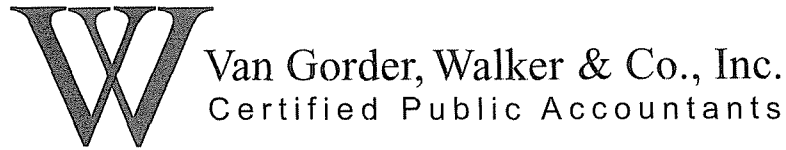
Andrea Walton, Commissioner

Of Counsel

Thomas R. Nienaber, Esq.

Administration

William L. Catlett, General Manager



Independent Auditor's Report

To the Board of Commissioners Bullock Pen Water District

We have audited the accompanying balance sheets of the Bullock Pen Water District (District) as of December 31, 2008 and 2007 and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bullock Pen Water District as of December 31, 2008 and 2007, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 24, 2009 on our consideration of the Bullock Pen Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3-7 and the supplementary schedules on page 25 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Company, Inc.
Erlanger, Kentucky
April 24, 2009

Bullock Pen Water District

P.O. Box 188 • 1 Farrell Drive
Crittenden, Kentucky 41030
(859) 428-2112

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, 2008. The information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

- The assets of the District exceed its liabilities at the close of the most recent year by \$13,126,827 (net assets). This is an increase of \$3,579 in comparison to the prior year. The District virtually remained static during 2008 using operating revenues and unrestricted net assets to provide the necessary cash flows to invest in capital assets and meet debt service requirements.
- At the end of the current year, unrestricted net assets are \$803,060. This is a decrease of \$325,251 or 29% from the previous year. Operating revenues are no longer sufficient to meet the District's financial obligations and the District has been forced to use unrestricted net assets to fill the gap. An application for a rate increase has been submitted to the Public Service Commission but it has not yet been approved.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the District as prescribed in GASB Statement No. 33 through 49, and related interpretations issued through December 31, 2008. The District's basic financial statements include the balance sheets, the statements of revenues, expenses and changes in net assets, the statements of cash flows, and the notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

Basis of Accounting

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

The Balance Sheets and the Statements of Revenues, Expenses and Changes in Net Assets

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

- The District charges rates for water consumption to customers to help it cover all or most of the cost of certain services it provides.

Overview of Annual Financial Report

Table 1 provides a summary of the District's net assets at December 31, 2008 and 2007.

Table 1
Net Assets

	<u>2008</u>	<u>2007</u>
Current Assets.....	\$ 766,353	\$ 1,104,501
Restricted Assets.....	1,086,505	1,003,489
Noncurrent Assets.....	<u>17,840,736</u>	<u>17,847,593</u>
Total Assets.....	<u>\$19,693,594</u>	<u>19,955,583</u>
Current Liabilities.....	354,551	220,531
Liabilities Payable from Restricted Assets....	831,305	780,877
Long Term Liabilities.....	<u>5,380,911</u>	<u>5,830,927</u>
Total Liabilities.....	<u>6,566,767</u>	<u>6,832,335</u>
Net Assets:		
Invested in Capital assets, net of Related Debt.....	11,808,704	11,537,672
Restricted.....	515,063	457,265
Unrestricted.....	<u>803,060</u>	<u>1,128,311</u>
Total Net Assets.....	<u>13,126,827</u>	<u>13,123,248</u>
Total Liabilities and Net Assets.....	<u>\$19,693,594</u>	<u>\$19,955,583</u>

The District's net assets for 2008 increased .03%, or \$3,579 as compared to \$1,007,434 in the previous year. The District virtually remained static during 2008 with operating revenues and unrestricted net assets providing the necessary cash flows to invest in capital assets and meet debt service requirements.

The largest portion of the District's net assets (90%) 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 (3.9%) 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.

Table 2 shows the annual changes in net assets for 2008, as well as revenue and expense comparisons to 2007.

**Table 2
Changes in Net Assets**

	<u>2008</u>	<u>2007</u>
Operating Revenues:		
Water Sales.....	\$ 2,698,161	\$ 2,789,274
Forfeited Discounts.....	60,196	63,321
Miscellaneous Services Revenues.....	26,139	24,202
Management Fees.....	<u>114,174</u>	<u>110,004</u>
 Total Operating Revenues.....	 <u>2,898,670</u>	 <u>2,986,801</u>
Operating Expenses:		
Operations, Maintenance and Administrative Expenses.....	2,618,810	2,452,236
Depreciation & Amortization.....	<u>498,961</u>	<u>462,650</u>
 Total Operating Expenses.....	 <u>3,117,771</u>	 <u>2,914,886</u>
Net Operating Income.....	<u>(219,101)</u>	<u>71,915</u>
Non-Operating Income(Expenses)		
Investment Income.....	20,582	44,786
Gain/(Loss) on Disposition of Assets.....	-0-	6,149
Interest on Long-Term Debt.....	(285,668)	(302,423)
Amortization of Debt Discount and Expenses...	<u>(8,654)</u>	<u>(8,654)</u>
Net Non-Operating Expenses.....	<u>(273,740)</u>	<u>(260,142)</u>
Income Before Capital Contributions.....	(492,841)	(188,227)
Capital Contributions.....	<u>496,420</u>	<u>1,195,661</u>
Change in Net Assets.....	3,579	1,007,434
Net Assets - January 1.....	<u>13,123,248</u>	<u>12,115,814</u>
Net Assets - December 31.....	<u>\$13,126,827</u>	<u>\$13,123,248</u>

The basic financial statements of the District are included in this report. Operations are accounted for in such a manner as to show changes in net assets and the District is intended to be entirely or predominantly self supported from water user charges.

In reviewing income before capital contributions, the financial statements show a net loss for the year of \$492,841. Operating revenues decreased 2.95% due to the fact that the District only added 31 customers during 2008; also, 2007 was a drought year while 2008 was not. Operating expenses increased by 6.96%. The increase was primarily due to an increase in employee wage and benefit costs; an increase in depreciation expense due to the addition of assets from construction projects completed during 2008 and 2009; and an increase in the cost of purchased water as the District has reached the maximum amount of water that can be produced and must buy any additional water that is sold. Some of this increase was offset by decreases in the cost of material and supplies, contractual services and chemicals.

Debt and Capital Asset Administration

Table 3 Summarizes the District's outstanding debt at the end of 2008 as compared to 2007.

**Table 3
Outstanding Debt at Year End**

	<u>2008</u>	<u>2007</u>
Bond Payable Obligations.....	\$2,858,000	\$3,010,000
Notes Payable.....	1,593,358	1,597,801
Capitalized Leases.....	<u>1,488,449</u>	<u>1,657,295</u>
Total.....	<u>\$5,939,807</u>	<u>\$6,265,096</u>

At year-end, the District had \$5,939,807 in outstanding notes and bonds compared to \$6,265,096 last year. That is a decrease of 5%. During 2008 the District repaid debt in the amount of \$440,289 as required by the various debt repayment schedules. They also borrowed \$115,000 on a line of credit to provide operating capital.

Capital Assets

At December 31, 2008, the capital assets reported amounted to \$17,701,635 invested in land, buildings, waterlines, equipment, and vehicles. This represents a net decrease of \$4,999. This is due to the fact that asset additions of \$492,309 were exceeded by depreciation of \$497,309.

**Table 4
Capital Assets, Net of Depreciation**

	<u>2008</u>	<u>2007</u>
Not being Depreciated:		
Land.....	\$ 161,757	\$ 161,757
Construction in Progress.....	201,958	860,012
Other Capital Assets:		
Utility Plants:		
Transmission & Distribution System Plant and Equipment....	22,281,865	21,144,648
General Plant and Equipment.....	<u>598,985</u>	<u>585,839</u>
Sub-Total.....	23,244,565	22,752,256
Accumulated Depreciation.....	<u>(5,542,930)</u>	<u>(5,045,622)</u>
Totals.....	<u>\$17,701,635</u>	<u>\$17,706,634</u>

Economic Factors and Next Year's Budget

The District's budget for 2009 calls for a slight (2%) increase in water revenue from a rate increase that, at the time the budget was prepared, was expected to be put into place with the April 2009 billing. The rate increase, however, has still not been approved by the Public Service Commission. An increase of approximately 4% is planned for operating expenses as a result of increases in the costs of employee wages and benefits, purchased water, and materials and supplies.

Contacting The District's Financial Management

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, please contact the District Administrative Office at Farrell Drive, Crittenden, Kentucky 41030.

William Catlett

William Catlett, General Manager
Bullock Pen Water District

BULLOCK PEN WATER DISTRICT BALANCE SHEETS December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 113,604	\$ 184,057
Certificates of deposit	58,516	268,775
Accounts receivable		
Customers, net of allowance	365,467	368,145
Other	44,264	79,105
Inventories	139,568	139,064
Prepays	36,381	47,609
Accrued interest receivable	283	2,291
Unamortized expenses	11,775	15,455
Total Current Assets	<u>769,858</u>	<u>1,104,501</u>
Restricted Assets		
Loan proceeds fund	1,158	1,139
Debt service reserve fund - Kentucky Infrastructure Authority	18,562	16,147
Current reserve fund - USDA Rural Development	145,325	166,145
Debt payment account	316,243	314,970
Grants receivable	72,295	105,107
Construction fund	116,691	41,507
Accounts receivable - surcharges	6,411	9,718
Customer deposits	133,381	127,452
Maintenance and replacement reserve	272,934	221,304
Total Restricted Assets	<u>1,083,000</u>	<u>1,003,489</u>
Noncurrent Assets		
Miscellaneous deferred charges		
Unamortized issue costs	78,826	87,481
Unamortized tap-in expense	51,845	53,478
Deferred rate case expense	8,430	-
Total Noncurrent Assets	<u>139,101</u>	<u>140,959</u>
Capital Assets		
Land, building, transmission system, equipment, and vehicles	23,042,607	21,892,244
Construction in progress	201,958	860,012
Total utility plant in service	23,244,565	22,752,256
Less: accumulated depreciation	(5,542,930)	(5,045,622)
Total Capital Assets, net of depreciation	<u>17,701,635</u>	<u>17,706,634</u>
TOTAL ASSETS	<u><u>\$ 19,693,594</u></u>	<u><u>\$ 19,955,583</u></u>

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

BULLOCK PEN WATER DISTRICT BALANCE SHEETS December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 160,126	\$ 152,412
Accrued liabilities	79,425	68,119
Line of credit - Forcht Bank	115,000	-
Total Current Liabilities	<u>354,551</u>	<u>220,531</u>
Current Liabilities Payable From Restricted Assets		
Revenue bonds - current portion	157,000	152,000
Notes payable - current portion	121,509	119,444
Lease obligations - current portion	165,387	162,725
Customer deposits	117,165	110,896
Accrued interest payable	49,228	52,550
Accounts payable - construction and meters	221,016	183,262
Total Current Liabilities Payable From Restricted Assets	<u>831,305</u>	<u>780,877</u>
Long-Term Obligations		
Bonds	2,701,000	2,858,000
Notes payable	1,356,849	1,478,357
Capital lease obligations	1,323,062	1,494,570
Total Long-Term Obligations	<u>5,380,911</u>	<u>5,830,927</u>
TOTAL LIABILITIES	<u>6,566,767</u>	<u>6,832,335</u>
NET ASSETS		
Invested in capital assets, net of related debt	11,808,704	11,537,672
Restricted	515,063	457,265
Unrestricted	803,060	1,128,311
TOTAL NET ASSETS	<u>13,126,827</u>	<u>13,123,248</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,693,594</u>	<u>\$ 19,955,583</u>

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

BULLOCK PEN WATER DISTRICT STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS For the Years Ended December 31, 2008 and 2007
--

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Water revenue	\$ 2,784,496	\$ 2,876,797
Management fees	114,174	110,004
TOTAL OPERATING REVENUES	<u>2,898,670</u>	<u>2,986,801</u>
OPERATING EXPENSES		
Water purchased	870,316	766,310
Operation and maintenance expense	1,748,494	1,685,926
Depreciation and amortization	498,961	462,650
TOTAL OPERATING EXPENSES	<u>3,117,771</u>	<u>2,914,886</u>
OPERATING INCOME (LOSS)	<u>(219,101)</u>	<u>71,915</u>
NON-OPERATING INCOME (EXPENSE)		
Investment income	20,582	44,786
Gain/(loss) on sale of assets	-	6,149
Interest on long-term obligations	(285,668)	(302,423)
Amortization of bond discounts and expenses	(8,654)	(8,654)
NET NON-OPERATING INCOME (EXPENSE)	<u>(273,740)</u>	<u>(260,142)</u>
NET LOSS	<u>(492,841)</u>	<u>(188,227)</u>
CAPITAL CONTRIBUTIONS	<u>496,420</u>	<u>1,195,661</u>
CHANGE IN NET ASSETS	3,579	1,007,434
NET ASSETS, JANUARY 1	<u>13,123,248</u>	<u>12,115,814</u>
NET ASSETS, DECEMBER 31	<u>\$ 13,126,827</u>	<u>\$ 13,123,248</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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 2,936,189	\$ 2,987,862
Paid to suppliers for goods and services	(1,419,155)	(1,369,725)
Paid to or on behalf of employees for services	(1,169,911)	(1,079,783)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>347,123</u>	<u>538,354</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	22,590	44,319
Proceeds from certificates of deposit	210,259	97,849
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>232,849</u>	<u>142,168</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of fixed assets	(449,407)	(1,329,655)
Contributed capital received	529,232	1,092,292
Increase in customer deposits and restricted payables	6,269	9,991
Interest paid on long term debt	(288,990)	(304,518)
Loan proceeds	115,000	-
Principal paid on long term debt	(440,289)	(444,494)
Proceeds from disposal of assets	-	16,000
Payment of rate case expenses	(9,917)	-
(Increase) / decrease in restricted assets	(112,323)	131,558
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(650,425)</u>	<u>(828,826)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(70,453)	(148,304)
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>184,057</u>	<u>332,361</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 113,604</u>	<u>\$ 184,057</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income/(loss)	\$ (219,101)	\$ 71,915
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	498,961	462,650
Change in operating assets and liabilities		
Decrease (increase) in receivables	37,519	1,061
Decrease (increase) in inventories	(504)	(34,992)
Decrease (increase) in prepaid assets	11,228	8,452
Increase (decrease) in accounts payable	7,714	49,765
Increase (decrease) in other accrued liabilities	11,306	(20,497)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 347,123</u>	<u>\$ 538,354</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ 285,668</u>	<u>\$ 301,680</u>
Non-cash contribution to fixed assets	<u>\$ 5,148</u>	<u>\$ 176,173</u>

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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2008 and 2007
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NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Regulatory Requirements

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

Basis of Accounting

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

The District has adopted GASB Statements 33 through 49, and related interpretations issued through December 31, 2008. 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, 2008 and 2007</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 \$201,958 and \$860,012 at December 31, 2008 and 2007, 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.

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 2008 and 2007 these contributions consisted of the following:

<u>Source</u>	<u>2008</u>	<u>2007</u>
Tap in fees and construction costs paid by new customers	\$ 156,275	\$ 199,339
Federal funding passed through Grant County Fiscal Court	37,957	154,943
Construction funding from the State of Kentucky	-	65,961
Construction funding from other sources	234,569	603,588
Surcharges - Phases 5, 7, 8, and 10	67,619	76,669
Total income received in aid of construction	496,420	1,100,500
Waterlines and related infrastructure received without cost	-	95,161
Total capital contributions	\$ 496,420	\$ 1,195,661

Income Tax Status

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

Use of Estimates

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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2008 and 2007
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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, 2008 and 2007, the bank balances were \$1,176,414 and \$1,341,496, 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, 2008, 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, 2008. 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.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2008 and 2007
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	Category 1	Category 2	Category 3	Fair Value/ Carrying Cost	Cost
Operation and maintenance	\$ 172,120	\$ -	\$ -	\$ 172,120	\$ 172,120
Customer deposits	133,381	-	-	133,381	133,381
Debt payment accounts	133,298	-	182,945	316,243	316,243
Current and replacement reserve	418,259	-	18,562	436,821	436,821
Construction funds	116,691	-	-	116,691	116,691
Loan proceeds funds	-	-	1,158	1,158	1,158
Total	<u>\$ 973,749</u>	<u>\$ -</u>	<u>\$ 202,665</u>	<u>\$ 1,176,414</u>	<u>\$ 1,176,414</u>

In accordance with GASB 40, the District has \$184,103 in bond sinking funds and unused construction funds held in investments in federally backed US Treasury Obligations rated AAA/Aaa. The market risk on these investments is negligible. The District also has \$18,562 held in fiduciary trust by the Kentucky Infrastructure Authority.

NOTE 3 – RESTRICTED NET ASSETS

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

	2008	2007
Accounts receivable	\$ 3,505	\$ 3,780
Construction accounts payable	(221,016)	(183,261)
Construction fund	100,071	25,417
Current reserve fund - USRDA	143,400	143,400
Debt payment account	195,406	192,988
Grant receivable	72,295	105,107
Accrued interest payable	(42,598)	(44,166)
Loan proceeds fund	-	-
Maintenance and replacement	264,000	214,000
Note payable	-	-
Total Restricted Net Assets	<u>\$ 515,063</u>	<u>\$ 457,265</u>

NOTE 4 – UTILITY PLANT IN SERVICE

All property, plant and equipment including infrastructure assets are recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss included in the results of operations. Repair and

BULLOCK PEN WATER DISTRICT
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December 31, 2008 and 2007

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.

Asset Type	December 31,			December 31,
	2007	Additions	Retirements	2008
Land	\$ 161,757	\$ -	\$ -	\$ 161,757
Buildings and improvements	1,481,052	6,271	-	1,487,323
Construction in progress	860,012	382,785	(1,040,839)	201,958
Distribution reservoirs and standpipes	2,127,209	-	-	2,127,209
Furniture and fixtures	65,476	4,375	-	69,851
Hydrants	1,007,908	100,752	-	1,108,660
Meter system and installation	3,563,404	111,416	-	3,674,820
Other plant and misc. equipment	258,320	20,341	-	278,661
Pumping equipment	78,893	-	-	78,893
Tools and lab equipment	59,370	-	-	59,370
Transmission mains	12,743,032	895,185	-	13,638,217
Transportation equipment	257,401	7,424	-	264,825
Water treatment equipment	88,422	4,599	-	93,021
Subtotal	22,752,256	1,533,148	(1,040,839)	23,244,565
Accumulated depreciation	(5,045,622)	(497,308)	-	(5,542,930)
Fixed Assets, net	\$ 17,706,634	\$ 1,035,840	\$ (1,040,839)	\$ 17,701,635

During 2008, the District capitalized \$5,148 of the depreciation expense on the backhoe used for setting meters, reducing the depreciation expense from \$497,308 to \$492,160.

NOTE 5 – BONDED INDEBTEDNESS

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2009	5.00%	\$ 51,000	\$ 28,050	\$ 79,050
2010	5.00%	54,000	25,500	79,500
2011	5.00%	56,000	22,800	78,800
2012	5.00%	59,000	20,000	79,000
2013	5.00%	62,000	17,050	79,050
2014-2018	5.00%	279,000	35,700	314,700
Totals		\$ 561,000	\$ 149,100	\$ 710,100

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2008 and 2007
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Water Works System Revenue Bonds, U.S. Department of Agriculture 1982

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2009	5.00%	\$ 4,000	\$ 3,550	\$ 7,550
2010	5.00%	4,000	3,350	7,350
2011	5.00%	4,000	3,150	7,150
2012	5.00%	5,000	2,950	7,950
2013	5.00%	5,000	2,700	7,700
2014-2022	5.00%	49,000	11,700	60,700
Totals		\$ 71,000	\$ 27,400	\$ 98,400

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; \$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
2009	5.15-5.45%	\$ 10,000	\$ 17,107	\$ 27,107
2010	5.15-5.45%	10,000	16,592	26,592
2011	5.15-5.45%	10,000	16,077	26,077
2012	5.15-5.45%	14,000	15,459	29,459
2013	5.15-5.45%	14,000	14,738	28,738
2014-2027	5.15-5.45%	267,000	113,567	380,567
Totals		\$ 325,000	\$ 193,540	\$ 518,540

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

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

**BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008 and 2007**

The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2009	5.15-5.45%	\$ 10,000	\$ 15,508	\$ 25,508
2010	5.15-5.45%	10,000	14,993	24,993
2011	5.15-5.45%	10,000	14,478	24,478
2012	5.15-5.45%	11,000	13,937	24,937
2013	5.15-5.45%	11,000	13,371	24,371
2014-2027	5.15-5.45%	243,000	103,471	346,471
Totals		\$ 295,000	\$ 175,758	\$ 470,758

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2009	3.15-5.00%	\$ 27,000	\$ 18,697	\$ 45,697
2010	3.15-5.00%	28,000	17,675	45,675
2011	3.15-5.00%	29,000	16,581	45,581
2012	3.15-5.00%	29,000	15,432	44,432
2013	3.15-5.00%	30,000	14,226	44,226
2014-2021	3.15-5.00%	292,000	59,474	351,474
Totals		\$ 435,000	\$ 142,085	\$ 577,085

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2009	1.47-4.52%	\$ 27,000	\$ 13,733	\$ 40,733
2010	1.47-4.52%	28,000	12,758	40,758
2011	1.47-4.52%	29,000	11,661	40,661
2012	1.47-4.52%	31,000	10,447	41,447
2013	1.47-4.52%	32,000	9,085	41,085
2014-2018	1.47-4.52%	185,000	21,357	206,357
Totals		\$ 332,000	\$ 79,041	\$ 411,041

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

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

**BULLOCK PEN WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008 and 2007**

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
2009	3.12-4.12%	\$ 6,000	\$ 2,741	\$ 8,741
2010	3.12-4.12%	6,000	2,538	8,538
2011	3.12-4.12%	6,000	2,336	8,336
2012	3.12-4.12%	6,000	2,131	8,131
2013	3.12-4.12%	7,000	1,898	8,898
2014-2019	3.12-4.12%	43,000	5,418	48,418
Totals		\$ 74,000	\$ 17,062	\$ 91,062

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2009	4.09-4.59%	\$ 14,000	\$ 20,735	\$ 34,735
2010	4.09-4.59%	14,000	20,162	34,162
2011	4.09-4.59%	14,000	19,589	33,589
2012	4.09-4.59%	15,000	18,997	33,997
2013	4.09-4.59%	15,000	18,383	33,383
2014-2031	4.09-4.59%	417,000	186,734	603,734
Totals		\$ 489,000	\$ 284,600	\$ 773,600

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

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

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2009	4.09-4.59%	\$ 8,000	\$ 11,699	\$ 19,699
2010	4.09-4.59%	8,000	11,371	19,371
2011	4.09-4.59%	8,000	11,044	19,044
2012	4.09-4.59%	8,000	10,717	18,717
2013	4.09-4.59%	9,000	10,369	19,369
2014-2031	4.09-4.59%	235,000	105,041	340,041
Totals		\$ 276,000	\$ 160,241	\$ 436,241

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2008 and 2007
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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 matures on June 1, 2011. 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>
2009	2.25-4.84%	\$ 25,000	\$ 2,905	\$ 27,905
2010	2.25-4.84%	25,000	1,786	26,786
2011	2.25-4.84%	12,500	605	13,105
Totals		<u>\$ 62,500</u>	<u>\$ 5,296</u>	<u>\$ 67,796</u>

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>
2009	2.25-5.19%	\$ 30,000	\$ 7,067	\$ 37,067
2010	2.25-5.19%	30,000	5,724	35,724
2011	2.25-5.19%	32,500	4,307	36,807
2012	2.25-5.19%	35,000	2,698	37,698
2013	2.25-5.19%	17,500	908	18,408
Totals		<u>\$ 145,000</u>	<u>\$ 20,704</u>	<u>\$ 165,704</u>

Kentucky Infrastructure Authority - Drinking Water Supply Project 2002

On February 1, 2002, the District signed a note from the Kentucky Infrastructure Authority for \$350,367 to fund waterline replacement and extension projects. Water system revenues serve as collateral for this loan. The note carries an interest rate of 3.8% and matures on June 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>
2009	3.80%	\$ 15,000	\$ 10,169	\$ 25,169
2010	3.80%	15,575	9,594	25,169
2011	3.80%	16,173	8,996	25,169
2012	3.80%	16,793	8,376	25,169
2013	3.80%	17,438	7,731	25,169
2014-2022	3.80%	190,335	36,182	226,517
Totals		<u>\$ 271,314</u>	<u>\$ 81,048</u>	<u>\$ 352,362</u>

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2008 and 2007
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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. 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>
2009	3.00%	\$ 51,509	\$ 29,603	\$ 81,112
2010	3.00%	53,065	28,047	81,112
2011	3.00%	54,669	26,443	81,112
2012	3.00%	56,322	24,790	81,112
2013	3.00%	58,024	23,088	81,112
2014-2024	3.00%	725,955	125,714	851,669
Totals		<u>\$ 999,544</u>	<u>\$ 257,685</u>	<u>\$ 1,257,229</u>

Eagle Bank - Line of Credit

On April 1, 2004, the District opened a \$300,000 line of credit from Forcht Bank (formerly Eagle Bank) in anticipation of a 2005 bond issue. The loan was used as interim financing to fund early portions of the Phase 10 waterline extension project. System revenues serve as collateral for this loan. The loan carries an interest rate of prime minus 1.725%. The line of credit carried balances of \$115,000 and \$0, respectively, at December 31, 2008 and 2007.

NOTE 7 – CAPITAL LEASES

Kentucky Association of Counties Leasing Trust - 1995

On September 7, 1995, the District signed a capital lease agreement for \$1,500,000 for a water tower, waterlines and associated infrastructure. The leased assets are included on the fixed asset summary in Note 4. The lease matures on January 20, 2019. Amortization of the lease is included in the depreciation expense. Future minimum lease payments are as follows:

<u>Year</u>	<u>Rent Amount</u>	<u>Interest Amount</u>	<u>Total Lease Payment</u>
2009	\$ 65,000	\$ 57,126	\$ 122,126
2010	68,000	52,740	120,740
2011	72,000	48,101	120,101
2012	76,000	43,202	119,202
2013	80,000	38,045	118,045
2014-2019	581,000	103,155	684,155
Totals	<u>\$ 942,000</u>	<u>\$ 342,369</u>	<u>\$ 1,284,369</u>

Kentucky Association of Counties Leasing Trust - 1996

On November 20, 1996 the District signed a capital lease agreement for \$336,000 for water lines, meters, and hydrants. The fixed assets are included in transmission mains, meters, and hydrants on the fixed asset summary in Note 4. The lease matures on January 20, 2016. Amortization of the lease is included in the depreciation expense. Future minimum lease payments are as follows:

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2008 and 2007
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Amortization of the lease is included in the depreciation expense. Future minimum lease payments are as follows:

Year	Rent Amount	Interest Amount	Total Lease Payment
2009	\$ 18,000	\$ 10,564	\$ 28,564
2010	19,000	9,405	28,405
2011	20,000	8,186	28,186
2012	22,000	6,849	28,849
2013	23,000	5,446	28,446
2014-2016	87,000	6,630	93,630
Totals	\$ 189,000	\$ 47,080	\$ 236,080

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. The lease matures on February 5, 2014. Amortization of the lease is included in the depreciation expense. Future minimum lease payments are as follows:

Year	Rent Amount	Interest Amount	Total Lease Payment
2009	\$ 44,943	\$ 10,476	\$ 55,419
2010	51,186	9,271	60,457
2011	53,537	6,920	60,457
2012	55,996	4,461	60,457
2013	58,569	1,888	60,457
2014	10,019	56	10,075
Totals	\$ 274,250	\$ 33,072	\$ 307,322

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. The lease matures on March 5, 2011. Amortization of the lease is included in the depreciation expense. Future minimum lease payments are as follows:

Year	Rent Amount	Interest Amount	Total Lease Payment
2009	\$ 23,841	\$ 1,658	\$ 25,499
2010	26,985	832	27,817
2011	6,910	44	6,954
Totals	\$ 57,736	\$ 2,534	\$ 60,270

Daimler Chrysler Corporation

On October 17, 2005 the District signed a capital lease agreement for \$64,371 for the purchase of a dump truck. The interest rate is 4.94%. This dump truck is included in transportation equipment on the fixed asset summary in Note 4. The lease matures on October 17, 2010. Amortization of the lease is included in the depreciation expense.

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2008 and 2007
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Future minimum lease payments are as follows:

Year	Rent Amount	Interest Amount	Total Lease Payment
2009	\$ 13,603	\$ 953	\$ 14,556
2010	11,860	270	12,130
Totals	<u>\$ 25,463</u>	<u>\$ 1,223</u>	<u>\$ 26,686</u>

NOTE 8 – INDEBTEDNESS SUMMARY

The changes in long-term indebtedness for 2008 are as follows:

Debt Instrument	Balance at December 31, 2007	Additions	Retirements	Balance at December 31, 2008
USDA revenue bonds of 1978	\$ 610,000	\$ -	\$ (49,000)	\$ 561,000
USDA revenue bonds of 1982	75,000	-	(4,000)	71,000
KRW series 2001C bonds - Surcharge	335,000	-	(10,000)	325,000
KRW series 2001C bonds - Phase V	305,000	-	(10,000)	295,000
KRW series 2001C bonds - Refinancing	461,000	-	(26,000)	435,000
KRW series 2004D bonds - Phase 7	80,000	-	(6,000)	74,000
KRW series 2001G bonds - Dry Ridge	359,000	-	(27,000)	332,000
KRW series 2005B bonds - Phase 8	502,000	-	(13,000)	489,000
KRW series 2005B bonds - Phase 10	283,000	-	(7,000)	276,000
Line of Credit - Forcht Bank	-	115,000	-	115,000
Note payable - KIA 1991	87,500	-	(25,000)	62,500
Note payable - KIA 1993	175,000	-	(30,000)	145,000
Note payable - KIA 2002	285,759	-	(14,445)	271,314
Note payable - KIA 2003	1,049,541	-	(49,997)	999,544
Capitalized lease - KACoLT 1995	1,003,000	-	(61,000)	942,000
Capitalized lease - KACoLT 1996	206,000	-	(17,000)	189,000
Capitalized lease - Old National 2003	325,033	-	(50,783)	274,250
Capitalized lease - Old National 2004	84,851	-	(27,115)	57,736
Capitalized lease - Diamler Chrysler	38,412	-	(12,949)	25,463
Subtotal	<u>6,265,096</u>	<u>\$ 115,000</u>	<u>\$ (440,289)</u>	<u>5,939,807</u>
Less: current portion of long-term debt	<u>(434,169)</u>			<u>(558,896)</u>
Total Long-Term Indebtedness	<u>\$ 5,830,927</u>			<u>\$ 5,380,911</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

BULLOCK PEN WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2008 and 2007
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of the State Legislature. For the years ended December 31, 2008 and 2007 plan members were required to contribute 5% of their annual creditable compensation.

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 2008 the employer contribution rate was 16.17%. From July until December 2008, the employer rate was 13.50%. From January until July 2007 the employer contribution rate was 13.19%. From July until December 2007, the employer rate was 16.17%.

The District has made 100% of all required contributions for each of the years ended December 31, 2008, 2007, 2006, 2005, and 2004. Information about the contributions made by the District and the employees, as well as gross payroll and covered payroll follows:

	2008	2007	2006	2005	2004
Gross Payroll - All Employees	\$763,492	\$703,985	\$638,702	\$612,902	\$587,769
Gross Payroll - Covered Employees	721,020	660,940	613,099	588,815	551,348
Employee Contribution	36,051	33,047	30,655	29,316	27,568
Employer Contribution (expense)	106,700	97,345	74,280	54,396	43,815

NOTE 10 – RELATED PARTY TRANSACTIONS

The District rented excavation equipment from Billy Catlett Bobcat Service, whose owner, William L. Catlett, is the Assistant General Manager of the Water District. The District paid \$4,500 in January 2008 and \$4,495 in February 2008 for services provided in 2007. Billy Catlett Bobcat Service provided additional services for the District in 2008 in the amount of \$9,250. This balance has not yet been paid by the District at December 31, 2008.

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 \$114,174 and \$110,004 in 2008 and 2007, 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 and the Northern Kentucky Water District.

BULLOCK PEN WATER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operations, Maintenance and Administrative Expenses		
Salaries and wages - employees	\$ 741,478	\$ 642,594
Employee pension and benefits	425,739	402,892
Advertising	167	884
Bad debt expense	9,076	31,519
Chemicals	67,587	73,153
Commissioners' fees	14,000	13,800
Contractual services - accounting	38,862	37,435
Contractual services - engineering	13,506	28,070
Contractual services - legal	17,349	29,237
Contractual services - management	2,679	4,193
Contractual services - water test	20,555	15,824
Contractual services - other	53,923	47,925
Insurance - general liability	16,321	17,584
Insurance - other	6,738	7,061
Insurance - vehicle	10,073	12,178
Insurance - workers' compensation	20,876	18,627
Materials and supplies	101,695	125,122
Miscellaneous	411	1,268
Payroll taxes	54,167	49,275
Purchased power	70,094	71,820
Rental of property and equipment	11,613	10,876
Transportation	46,973	40,028
Utility regulatory assessment	4,612	4,561
	<u> </u>	<u> </u>
Total Operations, Maintenance and Administrative Expenses	<u>\$ 1,748,494</u>	<u>\$ 1,685,926</u>



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

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

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

We have audited the financial statements of the Bullock Pen Water District as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated April 24, 2009. 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 Bullock Pen Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bullock Pen Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bullock Pen Water District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Bullock Pen Water District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Bullock Pen Water District's financial statements that is more than inconsequential will not be prevented or detected by the Bullock Pen Water District's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

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.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Bullock Pen Water District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the Bullock Pen Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. Noncompliance could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Van Gorder, Walker & Co., Inc.
Erlanger, KY
April 24, 2009