

**TroublesomeCreek**  
ENVIRONMENTAL AUTHORITY

c/o KRADD  
917 Perry Park Road, Hazard, Kentucky 41701  
Phone: (606) 436-3158 Fax: (606) 436-2144

March 22, 2012

Linda Faulkner  
Division Director Filings  
Public Service Commission  
211 Sower Boulevard  
Frankfort, KY 40601

**RECEIVED**

**MAR 23 2012**

**PUBLIC SERVICE  
COMMISSION**

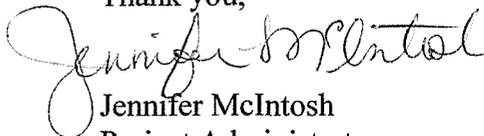
RE: Troublesome Creek Environmental Authority Case No. 2010-00017

Dear Linda:

Please find enclosed a copy of the 2011 Financial Audit for the Troublesome Creek Environmental Authority. I will have the engineer forward a copy of the As-built Drawings and the Certificate of Completion as soon as both are available.

If you have any questions, please feel free to contact me at the above listed number.

Thank you,

  
Jennifer McIntosh  
Project Administrator

enclosure

## Chris Gooch

Certified Public Accountant  
P.O. Box 1536  
Hazard, Kentucky 41702  
(606) 436-5700 FAX: (606) 436-5701  
cgooch2@windstream.net

To Management and  
Members of the Board of Directors  
Troublesome Creek Environmental Authority, Inc.  
917 Perry Park Road  
Hazard, Kentucky 41701

In planning and performing our audit of the financial statements of Troublesome Creek Environmental Authority, Inc. for the year ended June 30, 2011, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated January 31, 2012. This letter does not affect our report dated January 31, 2012 on the financial statements of Troublesome Creek Environmental Authority, Inc.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with Authority personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

1. The Board and management should develop written policies and procedures related to accounting, internal controls (including fraud risk policies) and monitoring compliance with applicable laws and regulations.
2. Management should document its periodic reporting to the Board for monitoring compliance with laws and regulations applicable to its grant awards, specifically regarding procurement/debarment and Davis-Bacon compliance, when applicable.

We wish to thank management for their support and assistance during our audit.

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



Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

January 31, 2012

**Chris Gooch**  
Certified Public Accountant  
P.O. Box 1536  
Hazard, Kentucky 41702  
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chrisgooch@chrisgoochcpa.com

January 31, 2012

Board of Directors and Management  
Troublesome Creek Environmental Authority, Inc.  
917 Perry Park Road  
Hazard, Kentucky 41701

In planning and performing our audit of the financial statements of the enterprise activities of Troublesome Creek Environmental Authority, Inc. as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Troublesome Creek Environmental Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Troublesome Creek Environmental Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Troublesome Creek Environmental Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Troublesome Creek Environmental Authority's internal control to be significant deficiencies:

**2011-1:**

Condition:

Several significant adjustments were made to the financial statements as presented for audit including an adjustment to reconcile cash, construction in progress and contributed capital for unrecorded transactions in the prior period totaling \$190,519.72.

Criteria:

Financial reports submitted to the Board and regulatory agencies should be reconciled to bank statement transactions.

Cause:

Procedures were not established to monitor bank reconciliation and comparing bank transactions to financial reports presented to the Board.

Effect:

Controls are less effective regarding financial statement information released to the Board and regulatory agencies. There is an enhanced risk that financial statements are misleading.

Recommendation:

A secondary review of bank statement transactions to financial statements presented to the Board should be implemented to ensure transactions are complete.

Response:

Management and the Board will implement procedures to ensure financial statement information has been reviewed and reconciled to underlying bank statement information.

**2011-2:**

Condition:

The Authority had not acquired general liability, officer & directors or fidelity insurance. Evidence of current liability and worker's compensation for the Authority's contractor was documented.

Criteria:

Current and adequate insurance should be maintained for the organization after performing a general risk assessment for the Authority.

Cause:

No insurance had been purchased.

Effect:

The increased risk of contingent liabilities for the Authority occurs without current and adequate insurance coverage.

Recommendation:

The Board and management should assess risks related to its current operations and purchase adequate insurance.

Response:

The Board and management will assess risks related to its current operations and purchase adequate insurance.

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



Chris Gooch  
Certified Public Accountant

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January 31, 2012

Board of Directors  
Troublesome Creek Environmental Authority, Inc.  
917 Perry Park Road  
Hazard, Kentucky 41701

We have audited the financial statements of the enterprise activities of Troublesome Creek Environmental Authority, Inc. for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 21, 2011 and August 24, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Troublesome Creek Environmental Authority, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting Troublesome Creek Environmental Authority's financial statements was allocation of capital project construction in progress expenditures among various account classification. We evaluated the key factors and assumptions used to develop the allocation in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure regarding insurance activities found in Note 5 and grant and loan funding found in Note 6.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Copies of adjusting entries proposed and posted by management are provided as part of the reporting package.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated January 31, 2012.

*Management Consultations with Other Independent Accountant*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Other Information in Documents Containing Audited Financial Statements*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Troublesome Creek Environmental Authority, Inc. and is not intended to be and should not be used by anyone other than these specified parties.



Chris Gooch  
Certified Public Accountant

**REPORT OF THE AUDIT  
TROUBLESOME CREEK  
ENVIRONMENTAL AUTHORITY, INC.**

**For The Year Ended  
June 30, 2011**

**REPORT OF THE AUDIT  
TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
FOR THE YEAR ENDED JUNE 30, 2011**

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# Chris Gooch

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Board of Directors  
Troublesome Creek Environmental Authority, Inc.  
917 Perry Park Road  
Hazard, Kentucky 41701

## Independent Auditor's Report

We have audited the accompanying financial statements of the enterprise activities of Troublesome Creek Environmental Authority, Inc. as of and for the year ended June 30, 2011, which collectively comprise the Troublesome Creek Environmental Authority, Inc.'s basic financial statements as listed in the table of contents. These financial statements are the responsibility of Troublesome Creek Environmental Authority, Inc.'s management. Our responsibility is to express opinions 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise activities of the Troublesome Creek Environmental Authority, Inc., as of June 30, 2011, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2012, on our consideration of the Troublesome Creek Environmental Authority, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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

Board of Directors  
Troublesome Creek Environmental Authority, Inc.

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Troublesome Creek Environmental Authority's financial statements as a whole. The project fund financial statement is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The project fund financial statement and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

January 31, 2012

**TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

As management of the Troublesome Creek Environmental Authority, Inc., we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended June 30, 2011. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

**FINANCIAL HIGHLIGHTS**

- The beginning cash balance for the Authority was \$18,187. The ending cash balance was \$142,108.
- The Authority's Ball Creek Wastewater Treatment Plant Project to date expenditures through June 30, 2011 totaled \$4,096,560.99. Funding sources were as follows: HB 608: \$1,342,681.44; ARRA Construction Loan – Forgivable Portion, \$781,500 less \$5,000 administrative fees; ARRA Construction Loan - \$718,500; Knott County Coal Severance, \$440,000; Multicounty Coal Severance, \$383,817, USACE 531 funding, \$381,877.55 and Western Pochantas, \$53,185. The project budget was initially set at \$4,263,817.
- The Loan funding will be repaid through the Kentucky Infrastructure Authority, having a 20 year payment term, 1% interest rate, with semi-annual payments due December and June. Annual debt service payments will be \$39,726.62, the first payment due December 1, 2012.
- The total anticipated beginning customer number is 60 residential equivalents. The estimated rates range from \$19 minimum bill for 2,000 gallons to \$35 minimum bill for 4,000 gallons. At report date, the Authority is not servicing customers and has not had its official rate set by the Public Service Commission.

Management's Discussion and Analysis (MD & A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their *Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999.

Our discussion and analysis of the Troublesome Creek Environmental Authority, Inc.'s financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2011. Please read the MD & A in conjunction with the Authority's financial statements.

For accounting purposes, the Authority is classified as an enterprise fund: Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indicator.

**Overview of the Financial Statements**

This annual report includes this Management Discussion and Analysis report, the Basic Financial Statements and the Notes to the Financial Statements. The Authority's financial statements are presented as fund level financial statements because the Authority only has proprietary funds.

**TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about the Authority's activities. The Statement of Net Assets includes all the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to the Authority's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. The statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness. As of June 30, 2011, the Authority had not began operations.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operation, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**Financial Analysis**

The Authority's basic financial statements are the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. The Statement of Net Assets provides a summary of the Authority's assets and liabilities as of the close of business on June 30. The Statement of Changes in Net Assets summarizes the revenues and sources of those revenues generated during the year ended June 30 and the expenses incurred in operating the Authority for the year ended June 30.

Our analysis below focuses on the net assets and the change in net assets of the Authority as a whole and not the individual operations or projects.

**TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>6/30/2011</u>	<u>6/30/2010</u>
<b>Net Assets:</b>		
Current Assets	221,098	18,187
Noncurrent Assets	<u>4,096,561</u>	<u>763,403</u>
<u>Total Assets</u>	<u>4,317,659</u>	<u>781,590</u>
Current Liabilities	78,990	-
Noncurrent Liabilities	<u>718,500</u>	<u>336,607</u>
<u>Total Liabilities</u>	<u>797,490</u>	<u>336,607</u>
- Net Assets -		
Investment in Capital Assets (net of debt)	3,378,061	426,796
Restricted	142,108	18,187
Unreserved Fund Balance	<u>-</u>	<u>-</u>
<u>Total Net Assets</u>	<u>3,520,169</u>	<u>444,983</u>
<u>Total Liabilities and Net Assets</u>	<u>4,317,659</u>	<u>781,590</u>

- Current assets include restricted grants receivable of \$78,990.
- Noncurrent assets and noncurrent liabilities are all related to the Ball Creek Wastewater Treatment Plant Project.

**TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

<b>Changes in Net Assets</b>	<u><b>6/30/2011</b></u>	<u><b>6/30/2010</b></u>
Revenues	-	-
Operating Expenses:		
General	1,041	-
Depreciation Expense	-	-
Total Operating Expenses	<u>1,041</u>	<u>-</u>
Other Revenues (Expenses)	<u>121,609</u>	<u>33,375</u>
Increase (Decrease) in Net Assets	<u><u>120,568</u></u>	<u><u>33,375</u></u>

- Other Revenues (Expenses) reflect the net transactions of grants revenue and advances related to the Ball Creek Wastewater Treatment Plant Project.

Questions regarding this report should be directed to the Administration at (606) 436-3158

**TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
STATEMENT OF NET ASSETS**

**JUNE 30, 2011**

**TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

**ASSETS:**

	<u>Totals</u>
Current Assets:	
Cash and cash equivalents	142,108
Construction Related Receivables	<u>78,990</u>
<u>Total Current Assets</u>	<u>221,098</u>
Noncurrent Assets:	
Capital Assets:	
Land	30,500
Construction in Progress - Sanitary Sewer System	4,066,061
Less: Accumulated Depreciation	<u>-</u>
<u>Total Noncurrent Assets</u>	<u>4,096,561</u>
<u>Total Assets</u>	<u>4,317,659</u>

**LIABILITIES:**

Current Liabilities:	
Construction Related Payables	78,990
Current Portion of Long-Term Debt	<u>-</u>
<u>Total Current Liabilities</u>	<u>78,990</u>
Long-term Liabilities:	
Notes Payable	718,500
Less: Current portion	<u>-</u>
<u>Total Long-Term Liabilities</u>	<u>718,500</u>
<u>Total Liabilities</u>	<u>797,490</u>

**NET ASSETS:**

Invested in Fixed Assets, Net of Related Debt	3,378,061
Restricted for Construction	142,108
Restricted for Debt Service	-
Unrestricted	<u>-</u>
<u>Total Net Assets</u>	<u>3,520,169</u>
<u>Total Liabilities and Net Assets</u>	<u>4,317,659</u>

The accompanying notes are an integral part of this financial statement.

**TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**

**FOR THE YEAR ENDED JUNE 30, 2011**

**TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

<u>Operating Revenues:</u>	
Operating Revenue	_____ -
<u>Total Operating Revenues</u>	_____ -
<u>Operating Expenses:</u>	
Administrative	_____ 1,041
<u>Total Operating Expense</u>	_____ 1,041
<u>Net Operating Income (Loss)</u>	_____ (1,041)
<u>Contributions and Advances</u>	
Project Revenues - Intergovernmental	3,454,767
Project Expenses	<u>(3,333,158)</u>
<u>Total Non-Operating Revenues (Expenses)</u>	_____ 121,609
Change in Net Assets	120,568
Net Assets, Beginning of Year	785,033
Add: Capital Contributions - Current Year	<u>2,614,568</u>
Net Assets, End of Year	<u><u>3,520,169</u></u>

The accompanying notes are an integral part of this financial statement.

**TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE 30, 2011**

**TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

<u>Cash Flows from Operating Activities:</u>	-
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Grant Receipts	2,621,288
Purchase of Capital Assets	(3,216,216)
Payment on Long-term Debt	-
Proceeds from Long-term Debt	718,500
<u>Net Cash (Used) for Capital and Related Financing Activities</u>	123,572
<u>Cash Flows from Investing Activities:</u>	
Interest revenue	349
Net Increase (Decrease) in Cash	123,921
Cash and restricted cash, Beginning of Year	18,187
Cash and restricted cash, End of Year	142,108
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>	
Operating Income (Loss)	-
Adjustments to reconcile operating net cash provided by operating activities:	-
<u>Net Cash Used by Operations</u>	-

The accompanying notes are an integral part of this financial statement.

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TO FINANCIAL STATEMENTS**

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TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The financial statements of the Troublesome Creek Environmental Authority, Inc. have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

**B. Reporting Entity**

The Troublesome Creek Environmental Authority, Inc. was formed pursuant to KRS 273.161 to 273.390, inclusive, and KRS 58.180 for the performance of governmental purposes pursuant to Kentucky law. The Authority is an agency, instrumentality and constituted authority of Breathitt County, Knott County and Perry County noted in an interlocal cooperation agreement dated effective May 1, 2006. The governing body of the Troublesome Creek Environmental Authority is a five-member Board of Directors appointed by Judge-Executives of the aforementioned counties.

The Authority was formed as an agent of the aforementioned counties to obtain resources for planning, development, acquisition, construction, installation, operation and management of wastewater collection and treatment facilities. Its actions meet the definition of "utility" set forth in KRS 268 and its actions are under the jurisdiction of the Kentucky Public Service Commission.

The accompanying financial statements comply with the provisions of GASB Statement 14, the Financial Reporting Entity, in that the financial statements include all organizations, activities, and functions for which the Authority is financially accountable. This report includes all activities considered by management to be part of the Authority by virtue of Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of a) the primary government, b) organizations for which the primary government is financially accountable, and c) other organizations for which the nature and significance of their relationship with the primary government are such, that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's government body and whether it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent upon it.

TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011  
(Continued)

**Note 1. Summary of Significant Accounting Policies (Continued)**

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government a) is entitled to the organization's resources, b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or c) is obligated in some manner for the debt of the organization. Based on the application of this criteria, the Authority has no component units.

**C. Basis of Presentation**

The Authority's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in fund net assets, and a statement of cash flows.

**D. Fund Accounting**

The Authority uses the proprietary fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Funds are classified into three categories: governmental, proprietary and fiduciary. The Authority uses the proprietary category for its programs.

**E. Proprietary Fund Types**

Proprietary funds are used to account for the Authority's ongoing activities, which are similar to those found in the private sector. The following is the proprietary fund type:

Enterprise Fund – This fund is used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**F. Measurement Focus/Basis of Accounting**

The proprietary funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period incurred. Pursuant to GASB Statement No. 20 Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, The Authority follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board (FASB) Statements or Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011  
(Continued)

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Allowance for Doubtful Accounts**

Troublesome Creek Environmental Authority's financial statements do not reflect an allowance account.

**H. Description of Program**

The Authority is designed to construct, maintain and operate wastewater collection and treatment facilities and supporting infrastructure for provision of clean water to the citizens of Breathitt, Knott and Perry counties.

**J. Capital Assets**

Capital assets are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of three years to forty years. Expenditures for repairs and maintenance are charged directly to expenses as they are incurred. Expenditures determined to represent additions or betterments are capitalized. All fixed assets are currently stated as construction in progress until the project is completed.

**K. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets – net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are recorded as restricted when there are limitations imposed on their use by internal or external restrictions.

**L. Operating Revenues and Expenses**

Operating revenues and expenses are those revenues that are generated directly from the primary activities of the proprietary fund and expenses incurred for the day to day operation. For the Authority, no operating revenues are recognized for the current year.

**M. Capital Contributions**

This represents contributions made available from a variety of sources including but not limited to funding from Kentucky House Bill 608 Funds, Kentucky Infrastructure Authority (ARRA) American Recovery and Reinvestment Act Funds, Multicounty Coal Severance Funds, U.S. Army Corp of Engineer 531 Funds and local funding sources.

TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011  
(Continued)

**Note 1. Summary of Significant Accounting Policies (Continued)**

**N. Budgetary Accounting**

The Authority's Board will provide budget and financial information to the respective multicounty fiscal courts upon request in a manner consistent with the requirements affecting special districts as contained in KRS 65.070.

**O. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

**Note 2. Deposits and Investments**

The Authority maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Authority and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and (c) an official record of the depository institution. These requirements were met.

Custodial credit risk is the risk that in the event of a depository institution failure, the Authority's deposits may not be returned. The Authority does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. Troublesome Creek Environmental Authority does not have any investments other than its interest bearing checking accounts. Concentrations of credit risk are the risk of loss attributed to the magnitude of the Authority's investments in a single issuer. All of the Authority's cash at June 30, 2011 is held at First Trust Bank, Hazard, Kentucky. Foreign currency risk is the risk of changes in exchange rates effecting foreign investments. The Authority does not hold any foreign investments.

TRoublesome Creek Environmental Authority, Inc.  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2011  
 (Continued)

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2011 was as follows:

<u>Primary Government</u>	<u>7/1/2010</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2011</u> <u>Balance</u>
Capital Assets Not Being Depreciated:				
Land and Land Improvements	30,500	-	-	30,500
Construction in Progress	<u>732,903</u>	<u>3,333,158</u>	<u>-</u>	<u>4,066,061</u>
Total Capital Assets Not Being Depreciated	<u>763,403</u>	<u>3,333,158</u>	<u>-</u>	<u>4,096,561</u>
Total Capital Assets Being Depreciated:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Accumulated Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets Being Depreciated, Net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets, Net	<u><u>763,403</u></u>	<u><u>3,333,158</u></u>	<u><u>-</u></u>	<u><u>4,096,561</u></u>

Total depreciation expense for the year ended June 30, 2011 was \$-0-.

**Note 4. Long-Term Debt**

The Authority financed a portion of its Ball Creek Wastewater Treatment Plant Project through a 1% \$1,500,000 construction loan via the Kentucky Infrastructure Authority. 52.1% of the principal amount, or \$781,500 is considered forgivable, leaving a remainder balance of \$718,500. Semi-annual principal and interest payments of \$19,863.31 for thirty years are due beginning December 1, 2012. The agreement calls for the Authority to deposit \$1,800 per year into a reserve account until a balance of \$18,000 is reached.

TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2011  
 (Continued)

The following is a schedule of long-term debt:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance</u>
				718,500
2012	-	-	-	718,500
2013	32,623	7,104	39,727	685,877
2014	32,950	6,777	39,727	652,927
2015	33,281	6,446	39,727	619,646
2016	33,614	6,113	39,727	586,032
2017-2021	173,193	25,440	198,633	412,839
2022-2026	182,050	16,583	198,633	230,789
2027-2031	191,360	7,273	198,633	39,429
2031-2032	<u>39,429</u>	<u>296</u>	<u>39,725</u>	-
<u>Total</u>	<u>718,500</u>	<u>76,032</u>	<u>794,532</u>	

Changes in long-term debt for the Authority are as follows:

	<u>7/1/2010</u>	<u>7/1/2010</u>	<u>7/1/2010</u>	<u>6/30/2011</u>	<u>Current</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Portion</u>
Kentucky Infrastructure Authority	<u>336,607</u>	<u>381,893</u>	<u>-</u>	<u>718,500</u>	<u>-</u>
Total	<u>336,607</u>	<u>381,893</u>	<u>-</u>	<u>718,500</u>	<u>-</u>

**Note 5. Insurance**

At June 30, 2011 the Authority was not insured for the following: officer and directors, fidelity and general liability. The Authority did maintain documentation indicating its contractors were bonded and had current liability and worker's compensation insurance coverage.

**Note 6. Contingencies**

The Authority receives funding from local, state, and federal government agencies. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the Authority for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Authority's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011  
(Continued)

**Note 7. Subsequent Events**

The Authority has evaluated subsequent events through January 31, 2012, the date financial statements were available to be issued.

**TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
SUPPLEMENTARY INFORMATION**

**TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
STATEMENT OF REVENUES AND EXPENDITURES  
BALL CREEK WASTEWATER TREATMENT PLANT PROJECT**

Through June 30, 2011

**REVENUES:**

Intergovernmental revenues:	
State - HB 608 Funds	1,342,681
KIA-ARRA Revolving Loan Funds	1,495,000
Knott County Coal Severance	440,000
Multi-County Coal Severance	383,817
USACE 531 Funds	381,878
Western Pochanatas Coal	<u>53,185</u>
<u>Total revenue</u>	<u>4,096,561</u>

**EXPENDITURES:**

Administration	45,961
Legal	33,996
Land Acquisition	30,500
Engineering Expense	508,874
Construction Expense	<u>3,477,230</u>

<u>Total expenditures</u>	<u>4,096,561</u>
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Excess of revenue over (under) <u>expenditures</u>	<u><u>-</u></u>
-------------------------------------------------------	-----------------

See independent auditor's report and notes to financial statements.

**TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For The Year Ended June 30, 2011**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Expenditures</u>
US Department of Defense			
Direct			
Southern and Eastern KY Environmental Infrastructure (Section 531) - ARRA	12.127	N/A	<u>381,878</u>
Environmental Protection Agency:			
Passed through Kentucky Infrastructure Authority			
Capitalization Grants for Drinking Water-State Revolving Funds Loan - ARRA	66.468	AR 09-43	<u>1,158,393</u>
 <u>Total Federal Awards Expenditures</u>			 <u><u>1,540,271</u></u>

**TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For The Year Ended June 30, 2011**

NOTE 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal activity of the Troublesome Creek Environmental Authority, Inc. and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

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

## Chris Gooch

Certified Public Accountant  
P.O. Box 1536  
Hazard, Kentucky 41702  
(606) 436-5700

FAX: (606) 436-5701

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

Board of Directors  
Troublesome Creek Environmental Authority, Inc.  
917 Perry Park Road  
Hazard, Kentucky 41701

We have audited the financial statements of the enterprise activities of Troublesome Creek Environmental Authority, Inc., as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated January 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Troublesome Creek Environmental Authority, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Troublesome Creek Environmental Authority, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting: 2011-1 and 2011-2. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance and Other Matters

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

We noted certain matters that we reported to management of Troublesome Creek Environmental Authority, Inc., in a separate letter dated January 31, 2012.

Troublesome Creek Environmental Authority, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Troublesome Creek Environmental Authority's response and, accordingly, we express no opinion on it.

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



Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

January 31, 2012

**Chris Gooch**

Certified Public Accountant  
P.O. Box 1536  
Hazard, Kentucky 41702  
(606) 436-5700

FAX: (606) 436-5701

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133

Board of Directors  
Troublesome Creek Environmental Authority, Inc.  
917 Perry Park Road  
Hazard, Kentucky 41701

Compliance

We have audited Troublesome Creek Environmental Authority Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Troublesome Creek Environmental Authority, Inc.'s major federal programs for the year ended June 30, 2011. Troublesome Creek Environmental Authority, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Troublesome Creek Environmental Authority, Inc.'s management. Our responsibility is to express an opinion on Troublesome Creek Environmental Authority, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Troublesome Creek Environmental Authority, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Troublesome Creek Environmental Authority, Inc.'s compliance with those requirements.

In our opinion, Troublesome Creek Environmental Authority, Inc., complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Independent Auditor's Report On Compliance  
With Requirements That Could Have A Direct  
And Material Effect On Each Major Program  
And On Internal Control Over Compliance In  
Accordance With OMB Circular A-133

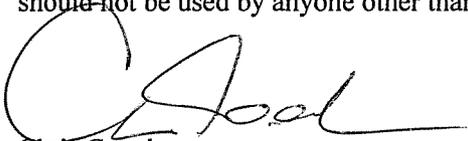
Internal Control over Compliance

Management of Troublesome Creek Environmental Authority, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Troublesome Creek Environmental Authority, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Troublesome Creek Environmental Authority, Inc.'s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, 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.



Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

January 31, 2012

**TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2011**

**TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2011**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the business-type activities of the Troublesome Creek Environmental Authority, Inc.
2. Control deficiencies in the internal control were disclosed by the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Troublesome Creek Environmental Authority, Inc. were disclosed during the audit.
4. No control deficiencies relating to the audit of its major federal award program is reported.
5. The auditor's report on compliance for the audit of the major federal awards programs for the Troublesome Creek Environmental Authority, Inc. expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for the Troublesome Creek Environmental Authority, Inc. reported in Part C of this schedule.
7. Program tested as major were:

Environmental Protection Agency

Passed through Kentucky Infrastructure Authority  
Capitalization Grants for Drinking Water State Revolving Funds  
ARRA 09-43 Wastewater Treatment Plant Project 66.468

U.S. Department of Defense

Direct  
Section 531 ARRA  
Southern and Eastern Kentucky Environmental Infrastructure 12.127

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Troublesome Creek Environmental Authority, Inc. was not determined to be a low-risk auditee.

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**2011-1:**

**Condition:**

Several significant adjustments were made to the financial statements as presented for audit including an adjustment to reconcile cash, construction in progress and contributed capital for unrecorded transactions in the prior period totaling \$190,519.72.

**Criteria:**

Financial reports submitted to the Board and regulatory agencies should be reconciled to bank statement transactions.

**Cause:**

Procedures were not established to monitor bank reconciliation and comparing bank transactions to financial reports presented to the Board.

**TROUBLESOME CREEK ENVIRONMENTAL AUTHORITY, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**For The Year Ended June 30, 2011**

**Effect:**

Controls are less effective regarding financial statement information released to the Board and regulatory agencies. There is an enhanced risk that financial statements are misleading.

**Recommendation:**

A secondary review of bank statement transactions to financial statements presented to the Board should be implemented to ensure transactions are complete.

**Response:**

Management and the Board will implement procedures to ensure financial statement information has been reviewed and reconciled to underlying bank statement information.

**2011-2:**

**Condition:**

The Authority had not acquired general liability, officer and directors or fidelity insurance. Evidence of current liability and worker's compensation for the Authority's contractor was documented.

**Criteria:**

Current and adequate insurance should be maintained for the organization after performing a general risk assessment for the Authority.

**Cause:**

No insurance had been purchased.

**Effect:**

The increased risk of contingent liabilities for the Authority occurs without current and adequate insurance coverage.

**Recommendation:**

The Board and management should assess risks related to its current operations and purchase adequate insurance.

**Response:**

The Board and management will assess risks related to its current operations and purchase adequate insurance.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM  
AUDIT**

None

**D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

N/A