

CANNONSBURG
WATER DISTRICT



REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
for the year ended December 31, 2011

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
<i>Financial Statements</i>	
Statement of Net Assets	3
Statement of Revenues, Expenses and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to the Financial Statements	6-10
<i>Supplemental Information</i>	
Report on Internal Control and on Compliance and Other Matters – GAS	11-12
Comparative Statement of Revenues and Expenses	13
Findings and Responses	14

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Cannonsburg Water District
Cannonsburg, Kentucky

We have audited the accompanying financial statements listed in the Table of Contents of the business-type activities of the Cannonsburg Water District as of and for the year ended December 30, 2011 which comprises the Authority's basic financial statements. These financial statements are the responsibility of the Authority'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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the respective financial statements referred to above present fairly in all material respects, the financial position of the business-type activities of the Cannonsburg Water District, as of December 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 May 08, 2012 on our consideration of the Cannonsburg Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management has elected to omit the "Management Discussion and Analysis" which is supplemental information required by the Governmental Accounting Standards Board.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Cannonsburg Water District's basic financial statements. The schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements of the Cannonsburg Water District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

John T. Lane & Associates LLC

May 08, 2012

This report contains 14 pages.

Cannonsburg Water District
Statement of Net Assets
Proprietary Fund Type
December 31, 2011

ASSETS

Current Assets	
Cash and cash equivalents - unrestricted	\$ 87,415
Cash and cash equivalents - restricted	313,766
Accounts receivable - net of allowance for doubtful accounts	229,534
Inventory	119,123
Prepaid expenses	<u>8,145</u>
Total Current Assets	<u>757,983</u>
Noncurrent Assets	
Capital assets: (note 1)	
Plant, equipment and lines	6,789,502
Construction in process	112,714
Less accumulated depreciation	<u>(3,310,204)</u>
Total Noncurrent Assets	<u>3,592,012</u>
Total Assets	<u>\$ 4,349,995</u>

LIABILITIES

Current Liabilities	
Accrued liabilities	\$ 200,545
Accrued interest	10,004
Deposits payable	11,900
Bonds/notes payable	<u>39,345</u>
Total Current Liabilities	<u>261,794</u>
Noncurrent Liabilities	
Bonds/notes payable	<u>343,114</u>
Total Liabilities	<u>604,908</u>

NET ASSETS

Invested in capital assets, net of related debt	3,209,553
Restricted net assets	301,866
Unrestricted net assets	<u>233,668</u>
Total Net Assets	<u>\$ 3,745,087</u>

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

Cannonsburg Water District
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund Type
For the fiscal year ended December 31, 2011

Operating Revenues	
Water sales	\$ 1,963,708
Penalties & charges	33,345
Other income	<u>37,413</u>
 Total Operating Revenues	 <u>2,034,466</u>
Operating Expenses	
Purchased water	1,232,134
Salaries & wages	437,776
Payroll taxes	29,367
Contractual services	23,816
Employee insurance	224,643
Retirement	66,230
Other insurance	25,877
Operations, maintenance, repairs & supplies	20,905
Utilities	58,841
Telephone	6,547
Materials & supplies	75,087
Fuel	31,751
Water testing	7,819
Depreciation	165,568
Other billing expenses	11,382
Bad debts	19,484
Miscellaneous expenses	<u>52,462</u>
 Total Operating Expenses	 <u>2,489,689</u>
 Operating Income (Loss)	 <u>(455,223)</u>
Nonoperating Revenues (Expenses)	
Capital grants	-
Nonoperating revenue - other	271,452
Tap fees	20,125
Interest income	13,455
Interest expense	<u>(20,908)</u>
 Net Nonoperating Revenues (Expenses)	 <u>284,124</u>
 Change in Net Assets	 (171,099)
 Total Net Assets - beginning	 <u>3,916,186</u>
 Total Net Assets - ending	 <u>\$ 3,745,087</u>

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

Cannonsburg Water District
Statement of Cash Flows
Proprietary Fund Type
December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	\$ 2,144,253
Cash paid to employees	(437,776)
Cash paid for general and administrative expenses	<u>(1,837,459)</u>
Net Cash provided/(used) by operating activities	<u>(130,982)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	13,455
Customer deposits	<u>169</u>
Net Cash provided/(used) by investing activities	<u>13,624</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Nonoperating revenue	271,452
Tap fees	20,125
Bond/note payments	(39,562)
Purchase of assets	(385,289)
Interest paid	<u>(20,908)</u>
Net Cash provided/(used) in capital and financing activities	<u>(154,182)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(271,540)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>672,721</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u>\$ 401,181</u>
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Operating Income	\$ (455,223)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
(increase) in prepaid expenses	(2,108)
decrease in inventory	23,786
depreciation	165,568
decrease in accounts receivable	109,787
increase in accounts payable	<u>27,208</u>
Net cash provided/(used) by operating activities	<u>\$ (130,982)</u>

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

CANNONSBURG WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

The Cannonsburg Water District is a water utility which services areas of Boyd County. Its sales are primarily to residential customers. The District is a corporate body set forth in Kentucky Revised Statutes (KRS) 74.070 which was created November, 1961. The District began operations in 1956. The District is subject to the regulatory authority of the Kentucky Public Service Commission pursuant to KRS 278.040.

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Cannonsburg Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing District, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria there are not other organizations included in these financial statements.

The District, presented as an enterprise fund, does not apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989.

Depreciation Reserve Fund - Monthly transfers are required to be made into this fund until a balance of \$41,600 is attained. Only expenditures for capital improvements or extraordinary expenses are permitted to be paid from this fund. The District had set aside \$45,813 into this fund at December 31, 2011.

Bond and Interest Sinking Fund - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. The required balance of the fund at December 31, 2011 was \$56,000. The District had set aside \$111,848 into this fund at December 31, 2011.

The bond agreements also require the establishment and maintenance of a "Replacement and Extension Reserve Fund" to accumulate to a balance of \$75,000. This reserve is to be funded after all reasonable costs of operation and maintenance have been paid and after the bond and interest account has been funded. The fund is currently invested in an eighteen-month certificate of deposit maturing October 23, 2011 earning interest at a rate of 5.31%. The balance was \$82,657 at December 31, 2011.

Enterprise Funds

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are operating grants and tenant rental revenue. Operating expenses of the Authority include the cost of producing the revenue and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body 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 (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 sheet. Net assets (i.e., total assets net of total liabilities) are segmented into invested in capital assets, net of related debt, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Basis of Accounting

The records of the District are maintained and the budgetary process is based on the accrual method of accounting.

Inventory

The cost of inventory is recorded as a disbursement at the time of payment for the purchase. Materials on hand are inventoried at year end and recorded as an asset at that time. They are valued at lower of cost or market and recorded using the FIFO method.

Fixed Assets

Fixed assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Donated assets are recorded at fair market value at the date of donation.

Depreciation of property and equipment is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

<u>Class</u>	<u>Life</u>
Water lines, tanks	40-50 years
Equipment	5-10 years
Computers	3 years
Meters	15 years

The District's capitalization policy is as follows: expenditures costing more than \$1,000 with an estimated useful life greater than one year are capitalized: all others are expensed.

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 external restrictions.

Accounts Receivable

The receivable reflected in the statements in the amount of \$238,249 are net of allowance for uncollectible in the amount of \$8,715.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 - Notes Payable

The amount shown in the accompanying financial statements as notes payable represents the District's future obligation to make loan payments from future revenues. At December 31, 2011, three separate loans had outstanding balances. Details of each of these issues are summarized as follows:

Note A

Lender – USDA
 Balance of loan - \$50,000
 Rate - 5%
 Principal due January 1
 Interest due January and July 1
 Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note B

Lender – KRWFC
 Balance of loan – \$325,000
 Rate – 4.15-5.15%
 Principal due January 1
 Interest due January 1 and July 1
 Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Note C

Lender – Chase
 Balance of loan - \$7,459
 Rate - varies
 Principal due monthly
 Interest due monthly

Five-Year Maturities

2012	\$ 39,345
2013	28,662
2014	25,000
2015	24,000
2016	20,000
Thereafter	<u>245,452</u>
	<u>\$382,459</u>

The following is a summary of changes in long-term obligations for the year:

	Outstanding 1/1/2011	Issued	Retired	Outstanding 12/31/2011	Due Within One Year
USDA	\$ 75,000	\$ -	\$ 25,000	\$ 50,000	\$ 25,000
KRWFC	336,000	-	11,000	325,000	11,000
Chase	<u>11,021</u>	-	<u>3,562</u>	<u>7,459</u>	<u>3,345</u>
Total	<u>\$ 422,021</u>	<u>\$ -</u>	<u>\$ 39,562</u>	<u>\$ 382,459</u>	<u>\$ 39,345</u>

Total interest paid during the year on long-term debt totaled \$20,908.

Note 3 - Pension Plan

The District provides pension benefits for its employees through the County Employees Retirement System (CERS). In this type of plan, the monthly retirement benefit is based upon several factors, primarily of which is the length of service, the systems benefit factor (2.5%), and the average of the five highest fiscal year wages from all public employee's retirement system participation (CERS, KERS, &SPRS). All employees who work an average of 100 hours per month over a fiscal year may participate with CERS.

The plan currently requires the District to contribute an amount equal to 16.93 %/ 18.96% of the employee's base salary each month, with employees required to contribute 5%. The District's contribution will vary, depending on the dictates of the management of the county plan. The required employer's contribution is usually reviewed at least annually.

The District's total payroll in fiscal year 2011 was \$408,559 and its contributions were calculated using the base salary amount of \$406,399. Contributions to the plan were \$20,350 and \$72,352 by the employees and the District, respectively.

Note 4 - Changes in Fixed Assets

The following is a summary of changes in the fixed assets for the fiscal year:

	1/1/2011	Additions/ Transfers	Deletions	12/31/2011
Land	\$ 20,810	\$ -	\$ -	\$ 20,810
Utility plant and equipment	6,496,117	272,575		6,768,692
Construction in process	<u>-</u>	<u>112,714</u>	<u>-</u>	<u>112,714</u>
	<u>\$ 6,516,927</u>	<u>\$ 385,289</u>	<u>\$ -</u>	<u>\$ 6,902,216</u>
Acc. depreciation	<u>\$ 3,144,636</u>	<u>\$ 165,568</u>		<u>\$ 3,310,204</u>
Fixed assets, net of accumulated depreciation	<u>\$ 3,372,291</u>	<u>\$ 219,721</u>	<u>\$ -</u>	<u>\$ 3,592,012</u>

Note 5 - Revenue Bonds

Water and Revenue Bonds constitute special obligations of the District solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions, which require the District to maintain pledged revenues. The District must transfer monthly 1/6 of the next succeeding interest payment and 1/12 of the next succeeding principal payment from the operations and maintenance account into the bond and interest sinking account.

Note 6 - Restricted Cash

Restricted cash is composed of the following:

Depreciation reserve fund	\$ 45,813
Bond & interest	63,676
KIA fund	109
Construction school	5,770
Debt reserve fund	111,848
Line replacement	<u>86,550</u>
	\$ 313,766

Note 7 – Contingencies

The District is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the District in the current and prior years. There were no examinations for the year ended December 31, 2011. Areas of noncompliance, if any, as a result of examinations would be included as a part of the “Findings and Responses section of this report.

Note 8 – Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District management.

SUPPLEMENTAL INFORMATION

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

Board of Commissioners
Cannonsburg Water District
Cannonsburg, Kentucky

We have audited the financial statements of the business-type activities of the Cannonsburg Water District, as of and for the year ended December 31, 2011, and have issued our report thereon dated May 08, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cannonsburg 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 with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This 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.

John J. Lane & Associates LLC

May 08, 2012

Cannonsburg Water District
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund Type
For the fiscal years ended December 31, 2010 & December 31, 2011

	2010	2011
Operating Revenues		
Water sales	\$ 2,039,401	\$ 1,963,708
Penalties & charges	34,932	33,345
Other income	53,261	37,413
 Total Operating Revenues	 2,127,594	 2,034,466
Operating Expenses		
Purchased water	1,025,068	1,232,134
Salaries & wages	412,103	437,776
Payroll taxes	28,549	29,367
Contractual services	12,531	23,816
Employee insurance	266,386	224,643
Retirement	62,209	66,230
Other insurance	25,540	25,877
Operations, maintenance, repairs & supplies	25,554	20,905
Transportation	-	-
Travel & training	-	-
Utilities	58,718	58,841
Telephone	6,967	6,547
Materials & supplies	92,306	75,087
Fuel	25,991	31,751
Water testing	9,980	7,819
Depreciation	139,191	165,568
Other billing expenses	9,825	11,382
Bad debts	2,725	19,484
Miscellaneous expenses	40,552	52,462
 Total Operating Expenses	 2,244,195	 2,489,689
 Operating Income (Loss)	 (116,601)	 (455,223)
Nonoperating Revenues (Expenses)		
Capital grants	351,230	-
Nonoperating revenue - other	-	271,452
Tap fees	35,070	20,125
Interest income	16,376	13,455
Interest expense	(24,508)	(20,908)
 Net Nonoperating Revenues (Expenses)	 378,168	 284,124
 Change in Net Assets	 \$ 261,567	 \$ (171,099)

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

CANNONSBURG WATER DISTRICT
FINDINGS AND RESPONSES
December 31, 2011

PRIOR FINDINGS

10-01 Segregation of Duties – Cleared

CURRENT FINDINGS

None