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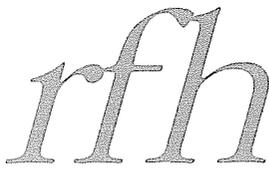
**EAST CASEY COUNTY WATER DISTRICT**  
**Liberty, Kentucky**

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**FINANCIAL STATEMENTS**  
**December 31, 2011 and 2010**

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# Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

## INDEPENDENT AUDITORS' REPORT

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

Board of Commissioners  
East Casey County Water District  
Liberty, Kentucky

J. Carroll Luby, CPA

We have audited the accompanying balance sheet of East Casey County Water District as of December 31, 2011 and 2010 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our 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 the **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 financial statements referred to above present fairly, in all material respects, the respective financial position of East Casey County Water District as of December 31, 2011 and 2010, and the respective changes in financial position 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 March 29, 2012, on our consideration of the East Casey County Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley & Company, PLLC  
March 29, 2012

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

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<b>ASSETS</b>	<b>2011</b>	<b>2010</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 524,878	\$ 500,509
Investments - certificates of deposit	831,334	820,031
Customer accounts receivable, net	122,181	137,413
Grant receivable	-	451,555
Accrued interest receivable	<u>1,982</u>	<u>3,480</u>
	<u>1,480,375</u>	<u>1,912,988</u>
<b>Restricted assets</b>		
Cash and cash equivalents	<u>543,730</u>	<u>513,262</u>
	<u>543,730</u>	<u>513,262</u>
<b>Capital assets</b>		
Land	59,657	52,657
Property, plant and equipment, net	12,315,908	11,256,214
Construction-in-progress	<u>163,260</u>	<u>1,044,370</u>
	<u>12,538,825</u>	<u>12,353,241</u>
<b>TOTAL ASSETS</b>	<u>\$ 14,562,930</u>	<u>\$ 14,779,491</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 97,295	\$ 265,345
Taxes payable	8,434	4,330
Construction Payable	-	85,631
Customer deposits payable	25,550	26,121
Accrued interest payable	92,837	94,908
Current portion of long-term debt	<u>63,500</u>	<u>61,500</u>
	<u>287,616</u>	<u>537,835</u>
<b>Long-term debt</b>		
Bonds payable, net	<u>3,111,500</u>	<u>3,175,000</u>
<b>Net assets</b>		
Invested in capital assets, net of debt	9,363,825	9,116,741
Restricted for reserves	543,730	513,262
Unrestricted	<u>1,256,259</u>	<u>1,436,653</u>
	<u>11,163,814</u>	<u>11,066,656</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 14,562,930</u>	<u>\$ 14,779,491</u>

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

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

	2011	2010
<b>OPERATING INCOME</b>		
Water sales	\$ 1,508,735	\$ 1,545,829
Late charges	47,455	46,003
Other revenue	<u>23,697</u>	<u>31,816</u>
Total operating income	<u>1,579,887</u>	<u>1,623,648</u>
<b>OPERATING EXPENSES</b>		
Water purchases	607,365	605,678
Salaries	204,914	206,363
Employee benefits	110,980	105,845
Taxes	15,646	16,169
Office expense & postage	37,861	36,982
Insurance	24,156	21,867
Transportation expense	29,577	26,816
Line upkeep	250,144	436,656
Contract labor	70,231	106,727
Utilities & telephone	77,887	64,895
Legal & professional	16,274	14,793
Miscellaneous	9,024	9,386
Regulatory commission expenses	<u>2,483</u>	<u>2,498</u>
Total operating expense	<u>1,456,542</u>	<u>1,654,675</u>
Operating income before depreciation	123,345	(31,027)
Depreciation expense	<u>(275,911)</u>	<u>(262,820)</u>
<b>OPERATING INCOME</b>	(152,566)	(293,847)
Non-operating income (expenses)		
Interest income	18,017	24,102
Interest expense	<u>(144,424)</u>	<u>(147,271)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	(278,973)	(417,016)
Capital Contributions		
Grants received	342,174	1,188,835
Tap fees	32,137	35,795
Other	<u>1,820</u>	<u>3,436</u>
Change in net assets	97,158	811,050
Net assets, beginning of year	<u>11,066,656</u>	<u>10,255,606</u>
<b>NET ASSETS END OF YEAR</b>	<u>\$ 11,163,814</u>	<u>\$ 11,066,656</u>

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

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

	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 1,595,119	\$ 1,615,602
Payment to suppliers	(1,234,934)	(1,054,298)
Payment for employee services and benefits	<u>(386,125)</u>	<u>(418,935)</u>
Net cash provided by operating activities	<u>(25,940)</u>	<u>142,369</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payments	(61,500)	(58,000)
Interest payments	(146,495)	(149,214)
Additions to property, plant and equipment	(547,126)	(1,115,019)
Tap fees	32,137	35,795
Other capital contributions	1,820	3,436
Grants received	<u>793,729</u>	<u>1,017,475</u>
Net cash (used) by financing activities	<u>72,565</u>	<u>(265,527)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit	(11,303)	(17,141)
Interest income	<u>19,515</u>	<u>25,445</u>
Net cash provided by investing activities	<u>8,212</u>	<u>8,304</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	54,837	(114,854)
Cash and cash equivalents at beginning of year	<u>1,013,771</u>	<u>1,128,625</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,068,608</u>	<u>\$ 1,013,771</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income	\$ (152,566)	\$ (293,847)
Noncash items included in operating income		
Depreciation	275,911	262,820
Changes in assets and liabilities		
(Increase) decrease in receivables	15,232	(8,046)
Increase (decrease) in accounts payable	(168,050)	179,498
Increase (decrease) in customer deposits	(571)	1,270
Increase (decrease) in taxes/other payables	<u>4,104</u>	<u>674</u>
Net cash provided by operating activities	<u>\$ (25,940)</u>	<u>\$ 142,369</u>

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

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

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**1. ORGANIZATION AND ACCOUNTING POLICIES**

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

The District's financial statements are presented in conformity with the provisions of Governmental Accounting Standards Board Statement No. 34, "**Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments**". The District has not prepared the Management's Discussion and Analysis required by GASB 34.

The net assets of the District are classified into three categories; invested in capital assets net of related debit, restricted and unrestricted. The restricted net assets consist of reserves for bond retirement and depreciation costs relating to the construction, replacement, extension, additions and/or improvements to the system. These reserves are discussed in note 5.

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

The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

For purposes of the statement of cash flows, the District defines cash and cash equivalents to include cash on hand, cash in bank and certificates of deposit with original maturities of 90 days or less.

The District records revenue as billed to its customers on monthly meter reading cycles. At the end of each year, water service which has been rendered from the latest date of each meter reading to the year end is unbilled.

The District reports all revenues and expenses as operating, except interest income, interest expense, amortization, and capital contributions.

Fixed assets are recorded at cost. Interest incurred during the period of construction is capitalized as a part of the construction costs. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets.

The allowance for uncollectible accounts at December 31, 2011 and 2010 were \$317,127 and \$262,866, respectively. The District charges all uncollected accounts directly against current earnings. Charges against earnings for the years ended December 31, 2011 and 2010 were \$54,261 and \$27,201, respectively.

Investments consist of certificates of deposit with original maturities of 90 days or longer. Investments are recorded at cost, which approximates fair value.

The District has evaluated and considered the need to recognize or disclose subsequent events through March 29, 2012 which represents the date that these financial statements were available for issuance. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2011, have not been evaluated by the District.

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

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**5. COMPLIANCE WITH BOND ORDINANCE, continued**

**Depreciation Fund**

The District is required to deposit into the Depreciation Fund account the proceeds from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of extensions, additions and/or improvements to the project, plus the proceeds of any property damage insurance not immediately used to replace damaged or destroyed property. Monies in the Depreciation Fund shall be available and used, upon appropriate certification to the bank, for the purpose of paying the cost of construction replacements, extensions, additions and/or improvements to the project. Whenever the balance in the Depreciation Fund shall equal \$72,000 the monthly payments may be discontinued, or by order of the governing body of the District, be diverted into the Sinking Fund Account. The 2000 issue requires an additional deposit of \$275 per month for the life of the loan once the facility becomes operational. Furthermore, the 2007 series requires an additional \$455 per month for the life of the loan. The District had set aside \$333,918 and \$306,721 at December 31, 2011 and 2010.

**6. RETIREMENT PLAN**

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

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

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended December 31, 2011, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Participating employers were required to contribute at an actuarially determined rate. Employees hired after August 31, 2008 and not already in the retirement system must contribute an additional 1% to subsidize health insurance premiums that are primarily withheld from CERS retirees' benefit payments. Per Kentucky Revised Statue Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2011, participating employers contributed 16.93% through June 30 and 18.96% thereafter, of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

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**6. RETIREMENT PLAN, continued**

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

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 47,309	100%
2010	\$ 45,239	100%
2009	\$ 39,261	100%

**7. RISK MANAGEMENT**

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

**8. CONTINGENCIES**

The District had elected to be recognized as a reimbursing employer for state unemployment compensation purposes. Accordingly, the District will become liable for direct payment of unemployment benefits as they become due.

**9. RECLASSIFICATIONS**

Certain presentations of accounts previously reported have been reclassified in these financial statements. Such reclassifications had no effect on net income or fund balances as previously reported.

**EAST CASEY COUNTY WATER DISTRICT  
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**

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Board of Commissioners  
East Casey County Water District  
Liberty, Kentucky

We have audited the financial statements of the East Casey County Water District (the "District") as of and for the year ended December 31, 2011, and have issued our report thereon dated March 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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

**Compliance and Other Matters**

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

East Casey County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Commissioners 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.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley & Company, PLLC  
March 29, 2012

**EAST CASEY COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
December 31, 2011**

**FINDING:**

2011-1

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

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

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

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

**RESPONSE:**

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