

HENDRON WATER DISTRICT

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
YEARS ENDED DECEMBER 31, 2011 AND 2010

WALKER & ASSOCIATES, C.P.A.'S, PLLC.

CERTIFIED PUBLIC ACCOUNTANTS



60 Lakeview Drive, Suite 1 • Paducah, KY 42001
Phone: (270) 554-9190 • Fax: (270) 554-9666

PUBLIC SERVICE COMMISSION
ANNUAL REPORT BRANCH
JUL 31 2012
RECEIVED
EXAMINED BY _____

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Independent Auditor's Report

Commissioners
Hendron Water District
McCracken County, Kentucky

We have audited the accompanying financial statements of Hendron Water District, McCracken County, Kentucky as of and for the years ended December 31, 2011 and 2010 as listed in the table of contents. These financial statements are the responsibility of the water 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 *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 financial position of Hendron Water District, McCracken County, Kentucky as of December 31, 2011 and 2010, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis pages 2 through 5 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information presented on pages 14 through 20 is presented for purposes of additional analysis and is not a required part of the financial statements of Hendron Water District, McCracken County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole. The insurance in force and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Walker & Associates CPAs PLLC

June 22, 2012

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HENDRON WATER DISTRICT
BALANCE SHEETS
DECEMBER 31

ASSETS

	2011	2010
Current Assets		
Cash - revenue fund	\$ 2,006	\$ 6,556
Operation and maintenance Fund	1,303	5,331
Cash - system improvement fund	1,233	1,233
Change fund	263	263
Customers' accounts receivable	62,495	70,196
Unbilled water sales	5,564	18,646
Inventory	8,242	8,242
Prepaid expense	9,204	9,154
Total current assets	90,310	119,621
Restricted Funds		
Bond and interest sinking fund:		
Cash in bank	13,814	58,447
Certificate of deposit	8,024	7,125
Depreciation fund - certificate of deposit	30,000	30,000
Deposit fund	11,216	10,396
Deferred costs - Sewer Project 1978	3,220	3,220
Deferred costs - Well Project	84,888	84,888
Total restricted funds	151,162	194,076
Utility Plant and Equipment		
Water plant and equipment in service	4,149,451	4,116,419
Construction in progress	27,842	40,783
Less accumulated depreciation	(2,419,335)	(2,341,719)
Net book value of plant and equipment	1,757,958	1,815,483
Other Assets		
Unamortized cost of bond sales	-	551
Total other assets	-	551
TOTAL ASSETS	\$ 1,999,430	\$ 2,129,731

LIABILITIES AND DISTRICT EQUITY

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Notes payable	\$ 92,500	\$ 108,395
Accounts payable	38,197	63,931
Sales tax payable	131	144
Utility tax payable	1,694	1,570
Meter deposits	10,555	9,595
Employee income tax withholdings payable	9,048	4,560
Accrued interest on notes payable	786	1,110
Total current liabilities	<u>152,911</u>	<u>189,305</u>
Long Term Debt		
Water district - revenue bonds	-	-
Notes payable	20,000	57,500
Total long-term debt	<u>20,000</u>	<u>57,500</u>
Liabilities and Restricted Funds		
Bond and interest sinking fund		
Accrued interest on bonds payable	-	1,037
Revenue bonds due within one year	-	44,000
Total liabilities of restricted funds	<u>-</u>	<u>45,037</u>
Total liabilities	<u>172,911</u>	<u>291,842</u>
Water District Equity		
Invested in capital assets, net of related debt	1,645,458	1,605,588
Restricted for sinking fund	63,054	105,968
Restricted for projects	88,108	88,108
Unrestricted equity	<u>29,899</u>	<u>38,225</u>
Total district equity	1,826,519	1,837,889
TOTAL LIABILITIES AND DISTRICT EQUITY	<u>\$ 1,999,430</u>	<u>\$ 2,129,731</u>

HENDRON WATER DISTRICT
STATEMENTS OF REVENUES AND EXPENSES
AND CHANGES IN DISTRICT EQUITY
FOR THE YEARS ENDED DECEMBER 31

	<u>2011</u>	<u>2010</u>
Operating Revenue		
Water sales	\$ 725,868	\$ 830,195
Penalties	13,861	16,728
Total revenue	<u>739,729</u>	<u>846,923</u>
Operating Expenses		
Water purchases	305,981	314,050
Depreciation and amortization	77,697	80,539
Salaries	163,066	162,526
Employee benefits	45,071	40,638
Billing expense	10,429	11,531
Utilities	37,438	38,762
Truck expense	20,848	14,001
Supplies and chemicals	9,845	12,385
Office supplies and expense	4,467	4,947
Insurance	16,673	14,934
Bad debts	1,557	3,102
Professional fees	46,247	44,504
Commissioners' fees	7,200	7,200
Repairs and maintenance	20,219	21,977
Taxes and licenses	12,095	12,805
Miscellaneous expense	4,285	6,045
Total operating expenses	<u>783,118</u>	<u>789,946</u>
Operating income (loss)	<u>(43,389)</u>	<u>56,977</u>
Other Income (Expenses)		
Interest income	942	829
Connection fees and other	21,011	12,359
Sale of Meters	-	7,056
FEMA Grant	-	18,347
Interest expense	(9,144)	(13,712)
Total other income (expense)	<u>12,809</u>	<u>24,879</u>
Excess (deficit) revenues over expenses	(30,580)	81,856
Water district equity - January 1	1,789,543	1,691,393
Tap-on fees	13,839	10,100
Grant - Kentucky Infrastructure Authority	5,371	6,194
WATER DISTRICT EQUITY - DECEMBER 31	<u><u>\$ 1,778,173</u></u>	<u><u>\$ 1,789,543</u></u>

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

HENDRON WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2011	2010
Cash Flows from Operating Activities		
Excess (deficit) revenues over expenses	\$ (30,580)	\$ 81,856
Adjustments to reconcile excess revenues over expenses to net cash provided by operating activities:		
Depreciation	77,146	80,188
Amortization	551	351
Decrease (increase) in:		
Certificate of deposit	(899)	(753)
Accounts receivable	7,701	(6,302)
Unbilled water sales	13,082	1,374
Prepaid expenses	(50)	198
Increase (decrease) in:		
Accounts payable	(25,734)	(25,034)
Accrued expenses	5,559	854
Meter deposits	960	680
Interest payable	(324)	(285)
	47,412	133,127
Cash Flows from Capital and Related Financial Activities		
Proceeds from tap-on fees	13,839	10,100
Accrued interest on bonds payable	(1,037)	-
KIA grant	5,371	6,194
Purchase of property and equipment, net of disposals	(20,581)	(57,269)
Payments on notes payable and revenue bonds	(97,395)	(84,000)
Refunds of customer construction advances	-	-
	(99,803)	(124,975)
Net cash used for capital and related financial activities		
	(99,803)	(124,975)
Net increase (decrease) in cash and cash equivalents	(52,391)	8,152
Cash and cash equivalents at beginning of year	82,226	74,074
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 29,835	\$ 82,226

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

**HENDRON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Note 1 – Significant Accounting Policies

Basis of Accounting

Hendron Water District uses the accrual basis of accounting.

Utility Plant and Equipment

Utility plant and equipment components are stated at cost. Depreciation is provided for allocation of these costs, using the straight-line method over their estimated useful lives.

Unamortized Bond Discount and Issue Cost

Bond discount and issue costs are amortized over the term of the respective bonds using the straight-line method.

Bad Debts

The District uses the direct write-off method for uncollectible accounts, which is not a generally accepted accounting principle. However, any difference would be immaterial.

Note 2 – Cash and Certificates of Deposit

For the year ended December 31, 2011, the carrying amount of the District's cash and certificates of deposit was \$67,860. Deposits are held in a financial institution located in McCracken County. All of the bank balance was covered by federal depository insurance.

Notes 3 – Bonds Payable

Bonds payable consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Hendron Water District's refunding and improvement revenue bonds dated February 1, 1971, Series A bear an interest rate at 3 ½% payable through February 1, 2004. Series B bonds bear an interest rate at 5 3/8% payable through February 1, 2011, secured by and payable from an exclusive pledge of a fixed portion of the gross revenues of the Waterworks System, and additionally secured by a statutory lien. The balance was paid in January 2011.	\$ 0	\$ 44,000
Less current maturities	<u>0</u>	<u>44,000</u>
TOTAL LONG-TERM BONDS PAYABLE	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

**HENDRON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Note 4 – Sewer and Water Projects

The deferred costs – Sewer Project 1978 account reflects expenditures incurred and paid by the Depreciation and Operation and Maintenance Funds of Hendron Water District on behalf of the Sewer Project, which is currently inactive, but is not abandoned.

The deferred costs – Well Project reflects expenditures incurred and paid by the Depreciation and Operation and Maintenance Funds of Hendron Water District on behalf of the Well Project, which is currently inactive, but not abandoned.

Note 5 -- Notes Payable

	<u>2011</u>	<u>2010</u>
Kentucky Infrastructure Authority (KIA) loan, maturing June 2013, due in monthly payments of principal and interest. The interest rate fluctuates from an initial rate of 2.25% to 5.19% at maturity, secured by utility plant in service and funds held in debt service reserve. A loan servicing fee of 1% is amortized with each monthly payment.	\$ 57,500	\$ 92,500
Paducah Bank & Trust – loan – maturing annually an Unsecured loan bearing interest at 7.75% interest	55,000	73,395
Less current portion	<u>92,500</u>	<u>108,395</u>
Notes Payable continued		
TOTAL LONG TERM NOTES PAYABLE	<u>\$ 20,000</u>	<u>\$ 57,500</u>

A combined schedule of the District’s future requirements applicable to KIA outstanding obligations is shown below:

<u>Year Ending December 31</u>	<u>Interest</u>	<u>Principal</u>	<u>Fee</u>	<u>Sinking Fund</u>	<u>Loan Servicing Totals</u>
2012	2,958	37,500	115	(10,314)	30,259
2013	1,038	20,000	40	(10,314)	10,764
TOTALS	<u>\$ 3,996</u>	<u>\$ 57,500</u>	<u>\$ 155</u>	<u>\$ (20,628)</u>	<u>\$ 41,023</u>

**HENDRON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Note 6 – Retirement Plan

The Hendron Water District's commissioners elected to participate in the Kentucky County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employer's retirement system beginning November 1, 1997. Funding for the Plan is provided through payroll withholdings of 5.00% and a District contribution of 16.17% of the employee's total compensation subject to contribution.

The contribution requirement for CERS for the year ended December 31, 2011, was \$39,025 which consisted of \$30,348 from the District and \$8,677 from the employees.

Benefits under the Plan will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

The "pension benefits obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pension's funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

CERS does not make separate measurements of assets and pension benefit obligations for individual employers. The following table presents certain information from their audited financial statements regarding the plan's status as a whole, derived from actuarial valuations performed as of the dates indicated.

	<u>June 30, 2011</u>
Total pension benefit obligations	\$ 8,918,085,025
Net assets available for pension	
Benefits, at cost	<u>5,629,611,183</u>
UNFUNDED (OVERFUNDED) PENSION	
BENEFIT OBLIGATION	<u>\$ 3,288,473,842</u>

Ten-year and six-year historical trend information showing CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2011, comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practical to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the plan assets.

**HENDRON WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Note 7 – Statements of Cash Flows Disclosures

For purposes of the statements of cash flows, the Hendron Water District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The District considers the following assets as cash and cash equivalents;

	<u>2011</u>	<u>2010</u>
Cash in revenue fund	\$ 2,006	\$ 6,556
Cash in operations and maintenance fund	1,303	5,331
Change fund	263	263
Bond and interest surplus fund	5,891	5,886
Bond and interest sinking fund	7,923	52,561
Deposit fund	11,216	10,396
Highway 45 project	<u>1,233</u>	<u>1,233</u>
 TOTALS	 <u>\$ 29,835</u>	 <u>\$ 82,226</u>

Interest paid during 2011 and 2010, was \$9,144 and \$14,631, respectively.

Note 8 – Subsequent Events

Management has evaluated subsequent events from December 31, 2011, the date of these financial statements, through June 22, 2012, the date these financial statements were issued and available. One important subsequent event was noted. The commissioners of the Hendron Water District elected on February 20, 2012, to merge with Paducah Water Works. As of the date of the audit report (June 22, 2012) the merger had not yet taken effect.

SUPPLEMENTARY INFORMATION

**HENDRON WATER DISTRICT
SUPPLEMENTARY INFORMATION**

	Rate	Assets				Accumulated Depreciation			
		Balance 12/31/2010	Additions	Dispositions	Balance 12/31/2011	Balance 12/31/2010	Depreciation 2011	Disposition 2011	Balance 12/31/2011
Utility Plant and Equipment									
Distribution system	2.00 %	465,386.00	0.00	0.00	465,386.00	420,184.55	9,307.72	0.00	429,492.27
Additions to distribution system	2.00	1,927,025.71	34,711.89	1,680.00	1,960,057.60	743,462.38	38,887.63	1,680.00	780,670.01
Booster pumping station	3.00	100,002.00	0.00	0.00	100,002.00	67,155.60	3,000.06	0.00	70,155.66
50,000 gallon water tank	2.00	58,967.00	0.00	0.00	58,967.00	41,494.49	1,179.34	0.00	42,673.83
100,000 gallon water tank	2.00	91,164.00	0.00	0.00	91,164.00	60,337.08	1,823.28	0.00	62,160.36
100,000 gallon water tank	2.00	142,121.00	0.00	0.00	142,121.00	94,826.46	2,842.42	0.00	97,668.88
300,000 gallon water tank	2.00	419,214.00	0.00	0.00	419,214.00	145,537.84	8,384.28	0.00	153,922.12
Water tank upgrade	10.00	74,425.50	0.00	0.00	74,425.50	26,048.91	7,442.55	0.00	33,491.46
Office building	3.00	29,413.00	0.00	0.00	29,413.00	29,413.00	0.00	0.00	29,413.00
Building addition	3.00	51,310.02	0.00	0.00	51,310.02	20,667.20	1,539.30	0.00	22,206.50
Storage building - Pump Station #1	3.00	25,607.23	0.00	0.00	25,607.23	7,274.84	768.22	0.00	8,043.06
Office building - Lions Club building	3.00	62,739.00	0.00	0.00	62,739.00	41,755.21	1,882.17	0.00	43,637.38
Awning	10.00	1,037.00	0.00	0.00	1,037.00	1,037.00	0.00	0.00	1,037.00
Landscaping	10.00	745.00	0.00	0.00	745.00	745.00	0.00	0.00	745.00
Parking lot	10.00	6,606.00	0.00	0.00	6,606.00	6,606.00	0.00	0.00	6,606.00
Office furniture and equipment	10.00	27,995.48	0.00	0.00	27,995.48	27,995.48	0.00	0.00	27,995.48
Other fully depreciated equipment	10.00	42,502.05	0.00	0.00	42,502.05	42,502.05	0.00	0.00	42,502.05
Other equipment	20.00	20,221.75	0.00	0.00	20,221.75	9,919.76	2,022.18	0.00	11,941.94
1987 Case Backhoe	12.50	33,050.10	0.00	0.00	33,050.10	33,050.10	0.00	0.00	33,050.10
1987 Dodge Dakota	20.00	10,004.00	0.00	0.00	10,004.00	10,004.00	0.00	0.00	10,004.00
Automatic watering system	20.00	1,583.00	0.00	0.00	1,583.00	1,583.00	0.00	0.00	1,583.00
Alarm system	20.00	3,513.65	0.00	0.00	3,513.65	3,513.65	0.00	0.00	3,513.65
Telephone and communication equipment	20.00	41,457.71	0.00	0.00	41,457.71	41,457.71	0.00	0.00	41,457.71
Taping machine	20.00	5,296.00	0.00	0.00	5,296.00	5,296.00	0.00	0.00	5,296.00
Boring machine	20.00	4,911.29	0.00	0.00	4,911.29	4,911.29	0.00	0.00	4,911.29
Trencher	20.00	57,604.65	0.00	0.00	57,604.65	57,604.65	0.00	0.00	57,604.65
Utility trailer 6x10	12.50	535.00	0.00	0.00	535.00	535.00	0.00	0.00	535.00
John Deere tractor and attachments	12.50	1,787.00	0.00	0.00	1,787.00	1,787.00	0.00	0.00	1,787.00
Signs	10.00	1,755.00	0.00	0.00	1,755.00	1,755.00	0.00	0.00	1,755.00
Computer system and equipment	20.00	46,875.98	0.00	0.00	46,875.98	46,875.98	0.00	0.00	46,875.98
Computer system - Billing & Acct.	20.00	11,155.00	0.00	0.00	11,155.00	11,155.00	0.00	0.00	11,155.00
Handheld computer meter reading equip	20.00	8,975.00	0.00	0.00	8,975.00	8,975.00	-	0.00	8,975.00
Lap top computer	20.00	1,348.00	0.00	0.00	1,348.00	1,348.00	-	0.00	1,348.00
Security system	20.00	1,059.50	0.00	0.00	1,059.50	1,059.50	-	0.00	1,059.50
Telemetry system	20.00	139,440.16	0.00	0.00	139,440.16	139,440.16	-	0.00	139,440.16
Meter test branch	10.00	3,819.00	0.00	0.00	3,819.00	3,819.00	-	0.00	3,819.00
Leak detector and pipe locator	10.00	2,685.00	0.00	0.00	2,685.00	2,685.00	-	0.00	2,685.00
Generator	10.00	1,600.00	0.00	0.00	1,600.00	1,600.00	-	0.00	1,600.00
Compressors - 2	10.00	1,593.00	0.00	0.00	1,593.00	1,593.00	-	0.00	1,593.00
Water pump	10.00	7,896.11	0.00	0.00	7,896.11	7,896.11	-	0.00	7,896.11
Copier	10.00	2,167.46	0.00	0.00	2,167.46	1,752.12	216.75	0.00	1,968.87
1996 Dodge Ram	20.00	23,767.00	0.00	0.00	23,767.00	23,767.00	-	0.00	23,767.00
John Deere tractor - 4300	12.50	18,887.00	0.00	0.00	18,887.00	18,887.00	-	0.00	18,887.00
Backhoe loader	12.50	47,997.00	0.00	0.00	47,997.00	47,997.00	-	0.00	47,997.00
Land and rights-of-way	20.00	14,766.00	0.00	0.00	14,766.00	0.00	-	0.00	0.00
2001 Ford pickup	20.00	22,250.00	0.00	0.00	22,250.00	22,250.00	-	0.00	22,250.00
1994 Chevy S-10	20.00	11,432.00	0.00	0.00	11,432.00	11,432.00	-	0.00	11,432.00
1997 Dodge pickup	20.00	26,907.00	0.00	0.00	26,907.00	26,907.00	-	0.00	26,907.00
1998 Dodge Dakota	20.00	13,820.00	0.00	0.00	13,820.00	13,820.00	-	0.00	13,820.00
TOTALS		<u>4,116,419.35</u>	<u>34,711.89</u>	<u>1,680.00</u>	<u>4,149,451.24</u>	<u>2,341,719.12</u>	<u>79,295.90</u>	<u>1,680.00</u>	<u>2,419,335.02</u>
Capitalized depreciation							<u>-2,150.00</u>		
DEPRECIATION EXPENSE							<u>77,145.90</u>		

The original system was placed in service in August 1965. Additions to the system are stated at cost. Depreciation has been based on the estimated life of the various assets. Depreciation for six months was applied to all additions.

**HENDRON WATER DISTRICT
SUPPLEMENTARY INFORMATION**

BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts Original	Actual Amounts	Variance
Utility Operating Income			
Operating revenue	\$ 679,944	\$ 739,728	\$ 59,784
Operation and maintenance expenses	610,668	693,325	(82,657)
Depreciation expense	72,000	77,146	(5,146)
Amortization expense	-	551	(551)
Taxes other than income	13,320	12,095	1,225
Net utility operating expenses	<u>695,988</u>	<u>783,117</u>	<u>(87,129)</u>
Total Utility Operating Income (Loss)	<u>(16,044)</u>	<u>(43,389)</u>	<u>(27,345)</u>
Other Income and Deductions			
Interest and dividend income	100	942	842
Nonutility income	32,100	21,011	(11,089)
Interest expense	<u>(49,800)</u>	<u>(9,144)</u>	<u>40,656</u>
Total other income and deductions	<u>(17,600)</u>	<u>12,809</u>	<u>30,409</u>
Change in Net Assets	<u>\$ (33,644)</u>	<u>\$ (30,580)</u>	<u>\$ 3,064</u>

**HENDRON WATER DISTRICT
SUPPLEMENTARY INFORMATION**

**REVENUE FUND
CASH RECEIPTS AND DISBURSEMENTS STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2011**

Cash in bank - January 1, 2011	<u>\$ 6,556</u>
Receipts	
Water sales and sales and utility tax collected	764,296
Penalties collected	13,861
Tap fees collected	13,839
Interest income	6
Sewer collections	30,092
Meter deposits	4,240
KIA reimbursements	5,371
Miscellaneous	11,344
Total receipts	<u>843,049</u>
Disbursements	
Transfers to Bond and Interest Sinking Fund	70,500
Transfers to Operation and Maintenance Fund	733,250
Transfers to System Improvement	5,371
Transfers to Deposit Fund	4,240
City of Paducah sewer collections	30,092
Miscellaneous	4,146
Total disbursements	<u>847,599</u>
CASH IN BANK - DECEMBER 31, 2011	<u><u>\$ 2,006</u></u>

**HENDRON WATER DISTRICT
SUPPLEMENTARY INFORMATION**

**DEPOSIT FUND
CASH RECEIPTS AND DISBURSEMENTS STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2011**

Cash in bank - January 1, 2011	<u>\$ 10,396</u>
Receipts	
Transfers from Revenue Fund	4,240
Interest income	8
Total receipts	<u>4,248</u>
Disbursements	
Deposit refunds	3,309
Bank charges	119
Total disbursements	<u>3,428</u>
CASH IN BANK - DECEMBER 31, 2011	<u><u>\$ 11,216</u></u>

**HENDRON WATER DISTRICT
SUPPLEMENTARY INFORMATION**

**BOND AND INTEREST SURPLUS FUND
CASH RECEIPTS AND DISBURSEMENTS AT STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2011**

Cash in bank - January 1, 2011	<u>\$ 5,885</u>
Receipts	
Transfer from revenue fund	-
Interest income	<u>6</u>
Total receipts	<u>6</u>
Disbursements	
Certificate of deposit	-
Transfers to Revenue Fund	<u>-</u>
Total disbursements	<u>-</u>
CASH IN BANK - DECEMBER 31, 2011	<u><u>\$ 5,891</u></u>

**HENDRON WATER DISTRICT
SUPPLEMENTARY INFORMATION**

**BOND AND INTEREST SINKING FUND
CASH RECEIPTS AND DISBURSEMENTS STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2011**

Cash in bank - January 1, 2011	<u>\$ 52,561</u>
Receipts	
Transfers from Revenue Fund	70,500
Interest income	15
Total receipts	<u>70,515</u>
Disbursements	
Paducah Bank note	13,395
Revenue bond	45,192
Workmans Comp insurance	4,337
Kentucky infrastructure	39,872
Property and liability insurance	12,357
Total disbursements	<u>115,153</u>
CASH IN BANK - DECEMBER 31, 2011	<u><u>\$ 7,923</u></u>

**HENDRON WATER DISTRICT
SUPPLEMENTARY INFORMATION
INSURANCE IN FORCE
(UNAUDITED)**

<u>Property</u>	<u>Amount</u>
Buildings and personal property:	
Office - 4410 A.T. Massa Drive and contents	\$ 245,100
Maintenance building - Berger Road	104,900
Equipment	308,663
Water tanks - 100,000 gallons	553,100
Water tanks - 100,000 gallons	560,400
Water tanks - 50,000 gallons	435,000
Water tanks - 300,000 gallons	998,900
Metal building	2,500
Pump station building - Krebs Station Road	112,400
Pump station building - 3601 Old Mayfield Road	131,700
Shop building and contents	124,200
Summary of coverage:	
General liability	1,000,000 per occurrence 3,000,000 per aggregate 1,000 deductible
Public Officials - errors and omissions	1,000,000 per occurrence 3,000,000 per aggregate 1,000 deductible
Business auto coverage (five vehicles and three trailers):	103,054
Liability	1,000,000 per occurrence
Comprehensive	500 deductible
Collision	500 deductible
Uninsured and underinsured motorist	60,000 per accident
Personal injury protection	10,000 per person
Buildings	per statement 500 deductible
Personal property	per statement 500 deductible
Boiler and machinery	15,000,000 1,000 deductible
Inland marine and EDP	per statement 250 deductible
Business income	500,000 per occurrence 500,000 per aggregate
Flood	1,000,000 per occurrence 1,000,000 per aggregate
Encroachment bond	50,000
Crime (other than employee dishonesty)	150,000
Employee dishonesty (blanket position) coverage	150,000 per loss 500 deductible
Employment practices	1,000,000 per occurrence 3,000,000 per aggregate 1,000 deductible
Legal defense coverage	100,000

This statement, prepared from policies submitted for our inspection, is intended only as a descriptive summary, no expression of opinion as to the adequacy of coverage is intended.

**HENDRON WATER DISTRICT
SUPPLEMENTARY INFORMATION
OTHER INFORMATION**

Rate Charges for 5/8" Meter

Gallons Used Per Month		Charges * Effective October 15, 2009
2,000 or less		\$ 8.93
Next 3,000	Per 1,000 gallons	4.36
Next 5,000	Per 1,000 gallons	3.97
Next 10,000	Per 1,000 gallons	3.47
Next 30,000	Per 1,000 gallons	3.36
Next 50,000	Per 1,000 gallons	3.14
Over 100,000	Per 1,000 gallons	3.03

Average number of customers served during 2011 2,670

* Add \$3.00 amortization charge for #500 system.

Commissioners of Hendron Water District

Larry Hopper, Chairman
Steve Woodward, Secretary
Ronnie Freeman, Treasurer

WALKER & ASSOCIATES, C.P.A.'S, PLLC.

CERTIFIED PUBLIC ACCOUNTANTS

60 Lakeview Drive, Suite 1 • Paducah, KY 42001
Phone: (270) 554-9190 • Fax: (270) 554-9666

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Commissioners
Hendron Water District
McCracken County, Kentucky

We have audited the financial statements of Hendron Water District, McCracken County, Kentucky, as of and for the year ended December 31, 2011, and have issued our report thereon dated June 22, 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 Hendron Water District, McCracken County, Kentucky'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 Hendron Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hendron 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 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.

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, as identified below, that we consider to be significant deficiencies in internal control over financial reporting.

- There is a lack of separation of duties between employees that collect receipts, prepare disbursements, and reconcile the checking account.
- There is inadequate design of controls over the preparation of the financial statements being audited. This year, as in the past, adjusting journal entries required to create the accrual basis financial statements were prepared by the auditor.

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 Hendron Water District, McCracken County, Kentucky'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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of Commissioners of Hendron Water District and is not intended to be and should not be used by anyone other than these specified parties.

Walker & Associates CPAs PLLC

June 22, 2012

WALKER & ASSOCIATES, C.P.A.'S, PLLC.

CERTIFIED PUBLIC ACCOUNTANTS

60 Lakeview Drive, Suite 1 • Paducah, KY 42001
Phone: (270) 554-9190 • Fax: (270) 554-9666

June 22, 2012

To the Management and Board of Commissioners
Hendron Water District

In planning and performing our audit of the financial statements of the Hendron Water District for the year ended December 31, 2011, we considered the Districts' internal control over financial reporting (internal control) 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 Districts' internal control. Accordingly, we do not express an opinion on the effectiveness of the Districts' internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as identified above. However, we identified certain deficiencies in internal control as described below that we consider to be significant deficiencies. 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.

1. Segregation of Duties

There is a lack of separation of duties between employees that collect receipts, prepare disbursements, and reconcile the checking account. Due to the limited number of administrative employees working within the offices at any given time, it is very difficult to achieve appropriate segregation of duties within all aspects of the financial process. However, appropriate segregation remains very important in protecting the employees from personal liability, as well as protecting the Districts from fraud. We recommend that all bank reconciliations be reviewed and approved by management.

Hendron Water District
Audit Management Letter
For year ended December 31, 2011
Page 2 of 2

2. Financial Reporting – Preparation of Accrual Basis Financial Statements

The administrative department's lack of accounting knowledge and experience impairs their ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements and impairs their ability to comply with applicable laws and regulations. This year, as in the past, we have prepared the necessary adjusting entries to create the accrual basis financial statements as a part of the audit.

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

Sincerely,

A handwritten signature in cursive script that reads "Walker & Associates CPA's PLLC".

Walker & Associates, CPA's, PLLC