

LARUE COUNTY WATER DISTRICT NO. 1

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL
STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2011 AND 2010

PUBLIC SERVICE COMMISSION ANNUAL REPORT BRANCH
MAR 16 2012
RECEIVED
EXAMINED BY _____



STILES, CARTER & ASSOCIATES, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS

LARUE COUNTY WATER DISTRICT NO. 1

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL
STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2011 AND 2010



LARUE COUNTY WATER DISTRICT NO. 1

CONTENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

Pages

FINANCIAL STATEMENTS:

Independent Auditor's Report	1-2
Basic Financial Statements:	
Statements of Net Assets	3
Statements of Revenues, Expenses and Changes in Fund Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6-16

SUPPLEMENTARY INFORMATION:

Schedule I - Bond and Interest Requirements	17
Schedule II - General and Administrative Expenses	18
Schedule III - Organization Data	19

INTERNAL CONTROL AND FISCAL COMPLIANCE:

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20-21
Schedule of Findings and Responses	22-23

THEODORE C. STILES, CPA
BENJAMIN E. CARTER, CPA
JOHN R. ASHCRAFT, CPA
J. SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA
CHRIS R. CARTER, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.stilescartercpas.com

JON M. ANDERSON, CPA
CHERYLE L. BEAUCHAMP, CPA
WILLIAM M. DOERR, CPA
CARRIE A. GREY, CPA
MARK W. KENNEDY, CPA
PHILIP A. LOGSDON, CPA
J. ALTON PIKE, CPA

INDEPENDENT AUDITOR'S REPORT

**Board of Commissioners
Larue County Water District No. 1
Buffalo, Kentucky**

We have audited the accompanying financial statements of Larue County Water District No. 1 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 District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Larue County Water District No. 1, as of December 31, 2011 and 2010, and its 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 February 14, 2012 on our consideration of Larue County Water District No. 1'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 considered in assessing the results of our audits.

The Larue County Water District No. 1 has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audits were performed for the purpose of forming opinions on the financial statements that collectively comprise Larue County Water District No. 1's financial statements as a whole. The accompanying Schedules I, II and III are presented for purposes of additional analysis and are not a required part of the basic financial statements. Schedules I and II 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, 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 taken as a whole. Schedule III has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Stiles, Carter + Associates

Certified Public Accountants

February 14, 2012

LARUE COUNTY WATER DISTRICT NO. 1STATEMENTS OF NET ASSETSDECEMBER 31, 2011 AND 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 175,029	\$ 178,959
Unrestricted investments	176,163	173,294
Accounts receivable, net	82,814	86,411
Unbilled receivables	45,124	46,494
Grant receivable	5,078	-
Prepaid insurance	9,955	9,955
Materials and supplies	18,644	16,394
TOTAL CURRENT ASSETS	512,807	511,507
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	515,424	362,859
Restricted investments	900,110	886,620
Capital assets, net of depreciation	8,573,824	8,730,364
Unamortized discount and expense	33,283	34,788
TOTAL NONCURRENT ASSETS	10,022,641	10,014,631
TOTAL ASSETS	10,535,448	10,526,138
<u>LIABILITIES</u>		
CURRENT LIABILITIES:		
Accounts payable	28,616	29,650
Accrued taxes	16,497	12,029
Accrued vacation	13,381	13,381
Accrued interest	38,394	39,433
Customer deposits	18,276	16,357
Bonds payable	69,500	65,700
TOTAL CURRENT LIABILITIES	184,664	176,550
NONCURRENT LIABILITIES:		
Customer deposits	103,565	92,692
Bonds payable	3,094,700	3,164,200
TOTAL NONCURRENT LIABILITIES	3,198,265	3,256,892
TOTAL LIABILITIES	3,382,929	3,433,442
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	5,442,907	5,535,252
Restricted for debt service	105,622	103,411
Unrestricted	1,603,990	1,454,033
	<u>7,152,519</u>	<u>7,092,696</u>

See accompanying notes to financial statements.

LARUE COUNTY WATER DISTRICT NO. 1

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES:		
Water sales	\$ 1,186,597	\$ 1,142,554
Other operating income	<u>22,382</u>	<u>29,355</u>
TOTAL OPERATING REVENUES	1,208,979	1,171,909
OPERATING EXPENSES:		
Water purchased	375,295	340,453
Power purchased	22,948	22,351
Meter labor and expense	204,956	180,269
Repairs and maintenance	46,540	47,425
General and administrative expenses	205,047	196,151
Depreciation	<u>288,101</u>	<u>292,847</u>
TOTAL OPERATING EXPENSES	<u>1,142,887</u>	<u>1,079,496</u>
OPERATING INCOME	66,092	92,413
NON-OPERATING REVENUES (EXPENSES):		
Interest income	20,161	18,815
Interest expense on long-term debt	(154,594)	(158,136)
Amortization of bond discount and expense	<u>(1,505)</u>	<u>(1,505)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	(135,938)	(140,826)
CAPITAL CONTRIBUTIONS	<u>129,669</u>	<u>140,233</u>
CHANGE IN NET ASSETS	59,823	91,820
NET ASSETS, beginning of year	<u>7,092,696</u>	<u>7,000,876</u>
NET ASSETS, end of year	<u><u>\$ 7,152,519</u></u>	<u><u>\$ 7,092,696</u></u>

See accompanying notes to financial statements.

LARUE COUNTY WATER DISTRICT NO. 1STATEMENTS OF CASH FLOWSYEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,208,979	\$ 1,171,903
Payments to suppliers	(530,650)	(485,281)
Payments to employees	(305,193)	(276,862)
	<u>373,136</u>	<u>409,760</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	373,136	409,760
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on bonds	(65,700)	(62,100)
Acquisition and construction of property	(131,561)	(157,828)
Capital contributions	124,591	140,233
Interest on long-term debt	(155,634)	(158,636)
State grant	-	-
	<u>(228,304)</u>	<u>(238,331)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(228,304)	(238,331)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(16,358)	(675,248)
Interest income	20,161	18,815
	<u>3,803</u>	<u>(656,433)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	3,803	(656,433)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	148,635	(485,004)
CASH AND CASH EQUIVALENTS, beginning of year	541,818	1,026,822
CASH AND CASH EQUIVALENTS, end of year	\$ 690,453	\$ 541,818
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Interest paid during the year	\$ 155,634	\$ 158,636
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 66,092	\$ 92,413
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	288,101	292,847
(Increase) decrease in accounts receivable	3,597	(2,228)
Decrease in unbilled receivables	1,370	1,390
(Increase) in inventory	(2,250)	-
Increase (decrease) in accounts payable	(1,034)	4,737
Increase in customer deposits	12,792	11,970
Increase in accrued taxes payable	4,468	7,903
Increase in accrued vacation	-	728
	<u>373,136</u>	<u>409,760</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 373,136	\$ 409,760

See accompanying notes to financial statements.

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

Brief history - The Larue County Water District No. 1 was organized pursuant to the provision of Kentucky Revised Statutes KRS 74.010 and KRS 44.020 in order to provide a water supply for the residents of Larue County, Kentucky.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The District's financial statements are presented in accordance with the accrual basis of accounting. As allowed in Section P80 of Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The District follows the accounting policies and procedures set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in *Water Utility Accounting*.

The District has adopted all effective GASB standards and related interpretations issued through December 31, 2011.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (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 statement of net assets. Net assets (i.e., total assets net of total liabilities) are segregated into "invested in capital assets, net of related debt"; "restricted for debt service"; and "unrestricted" components.

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTS (CONTINUED)DECEMBER 31, 2011 AND 2010NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (1) Accounts Receivable - The allowance method is used to record uncollectible accounts. At December 31, 2011 and 2010, accounts receivable was stated net of an allowance for uncollectible accounts of \$7,925 and \$10,636. Bad debt expense for each of the years ended December 31, 2011 and 2010 was \$-0-. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.
- (2) Materials and Supplies – Materials and supplies are composed of items used for the construction of capital projects.
- (3) Restricted Assets – Restricted assets consist of demand deposit savings accounts and certificates of deposit plus accrued interest.
- (4) Capital assets – Capital assets in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. The District does not have a capitalization policy.

Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Source of supply equipment	15-50
Water treatment plant	10-40
Transmission and distribution systems	10-50
Equipment	3-20
Structures and improvements, including buildings	10-50
Office furniture, equipment and vehicles	3-20
Meters	10-30

- (5) Amortization - Bond discounts and expenses are being amortized using the straight-line method over the life of each respective bond issue.
- (6) Cash Equivalents - For purposes of the statements of cash flows, the District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.
- (7) Compensation for Future Absences - Accumulated vacation to be paid to employees is recorded as an expense as the benefit is used and a liability as the benefit is earned.

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (8) Claims and Judgments – These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.
- (9) Revenues and Rate Structure - Revenues from water services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.
- (10) Capital Contributions - Contributions are recognized in the Statements of Revenues, Expenses and Changes in Fund Net Assets when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.
- (11) Long-term obligations are reported at face value, net of applicable premiums and discounts.
- (12) Net Assets - Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other net assets not included in the above categories. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District first applies restricted resources.
- (13) 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 reported amounts of assets, liabilities, designated net assets, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE B – DEPOSITS

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2011 and 2010, \$473,520 and \$358,596 of the District's bank balance of \$1,804,389 and \$1,669,739 was exposed to custodial credit risk. For 2011 and 2010, none of the amount exposed to custodial credit risk was collateralized. KRS 41.240 requires governments to have adequate collateral in for all deposits.

NOTE C – RESTRICTED CASH

The District has restricted cash and certificates of deposit for debt service and construction. The following schedule represents restricted cash at December 31, 2011 and 2010:

<u>Restricted For</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Debt Service	\$ 105,622	\$ 103,411
Reserve & Depr.	1,309,839	1,136,826
Construction	73	9,242
	<u>\$ 1,415,534</u>	<u>\$ 1,249,479</u>

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTS (CONTINUED)DECEMBER 31, 2011 AND 2010NOTE D – CAPITAL ASSETS

Capital assets are recorded at cost. Capital asset costs and accumulated depreciation at December 31, 2011, is summarized as follows:

	Balance 12/31/2010	Additions	Retirements	Balance 12/31/2011
Non-Depreciable Assets:				
Land and land rights	\$ 53,080	\$ 7,500	\$ -	\$ 60,580
Construction in Progress	104,802	28,137	-	132,939
Total Non-Depreciable Assets:	157,882	35,637	\$ -	\$ 193,519
Depreciable Assets:				
Structures and improvements	245,457	-	-	245,457
Electric pumping equipment	186,562	-	-	186,562
Water Treatment Equipment	300	-	-	300
Standpipes and tanks	1,431,384	69,700	-	1,501,084
Transmission and distribution mains	8,764,739	-	-	8,764,739
Services	190,192	-	-	190,192
Hydrants	24,035	-	-	24,035
Office furniture and fixtures	116,259	-	(31,531)	84,728
Transportation equipment	93,983	-	(2,500)	91,483
Tool and shop equipment	85,468	4,436	(2,173)	87,731
Meters & Installation	1,379,778	21,788	-	1,401,566
Total capital assets being depreciated	12,518,157	95,924	(36,204)	12,577,877
Less accumulated depreciation for:				
Structures and improvements	(99,593)	(9,372)	-	(108,965)
Electric pumping equipment	(181,947)	(923)	-	(182,870)
Water Treatment Equipment	(300)	-	-	(300)
Standpipes and tanks	(353,283)	(30,240)	-	(383,523)
Transmission and distribution mains	(2,411,540)	(182,395)	-	(2,593,935)
Services	(165,356)	(3,182)	-	(168,538)
Hydrants	(18,443)	(228)	-	(18,671)
Office furniture and fixtures	(94,018)	(9,078)	31,531	(71,565)
Transportation equipment	(91,536)	(3,128)	2,500	(92,164)
Tool and shop equipment	(76,983)	(3,006)	2,173	(77,816)
Meters & Installation	(452,676)	(46,549)	-	(499,225)
Total accumulated depreciation	(3,945,675)	(288,101)	36,204	(4,197,572)
Total capital assets being depreciated, net	8,572,482	(192,177)	-	8,380,305
Capital assets, net	\$ 8,730,364	\$ (156,540)	\$ -	\$ 8,573,824

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTS (CONTINUED)DECEMBER 31, 2011 AND 2010NOTE D – CAPITAL ASSETS (CONTINUED)

Plant and equipment costs and accumulated depreciation at December 31, 2010, is summarized as follows:

	Balance 12/31/2009	Additions	Retirements	Balance 12/31/2010
Non-Depreciable Assets:				
Land and land rights	\$ 53,080	\$ -	-	\$ 53,080
Construction in Progress	-	104,802	-	104,802
Total Non-Depreciable Assets:	53,080	104,802	-	157,882
Depreciable Assets:				
Structures and improvements	233,628	11,829	-	245,457
Electric pumping equipment	186,562	-	-	186,562
Water Treatment Equipment	300	-	-	300
Standpipes and tanks	1,431,384	-	-	1,431,384
Transmission and distribution mains	8,764,739	-	-	8,764,739
Services	190,192	-	-	190,192
Hydrants	24,035	-	-	24,035
Office furniture and fixtures	116,259	-	-	116,259
Transportation equipment	119,553	-	(25,570)	93,983
Tool and shop equipment	84,800	668	-	85,468
Meters & Installation	1,339,250	40,528	-	1,379,778
Total capital assets being depreciated	12,490,702	53,025	(25,570)	12,518,157
Less accumulated depreciation for:				
Structures and improvements	(90,766)	(8,827)	-	(99,593)
Electric pumping equipment	(181,024)	(923)	-	(181,947)
Water Treatment Equipment	(300)	-	-	(300)
Standpipes and tanks	(324,205)	(29,078)	-	(353,283)
Transmission and distribution mains	(2,229,241)	(182,299)	-	(2,411,540)
Services	(161,637)	(3,719)	-	(165,356)
Hydrants	(18,215)	(228)	-	(18,443)
Office furniture and fixtures	(82,099)	(11,919)	-	(94,018)
Transportation equipment	(108,378)	(8,728)	25,570	(91,536)
Tool and shop equipment	(74,654)	(2,329)	-	(76,983)
Meters & Installation	(407,879)	(44,797)	-	(452,676)
Total accumulated depreciation	(3,678,398)	(292,847)	25,570	(3,945,675)
Total capital assets being depreciated, net	8,812,304	(239,822)	-	8,572,482
Capital assets, net	\$ 8,865,384	\$ (186,797)	\$ -	\$ 8,730,364

No interest was capitalized during 2011 or 2010.

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTS (CONTINUED)DECEMBER 31, 2011 AND 2010NOTE E – LONG-TERM OBLIGATIONS

The construction cost of the District's water facilities have been financed by issuance of revenue bonds authorized under Kentucky Revised Statutes. All assets of the District are pledged as collateral for these bonds. Bond maturities and Sinking Fund requirements in each of the next five years and in subsequent five year increments are as follows:

<u>Year</u>	<u>Revenue Bonds</u>		<u>Sinking Fund Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2012	69,500	151,042	220,542
2013	72,100	147,627	219,727
2014	77,400	144,052	221,452
2015	81,000	140,252	221,252
2016	86,800	136,196	222,996
2017-2021	495,200	612,103	1,107,303
2022-2026	591,900	482,087	1,073,987
2027-2031	707,200	319,604	1,026,804
2032-2036	708,700	146,381	855,081
2037-2040	274,400	27,409	301,809
Total	\$ 3,164,200	\$ 2,306,753	\$ 5,470,953

Changes in long-term obligations during the year ended December 31, 2011 were:

	<u>Balance 12/31/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2011</u>	<u>Due Within One Year</u>
Revenue Bonds Payable	\$ 3,229,900		\$ (65,700)	\$ 3,164,200	\$ 69,500
Other Liabilities:					
Accrued Vacation	13,381	-	-	13,381	13,381
Customer Deposits	109,049	12,792	-	121,841	18,276
Total Other Liabilities	122,430	12,792	-	135,222	31,657
Long-Term Liabilities	\$ 3,352,330	\$ 12,792	\$ (65,700)	\$ 3,299,422	\$ 101,157

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTS (CONTINUED)DECEMBER 31, 2011 AND 2010NOTE E – LONG-TERM OBLIGATIONS (CONTINUED)

Changes in long-term obligations during the year ended December 31, 2010 were:

	Balance 12/31/2009	Additions	Reductions	Balance 12/31/2010	Due Within One Year
Revenue Bonds Payable	\$ 3,292,000	\$ -	\$ (62,100)	\$ 3,229,900	\$ 65,700
Other Liabilities:					
Accrued Vacation	12,653	728	-	13,381	13,381
Customer Deposits	97,079	11,970	-	109,049	16,357
Total Other Liabilities	109,732	12,698	-	122,430	29,738
Long-Term Liabilities	<u>\$ 3,401,732</u>	<u>\$ 12,698</u>	<u>\$ (62,100)</u>	<u>\$ 3,352,330</u>	<u>\$ 95,438</u>

Information relating to the outstanding bond issues is summarized below:

Date of Issue	Interest Rate	Original Amount of Each Issue	Bonds Outstanding December 31,	
			2011	2010
1981	5.0%	\$ 226,000	\$ 97,000	\$ 105,000
1991	5.0%	396,000	331,000	338,000
1994	4.5%	378,000	295,000	302,500
1996	5.0%	875,000	730,500	745,000
1997 Series A	4.75%	608,000	527,500	536,500
1997 Series B	4.75%	236,000	201,200	204,900
2000 Issue	4.75%	1,100,000	982,000	998,000

Under covenants of the bond ordinances, certain funds have been established. These funds and their current financial requirements are presented in summary as follows:

Revenue Fund

All receipts for services are deposited into this fund and, subsequently, disbursed into the following required funds:

Bond and Interest Redemption Funds

There is to be a monthly deposit of an amount equal to 1/12 of the next ensuing principal payment due and 1/6 of the next ensuing interest payment due for the 1981, 1991, 1994, 1996, 1997 Series A, and 1997 Series B issues. The Series 2000 issue requires a monthly deposit of \$550 into this fund.

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE E – LONG-TERM OBLIGATIONS (CONTINUED)

Bond Reserve Fund

This fund shall receive \$1,510, a monthly rental, until an amount of \$192,900 is reached. This fund is to be used in the event of a deficiency in the Bond and Interest Redemption Fund. This account was fully funded at December 31, 2011 and 2010. The bond and interest redemption funds and bond reserve fund are maintained in a single bank account.

Operation and Maintenance Fund

This fund receives, on a monthly basis, 90% of the remaining balance in the Revenue Fund after the above transfers have been made. This fund is used to pay operating expenditures. This account is funded until it reaches 2 months of forecasted operating expenses. Any surplus left may be added to the Reserve Fund.

Depreciation Fund

This fund receives, on a monthly basis, 10% of the remaining balance in the Revenue Fund after the above transfers have been made and the proceeds from the sale of any property or equipment. This fund may be used to purchase new or replacement property and equipment. This account is funded until it reaches a balance of \$25,500. This account was fully funded at December 31, 2011 and 2010.

Full-time employees of the District are entitled to paid vacation and paid personal days depending upon length of service. Personal days must be used within the period earned. Vacation days may be carried forward.

NOTE F - RETIREMENT PLAN

Plan Description – The District participates in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provision are established by statute.

Funding Policy- Plan members who began participation before September 1, 2008 are required to contribute 5 percent of their annual covered salary and plan members who began participation on or after September 1, 2008 are required to contribute 6 percent of their annual covered salary. The District is required to contribute at an actuarially determined rate. The contribution rates at December 31, 2011, 2010 and 2009 were 18.96%, 16.93% and 16.16% of covered payroll. The District's contribution to CERS for the years ended December 31, 2011, 2010 and 2009 was \$36,437, \$32,630 and \$29,944. The District contributed the required percentage for the years ended December 31, 2011, 2010 and 2009.

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTS (CONTINUED)DECEMBER 31, 2011 AND 2010NOTE F – RETIREMENT PLAN (CONTINUED)

Benefits fully vest on reaching five years of service for employees. Aspects of benefits for employees include retirement after 27 years of service or age 65. Employees who being participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid by Insurance Fund	% Paid by Member Through Payroll Deduction
20 or more	100%	0%
15 - 19	75%	25%
10 - 14	50%	50%
4 - 9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, employees whose participation began on or after July 1, 2003 earn ten dollars per month insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

NOTE G - MAJOR SUPPLIERS

The District purchases water for resale from approximately six suppliers with Hodgenville Waterworks, Bardstown Water District and Green River Valley Water District accounting for approximately ninety percent of the water supplied. Inability to obtain water from any of these suppliers could have a materially adverse effect on the District.

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTS (CONTINUED)DECEMBER 31, 2011 AND 2010NOTE I – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the years ended December 31, 2011 and 2010:

<u>Source</u>	<u>2011</u>	<u>2010</u>
State of Kentucky	\$ 96,097	\$ 114,043
Tap Fees	33,572	26,190
	<u>\$ 129,669</u>	<u>\$ 140,233</u>

NOTE J – COMMITMENTS

The District has during the year and is currently receiving grant funding from the Kentucky Infrastructure Authority. The District is using this funding for several capital projects.

NOTE K – 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; and natural disasters. The District was insured for workers' compensation, general liability coverage under a retrospectively rated commercial policy.

SUPPLEMENTARY INFORMATION

\$ 875,000 1996 ISSUE		\$ 608,000 1997 ISSUE A		\$ 236,000 1997 ISSUE B		\$ 1,100,000 2000 ISSUE	
BOND	INTEREST	BOND	INTEREST	BOND	INTEREST	BOND	INTEREST
15,500	35,750	9,500	24,605	4,000	9,367	16,000	46,645
16,000	34,950	10,000	24,130	4,100	9,172	17,000	45,885
17,000	34,100	10,500	23,631	4,400	8,963	18,000	45,078
17,500	33,225	11,000	23,109	4,500	8,750	19,000	44,223
19,000	32,275	12,000	22,539	4,800	8,522	20,000	43,320
19,500	31,300	12,500	21,945	5,000	8,284	21,000	42,370
20,500	30,275	13,000	21,328	5,300	8,032	22,000	41,373
21,500	29,200	14,000	20,663	5,500	7,771	23,000	40,328
22,500	28,075	14,500	19,974	5,800	7,496	24,000	39,235
24,000	26,875	15,500	19,238	6,100	7,206	25,000	38,095
25,000	25,625	16,500	18,454	6,400	6,902	26,000	36,908
26,000	24,325	17,000	17,646	6,700	6,584	27,000	35,673
27,500	22,950	18,500	16,768	7,100	6,246	29,000	34,390
29,000	21,500	19,000	15,865	7,400	5,895	30,000	33,013
30,500	19,975	20,500	14,891	7,800	5,524	31,000	31,588
32,000	18,375	21,500	13,870	8,200	5,135	33,000	30,115
33,500	16,700	22,500	12,801	8,600	4,726	34,000	28,548
35,000	14,950	24,000	11,661	9,000	4,299	36,000	26,933
37,000	13,100	25,000	10,474	9,500	3,848	38,000	25,223
38,500	11,175	27,000	9,191	9,900	3,377	40,000	23,418
41,000	9,125	28,000	7,861	10,500	2,879	41,000	21,518
42,500	7,000	30,000	6,436	10,900	2,361	44,000	19,570
45,000	4,750	31,500	4,940	11,500	1,815	45,000	17,480
47,000	2,400	33,000	3,373	12,100	1,240	48,000	15,343
48,000		35,000	1,710	12,700	637	50,000	13,063
		36,000		13,400		52,000	10,688
						55,000	8,218
						57,000	5,605
						61,000	2,898
<u>\$ 730,500</u>	<u>\$ 527,975</u>	<u>\$ 527,500</u>	<u>\$ 387,103</u>	<u>\$ 201,200</u>	<u>\$ 145,031</u>	<u>\$ 982,000</u>	<u>\$ 846,744</u>

LARUE COUNTY WATER DISTRICT NO. 1SCHEDULE II - GENERAL AND ADMINISTRATIVE EXPENSES

	YEARS ENDED DECEMBER 31,	
	2011	2010
Insurance - health	\$ 42,186	\$ 42,233
Retirement expense	36,437	32,630
Auto expense	28,274	25,939
Office supplies and postage	21,625	19,585
Payroll expense	21,614	21,730
Professional fees	12,568	10,380
Other general and administrative	10,669	9,848
Commissioners' salaries	10,800	10,800
Insurance - general liability	10,714	13,448
Insurance - workmens' compensation	4,701	4,044
Training	2,300	2,389
Regulatory commission expense & other taxes	3,159	3,125
	<u>\$ 205,047</u>	<u>\$ 196,151</u>

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE III - ORGANIZATION DATA

DECEMBER 31, 2011

WATER COMMISSIONERS

John Detre - Chairman
Bobby Garrison - Secretary\Treasurer
Pat Eastridge - Member

ATTORNEY

Damon R. Talley - Hodgenville, Kentucky

APPROVING BOND COUNSEL

Rubin & Hays - Louisville, Kentucky

CALENDAR YEAR

January 1 to December 31

INTERNAL CONTROL AND FISCAL COMPLIANCE

THEODORE C. STILES, CPA
BENJAMIN E. CARTER, CPA
JOHN R. ASHCRAFT, CPA
J. SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA
CHRIS R. CARTER, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.stilescartercpas.com

JON M. ANDERSON, CPA
CHERYLE L. BEAUCHAMP, CPA
WILLIAM M. DOERR, CPA
CARRIE A. GREY, CPA
MARK W. KENNEDY, CPA
PHILIP A. LOGSDON, CPA
J. ALTON PIKE, CPA

INDEPENDENT AUDITOR'S 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
Larue County Water District No. 1
Buffalo, Kentucky

We have audited the financial statements of the Larue County Water District No. 1, as of and for the year ended December 31, 2011, and have issued our report thereon dated February 14, 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 Larue County Water District No. 1'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 Larue County Water District No. 1'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 certain deficiencies 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 considered the deficiencies described in items 2011-01, 2011-02 and 2011-03 in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Larue County Water District No. 1's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect of 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*.

Larue County Water District No. 1's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Larue County Water District No. 1's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the commissioners, management, federal agencies, and the Kentucky Public Service Commission and is not intended to be and should not be used by anyone other than those specified parties.

Steele, Carter + Associates
Certified Public Accountants
February 14, 2012

LARUE COUNTY WATER DISTRICT NO. 1
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2011

REFERENCE NUMBER 2011-01 PREPARATION OF FINANCIAL STATEMENTS

Criteria: The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

Condition: The District does not have sufficient controls over the preparation of the financial statements, including footnotes disclosures.

Cause: The District has financial personnel with limited financial reporting experience.

Effect: The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

Recommendation: We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements.

Management Response: It is not economically feasible for the District to invest resources for a member of the financial staff to obtain necessary training to prepare the financial statements.

REFERENCE NUMBER 2011-02 FINANCIAL STATEMENT PRESENTATION

Criteria: The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

Condition: As part of the audit we noted that generally accepted accounting principles were not always applied and that material adjustments were not identified by the District's internal control.

Cause: The District has a limited number of personnel with limited financial reporting experience.

Effect: The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

Recommendation: We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements and develop internal control policies to ensure proper financial statement presentation.

Management Response: It would be beneficial to have financial training.

REFERENCE NUMBER 2011-03 SEGREGATION OF DUTIES

Criteria: The District's management is responsible for establishing and maintaining proper segregation of duties. In order to maintain proper segregation of duties District requires two signatures on checks for certain disbursements. Due to the limited number of personnel the District requires the signature of a commissioner on said checks along with the District's management.

Condition: As part of the audit we noted there were blank checks signed by a commissioner kept at the District. The checks contained only the signature of the commissioner.

Cause: The District had blank checks signed by commissioner so that items could be paid in the commissioner's absence.

Effect: The signature policy was not followed which could result in unapproved disbursements.

Recommendation: We recommend that checks be signed by the commissioner after the date; amount and vendor fields have been completed. Additionally, the invoice that supports the check should be present with the check at the time the commissioner signs the check.

Management Response: Management will bring this item before the board for further review.