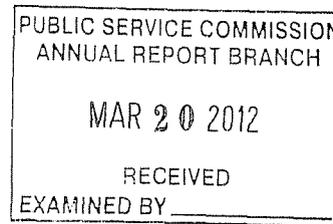


# RAISOR, ZAPP & WOODS, P.S.C.

Certified Public Accountants

513 HIGHLAND AVENUE  
P.O. BOX 354  
CARROLLTON, KENTUCKY 41008  
(502) 732-6655 FAX (502) 732-6161

March 14, 2012



To the Commissioners of the  
West Carroll Water District  
Carrollton, Kentucky 41008

We have audited the financial statements of West Carroll Water District for the years ended December 31, 2011 and 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 4, 2012. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by West Carroll Water District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during years ending December 31, 2011 and 2010. We noted no transactions entered into by the District during these years for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the fixed asset depreciable lives is based on each asset's projected useful life expectancy. We evaluated the key factors and assumptions used to develop the fixed asset depreciable lives and evaluated depreciation expense in determining its reasonableness in relation to the financial statements taken as a whole.
- Management's estimate of the allowance for doubtful accounts is based on historical water revenues, historical loss levels, and an analysis of the aging and collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

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

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

To the Commissioners of the  
West Carroll Water District  
Carrollton, Kentucky  
Page Two

The following material misstatements, either individually or in the aggregate, detected as a result of audit procedures were adjusted to the District's trial balance by management:

- Adjust prepaid expenditures for insurance.
- Adjust accrued interest on customer deposits.
- Adjust accounts payable to actual at year-end.
- Adjust accrued interest and interest expense.
- Capitalize new meters installed during the year.
- Adjust allowance for doubtful accounts and bad debt expense.
- Adjust depreciation expense to equal depreciation schedules.
- Record amortization expense for the year.
- Reclassify expenditures for maintenance of lines.

#### *Disagreements with Management*

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

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 14, 2012.

#### *Management Consultations with Other Independent Accountants*

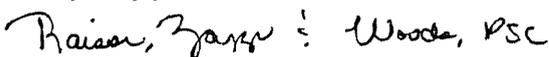
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the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

#### *Other Audit Findings or Issues*

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

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

Very truly yours,

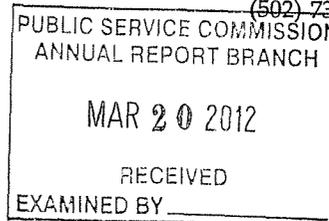


RAISOR, ZAPP & WOODS, PSC  
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To the Commissioners of the West Carroll Water District  
Carrollton, Kentucky 41008

In planning and performing our audit of the financial statements of West Carroll Water District as of and for the year ended December 31, 2011, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

We previously reported on the District's internal control in our report dated March 14, 2012. A separate report contains our report on deficiencies in the District's internal control. This letter does not affect our report dated March 14, 2012, on the financial statements of West Carroll Water District.

We found the District's accounting system to be capable of providing essential information for effective operating and financial control of the District's operations. At the same time, we observed certain areas where procedural modifications or revisions might provide better internal control. This letter summarizes our comments and suggestions regarding those matters.

In our previous audit we observed that late charges had been incurred monthly for certain utility bills. The District has eliminated this issue through use of direct bank debits.

In our review of expenses we were unable to locate an approved copy of the District's management contract with Carrollton Utilities. Although the commissioners are aware of the increase through signing the checks, no indication of approval was documented. Contractual agreements should be approved in the minutes.

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

This report is intended solely for the information and use of management, the Rural Economic Community Development Service, and the Public Service Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Raisor, Zapp & Woods, PSC*

RAISOR, ZAPP & WOODS, PSC  
Certified Public Accountants

March 14, 2012

**WEST CARROLL WATER DISTRICT**  
**BASIC FINANCIAL STATEMENTS,**  
**SUPPLEMENTARY INFORMATION,**  
**AND INDEPENDENT AUDITORS' REPORTS**

**At December 31, 2011 and 2010**



**WEST CARROLL WATER DISTRICT  
BASIC FINANCIAL STATEMENTS  
SUPPLEMENTARY INFORMATION  
AND INDEPENDENT AUDITORS' REPORTS**

**Years Ended December 31, 2011 and 2010**

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To the Commissioners of the  
West Carroll Water District  
Carrollton, Kentucky 41008

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of West Carroll Water District 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 West Carroll Water 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 the West Carroll Water District as of December 31, 2011 and 2010, and the changes in financial position, and cash flows thereof 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 our report dated March 14, 2012, on our consideration of West Carroll Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Raisor, Zapp & Woods, PSC*

RAISOR, ZAPP & WOODS, PSC  
Certified Public Accountants

March 14, 2012

**WEST CARROLL WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2011**

Our discussion and analysis of the West Carroll Water District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2011. Please read it in conjunction with the District's financial statements, which begin on page 5.

**REQUIRED FINANCIAL STATEMENTS**

The financial statements of the District report information about the District's use of accounting methods which are similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The balance sheet includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to District creditors (liabilities). It also provides the basis for evaluating the capital of the District and assessing its liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its water rates and other fees.

The final required financial statement is its statement of cash flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reported period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and the change in cash during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

**FINANCIAL HIGHLIGHTS**

The following are key financial highlights:

- Total assets at year-end were \$2,673,174 and exceeded liabilities in the amount of \$844,994 by \$1,828,180 (i.e. net assets). Of the total net assets, \$185,631 was unrestricted and available to support short-term operations. Total net assets decreased from year end 2010 to 2011 in the amount of \$88,199.
- Operating revenues increased approximately 7% during the year due to a rate increase of approximately 26.6% approved by Public Service Commission that was effective in November 2010.
- Total operating expenses increased by \$25,705, due primarily to an increase in the amount paid for the purchase of water for resale, general system maintenance and the operational maintenance agreement with Carrollton Utilities.
- The District was in compliance with all debt covenants.

**Balance Sheet, Statement of Net Assets**

Utility Plant decreased by \$152,354 in 2011 reflecting decreases associated with normal depreciation expense. (See diagram below.) Current assets increased \$22,643 representing an increase in cash. Other non-current assets increased \$5,968 representing an increase in restricted cash.

	<b>Condensed Assets</b>		
	<u>2011</u>	<u>2010</u>	<u>Difference</u>
Utility Plant	\$ 2,280,464	\$ 2,432,818	\$ (152,354)
Current Assets	216,841	194,198	22,643
Other Non-Current Assets	175,869	169,901	5,968
<b>Total Net Assets</b>	<b><u>\$ 2,673,174</u></b>	<b><u>\$ 2,796,917</u></b>	<b><u>\$ (123,743)</u></b>

**WEST CARROLL WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2011**

At the end of December 31, 2011, the District had \$2,280,464 invested in capital assets (net of depreciation) including buildings, equipment, and water lines. (See table below.)

	<u>2011</u>	<u>2010</u>
Land & Land Rights	\$ 16,754	\$ 16,754
Organizational Fees	3,707	4,153
Distribution System	2,257,002	2,408,303
Machinery & Equipment	<u>3,001</u>	<u>3,608</u>
Totals	<u>\$ 2,280,464</u>	<u>\$ 2,432,818</u>

There were no major transactions for the District regarding fixed assets for 2011, but some additional meters and services were installed for customers and a joint project with Carrollton Utilities is being planned for construction in 2012. This project will include the construction of a booster station at the bottom of Kings Ridge Road, replacement of aging infrastructure, i.e. main distribution lines on Gilgal Road, and other short main line extensions to unserved customers. Construction will be underway in 2012 and should be fully complete in early 2013.

Liability amounts presented in the Statement of Net Assets are presented as current (payable within one year) and non-current as of December 31, 2011. Decreases in both long-term debt and in current liabilities are from principal repayments.

**Condensed Liabilities**

	<u>2011</u>	<u>2010</u>	<u>Difference</u>
Noncurrent Liabilities	\$ 762,225	\$ 796,525	\$ (34,300)
Current Liabilities	82,769	84,013	(1,244)
Total Liabilities	<u>\$ 844,994</u>	<u>\$ 880,538</u>	<u>\$ (35,544)</u>

**Net Assets**

At December 31, 2011, net assets decreased \$88,199 due to the District's loss before contributions of \$103,264 offset by tap-on fees and other capital contributions of \$15,065.

	<u>2011</u>	<u>2010</u>	<u>Difference</u>
Invested in Capital Assets, Net of Related Debt	\$ 1,503,806	\$ 1,624,428	\$ (120,622)
Restricted for Debt Service	138,743	131,441	7,302
Unrestricted	185,631	160,510	25,121
Total	<u>\$ 1,828,180</u>	<u>\$ 1,916,379</u>	<u>\$ (88,199)</u>

**Income Statement**

Water charges increased approximately 7% for 2011 due to a PSC approved rate increase effective November 2010. Increases in depreciation, utilities and maintenance contract costs contributed to the overall increase in operating expenses. The decrease in non-operating income (expense) is attributable to decreased interest expense.

**WEST CARROLL WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2011**

**Condensed Statement of Revenues and Expenses**

	<u>2011</u>	<u>2010</u>	<u>Difference</u>
Operating Revenues	\$ 485,823	\$ 453,126	\$ 32,697
Operating Expenses	555,865	530,160	(25,705)
Net Operating Revenue	<u>\$ (70,042)</u>	<u>\$ (77,034)</u>	<u>\$ 6,992</u>
Non-Operating Income (Expense)	(33,222)	(35,470)	2,248
Net Income (Loss) Before Contributions	<u>\$ (103,264)</u>	<u>\$ (112,504)</u>	<u>\$ 9,240</u>
Capital Contributions	15,065	4,764	10,301
Net Income (Loss)	<u>\$ (88,199)</u>	<u>\$ (107,740)</u>	<u>\$ 19,541</u>
Net Assets Beginning of Year	1,916,379	2,024,119	(107,740)
Net Assets End of Year	<u><u>\$ 1,828,180</u></u>	<u><u>\$ 1,916,379</u></u>	<u><u>\$ (88,199)</u></u>

**Statement of Cash Flows**

Cash from Operating Activities increased in 2011 due to an increase in receipts from customers. Other receipt payments also increased due to increased receipts for service charges and reconnect fees. Cash from Investing Activities reflects interest earnings on deposits.

**Condensed Statement of Cash Flows**

	<u>2011</u>	<u>2010</u>	<u>Difference</u>
Cash from Operating Activities (Net)	\$ 93,933	\$ 71,318	\$ 22,615
Cash from Capital & Related Financing Activities	(58,064)	(66,353)	8,289
Cash from Investing Activities	1,430	1,716	(286)
Change in Cash	<u>\$ 37,299</u>	<u>\$ 6,681</u>	<u>\$ 30,618</u>
Cash Balance, Beginning of Year	260,558	253,877	6,681
Cash Balance, End of Year	<u><u>\$ 297,857</u></u>	<u><u>\$ 260,558</u></u>	<u><u>\$ 37,299</u></u>

**NOTES PAYABLE AND LONG-TERM DEBT**

All bond payments have been paid timely. The District does not have any short term debts at this time.

	<u>2011</u>	<u>2010</u>	<u>Difference</u>
Long Term Debt	<u>\$ 785,500</u>	<u>\$ 817,500</u>	<u>\$ (32,000)</u>

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's office at 225 Sixth Street, Carrollton, KY 41008.

Vickie Edwards  
Chairperson

WEST CARROLL WATER DISTRICT  
STATEMENT OF NET ASSETS  
December 31, 2011 and 2010

	2011	2010
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash, Including Time Deposits	\$ 160,214	\$ 129,069
Accounts Receivable (Net)	48,853	57,427
Inventory	4,302	4,217
Prepaid Expense	3,472	3,485
Total Current Assets	\$ 216,841	\$ 194,198
<b>Noncurrent Assets:</b>		
<b>Restricted Assets:</b>		
Cash, Including Time Deposits	\$ 166,898	\$ 160,698
Interest Receivable	129	93
Bond Issuance Costs (Net)	8,842	9,110
Capital Assets (Net)	2,280,464	2,432,818
Total Noncurrent Assets	\$2,456,333	\$2,602,719
<b>Total Assets</b>	<b>\$2,673,174</b>	<b>\$2,796,917</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 28,715	\$ 30,885
Utility Tax Payable	2,238	2,489
Sales Tax Payable	235	274
<b>Current Liabilities Payable from Restricted Assets:</b>		
Accrued Interest Payable - Customer Deposits	22	40
Accrued Interest Payable - Long-Term Debt	17,559	18,325
Revenue Bonds Payable	34,000	32,000
Total Current Liabilities	\$ 82,769	\$ 84,013
<b>Noncurrent Liabilities:</b>		
Revenue Bonds Payable	\$ 751,500	\$ 785,500
<b>Noncurrent Liabilities Payable from Restricted Assets:</b>		
Customer Deposits Payable	10,725	11,025
Total Noncurrent Liabilities	\$ 762,225	\$ 796,525
<b>Total Liabilities</b>	<b>\$ 844,994</b>	<b>\$ 880,538</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	\$1,503,806	\$1,624,428
Restricted for Debt Service	138,743	131,441
Unrestricted	185,631	160,510
<b>Total Net Assets</b>	<b>\$1,828,180</b>	<b>\$1,916,379</b>

**WEST CARROLL WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Operating Revenues:</b>		
<b>Charges for Services:</b>		
Water Charges (Net of Estimated Bad Debts)	\$ 467,313	\$ 435,400
Total Charges for Services	<u>\$ 467,313</u>	<u>\$ 435,400</u>
<b>Other Charges and Miscellaneous:</b>		
Service Charges	\$ 14,937	\$ 13,554
Reconnect and Disconnect Charges	3,573	4,127
Miscellaneous	-	45
Total Other Charges and Miscellaneous	<u>\$ 18,510</u>	<u>\$ 17,726</u>
<b>Total Operating Revenues</b>	<u>\$ 485,823</u>	<u>\$ 453,126</u>
<b>Operating Expenses:</b>		
Commissioner Fees	\$ 9,000	\$ 9,000
Contractual Service - Sampling	6,468	3,650
Insurance	7,485	6,898
Maintenance Agreement	188,591	177,706
Maintenance of Distribution System	27,406	18,114
Office Supplies and Administrative Expense	2,799	4,331
Other Interest Expense	22	40
Payroll Taxes	689	689
Professional Services	5,360	5,612
Purchased Water	134,211	129,619
Regulatory Fees	700	661
Telephone	2,371	2,329
Utilities - Pumping	12,512	12,160
Depreciation Expense	158,251	159,351
Total Operating Expenses	<u>\$ 555,865</u>	<u>\$ 530,160</u>
<b>Net Operating Income (Loss)</b>	<u>\$ (70,042)</u>	<u>\$ (77,034)</u>
<b>Nonoperating Revenue (Expense):</b>		
Investment Income	\$ 1,512	\$ 1,892
Interest Expense	(35,116)	(36,648)
Amortization Expense	(714)	(714)
Gain (Loss) on Sale of Fixed Assets	1,096	-
Total Nonoperating Revenues (Expense)	<u>\$ (33,222)</u>	<u>\$ (35,470)</u>
<b>Net Income (Loss) Before Contributions</b>	<u>\$ (103,264)</u>	<u>\$ (112,504)</u>
Capital Contributions	<u>15,065</u>	<u>4,764</u>
<b>Net Income (Loss)</b>	<u>\$ (88,199)</u>	<u>\$ (107,740)</u>
<b>Net Assets--Beginning of Year</b>	<u>1,916,379</u>	<u>2,024,119</u>
<b>Net Assets--End of Year</b>	<u>\$ 1,828,180</u>	<u>\$ 1,916,379</u>

**WEST CARROLL WATER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
For the Years Ended December 31, 2011 and 2010

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	\$ 493,807	\$ 439,684
Payments to Suppliers	(163,859)	(145,290)
Other Receipts (Payments)	(236,015)	(223,076)
Net Cash Provided (Used) by Operating Activities	\$ 93,933	\$ 71,318
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Contributions	\$ 15,065	\$ 4,764
Purchases of Capital Assets	(6,343)	(4,764)
Principal Paid on Capital Debt	(32,000)	(29,000)
Interest Paid on Capital Debt	(35,882)	(37,353)
Proceeds from Sale of Capital Assets	1,096	-
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (58,064)	\$ (66,353)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	\$ (46)	\$ (175)
Interest on Investments	1,476	1,891
Net Cash Provided (Used) by Investing Activities	\$ 1,430	\$ 1,716
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 37,299	\$ 6,681
Balances-Beginning of the Year	260,558	253,877
Balances-End of the Year	\$ 297,857	\$ 260,558

	Balances Per December 31, 2011 Statement of Net Assets	Balances Per December 31, 2011 Statement of Cash Flows
Cash	\$ 160,214	\$ 160,214
Restricted Cash	137,643	137,643
Restricted Time Deposits	29,255	-
Total Cash and Cash Equivalents, End of Year	\$ 327,112	\$ 297,857

	Balances Per December 31, 2010 Statement of Net Assets	Balances Per December 31, 2010 Statement of Cash Flows
Cash	\$ 129,069	\$ 129,069
Restricted Cash	131,489	131,489
Restricted Time Deposits	29,209	-
Total Cash and Cash Equivalents, End of Year	\$ 289,767	\$ 260,558

WEST CARROLL WATER DISTRICT  
STATEMENT OF CASH FLOWS  
For the Years Ended December 31, 2011 and 2010

	2011	2010
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ (70,042)	\$ (77,034)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	158,251	159,351
Change in Assets and Liabilities:		
Receivables, Net	8,574	(15,445)
Inventories	(85)	(83)
Prepaid Expenses	13	17
Accounts and Other Payables	(2,170)	2,509
Accrued Expenses	(308)	628
Customer Meter Deposits Escrow Payable	(300)	1,375
Net Cash Provided by Operating Activities	\$ 93,933	\$ 71,318

**SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

There were no outstanding capital expenditures at December 31, 2011 or 2010.

WEST CARROLL WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
December 31, 2011 and 2010

**NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES**

The West Carroll Water District is a rural water company serving approximately 1000 customers in Carroll, Trimble and Henry Counties, Kentucky, and is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water company was formed under the laws of the above-mentioned counties through their Fiscal Courts and began operations in July, 1960.

In evaluating how to define West Carroll Water District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

A summary of the District's significant accounting policies follows:

**Basis of presentation and accounting:** As stated in Kentucky Revised Statutes (KRS) 278.015, "any water district shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission." In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

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.

Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

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. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. 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; and unrestricted components.

**Revenues and expenses:** Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities. The District adheres to the use restrictions established by bond agreements when expenses are incurred for which both restricted and unrestricted net assets are available. The District has no policy defining which resources (restricted or unrestricted) to use first.

WEST CARROLL WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2011 and 2010

**NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and equipment:** Property and equipment purchased or constructed is stated at cost. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Costs associated with hook-up fees are capitalized as meters, installations, and services. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives by type of asset is as follows:

- Distribution System	10-50 years
- Wells	25 years
- Machinery & Equipment	5-20 years

**Inventory:** Inventories are stated at latest cost.

**Income Taxes:** The West Carroll Water District is not subject to income taxes.

**Bond Issuance Costs:** Such costs are amortized over the life of the respective bond issue using the straight line method.

**Contributed capital:** Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues in the statement of revenues, expenses and changes in fund net assets. FEMA Funds of \$8,722 were received in the year ended December 31, 2011. No grant funds were received in the year ended December 31, 2010. Tap-on fees of \$6,343 and \$4,764 were received by the District for the years ended December 31, 2011 and 2010.

**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 net assets 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. Unrestricted net assets consist of all other net assets not included in the above categories.

**Estimates:** The preparation of financial statements 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 reporting period. Actual results could differ from those estimates.

**Statement of Cash Flows:** For the purpose of the Statement of Cash Flows, West Carroll Water District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

**NOTE 2 – DEBT RESTRICTIONS AND COVENANTS**

The Bond and Interest Sinking Account was established with the original RECD bond issue, and is to be continued to be maintained as long as any of the 1975, 1981, 1994 or 2005 issues are outstanding. Under the bond resolution which established this account, it was provided that a minimum balance be maintained in this account as security to the bondholders. In order to attain the minimum balance, a monthly transfer must be made as follows:

$$\begin{array}{r} \text{one sixth (1/6) of the next semiannual interest payment} \\ + \text{ one twelfth (1/12) of next annual principal payment} \\ = \text{monthly transfer} \end{array}$$

Transfers sufficient to meet the total obligation outstanding on all issues were made timely during the years ended December 31, 2011 and 2010.

**WEST CARROLL WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2011 and 2010**

**NOTE 2 – DEBT RESTRICTIONS AND COVENANTS (Continued)**

Under the bond resolution of the original 1975 bonds, a Depreciation Account was to be established to provide funds for extraordinary repairs and extensions to the system, and to make up any deficiency in the Bond and Interest Sinking Fund Account. Under the provisions of the 2005 Bond Resolution, it was determined that the monthly transfer required to be made to the Depreciation Account would be a minimum of \$435 each month until a balance of \$73,200 (increased from \$52,200) is accumulated. When the required balance of \$73,200 is attained, the monthly transfers may be discontinued, but are subject to resumption if the depreciation account is depleted below the required balance. The Depreciation Account is to be maintained as long as any of the bonds are outstanding.

Sufficient funds were transferred during the years ended December 31, 2011 and 2010.

**NOTE 3 – CASH AND INVESTMENTS**

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

West Carroll Water District's policies regarding deposits of cash are discussed above. The table presented below is designed to disclose the level of custody credit risk assumed by the District based upon how its deposits were insured or secured with collateral at December 31, 2011 and 2010. The categories of credit risk are defined as follows:

Category 1 – Insured by FDIC Insurance or collateralized with a depository surety bond or securities held by the District (public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name; or collateralized with no written or approved collateral agreement.

**December 31, 2011**

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Time/Savings Deposits	\$ 325,756	\$ 325,756	\$ -	\$ -	\$ 327,062
Total Deposits	\$ 325,756	\$ 325,756	\$ -	\$ -	\$ 327,062

**December 31, 2010**

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Time/Savings Deposits	\$ 291,424	\$ 291,424	\$ -	\$ -	\$ 289,717
Total Deposits	\$ 291,424	\$ 291,424	\$ -	\$ -	\$ 289,717

**WEST CARROLL WATER DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2011 and 2010

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**Reconciliation to Statement of Net Assets:**

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Unrestricted Cash, Including Time Deposits	\$ 160,214	\$ 129,069
Restricted Cash, Including Time Deposits	166,898	160,698
Less Cash on Hand	(50)	(50)
	<u>\$ 327,062</u>	<u>\$ 289,717</u>

**NOTE 4 – RESTRICTED ASSETS**

**Restricted cash and investments consist of the following:**

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Bond and Interest Sinking Account	\$ 54,363	\$ 53,043
Depreciation Account	101,810	96,630
Customer Deposits	10,725	11,025
	<u>\$ 166,898</u>	<u>\$ 160,698</u>

**Restricted receivables consist of the following:**

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Interest Receivable	\$ 129	\$ 93
Total	<u>\$ 129</u>	<u>\$ 93</u>

**NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE**

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$7,801 and \$7,726 at December 31, 2011 and 2010, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

**NOTE 6 – CAPITAL ASSETS**

**Capital asset activity for the years ended December 31, 2011 and 2010, was as follows:**

	<u>Balance at January 1, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at December 31, 2011</u>
Land & Land Rights	\$ 16,754	\$ -	\$ -	\$ 16,754
Organizational Fees	17,854	-	-	17,854
Distribution System	4,415,039	6,343	-	4,421,382
Machinery & Equipment	12,482	-	-	12,482
Totals at Historical Cost	<u>\$ 4,462,129</u>	<u>\$ 6,343</u>	<u>\$ -</u>	<u>\$ 4,468,472</u>
Less: Accumulated Depreciation				
Organizational Fees	\$ (13,701)	\$ (446)	\$ -	\$ (14,147)
Distribution System	(2,006,736)	(157,644)	-	(2,164,380)
Machinery & Equipment	(8,874)	(607)	-	(9,481)
Total Accumulated Depreciation	<u>\$ (2,029,311)</u>	<u>\$ (158,697)</u>	<u>\$ -</u>	<u>\$ (2,188,008)</u>
Capital Assets, Net	<u>\$ 2,432,818</u>	<u>\$ (152,354)</u>	<u>\$ -</u>	<u>\$ 2,280,464</u>

**WEST CARROLL WATER DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2011 and 2010**

**NOTE 6 – CAPITAL ASSETS (Continued)**

	Balance at January 1, 2010	Additions	Disposals	Balance at December 31, 2010
Land & Land Rights	\$ 16,754	\$ -	\$ -	\$ 16,754
Organizational Fees	17,854	-	-	17,854
Distribution System	4,410,275	4,764	-	4,415,039
Machinery & Equipment	12,482	-	-	12,482
Totals at Historical Cost	<u>\$ 4,457,365</u>	<u>\$ 4,764</u>	<u>\$ -</u>	<u>\$ 4,462,129</u>
Less: Accumulated Depreciation				
Organizational Fees	\$ (13,255)	\$ (446)	\$ -	\$ (13,701)
Distribution System	(1,847,991)	(158,745)	-	(2,006,736)
Machinery & Equipment	(8,268)	(606)	-	(8,874)
Total Accumulated Depreciation	<u>\$ (1,869,514)</u>	<u>\$ (159,797)</u>	<u>\$ -</u>	<u>\$ (2,029,311)</u>
Capital Assets, Net	<u>\$ 2,587,851</u>	<u>\$ (155,033)</u>	<u>\$ -</u>	<u>\$ 2,432,818</u>

Included under the District's Plant Assets were \$85,632 and \$83,327 of fully depreciated assets, at December 31, 2011 and 2010, respectively. Land and land rights and construction in process are capital assets not being depreciated.

Amortization expense on organizational fees and depreciation expense aggregated \$158,697 and \$159,797 in 2011 and 2010, respectively.

**NOTE 7 – CUSTOMER DEPOSITS/ESCROW**

Customer deposits are collected upon installation of water service. This amount is to be refunded to the customer upon discontinuation of service (after the customer's bill has been paid in full). Records were maintained which detailed the accrued interest on each customer's deposit based on a one-quarter (.25) and three-fourths (.75) of a percent annual rate for the years ended December 31, 2011 and 2010, respectively. Accrued interest is paid when the deposit is refunded or credited to the customer's account annually. At December 31, 2011, and 2010, accrued interest on customer deposits was \$22 and \$40, respectively.

**NOTE 8 – LONG-TERM DEBT**

As of December 31, 2011 and 2010, the long-term debt payable consisted of the following:

**Bonds Payable:**

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
RECD Revenue Bonds of 1975 Series A, original issue amount of \$343,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Final maturity is January 1, 2015.	\$ 76,000	\$ 92,000
RECD Revenue Bonds of 1981 Series B, original issue amount of \$114,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Final maturity is January 1, 2021.	52,500	56,500
RECD Revenue Bonds of 1994, original issue amount of \$395,000, secured by water revenues. Interest is charged at the rate of 4.5% per annum. Final maturity is January 1, 2033.	308,000	316,000

**WEST CARROLL WATER DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2011 and 2010

**NOTE 8 – LONG-TERM DEBT (Continued)**

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
RECD Revenue Bonds of 2005, original issue amount of \$369,000, secured by water revenues. Interest is charged at the rate of 4.25% per annum. Final maturity is January 1, 2044.	349,000	353,000
<b>Total Bonds Payable</b>	<b>\$ 785,500</b>	<b>\$ 817,500</b>
Current Portion	\$ 34,000	\$ 32,000
Noncurrent Portion	751,500	785,500
<b>Total Bonds Payable</b>	<b>\$ 785,500</b>	<b>\$ 817,500</b>

**Changes in Long-term Debt**

The following is a summary of changes in long-term debt for the years ended December 31, 2011 and 2010.

**December 31, 2011**

	<u>Balance at January 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2011</u>	<u>Current Portion</u>
Bonds Payable	\$ 817,500	\$ -	\$ (32,000)	\$ 785,500	\$ 34,000

**December 31, 2010**

	<u>Balance at January 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2010</u>	<u>Current Portion</u>
Bonds Payable	\$ 846,500	\$ -	\$ (29,000)	\$ 817,500	\$ 32,000

The annual requirements for all bonds payable outstanding at December 31, 2011 are as follows:

<u>Principal Due January 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 34,000	\$ 33,495	\$ 67,495
2013	36,000	31,775	67,775
2014	38,500	29,933	68,433
2015	40,000	28,015	68,015
2016	21,000	27,060	48,060
2017-2021	118,000	119,690	237,690
2022-2026	112,500	94,010	206,510
2027-2031	143,000	65,295	208,295
2032-2036	106,500	35,498	141,998
2037-2041	80,000	18,955	98,955
2042-2044	56,000	2,423	58,423
	<b>\$ 785,500</b>	<b>\$ 486,149</b>	<b>\$ 1,271,649</b>

WEST CARROLL WATER DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2011 and 2010

**NOTE 8 – LONG-TERM DEBT (Continued)**

The annual requirements for all bonds payable outstanding at December 31, 2010 are as follows:

<u>Principal Due January 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 32,000	\$ 35,118	\$ 67,118
2012	34,000	33,495	67,495
2013	36,000	31,775	67,775
2014	38,500	29,933	68,433
2015	40,000	28,015	68,015
2016-2020	113,000	125,068	238,068
2021-2025	113,500	98,973	212,473
2026-2030	137,000	71,603	208,603
2031-2035	123,500	40,130	163,630
2036-2040	77,000	22,355	99,355
2041-2044	73,000	4,803	77,803
	<u>\$ 817,500</u>	<u>\$ 521,268</u>	<u>\$ 1,338,768</u>

**NOTE 9 – INTEREST EXPENSE**

Interest expense incurred for the years ended December 31, 2011 and 2010 was \$35,138 and \$36,688, respectively. No interest was capitalized in 2011 or 2010.

**NOTE 10 – FUND EQUITY-RESTRICTED NET ASSETS**

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
<b>Restricted for Debt Service:</b>		
RECD Revenue Bonds of 1975, 1981, 1994, and 2005		
Cash	\$ 156,173	\$ 149,673
Add: Accrued Interest Receivable	129	93
Less: Accrued Interest Payable	(17,559)	(18,325)
Total Restricted for Debt Service	<u>\$ 138,743</u>	<u>\$ 131,441</u>

**NOTE 11 – BAD DEBT EXPENSE**

Water revenue charges have been netted with an estimated bad debt expense of \$4,176 and \$4,976 at December 31, 2011 and 2010, respectively.

**NOTE 12 – INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks is covered through the contributions, premiums and assessments to the Kentucky Association of All Lines Fund (KALF).

**NOTE 13 – ECONOMIC DEPENDENCY**

The Water District purchases 100% of the water it sells from the following entities: Carrollton Utilities, the Henry County Water District, the Trimble County Water District, and the City of Milton Water and Sewer Utility.

WEST CARROLL WATER DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2011 and 2010

**NOTE 14 – OPERATION AND MAINTENANCE CONTRACT**

Effective April 1, 1998, the District entered into an agreement with Carrollton Utilities under which Carrollton Utilities agreed to provide the operation and maintenance of the District's facilities, customer billing services, accounting functions, and related services. Effective July 1, 2011 and 2010, the annual fee for these services was \$194,565 and \$185,300, respectively.

**NOTE 15 – CONTINGENCIES**

The District incurred \$9,200 in maintenance costs to repair lines damaged in area flooding during the year ended December 31, 2010. A claim was submitted to FEMA for funding assistance. The District received \$8,722 on this claim during the year ended December 31, 2011.

The District and Carrollton Utilities have been conditionally approved for financing through the Kentucky Infrastructure Authority of a county wide improvement project. Under the project West Carroll Water District will construct a booster station at the bottom of Kings Ridge Road and replace distribution lines on Gilgal Road along with other line extensions. The total cost of the project shall not exceed \$1,850,270, which will be financed by a federally financed 1% loan. The loan shall contain principal forgiveness in the amount of 35%. West Carroll Water District's share of the project is estimated at \$868,097. Strand Associates have been chosen to provide engineering services for the project.

To the Commissioners of the  
West Carroll Water District  
Carrollton, KY 41008

**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**

We have audited the financial statements of West Carroll Water District, as of and for the year ended December 31, 2011, and have issued our report thereon dated March 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 West Carroll Water 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 West Carroll Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the West Carroll Water 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 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 as Item 11-1 to be a material weakness.

**COMPLIANCE AND OTHER MATTERS**

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

We noted certain matters that we reported to management of West Carroll Water District in a separate letter dated March 14, 2012.

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

This report is intended solely for the information and use of management, USDA Rural Development Service, and the Public Service Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Raisor, Zapp & Woods, P.S.C.*

RAISOR, ZAPP, & WOODS P.S.C.  
Certified Public Accountants

March 14, 2012

WEST CARROLL WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended December 31, 2011

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of the West Carroll Water District.
2. One deficiency in internal control related to the audit of the financial statements are reported in the 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. Item 11-1 is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of West Carroll Water District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

**GOVERNMENT AUDITING STANDARDS**

**DEFICIENCIES IN INTERNAL CONTROL**

**11-1 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES**

**CONDITION:**

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2010 as 10-1.

**CRITERIA:**

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting procedures.

**CAUSE:**

The draft accrual basis financial statements and disclosures are prepared during the audit process. The entries are entered into the District's general ledger/financial reports.

**EFFECT:**

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

**RECOMMENDATION:**

District management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

**RESPONSE:**

The outsourcing of this service is a result of management's cost benefit decision to use others' accounting expertise rather than incur internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities.

**WEST CARROLL WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES (Continued)  
For the Year Ended December 31, 2011**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**GOVERNMENT AUDITING STANDARDS (CONTINUED)**

**DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)**

**COMPLIANCE AND OTHER MATTERS**

**NONE**