

**WEST LAUREL WATER  
ASSOCIATION, INCORPORATED**

**INDEPENDENT AUDITORS' REPORT  
AND FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2011 and 2010**

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## INDEPENDENT AUDITORS' REPORT

To the Commissioners  
West Laurel Water Association, Incorporated  
London, Kentucky

We have audited the accompanying financial statements of the business-type activities of West Laurel Water Association, Incorporated as of December 31, 2011, which collectively comprise the Association's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of West Laurel Water Association, Incorporated as of December 31, 2010 were audited by other auditors whose reported dated March 29, 2011 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Laurel Water Association, Incorporated as of December 31, 2011, and the results of its operations and its 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 our report dated March 20, 2012 on our consideration of West Laurel Water Association, Incorporated'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 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 important for 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 3 through 6 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 operations, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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. .

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
Certified Public Accountants  
March 20, 2012

# **WEST LAUREL WATER ASSOCIATION, INCORPORATED**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

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

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This discussion and analysis is intended to be an easily readable analysis of the West Laurel Water Association, Incorporated's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements and notes that follow. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes.

### **FINANCIAL HIGHLIGHTS**

- In 2011 the Association's net assets increased by \$38,293, or 0.99%, compared to a decrease in 2010 of \$44,430 or 1.13%.
- Sales of water increased by \$22,196, or 1.18%, in 2011. In 2010 sales increased by \$62,130, or 3.4%.
- Operating expenses decreased by \$111,376, or 5.76% in 2011 compared to an increase of \$77,854, or 4.19% in 2010.
- Additions to capital assets in 2011 amounted to \$32,696, or 0.36%. In 2010, additions were \$157,864, or 1.79%.
- Principal payments on long-term debt amounted to \$88,953 in 2011, compared to \$83,711 in 2010.

### **OVERVIEW OF FINANCIAL STATEMENTS**

This report consists of the Management's Discussion and Analysis and the Basic Financial Statements. The financial statements include notes that explain information included in the Basic Financial Statements.

### **FINANCIAL STATEMENTS**

The financial statements report information utilizing the full accrual basis of accounting and conform to accounting principles that are generally accepted in the United States of America. The Statement of Net Assets presents information on all of the Association's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Association is improving or deteriorating. The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Association's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The financial statements also include a Statement of Cash Flows, which presents sources and uses of cash and changes in cash balances during the fiscal year.

**WEST LAUREL WATER ASSOCIATION, INCORPORATED**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

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

The MD&A is intended to explain the significant changes in financial position and differences in operation between the current and prior years.

**NET ASSETS**

A summary of the Association's Statement of Net Assets as of December 31, 2011 and 2010 is presented below:

	<u>2011</u> Amount	<u>2010</u> Amount	<u>Net dollar</u> Change	<u>Net percentage</u> Change
Current and other assets	\$ 1,079,522	\$ 982,594	\$ 96,928	9.86%
Capital assets, net of accumulated depreciation	<u>5,495,033</u>	<u>5,660,443</u>	<u>(165,410)</u>	-2.92%
<b>Total Assets</b>	<b><u>\$ 6,574,555</u></b>	<b><u>\$ 6,643,037</u></b>	<b><u>\$ (68,482)</u></b>	-1.03%
Long-term debt	\$ 2,387,302	\$ 2,465,276	\$ (77,974)	-3.16%
Current portion of long-term debt	78,060	89,039	(10,979)	-12.33%
Other liabilities	<u>192,060</u>	<u>209,882</u>	<u>(17,822)</u>	-8.49%
<b>Total Liabilities</b>	<b><u>\$ 2,657,422</u></b>	<b><u>\$ 2,764,197</u></b>	<b><u>\$ (106,775)</u></b>	-3.86%
Net assets invested in capital assets, net of related debt	\$ 3,029,671	\$ 3,106,128	\$ (76,457)	-2.46%
Restricted for debt service	190,240	185,986	4,254	2.29%
Unrestricted net assets	<u>697,222</u>	<u>586,726</u>	<u>110,496</u>	18.83%
<b>Total Net Assets</b>	<b><u>\$ 3,917,133</u></b>	<b><u>\$ 3,878,840</u></b>	<b><u>\$ 38,293</u></b>	0.99%

**WEST LAUREL WATER ASSOCIATION, INCORPORATED  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

A summary of the Association's Statement of Revenues, Expenses and Changes in Net Assets for the year ended December 31, 2011 and 2010 is presented below:

	2011 <u>Amount</u>	2010 <u>Amount</u>	Net Dollar <u>Change</u>	Net percentage <u>Change</u>
Operating revenue	\$ 1,985,077	\$ 2,005,076	\$ (19,999)	-1.00%
Nonoperating revenue	<u>2,388</u>	<u>15,482</u>	<u>(13,094)</u>	<u>-84.58%</u>
<b>Total revenue</b>	1,987,465	2,020,558	(33,093)	-1.64%
Depreciation expense	198,106	195,875	2,231	1.14%
Other operating expense	1,624,585	1,738,192	(113,607)	-6.54%
Nonoperating expense	<u>126,481</u>	<u>130,921</u>	<u>(4,440)</u>	<u>-3.39%</u>
<b>Total expense</b>	<u>1,949,172</u>	<u>2,064,988</u>	<u>(115,816)</u>	<u>-5.61%</u>
Changes in net assets	38,293	(44,430)	82,723	-186.19%
Net assets, beginning	<u>3,878,840</u>	<u>3,923,270</u>	<u>(44,430)</u>	<u>-1.13%</u>
Net assets, ending	<u><u>\$ 3,917,133</u></u>	<u><u>\$ 3,878,840</u></u>	<u><u>\$ 38,293</u></u>	<u><u>0.99%</u></u>

As reported on the Statement of Revenues, Expenses, and Changes in Net Assets, net assets increased by \$38,293 for the year 2011 as compared to a decrease of \$44,430 for the year 2010.

**CAPITAL ASSETS**

On December 31, 2011, the Association's investment in capital assets, net of depreciation, totaled \$5,495,033, which is a decrease of \$165,410, or 2.92%, over the capital asset balance of \$5,660,440 at December 31, 2010.

**LONG-TERM DEBT**

As of December 31, 2011, the Association had long-term debt of \$2,465,362 compared to \$2,554,315 at December 31, 2010, including current portion. During the year ended December 31, 2011, the Association paid \$88,953 of principal payments on the long-term debt compared to \$83,711 in 2010.

**WEST LAUREL WATER ASSOCIATION, INCORPORATED  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

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

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**CONTACT INFORMATION**

The Association's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the Association's finances and to demonstrate the Association's accountability. Questions concerning this report or request for additional information should be addressed to the Office Manager at West Laurel Water Association, Incorporated, London, Kentucky 40741 or by calling (606) 878-9420.

**WEST LAUREL WATER ASSOCIATION, INCORPORATED**  
**STATEMENTS OF NET ASSETS**  
**December 31, 2011 and 2010**

ASSETS	<u>2011</u>	<u>2010</u>
Current assets		
Cash and cash equivalents	\$ 443,872	\$ 359,977
Investments	111,756	110,030
Accounts receivable, less allowance for doubtful accounts	177,138	177,202
Unbilled accounts receivable	153,668	137,204
Utility deposit	20	20
Interest receivable	48	137
Prepaid expense	2,780	12,038
Total current assets	<u>889,282</u>	<u>796,608</u>
Noncurrent assets		
Restricted assets		
Restricted cash and cash equivalents	<u>190,240</u>	<u>185,986</u>
Capital Assets		
Nondepreciable capital assets		
Land and land structures	<u>67,727</u>	<u>67,727</u>
Total nondepreciable capital assets		
Depreciable Capital Assets		
Source of supply and pumping	16,899	16,899
Intangible	7,677	7,677
Pumping plant	64,848	64,848
Transmission and distribution	8,831,155	8,798,459
General plant	36,678	36,678
Less accumulated depreciation	<u>(3,529,951)</u>	<u>(3,331,845)</u>
Total depreciable capital assets	<u>5,427,306</u>	<u>5,592,716</u>
Total capital assets (net of depreciation)	<u>5,495,033</u>	<u>5,660,443</u>
Total noncurrent assets	<u>5,685,273</u>	<u>5,846,429</u>
Total assets	<u>\$ 6,574,555</u>	<u>\$ 6,643,037</u>

See accompanying notes to the financial statements.

**WEST LAUREL WATER ASSOCIATION, INCORPORATED**  
**STATEMENTS OF NET ASSETS**  
**December 31, 2011 and 2010**

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LIABILITIES	<u>2011</u>	<u>2010</u>
Current liabilities		
Accounts payable	\$ 125,064	\$ 141,122
Accrued expenses	4,984	5,054
Accrued interest	48,392	51,186
Current portion of long-term debt	78,060	89,039
Total current liabilities	<u>256,500</u>	<u>286,401</u>
Noncurrent liabilities		
Customer deposits	13,620	12,520
Long-term debt	2,387,302	2,465,276
Total noncurrent liabilities	<u>2,400,922</u>	<u>2,477,796</u>
Total liabilities	<u>2,657,422</u>	<u>2,764,197</u>
NET ASSETS		
Invested in capital assets net of related debt	3,029,671	3,106,128
Restricted for payment of long-term debt	190,240	185,986
Unrestricted	697,222	586,726
Total net assets	<u>\$ 3,917,133</u>	<u>\$ 3,878,840</u>

**WEST LAUREL WATER ASSOCIATION, INCORPORATED**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**For the years ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Operating revenues		
Water sales	\$ 1,909,113	\$ 1,886,917
Tap-on fees	24,430	24,160
Other	51,534	93,999
	<u>1,985,077</u>	<u>2,005,076</u>
Total operating revenues		
Operating expenses		
Purchased water and power	830,530	887,603
Water treatment	30,241	26,115
Transmission and distribution	366,936	414,486
Administration of customer accounts	280,853	282,846
Administration and general	116,025	127,142
Depreciation	198,106	195,875
Total operating expenses	<u>1,822,691</u>	<u>1,934,067</u>
Operating income (loss)	<u>162,386</u>	<u>71,009</u>
Nonoperating revenues (expenses)		
Interest income	(122,424)	(126,723)
Miscellaneous	(4,057)	(132)
Interest expense		(4,066)
Interest on long-term debt	2,388	3,941
Interest on customer deposits	-	11,541
Total nonoperating revenues (expenses)	<u>(124,093)</u>	<u>(115,439)</u>
Change in net assets	38,293	(44,430)
Net assets as of January 1, 2011	<u>3,878,840</u>	<u>3,923,270</u>
Net assets as of December 31, 2011	<u>\$ 3,917,133</u>	<u>\$ 3,878,840</u>

See accompanying notes to the financial statements.

**WEST LAUREL WATER ASSOCIATION, INCORPORATED**  
**STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Receipts from customers	\$ 1,969,777	\$ 1,977,017
Payment for goods and service	<u>(1,631,455)</u>	<u>(1,740,134)</u>
Net cash used in operating activities	<u>338,322</u>	<u>236,883</u>
Cash flows from capital and related activities		
Additions to capital assets	(32,696)	(157,864)
Principal payments on debt	(88,954)	(83,711)
Interest paid on debt	(125,218)	(130,461)
Other interest	-	(132)
Miscellaneous nonoperating income	-	11,541
Miscellaneous nonoperating expense	<u>(4,062)</u>	<u>(4,066)</u>
Cash provided (used) in capital and related activities	<u>(250,930)</u>	<u>(364,693)</u>
Cash flows from investing activities		
Interest received on investments	<u>757</u>	<u>1,671</u>
Cash provided (used) in investing activities	<u>757</u>	<u>1,671</u>
Net increase in cash and cash equivalents	88,149	(126,139)
Cash and cash equivalents as of January 1, 2011	<u>545,963</u>	<u>672,102</u>
Cash and cash equivalents as of December 31, 2011	<u>\$ 634,112</u>	<u>\$ 545,963</u>
Reconciliation of change in net assets to net cash used in operating activities		
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Operating income	\$ 162,386	\$ 71,009
Depreciation	198,106	195,875
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	64	(3,376)
(Increase) Decrease in unbilled accounts receivable	(16,464)	(24,883)
Decrease (Increase) in prepaid expenses	9,258	2,268
Decrease in accounts payable	(16,058)	(4,143)
Decrease (Increase) in accrued expenses	(70)	(67)
Increase in customer deposits	<u>1,100</u>	<u>200</u>
Net cash provided by operating activities	<u>\$ 338,322</u>	<u>\$ 236,883</u>
Supplemental disclosures		
Interest paid	<u>\$ 97,559</u>	<u>\$ 126,723</u>
Reconciliation of Cash at End of Year		
Cash and cash equivalents	\$ 443,872	\$ 359,977
Restricted cash and cash equivalents	<u>190,240</u>	<u>185,986</u>
Total Cash at End of Year	<u>\$ 634,112</u>	<u>\$ 545,963</u>

See accompanying notes to the financial statements.

# WEST LAUREL WATER ASSOCIATION, INCORPORATED

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2011 and 2010

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

West Laurel Water Association, Incorporated, of Laurel County, Kentucky (the Association) was created in 1965 under Chapter 74 of the Kentucky Revised Statutes and is exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code. The Association is governed by a three person board of Commissioners, which is appointed by the Laurel County Fiscal Court. The Association is regulated by the Kentucky Public Service Commission.

West Laurel Water Association, Incorporated is a rural water utility system whose purpose is to establish, develop and operate a water supply and distribution system for its members and customers in the eastern portion of Laurel County, Kentucky. The Association's primary source of revenue is from water sales to its customers, including public bodies and local businesses in its service area.

#### Basis of Accounting, Financial Presentation and Measurement Focus

Not-for-profit organizations ordinarily present their financial statements in accordance with Accounting Standards Codification (ASC) 958-205. ASC 958-205 requires reporting amounts for a not-for-profit organization's total assets, liabilities, and net assets in a statement of financial position; reporting the change in an organization's net assets in a statement of activities; and reporting the change in its cash and cash equivalents in a statement of cash flows. ASC 958-205 also requires net assets be displayed in three classes – permanently restricted, temporarily restricted, and unrestricted.

The Association's financial position, results of operations and cash flows are presented, along with relevant disclosures, in a format ordinarily used by entities similar to the Association in their organization and purpose. While this format differs in some respects from the guidance of ASC 958-205, management believes the presentation used enhances the relevance, understandability, and comparability of financial statements to those issued by similar organizations. The Association's financial statements provides the basic information required by ASC 958-205, focus on the entity as a whole, and meet the common needs of external users of the Association's financial statements.

The basic financial statements of the Association have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (*Statements and Interpretations*), constitutes GAAP for governmental units.

The Association applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails. In addition, the Association applies all applicable FASB *Statements and Interpretations* issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

**WEST LAUREL WATER ASSOCIATION, INCORPORATED**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

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

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets display information about the Association as a whole. These statements include all funds of the Association. The statements distinguish between governmental and business-type activities. The Association does not have any governmental activities.

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported by the Association includes revenues and expenses related to the continuing operation of water service for its customers. Principal operating revenues are charges to customers for services. Principal operating expenses are the costs of providing the services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Cash and Cash Equivalents

The Association considers all highly liquid investments (including restricted cash and investments), with maturities of 90 days or less to be cash equivalents. This includes bank certificates of deposit and demand checking accounts.

Investments

The Association's investments include certificates of deposits with maturity dates of three months or more. Certificates of deposits in excess of FDIC insurance are collateralized by securities held by the pledging bank.

Accounts Receivable

Accounts receivable arise as services are rendered for which collections have not been realized and are carried net of a provision for doubtful accounts. The provision for doubtful accounts is estimated using a percentage of accounts more than 90 days past due. At December 31, 2011 and 2010, the provision for doubtful accounts was \$2,698 and \$2,698, respectively.

Unbilled Receivables

The Association estimated unbilled revenues from water sales, on a pro rata basis, at the end of each fiscal year. The estimated amount is based on amounts billed during the following month of the close of the fiscal year.

Prepaid Assets

Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase, and an expenditure/expense is reported in the year in which services are consumed.

**WEST LAUREL WATER ASSOCIATION, INCORPORATED**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

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

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Capital Assets

Capital assets include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, and equipment that have a useful life of more than one reporting period based on the Association's capitalization policy. The cost of additions to the utility plant and major replacements of retired property is capitalized, and the cost of repairs, maintenance, and minor replacements is charged to expense. By the Association's policy, capital assets are defined capital assets as assets with a cost of \$1,000 or more and an estimated useful life in excess of one year. Cost includes direct labor, outside services, materials and transportation employee fringe benefits, and overhead. Interest incurred during construction is capitalized.

The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from disposal is credited or charged in the non-operating section of the statements of revenues, expenses and changes in net assets. Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The range of useful lives of assets is as follows:

<u>Assets Classification</u>	<u>Range of Lives</u>
Intangible	40 years
Transmission and distribution mains	50 years
Structures and improvements	50 years
Pumping and water treatment equipment	25 years
Meters, hydrants and services	20 years
Other Equipment	5-10 years

Accounts payable

Accounts payable represent expenses incurred in the current year to be paid in the subsequent year. Majority of the Association's accounts payable are to vendors or for purchase of water.

Long-Term Debt and Costs

Long-term debt is reported as liabilities. Loan discount and issue costs are amortized over the term of the respective loans outstanding using the straight-line method.

Customer Deposits

The Association collects and holds in escrow a \$60 deposit from customers to insure collection of its water charges. Interest at an annual rate of 1% is paid on these deposits.

**WEST LAUREL WATER ASSOCIATION, INCORPORATED**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

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

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Income Taxes

The Association has received notification from the Internal Revenue Service that it qualifies as a 501(c)(3) tax exempt organization and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code and similar provisions of state law.

During 2009, the Association adopted Accounting Standards Codification (ACS) 740-10 as it related to uncertain tax positions. Any interest and penalties recognized associated with a tax position are classified as current on the Association's financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Assets

Net assets comprise the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets and any unamortized debt cost or premium.

Restricted – This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt"

**NOTE 2 – RESTRICTED CASH**

The Association includes all sinking fund deposits, funds required for other debt service, and funds related to specific projects or customer accounts to be restricted. At December 31, 2011 and 2010 restricted cash amounted to \$190,240 and \$185,986, respectively. This includes restrictions for customer deposits of \$14,115 and \$13,386 and restrictions for debt service of \$176,125 and \$172,600, respectively.

**WEST LAUREL WATER ASSOCIATION, INCORPORATED**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

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

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**NOTE 3 – INVESTMENTS – INTEREST RATE RISK**

According to KRS 91A.060, the Association is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The Association classifies only certificates of deposit as investments and does not consider interest rate risk to be significant.

**NOTE 4 – CUSTODIAL CREDIT RISK - DEPOSITS**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. The Association does not have a deposit policy for custodial credit risk. As of December 31, 2011 and 2010, \$379,973 and \$295,782, respectively, of the Association's bank balances of \$742,539 and \$656,622 were exposed to custodial credit risk. In accordance with Kentucky Revised Statute (KRS) 91A.060, deposits are to be collateralized to the extent uninsured by FDIC. According to KRS 41.240(4), the depository institution shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. The Association's deposits were fully insured or collateralized with securities held by an agent of the Association in the Association's name at December 31, 2011.

**NOTE 5 – CUSTOMER AND OTHER ACCOUNTS RECEIVABLE**

At December 31, 2011, customer and other accounts receivable are as follows:

Due from consumers for sale of water	\$ 179,836
Allowance for doubtful accounts	<u>(2,698)</u>
	<u>\$ 177,138</u>

This does not included unbilled receivables of \$153,668.

**WEST LAUREL WATER ASSOCIATION, INCORPORATED**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

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

**NOTE 5 – CAPITAL ASSETS**

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

	Balance December 31, 2010	Additions	Retirements	Balance December 31, 2011
Land and improvements	\$ 67,727	\$ -	\$ -	\$ 67,727
Intangible	7,677	-	-	7,677
Source of supply and pumping	16,899	-	-	16,899
Pumping plant	64,848	-	-	64,848
Transmission and distribution plant	8,798,459	32,696	-	8,831,155
General	<u>36,678</u>	<u>-</u>	<u>-</u>	<u>36,678</u>
Total capital assets	8,992,288	32,696	-	9,024,984
Less accumulated depreciation				-
Intangible	7,295	192	-	7,487
Source of supply and pumping	6,754	338	-	7,092
Pumping plant	34,243	2,551	-	36,794
Transmission and distribution plant	3,272,101	191,394	-	3,463,495
General	<u>11,452</u>	<u>3,631</u>	<u>-</u>	<u>15,083</u>
Total accumulated depreciation	3,331,845	198,106	-	3,529,951
Total capital assets, net	<u>\$ 5,660,443</u>	<u>\$ (165,410)</u>	<u>\$ -</u>	<u>\$ 5,495,033</u>

**WEST LAUREL WATER ASSOCIATION, INCORPORATED**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

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

**NOTE 5 – CAPITAL ASSETS (continued)**

	Balance December 31, 2009	Additions	Retirements	Balance December 31, 2010
Land and improvements	\$ 67,727	\$ -	\$ -	\$ 67,727
Intangible	7,677	-	-	7,677
Source of supply and pumping	16,899	-	-	16,899
Pumping plant	64,848	-	-	64,848
Transmission and distribution plant	8,640,595	157,864	-	8,798,459
General plant	<u>36,678</u>	<u>-</u>	<u>-</u>	<u>36,678</u>
Total capital assets	8,834,424	157,864	-	8,992,288
Less accumulated depreciation				-
Intangible	7,103	192	-	7,295
Source of supply and pumping	6,416	338	-	6,754
Pumping plant	31,693	2,551	-	34,244
Transmission and distribution plant	3,082,938	189,163	-	3,272,101
General plant	<u>7,820</u>	<u>3,631</u>	<u>-</u>	<u>11,451</u>
Total accumulated depreciation	3,135,970	195,875	-	3,331,845
Total capital assets, net	<u>\$ 5,698,454</u>	<u>\$ (38,011)</u>	<u>\$ -</u>	<u>\$ 5,660,443</u>

**NOTE 6 – LONG-TERM DEBT**

The Association's long-term debt consists of bonds payable to Rural Development (RD) which were obtained for various acquisitions to plant and equipment. The bonds mature annually in varying series over the period 2012 to 2042. A summary of the bonds is presented below:

**RURAL DEVELOPMENT**

Date of Issue	Original Issue	Interest Rate	Outstanding 12/31/11	Current	Long-term
5/19/72	500,000	5.00%	11,835	11,835	-
3/1/79	448,000	5.00%	179,903	19,321	160,582
9/26/88	500,000	5.00%	333,507	12,882	320,625
9/26/88	153,000	5.00%	102,031	3,940	98,091
10/11/95	516,000	5.00%	425,082	9,224	415,858
7/23/02	1,536,000	5.00%	<u>1,413,003</u>	<u>20,858</u>	<u>1,392,145</u>
Total Outstanding Bonds			<u>\$2,465,361</u>	<u>\$ 78,060</u>	<u>\$2,387,301</u>

**WEST LAUREL WATER ASSOCIATION, INCORPORATED**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

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

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**NOTE 6 – LONG-TERM DEBT (continued)**

Future bond principal and interest payment amounts are as follows:

2014	72,554	112,238
2015	75,945	108,847
2016	79,496	105,296
2017-2021	405,051	468,115
2022-2026	419,987	371,973
2027-2031	414,755	262,938
2032-2036	401,803	164,882
2037-2041	366,413	73,881
2042	81,980	3,998
	<u>\$2,465,361</u>	<u>\$ 1,906,210</u>

**NOTE 7 – SERVICES PROVIDED BY WOOD CREEK WATER DISTRICT**

West Laurel Water Association, Incorporated has no employed personnel with the exception of its board members. The Association obtains all maintenance, construction (including materials), and office services through contractual agreements with Wood Creek Water District.

Wood Creek Water District bills, at cost, West Laurel Water Association, Incorporated for services and materials on a monthly basis. West Laurel Water Association, Incorporated also purchases water for resale from Wood Creek Water District. At December 31, 2011 and 2010, the Association had accounts payable to Wood Creek Water District in the amount of \$120,547 and \$140,016, respectively.

Amounts paid to Wood Creek Water District for purchased water and for materials and services provided to West Laurel Water Association, Incorporated are as follows:

	<u>2011</u>	<u>2010</u>
Purchased water	\$ 815,392	\$ 887,603
Materials, labor, and other	<u>727,790</u>	<u>694,713</u>
	<u>\$ 1,543,182</u>	<u>\$ 1,582,316</u>

**WEST LAUREL WATER ASSOCIATION, INCORPORATED**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

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

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**NOTE 8 – INCOME TAX**

Additionally, the Association has adopted ASC 740-10 as it related to uncertain tax positions for the year ended December 31, 2010 and has evaluated its tax positions taken for all open years. Currently, the Association believes 2011, 2010, 2009, 2008, and 2007 tax years are open and subject to examination by all relevant jurisdictions. However, the Association is not currently under audit nor has the Organization been contacted by any of these jurisdictions.

**NOTE 9 – RISK MANAGEMENT**

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the Association carries commercial insurance. The insurance coverage is acquired through Wood Creek Water District which includes coverage for Wood Creek Water District, East Laurel Water District, and West Laurel Water Association, Incorporated. The Association pays for and is entitled to its respective share of coverage. There have been no significant reductions in coverage for the year and settlements have not exceeded coverage in the past three years.

**NOTE 10 – SUBSEQUENT EVENTS**

Management of the Association has evaluated subsequent events through March 20, 2012, the date which the financial statements were available to be issued. No events have occurred subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

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

To the Commissioners  
West Laurel Water Association, Incorporated  
London, Kentucky

We have audited the financial statements of the business type activities of West Laurel Water Association, Incorporated as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated March 20, 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. The financial statements of West Laurel Water Association, Incorporated as of December 31, 2010 were audited by other auditors whose report dated March 29, 2011 did not identify any deficiencies in internal control over financial reporting that they considered to be a material weakness or significant deficiency and disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered West Laurel Water Association, Incorporated'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 Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and therefore, would not necessarily disclose all significant deficiencies that are considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

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

This report is intended solely for the information of members of management of West Laurel Water Association, Incorporated, financing agencies, and appropriate government agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
Corbin, Kentucky  
March 20, 2012

## Cline, Jeff D (PSC)

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**From:** Cline, Jeff D (PSC)  
**Sent:** Monday, May 14, 2012 10:58 AM  
**To:** 'Jack T Cloyd'  
**Cc:** 'dontaevans@alltel.net'; 'woodcreek2@alltel.net'  
**Subject:** East Laurel, West Laurel, Wood Creek: Revenue Discrepancies (2011 GOR vs AR) and Incomplete Annual Reports  
**Attachments:** AR Oath Page.pdf; 2011 East Laurel (WD).pdf; 2011 West Laurel (WA).pdf; 2011 Wood Creek (WD) GOR.pdf

**Follow Up Flag:** Follow up  
**Due By:** Monday, May 21, 2012 9:00 AM  
**Flag Status:** Flagged

**Categories:** GOR, Annual Report

We received the Annual Report hard copies for East Laurel Water District and West Laurel Water Association today. Based on other contact information in the reports I'm assuming you also filed the report for Wood Creek Water District also received today? If so, do you have the hard copy for the Wood Creek Wastewater Division or any other utility's report a hard copy has not yet been submitted for?

As for today's submissions, unfortunately each of the reports did not include the signed/notarized Oath Page.

In addition, there are discrepancies in the revenue information reported in each utility's 2011 Report of Gross Operating Revenues filed April 2, 2012 versus the Annual Financial and Statistical Reports.

For your convenience, attached are PDFs containing a copy of the Report of Gross Operating Revenues previously submitted, a blank Gross Report for revisions, and the Water Operating Revenue schedule (Ref Page 27) from the Annual Financial and Statistical Report. Also attached is a blank Oath Page to be used for each of the Annual Reports.

Please submit (1) an explanation and/or the appropriately amended reporting information for the revenue discrepancies and (2) each Annual Report's signed/notarized Oath Page by **May 21, 2012**.

*Should you have any questions regarding this matter, please do not hesitate to contact me.*

Jeff Cline  
Annual Report Branch Manager  
Kentucky Public Service Commission  
211 Sower Boulevard  
PO Box 615  
Frankfort, KY 40602

Phone: 502.564.3940 X 218 | Fax: 502.564.3460 | Web: [www.psc.ky.gov](http://www.psc.ky.gov)

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**From:** Jack T Cloyd [[mailto:c\\_cloyd@bellsouth.net](mailto:c_cloyd@bellsouth.net)]  
**Sent:** Friday, May 11, 2012 2:29 PM  
**To:** Cline, Jeff D (PSC)  
**Subject:** RE: East Laurel Water District and West Laurel Water Association 2011 Annual Reports

We will be sending you the reports next week. I did not know you wanted a hard copy or we would have already sent them.

Jack

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**From:** Cline, Jeff D (PSC) [<mailto:JeffD.Cline@ky.gov>]  
**Sent:** Friday, May 11, 2012 9:46 AM  
**To:** Jack T Cloyd  
**Subject:** RE: East Laurel Water District and West Laurel Water Association 2011 Annual Reports

Please advise

Jeff Cline  
Annual Report Branch Manager  
Kentucky Public Service Commission  
211 Sower Boulevard  
PO Box 615  
Frankfort, KY 40602

Phone: 502.564.3940 X 218 | Fax: 502.564.3460 | Web: [www.psc.ky.gov](http://www.psc.ky.gov)

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**From:** Cline, Jeff D (PSC)  
**Sent:** Friday, May 04, 2012 2:54 PM  
**To:** 'Jack T Cloyd'  
**Subject:** East Laurel Water District and West Laurel Water Association 2011 Annual Reports

Dear Mr. Cloyd:

I just wanted to touch base with you regarding the hard copies of the East Laurel and West Laurel Annual Reports. Can you please advise me as to the status of the hard copies to be filed?

Jeff Cline  
Annual Report Branch Manager  
Kentucky Public Service Commission  
211 Sower Boulevard  
PO Box 615  
Frankfort, KY 40602

Phone: 502.564.3940 X 218 | Fax: 502.564.3460 | Web: [www.psc.ky.gov](http://www.psc.ky.gov)

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**From:** Cline, Jeff D (PSC)  
**Sent:** Monday, April 02, 2012 9:19 AM  
**To:** 'Jack T Cloyd'  
**Subject:** RE: Extension of time to file PSC financial reports

You may use the tools menu "Add Note" feature to provide an explanation if something doesn't agree or appears incorrect if you need to leave as is.

Jeff Cline  
Annual Report Branch Manager  
Kentucky Public Service Commission  
211 Sower Boulevard  
PO Box 615  
Frankfort, KY 40602

Phone: 502.564.3940 X 218 | Fax: 502.564.3460 | Web: [www.psc.ky.gov](http://www.psc.ky.gov)

**From:** Jack T Cloyd [[mailto:c\\_cloyd@bellsouth.net](mailto:c_cloyd@bellsouth.net)]  
**Sent:** Saturday, March 31, 2012 10:08 AM  
**To:** Cline, Jeff D (PSC)  
**Subject:** RE: Extension of time to file PSC financial reports

We tried to send West Laurel Water Association's financial report Yesterday. We could not send it because accrued taxes and taxes paid were different amounts. Both the accrued amount and the paid amount are different on the books. The system should have accepted it, but it didn't. We will be calling you on Monday to discuss how to get the report sent. Please be advised that the report will be at least a day late for the reason stated above.

Jack T. Cloyd

**From:** Cline, Jeff D (PSC) [<mailto:JeffD.Cline@ky.gov>]  
**Sent:** Friday, March 30, 2012 9:01 AM  
**To:** Jack T Cloyd  
**Subject:** RE: Extension of time to file PSC financial reports

Please email or fax the Reports of Gross Operating Revenues and follow up with the signed/notarized copy in the mail.

Jeff Cline  
Annual Report Branch Manager  
Kentucky Public Service Commission  
211 Sower Boulevard  
PO Box 615  
Frankfort, KY 40602

Phone: 502.564.3940 X 218 | Fax: 502.564.3460 | Web: [www.psc.ky.gov](http://www.psc.ky.gov)

**From:** Jack T Cloyd [[mailto:c\\_cloyd@bellsouth.net](mailto:c_cloyd@bellsouth.net)]  
**Sent:** Thursday, March 29, 2012 3:11 PM  
**To:** Cline, Jeff D (PSC)  
**Subject:** Extension of time to file PSC financial reports

I am hereby requesting a thirty day extension of time to file the above referenced reports due to our extremely heavy workload for the following Water Districts:

Wood Creek Water District

East Laurel Water District

I shall appreciate your acknowledging this request.

Jack T. Cloyd

## Cline, Jeff D (PSC)

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**From:** Jack T Cloyd <c\_cloyd@bellsouth.net>  
**Sent:** Thursday, March 29, 2012 3:11 PM  
**To:** Cline, Jeff D (PSC)  
**Subject:** Extension of time to file PSC financial reports

I am hereby requesting a thirty day extension of time to file the above referenced reports due to our extremely heavy workload for the following Water Districts:

Wood Creek Water District

East Laurel Water District

I shall appreciate your acknowledging this request.

Jack T. Cloyd