

PUBLIC ACCOUNTING COMMISSION
A DISTRICT BRANCH
OCT 15 2012
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EXAMINED BY _____

**WESTERN LEWIS-RECTORVILLE
WATER & GAS DISTRICT
MAYSVILLE, KENTUCKY
AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010**

PS

Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

2202 Old Main Street, Maysville, KY 41056

PUBLIC SERVICE COMMISSION
ANNUAL REPORT BRANCH

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**WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
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AUDITED FINANCIAL STATEMENTS
December 31, 2011 and 2010**

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Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Western Lewis-Rectorville Water & Gas District
Maysville, Kentucky 41056

I have audited the accompanying financial statements of Western Lewis-Rectorville Water & Gas District as of and for the year ended December 31, 2011, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Western Lewis-Rectorville Water & Gas District as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated September 24, 2012 on my consideration of the Western Lewis-Rectorville Water and Gas District's internal control and over financial reporting on my 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 my 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 *Governmental Auditing Standards* and should be considered in assessing the results of my audit.

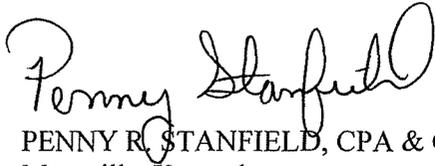
The Western Lewis-Rectorville Water and Gas District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Western Lewis-Rectorville Water and Gas District's financial statements as a whole. The accompanying supplemental information on pages 13 and 14 is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



PENNY R. STANFIELD, CPA & CO., PLLC
Maysville, Kentucky

September 24, 2012

WESTERN LEWIS-RECTORVILLE WATER GAS DISTRICT
STATEMENTS OF NET ASSETS
PROPRIETARY FUND
December 31, 2011 and 2010

ASSETS	2011	2010
CURRENT ASSETS		
Cash and Cash Equivalents - Unrestricted	\$ 57,069	\$ 64,133
Cash and Cash Equivalents - Restricted	408,421	447,184
Accounts Receivable- Customers (Less Allowance for Doubtful Accounts of \$6,300)	106,850	122,360
Accounts Receivable-Grants	-	45,566
Inventory	39,453	36,486
Unbilled Receivables	47,787	68,051
Prepaid Expenses	20,358	10,842
TOTAL CURRENT ASSETS	679,938	794,622
NONCURRENT ASSETS		
Nondepreciated Capital Assets:		
Land	47,914	47,914
Depreciated Capital Assets:		
Utility Plant and Equipment	11,668,151	11,609,372
Less: Accumulated Depreciation	(3,514,229)	(3,220,857)
TOTAL NONCURRENT ASSETS	8,201,836	8,436,429
TOTAL ASSETS	\$ 8,881,774	\$ 9,231,051
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 154,686	\$ 191,222
Accrued Taxes and Retirement	10,359	9,986
Accrued Interest Payable	19,648	20,022
Accrued Wages and Sick Leave	10,720	15,058
Customer Deposits and Budget Billings	113,908	100,530
Current Portion of Long-Term Debt	51,500	49,000
TOTAL CURRENT LIABILITIES	360,821	385,818
LONG-TERM DEBT		
Bonds Payable, less Current Portion	2,548,000	2,599,500
TOTAL LIABILITIES	2,908,821	2,985,318
NET ASSETS		
Investment in Capital Assets, Net of Related Debt	5,602,336	5,787,929
Restricted Net Assets	408,421	447,184
Unrestricted Net Assets	(37,804)	10,620
TOTAL NET ASSETS	5,972,953	6,245,733
TOTAL LIABILITIES AND NET ASSETS	\$ 8,881,774	\$ 9,231,051

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

WESTERN LEWIS-RECTORVILLE WATER GAS DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND

For the Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Water and Gas Sales:		
Residential	\$ 865,476	\$ 961,827
Commercial	106,969	106,870
Service Charges and Other Revenue	69,646	66,401
Total Operating Revenues	1,042,091	1,135,098
OPERATING EXPENSES		
Salaries & Wages - Employees	243,846	234,900
Salaries & Wages - Officers & Directors	14,400	14,600
Retirement Expense	41,765	32,211
Purchased Water and Gas	302,883	292,045
Purchased Power	47,150	51,493
Chemicals & Testing	8,958	7,748
Materials & Supplies	46,057	48,792
Professional Fees	11,673	12,359
Maintenance Expense	56,220	67,091
Rental Expense	721	5,511
Insurance	77,014	70,378
Regulatory Commission Expense	1,736	2,114
Depreciation and Amortization	312,372	310,995
Utilities and Telephone	6,128	6,340
Office and Program Expense	45,344	58,113
Taxes Other Than Income	20,837	24,787
Total Operating Expenses	1,237,104	1,239,477
OPERATING LOSS	(195,013)	(104,379)
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	541	507
Tollesboro Sanitation District No. 1 Fee	17,650	10,058
Interest Expense	(118,885)	(121,059)
Net Non-Operating Revenues (Expenses)	(100,694)	(110,494)
Income (Loss) Before Capital Contributions	(295,707)	(214,873)
Capital Grants	-	872,191
Customer Tap Fees	22,927	17,169
Change in Net Assets	(272,780)	674,487
NET ASSETS, BEGINNING OF YEAR	6,245,733	5,571,246
NET ASSETS, END OF YEAR	\$ 5,972,953	\$ 6,245,733

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

WESTERN LEWIS-RECTORVILLE WATER GAS DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND

For The Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts From Customers	\$ 1,091,243	\$ 1,128,198
Payments to Suppliers	(673,741)	(538,237)
Payments to Employees	(304,349)	(277,601)
Net Cash Provided by Operating Activities	113,153	312,360
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	541	507
Net Cash Provided by Investing Activities	541	507
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Paid on Capital Debt	(49,000)	(47,500)
Purchases of Capital Assets	(77,779)	(889,649)
(Increase)/Decrease in Grant Receivable	45,566	(31,566)
Contributed Capital-Tap Fees	22,927	17,169
Contributed Capital - Grants	-	872,191
Net Receipts from Sanitation District No. 1	17,650	10,058
Interest Paid on Capital Debt	(118,885)	(121,059)
Net Cash Used in Capital and Financing Activities	(159,521)	(190,356)
NET INCREASE (DECREASE) IN CASH	(45,827)	122,511
Cash and Cash Equivalents - At Beginning of Year	511,317	388,806
CASH AND CASH EQUIVALENTS - AT END OF YEAR	\$ 465,490	\$ 511,317
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	(195,013)	(104,379)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation & Amortization Expense	312,372	310,995
Change in Assets and Liabilities:		
Accounts Receivable, Net	15,510	3,347
Inventory	(2,967)	(7,728)
Unbilled Receivables	20,264	(2,079)
Prepaid Expense	(9,516)	11,282
Accounts Payable and Other Payables	(36,537)	104,980
Customer Deposits & Budget Billings	13,378	(8,168)
Accrued Wages and Sick Leave	(4,338)	4,110
Net Cash Provided by Operating Activities	\$ 113,153	\$ 312,360

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

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Western Lewis-Rectorville Water & Gas District (District) was incorporated as a public body in 1961 under Chapter 74 of Kentucky Revised Statutes. The Kentucky Public Service Commission presently regulates the District. A description of the District's significant accounting policies follows:

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Western Lewis-Rectorville Water & Gas District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of government authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service and financing relations. The entities included in the financial statements are the general operations of the District.

Based on the foregoing criteria there are no other organizations included in these financial statements.

The District, presented as an enterprise fund, does not apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989.

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The financial statements of the District are prepared using the economic resources measurement focus for the proprietary fund financial statements. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. With the measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet.

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The accounts of the District are maintained on the accrual basis of accounting. The District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Inventory

Inventory is valued at the lower of cost or market.

Fixed Assets

Fixed assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Depreciation is applied on the straight-line method over the estimated useful life of the asset, using rates determined by reference to Utility Standards Rates (NARUC).

Unbilled Revenue

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

Power Costs

The cost of power purchases for pumping water is charged to expense as used.

Income Tax Status

The District is a political subdivision created under Kentucky Revised Statutes 74.012, and as such, is exempt from federal and state income taxes. Accordingly, the financial statements include no provision for income taxes.

Cash Flows

For purposes of the statement of cash flows, the District uses the direct method of reporting net cash flow from operating activities, and considers certificates of deposit with a maturity of six months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net Assets represent the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 2: CASH AND INVESTMENTS

The cash balances at December 31, 2011 were comprised of the following:

Working Funds – Checking	\$ 57,069
Restricted Funds – Checking	<u>408,421</u>
	<u>\$ 465,490</u>

The District is required to maintain special deposit accounts for customer deposits and long-term debt obligations that restrict use of debt amortization and capital improvements as follows:

Customer Deposits	\$ 83,312
Bond and Interest Sinking Fund	136,345
Depreciation Fund	188,028
Construction Fund	<u>736</u>
	<u>\$ 408,421</u>

NOTE 3: CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash and cash equivalents consist of checking and savings accounts with local banks. The District does not have a deposit policy for custodial credit risk. As of December 31, 2011 \$218,423 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank	\$218,423
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WESTERN LEWIS-RECTORVILLE GAS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 4: FIXED ASSETS

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

Business-Type Activities	Balance Jan. 1, 2011	Additions	Deductions	Balance Dec. 31, 2011
Cost:				
Land	\$ 47,914	\$ -	\$ -	\$ 47,914
Plant in Service:				
Water	10,958,988	77,779	(19,000)	11,017,767
Gas	489,710	-	-	489,710
Other Depreciable Assets	160,674	-	-	160,674
Construction in Progress	-	-	-	-
Totals at historical cost	<u>11,657,286</u>	<u>77,779</u>	<u>(19,000)</u>	<u>11,716,065</u>
Less accumulated depreciation:				
Plant in Service:				
Water	2,815,211	289,982	(19,000)	3,086,193
Gas	270,736	12,920	-	283,656
Other Depreciable Assets	134,910	9,470	-	144,380
Total accumulated depreciation	<u>3,220,857</u>	<u>312,372</u>	<u>(19,000)</u>	<u>3,514,229</u>
Business-Type Activities Capital Assets - Net	<u>\$ 8,436,429</u>	<u>\$ (234,593)</u>	<u>\$ -</u>	<u>\$ 8,201,836</u>

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

Business-Type Activities	Balance Jan. 1, 2010	Additions	Deductions	Balance Dec. 31, 2010
Cost:				
Land	\$ 47,914	\$ -	\$ -	\$ 47,914
Plant in Service:				
Water	10,259,648	699,340	-	10,958,988
Gas	272,739	216,971	-	489,710
Other Depreciable Assets	172,762	20,113	(32,201)	160,674
Construction in Progress	46,775	-	(46,775)	-
Totals at historical cost	<u>10,799,838</u>	<u>936,424</u>	<u>(78,976)</u>	<u>11,657,286</u>
Less accumulated depreciation:				
Plant in Service:				
Water	2,528,825	286,386	-	2,815,211
Gas	257,765	12,971	-	270,736
Other Depreciable Assets	155,473	11,638	(32,201)	134,910
Total accumulated depreciation	<u>2,942,063</u>	<u>310,995</u>	<u>(32,201)</u>	<u>3,220,857</u>
Business-Type Activities Capital Assets - Net	<u>\$ 7,857,775</u>	<u>\$ 625,429</u>	<u>\$ (46,775)</u>	<u>\$ 8,436,429</u>

WESTERN LEWIS-RECTORVILLE WATER GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 5: LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended December 31, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$150,000, 1988 Series A Rural Development Bonds, payable in semi-annual installments plus interest at 5.00%, due November 1, 2027	\$ 102,000	\$ -	\$ 4,000	\$ 98,000
\$130,000, 1988 Series B Rural Development Bonds, payable in semi-annual installments plus interest at 5.00%, due November 1, 2027	87,500	-	3,500	84,000
\$971,000, 1996 Series A Rural Development Bonds, payable in semi-annual installments plus interest at 4.50%, due November 1, 2036	829,000	-	16,000	813,000
\$750,000, 1996 Series B Rural Development Bonds, payable in semi-annual installments plus interest at 4.50%, due November 1, 2036	628,000	-	13,000	615,000
\$333,000, 2001 Rural Development Bonds, payable in semi-annual installments plus interest at 4.50%, due November 1, 2041	305,000	-	4,500	300,500
\$712,000, 2007 Rural Development Bonds, payable in semi-annual installments plus interest at 4.375% due November 1, 2046	697,000	-	8,000	689,000
	<u>\$ 2,648,500</u>	<u>\$ -</u>	<u>\$ 49,000</u>	<u>\$ 2,599,500</u>
Less: Current Maturities	49,000			51,500
Totals	<u>\$ 2,599,500</u>			<u>\$ 2,548,000</u>

The following is a schedule of long-term debt maturities:

	<u>Principal</u>	<u>Interest</u>
2012	51,500	117,027
2013	53,500	114,682
2014	56,500	112,248
2015	59,500	109,676
2016	62,500	106,967
2017-2021	360,500	489,145
2022-2026	453,500	398,940
2027-2031	501,000	309,892
2032-2036	608,000	170,607
2037-2041	220,000	67,841
2042-2046	173,000	23,276
	<u>\$ 2,599,500</u>	<u>\$ 2,020,301</u>

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 6: RESERVES

The Western Lewis-Rectorville Water & Gas District is required to comply with the bond agreement of the 2007, 2001, 1988 and 1996 bond issues as follows:

A. SINKING FUND

On a monthly basis, the District is required to set aside an amount into a special account known as the "Western Lewis-Rectorville Water & Gas District System Bond and Interest Sinking Fund". The amount to be set aside each month shall be sums not less than the following respective amounts:

- (1) A sum equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date, with respect to the Bond Issues.
- (2) A sum equal to one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding January 1.

The required balance of the Sinking Fund reserve was \$28,088 at December 31, 2011 after payment of the November 1 debt service. The District had set aside \$136,345 into the restricted account. Deposits were made to the Sinking Fund on a monthly basis as required in (1) and (2).

B. DEPRECIATION FUND

The District is required to deposit \$475 each month into the Depreciation Fund account as well as the proceeds from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of extensions, additions and/or improvements to the project, plus the proceeds of any property damage insurance not immediately used to replace damaged or destroyed property. Monies in the Depreciation Fund shall be available and shall be withdrawn or used, upon appropriate certification to Rural Development, for the purpose of paying the cost of constructing replacements, extensions, additions and/or improvements to the project. The District had set aside \$188,028. The required depreciation reserve was \$140,460. Therefore, the District is in compliance with this debt covenant.

**WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 7: RETIREMENT PLAN

The District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

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

Contributions – For the year ended December 31, 2011, plan members were required to contribute 5.00% of wages. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2011, participating employers contributed 16.93% for January to June and 18.96% for July through December of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 53,394	100%
2010	\$ 47,954	100%
2009	\$ 40,497	100%

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District's management.

SUPPLEMENTAL SCHEDULES

**WESTERN LEWIS-RECTORVILLE WATER GAS DISTRICT
STATEMENT OF REVENUES AND EXPENSES
PROPRIETARY FUND**

For the Year Ended December 31, 2011

	<u>Water</u>	<u>Gas</u>	<u>Total</u>
OPERATING REVENUES			
Water and Gas Sales:			
Residential	\$ 579,869	\$ 285,607	\$ 865,476
Commercial	71,669	35,300	106,969
Service Charges and Other Revenue	52,235	17,411	69,646
Total Operating Revenues	703,773	338,318	1,042,091
OPERATING EXPENSES			
Salaries & Wages - Employees	182,884	60,962	243,846
Salaries & Wages - Officers & Directors	10,800	3,600	14,400
Retirement Expense	31,324	10,441	41,765
Purchased Water & Gas	43,622	259,261	302,883
Purchased Power	35,363	11,787	47,150
Chemicals & Testing	6,718	2,240	8,958
Materials & Supplies	37,356	8,701	46,057
Professional Fees	8,755	2,918	11,673
Maintenance Expense	41,443	14,777	56,220
Rental Expense	540	181	721
Insurance	57,761	19,253	77,014
Regulatory Commission Expense	1,302	434	1,736
Depreciation and Amortization	299,452	12,920	312,372
Utilities and Telephone	4,596	1,532	6,128
Office and Program Expense	34,008	11,336	45,344
Taxes Other Than Income	15,628	5,209	20,837
Total Operating Expenses	811,552	425,552	1,237,104
OPERATING INCOME (LOSS)	(107,779)	(87,234)	(195,013)
NON-OPERATING REVENUES (EXPENSES)			
Interest Income	541	-	541
Tollesboro Sanitation District No. 1 Fee	17,650	-	17,650
Interest Expense	(118,885)	-	(118,885)
Net Non-Operating Revenue (Expenses)	(100,694)	-	(100,694)
Income (Loss) Before Capital Contributions	(208,473)	-	(295,707)
Customer Tap Fees	22,927	-	22,927
Change in Net Assets	\$ (185,546)	\$ (87,234)	\$ (272,780)

**WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
SUPPLEMENTAL INFORMATION REQUIRED BY RURAL DEVELOPMENT
December 31, 2011**

Schedule of Insurance in Force

<u>Insurance Coverage</u>	<u>Policy No.</u>	<u>Amount of Coverage</u>	<u>Expiration Date of Policy</u>
General Liability			
Ky. League of Cities Ins.	L5715-011090	\$3,000,000	07-01-12
Public Officials			
Ky. League of Cities Ins.	L5715-011090	\$3,000,000	07-01-12
Automobile Liability			
Ky. League of Cities Ins.	L5715-011090	\$3,000,000	07-01-12
Commercial Property			
Buildings & Personal	P5715-011090	\$4,438,532	07-01-12
Equipment	P5715-011090	\$ 64,583	07-01-12
Surety Bond			
CNA Surety	69852281	\$950,000	07-01-12
Encroachment Bond			
Ohio Casualty Ins.	2610369	\$ 25,000	12-18-12
Worker's Comp			
KY League of Cities Insurance	W5715-011090	\$4,000,000	07-01-12

Aged Accounts Receivable

A detailed schedule of aged accounts receivable is prepared on a monthly basis. At December 31, 2011, accounts receivable were aged as follows:

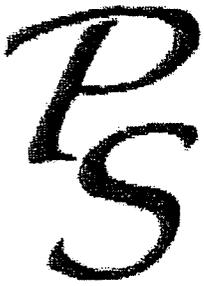
	<u>Number Of Accounts</u>	<u>Amount Due</u>
Current	2,203	\$106,927
30-60 Days	121	4,846
61-90 Days	25	931
Over 90 Days	<u>21</u>	<u>446</u>
	<u>2,370</u>	<u>\$113,150</u>

During 2011, the District wrote off no accounts as uncollectible, but carried a reserve for possible uncollectible accounts of \$6,300. Accounts in arrears have been collected or covered by deposits.

The District had a total of 2,742 customers at December 31, 2011. Of these customers 235 were commercial and 2,507 were residential.

Commissioners:

John Thomas, Chairman
Terry Thomas, Secretary
Robert Baxter, Treasurer
Robbie Joe Gantley
James Williams



Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

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

Board of Commissioners
Western Lewis-Rectorville Water & Gas District
Maysville, Kentucky 41056

I have audited the financial statements of Western Lewis-Rectorville Water & Gas District as of and for the year ended December 31, 2011, which comprises the Western Lewis-Rectorville Water & Gas District's basic financial statements and have issued my report thereon dated September 24, 2012. I conducted my 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

Management of Western Lewis-Rectorville Water & Gas District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered Western Lewis-Rectorville Water & Gas District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Western Lewis-Rectorville Water & Gas District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Western Lewis-Rectorville Water & Gas District's internal control over financial reporting.

My 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, I identified certain deficiencies in internal control over financial reporting that I 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 employee, 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. I consider the deficiency (2011-1) described in the accompanying schedule of findings and responses to be a material weakness.

2202 Old Main Street, Maysville, KY 41056

Phone: (606) 759-0606 Fax: (606) 759-8606 Email: pstanfield@windstream.net

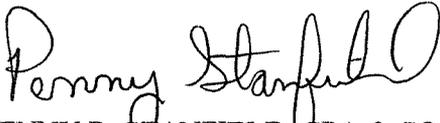
Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Western Lewis-Rectorville Water & Gas District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of Western Lewis-Rectorville Water & Gas District's management in a separate letter dated September 24, 2012.

This report is intended solely for the information and use of management, Board of Commissioners, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



PENNY R. STANFIELD, CPA & CO., PLLC
Maysville, Kentucky

September 24, 2012

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2011

2011-1 LACK OF SEGREGATION OF DUTIES

Condition: The District continues to have a lack of segregation of duties. The senior office clerk performs and manages all of the accounting transactions. While the work performed by the senior office clerk is sufficient, there remains the overall problem of lack of segregation of duties.

Criteria: Proper segregation of duties should be in place to ensure that no single individual has complete control over an accounting function.

Cause: This is due to the small size of the District.

Effect: Since one employee has control over all accounting transactions and no other compensating controls were in place, duties were not adequately segregated.

Recommendation: The board of commissioners needs to provide more oversight.

Response: The Board will take steps to insure that separation of duties, where possible, is maximized.