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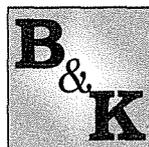
MAR 22 2013

PUBLIC SERVICE
COMMISSION

CALDWELL COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012



BERRY & KINGTON, PSC
CERTIFIED PUBLIC ACCOUNTANTS

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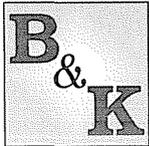
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CALDWELL COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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BERRY & KINGDON, PSC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Caldwell County Water District
Princeton, Kentucky

We have audited the accompanying financial statements of the Caldwell County Water District as of and for the year ended December 31, 2012 which comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessments of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

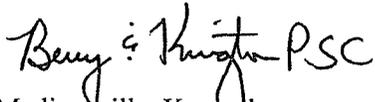
Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Caldwell County Water District as of December 31, 2012, and the respective changes in net assets and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 14, 2013, on our consideration of the Caldwell County Water District's internal control over financial reporting and 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 should be considered in assessing the results of our audit.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 27 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.



Madisonville, Kentucky
March 14, 2013

**CALDWELL COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(UNAUDITED)**

The Caldwell County Water District ("District") offers Management's Discussion and Analysis to provide an overview and analysis of the District's financial activities for the year ended December 31, 2012. For the year ended December 31, 2012, the Caldwell County Water District has prepared the financial statements based on the guidelines provided in Governmental Accounting Standards Board (GASB) Statement No. 34.

FINANCIAL HIGHLIGHTS

The District's 2012 operating revenues of \$1,079,990 increased 3.76% over the 2011 amount, while operating expenses for 2012 of \$1,151,179 remained consistent with 2011. Non-operating income for 2012, consisted of interest income of \$749 and capital contributions consisted of tap on fees of \$16,500.

The District's net assets decreased by \$215,655 resulting in a December 31, 2012 balance of \$7,499,068. This balance represents a 2.79% decrease in net assets over the December 31, 2011 balance of \$7,714,723.

The District's unrestricted cash available for operating expenses was \$395,451 at December 31, 2012.

The District's investment in capital assets was \$9,855,894 net of depreciation at December 31, 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

Caldwell Count Water District's basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, statement of cash flows and notes to the financial statements.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Statement of net assets. The statement of net assets presents the financial position of the District. It presents information on the District'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 District is improving or deteriorating. The statement of net assets can be found on page 8.

Statement of revenues, expenses and changes in net assets. The statement of revenues, expenses and changes in net assets presents information showing how the District'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. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. The statement of revenues, expenses and changes in net assets is on page 9 of this report.

Statement of cash flows. The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year and can be found on page 10.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District's financial statements. The notes to the financial statements can be found on pages 11-23 of this report.

DISTRICT FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$7,499,068 as of December 31, 2012.

The District's overall financial position and operations for the past two years are summarized as follows:

CALDWELL COUNTY WATER DISTRICT'S NET ASSETS

	2012	2011
Assets:		
Current and other assets	\$ 1,103,287	\$ 1,097,287
Capital assets	<u>9,855,894</u>	<u>10,142,928</u>
Total Assets	<u>10,959,181</u>	<u>11,240,215</u>
Liabilities:		
Other liabilities	73,613	62,992
Current portion of long-term debt	79,500	76,000
Long-term liabilities	<u>3,307,000</u>	<u>3,386,500</u>
Total Liabilities	<u>3,460,113</u>	<u>3,525,492</u>
Net Assets:		
Invested in capital assets net of related debt	6,469,395	6,680,427
Restricted	463,743	445,498
Unrestricted	<u>565,930</u>	<u>588,798</u>
Total Net Assets	<u>\$ 7,499,068</u>	<u>\$ 7,714,723</u>

The largest portion of the District's net assets (86%) reflects its investments in capital assets (e.g., land and construction in progress, buildings, plants and facilities, machinery and equipment, system studies and mapping and infrastructure), less any debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets (6%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets \$565,930 may be used to meet the District's ongoing obligations to citizens and creditors.

As of December 31, 2012, the District is able to report positive balances in all three categories of net assets.

Analysis of the District's Operations – Overall the District had a decrease in net assets of \$215,655. Total revenues increased \$37,835 mainly due to an increase in metered water sales. There was an increase in operating revenues of \$39,179.

The following table provides a summary of the District's operations for the year ended December 31, 2012 and 2011.

**CALDWELL COUNTY WATER DISTRICT
CHANGES IN NET ASSETS**

	2012	2011
Revenues		
Water revenues	\$ 1,049,215	\$ 1,012,234
Other sales	30,775	28,577
Investment income	749	3,043
Capital grants and contributions	16,500	15,550
Total revenues	1,097,239	1,059,404
Expenses		
Depreciation and amortization	380,361	380,420
Source of supply purchases	284,903	262,058
Administrative and general expenses	251,681	273,796
Transmission and distribution expenses	191,743	190,405
Interest on debt and other	148,341	151,565
Payroll and other taxes	14,582	15,783
Customer accounts expenses	11,342	9,519
(Gain) loss on equipment disposal	10,303	-
Bad debts	9,173	(148)
Water treatment	7,394	5,871
Amortization of deferred charges related to debt	3,071	3,071
Total Expenses	1,312,894	1,292,340
Change in net assets	(215,655)	(232,936)
Net assets - January 1	7,714,723	7,947,659
Net assets - December 31	\$ 7,499,068	\$ 7,714,723

FINANCIAL ANALYSIS OF THE DISTRICT'S OPERATIONS

Overall, the District's financial position is consistent with the previous year. There were no major fluctuations in account balances and the District is sound financially.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The District's investment in capital assets for business-type activities as of December 31, 2012, amounts to \$9,855,894 (net of accumulated depreciation). This investment in capital assets includes land, buildings, plants and facilities, machinery and equipment, and infrastructure. The total decrease in the District's net investment in capital assets for the fiscal year was 3%.

	2012	2011
Business-type activities:		
Capital assets, not being depreciated:		
Land	\$ 9,000	\$ 9,000
Construction in progress	1,700	-
Total capital assets, not being depreciated	10,700	9,000
Capital assets, being depreciated:		
Transmission and distribution	9,622,957	9,954,457
Furniture and fixtures	21,895	14,236
Machinery and equipment	101,196	59,860
Building	96,965	102,127
Leasehold improvements	2,181	3,247
Total capital assets, being depreciated	9,845,194	10,133,927
Business-type activities capital assets, net	\$ 9,855,894	\$ 10,142,927

During the year ended December 31, 2012, the District acquired assets totaling \$103,631 with \$67,884 of that amount being a backhoe.

Additional information on the District's capital assets can be found in Note 4 of this report.

Long-term and other debt

At the end of the current year, the Caldwell County Water District had total debt of \$3,386,500. No new debt was issued in 2012. Long-term debt at December 31, 2012, was as follows:

	2012	2011
Waterworks revenue series 1993	\$ 303,000	\$ 311,500
Waterworks revenue series 1996	710,000	727,000
Waterworks revenue series 1999	670,500	684,000
Waterworks revenue series 2000	355,000	362,000
Waterworks revenue series 2002	723,000	735,000
Waterworks revenue series 2004	550,000	558,000
KIA loan 1993	75,000	85,000
Total	\$ 3,386,500	\$ 3,462,500

Interest expense of \$148,341 was incurred during the year ended December 31, 2012.

Additional information on the District's long-term debt can be found in Note 6 of this report.

REQUEST FOR INFORMATION

This financial report is designated to provide a general overview of the Caldwell County Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Jimmy Littlefield, Chairman, Caldwell County Water District, 118 West Market Street, Princeton, KY 42445.

Caldwell County Water District
Statement of Net Assets
December 31, 2012

ASSETS

<u>Assets</u>	<u>2012</u>
Cash equivalents	\$ 395,451
Investments	19,928
Customer accounts receivable (less allowance for uncollectible accounts of \$9,357)	87,411
Unbilled revenue	75,047
Prepayments	8,511
Inventory	20,479
Restricted assets:	
Cash equivalents	1,002
Investments, at fair value	462,741
Capital assets, net of depreciation	9,855,894
Deferred charges	<u>32,717</u>
Total Assets	<u>10,959,181</u>

LIABILITIES

<u>Liabilities</u>	
Trade accounts payable	36,775
Accrued liabilities	19,258
Customers' deposits	17,580
Long-term debt due in one year	79,500
Noncurrent liabilities:	
Long-term debt due after one year	<u>3,307,000</u>
Total Liabilities	<u>3,460,113</u>

NET ASSETS

<u>Net Assets</u>	
Invested in capital assets, net of related debt	6,469,395
Restricted for:	
Debt Service	463,743
Unrestricted	<u>565,930</u>
Total Net Assets	<u>\$ 7,499,068</u>

Caldwell County Water District
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended December 31, 2012

	2012
<u>Operating Revenue</u>	
Water revenues	\$ 1,049,215
Other	<u>30,775</u>
Total Operating Revenues	<u>1,079,990</u>
 <u>Operating Expenses</u>	
Depreciation	380,361
Source of supply purchases	284,903
Administrative and general expenses	251,681
Transmission and distribution expenses	191,743
Payroll and other taxes	14,582
Customer accounts expenses	11,342
Bad debts	9,173
Water treatment	<u>7,394</u>
Total Operating Expenses	<u>1,151,179</u>
 <u>Operating Income (Loss)</u>	 <u>(71,189)</u>
 <u>Nonoperating Revenues (Expenses)</u>	
Investment income	749
Gain (loss) on capital asset disposals	(10,303)
Interest on debt	(148,341)
Amortization of deferred charges related to debt	<u>(3,071)</u>
Total Nonoperating Revenue (Expenses)	<u>(160,966)</u>
 <u>Net Income before Capital Contributions</u>	 (232,155)
 <u>Capital Contributions</u>	 <u>16,500</u>
 <u>Change in Net Assets</u>	 (215,655)
 <u>Net Assets-Beginning of Year</u>	 <u>7,714,723</u>
 <u>Net Assets-End of Year</u>	 <u>\$ 7,499,068</u>

See notes to financial statements.

Caldwell County Water District
Statement of Cash Flows
For the Year Ended December 31, 2012

	<u>2012</u>
<u>Cash Flows from Operating Activities</u>	
Cash received from customers	\$ 1,089,528
Cash payments to suppliers for goods and services	(464,480)
Cash payments to employees for services	(295,946)
Net Cash Provided By Operating Activities	<u>329,102</u>
<u>Cash Flows From Capital and Related Financing Activities</u>	
Principal paid on capital debt	(76,000)
Contributed capital	16,500
Acquisition of property, plant, and equipment	(103,631)
Interest paid on debt	(148,341)
Net Cash Used by Capital and Related Financing Activities	<u>(311,472)</u>
<u>Cash Flows From Investing Activities</u>	
Income received on investments	749
Purchase of investment securities	(27,055)
Net Cash Provided By Investing Activities	<u>(26,306)</u>
<u>Net Increase (Decrease) in Cash Equivalents</u>	(8,676)
<u>Cash Equivalents-Beginning of Year</u>	<u>405,129</u>
<u>Cash Equivalents-End of Year</u>	<u><u>\$ 396,453</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided</u>	
<u>By Operating Activities</u>	
Operating Income (Loss)	\$ (71,189)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	380,361
Provision for uncollectible accounts	9,357
Change in assets and liabilities	
Decrease (increase) in accounts receivable	181
Decrease (increase) in inventory	(339)
Decrease (increase) in prepayments	112
Increase (decrease) in accounts payable	8,279
Increase (decrease) in customer deposits	8,790
Increase (decrease) in accrued liabilities	(6,450)
Net Cash Provided By Operating Activities	<u><u>\$ 329,102</u></u>
<u>Reconciliation of Total Cash</u>	
Current Assets - Cash	\$ 395,451
Restricted Assets - Cash	<u>1,002</u>
Total Cash	<u><u>\$ 396,453</u></u>
<u>Non-cash Investing, Capital and Related Financing Activities - None</u>	

See notes to financial statements.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2012

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

The Caldwell County Water District, (the District), is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Princeton, Kentucky and primarily serves rural Caldwell County.

Principles Determining Scope of Reporting Entity

The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed by the County Judge Executive, a publicly elected official, and they have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

The accounting policies of the Caldwell County Water District (District) conform to accounting principles generally accepted in the United States of America as applicable to utilities and/or proprietary funds. The following is a summary of the significant accounting policies.

Basis of Presentation

The accounts of the District are organized in accordance with the uniform system of accounts adopted by the Public Service Commission of Kentucky. Those accounts are organized on the basis of a proprietary fund type, specifically an enterprise fund. The operations of each fund are summarized by providing a separate set of self balancing accounts which include its assets, liabilities, fund equity, revenues and expenses. The following funds are used by the District:

Proprietary Fund Types

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting and financial statements for a proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and all liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water services which are accrued. Expenses are recognized at the time the liability is incurred.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2012

Reclassifications

Prior period financial statement amounts have been reclassified to conform to current period presentation. Operating income and net earnings for the prior period were not impacted by the reclassifications.

Budget

The District is required to follow budgetary guidelines established by the Public Service Commission and the Department of Rural Development. Those guidelines require:

- 1) The District to submit a proposed budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) The District is required to submit a budget to the Department of Rural Development for each fiscal year as stipulated in the bond agreement.

For the year ended December 31, 2012, the District has complied with budgetary guidelines.

Cash Equivalents/ Investments

Cash and cash equivalents are deposited with First Southern National Bank. District ordinances authorize the District to invest in obligations of the U.S. Government and its instrumentalities, mutual funds, repurchase agreements, and demand deposits. All investments must be purchased through brokers/dealers or deposited with local financial institutions.

For the purpose of the statement of cash flows, the District considers all cash in banks and certificates of deposit with stated maturities of three months or less or available for withdrawal by management to be cash and cash equivalents. Cash equivalents consist of funds held in a sweep account in a financial institution.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2012 are recorded as prepaid items.

Post Employment Benefits

Post employment benefits are those received by employees after termination of employment. The District provides no such benefits.

Capital Assets

Capital assets are stated at original cost as defined for regulatory purposes. The costs of additions to capital assets and replacement of retirement units are capitalized. Replacement of minor items of property is charged to expense as incurred. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2012

Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as income when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenue and expense. Capital assets are depreciated over the following useful lives:

Transmission and Distribution Equipment	20 to 65 years
Furniture, Machinery and Equipment	5 to 10 years
Leasehold Improvements	15 to 25 years
Vehicles	3 to 5 years

Allowance for Uncollectible Accounts

An allowance for uncollectible accounts has been provided based on an analysis of receivables outstanding more than 120 days. Based on past experience, management considers the allowance adequate to provide for any losses on collection of the December 31, 2012 accounts receivable.

Inventory

Inventories are generally used for repair and replacement of infrastructure and connection of new services and are stated at average cost.

Restricted Assets

The restricted assets have been handled in accordance with the provisions of the various enterprise fund revenue bond resolutions, loan resolutions, loan agreements, or by state or federal laws and regulations. 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 needed. See Note 3 for information describing restricted assets.

Estimates

The preparation of the District's 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.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During the year ended December 31, 2012, the District contracted with commercial insurance carriers for coverage of all risks mentioned above. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There were no significant reductions in coverage during the past three years.

Bond Discounts/Issuance Costs

Bond discounts and issuance costs on long-term debt are deferred and charged to interest expense over the terms of the related issues.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2012

Net Assets

Net assets represent the difference between assets and liabilities. 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 borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent debt proceeds. 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, or laws or regulations of other governments.

Subsequent Events

The District has evaluated subsequent events through March 14, 2013, the date which the financial statements were available to be issued. The District has agreed to contributed \$15,000 the Water Line Project for the Caldwell County Animal Shelter, which is to be built in 2013.

2. DEPOSITS AND INVESTMENTS

1. Net Assets

The captions on the statement of net assets for cash, investments and restricted assets enumerated as to deposits and investments and the amounts in total are as follows:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash equivalents	\$ 395,451	\$ -	\$ 395,451
Investments	19,928	-	19,928
Restricted assets:			
Cash equivalents	1,002	-	1,002
Investments	<u>462,741</u>	<u>-</u>	<u>462,741</u>
Total	<u>\$ 879,122</u>	<u>\$ -</u>	<u>\$ 879,122</u>

2. Deposits

At year-end, the carrying amount of the District's deposits in financial institutions was \$879,122 and the bank balances were \$881,927. Of the bank balances, \$250,000 was covered by federal depository insurance, with \$631,927 covered by collateral held by the pledging financial institution's agent or trust department in the District's name.

The collateral agreement with First Southern Bank states that \$635,000 of securities will be held as collateral for the District year round. The agreement states that it is the District's responsibility to inform the bank in a timely manner when the District will have deposits that will exceed the amount of securities pledged in order for the Bank to purchase additional securities for collateral.

3. Investments

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2012

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The custodial credit risk for investments is the risk that a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not place any limit on the amount that may be invested with one issuer. At December 31, 2012, the District had 100% of its investments in fully collateralized certificates of deposit.

Identification

At December 31, 2012, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Certificates of Deposit:		
First Southern National Bank	12/21/2013	\$ 265,193
First Southern National Bank	12/21/2013	197,548
First Southern National Bank	12/21/2013	<u>19,928</u>
Total Investments		<u>\$ 482,669</u>

3. RESTRICTED NET ASSETS

Net Assets Restricted for Debt Retirement

	<u>Depreciation Fund</u>	<u>Sinking Fund</u>	<u>Water Projects</u>	<u>Total</u>
Cash equivalents	\$ -	\$ -	1,002	\$ 1,002
Investments:				
Certificates of deposit	<u>265,193</u>	<u>197,548</u>	-	<u>462,741</u>
Totals	<u>\$ 265,193</u>	<u>\$ 197,548</u>	<u>\$ 1,002</u>	<u>\$ 463,743</u>

Restricted Cash

The Caldwell County Water District Bonds (All Series) require the District establish a Sinking Reserve in an amount not less than the maximum amount of principal and interest requirements falling due in any twelve month period on all of the outstanding bonds. The District has been making the required monthly deposits of \$17,668 to service the outstanding debt. The January 1, 2013 principal and interest payments were made on December 17, 2012 and at that time the Sinking Reserve was sufficient to cover those payments.

The Bonds also required that a Depreciation Account be funded monthly. The 1999 Series Bonds require that amounts be deposited over the life of the Bonds. The remaining series require the Depreciation Fund be funded until the balance reaches certain amounts with the maximum amount being \$79,800. The District is funding the Depreciation Fund monthly as required, depositing \$2,061 per month. At December 31, 2012, the balance of the Depreciation Fund was \$265,193.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2012

The District maintains a water project account for use when special projects are being funded. At December 31, 2012, that balance was \$1,002. There were no special projects in process.

4. CAPITAL ASSETS

A summary of proprietary fund property, plant and equipment at December 31, 2012 for business-type activities follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 9,000	\$ -	\$ -	\$ 9,000
Construction in progress	<u>-</u>	<u>1,700</u>	<u>-</u>	<u>1,700</u>
Total capital assets, not being depreciated	<u>9,000</u>	<u>1,700</u>	<u>-</u>	<u>10,700</u>
Capital assets, being depreciated:				
Transmission and distribution	13,761,683	15,342	-	13,777,025
Furniture and fixtures	57,280	14,118	(2,707)	68,691
Machinery and equipment	204,772	72,471	(20,000)	257,243
Building	103,242	-	-	103,242
Leasehold improvement	<u>30,359</u>	<u>-</u>	<u>-</u>	<u>30,359</u>
Total capital assets, being depreciated	<u>14,157,336</u>	<u>101,931</u>	<u>(22,707)</u>	<u>14,236,560</u>
Less accumulated depreciation for:				
Transmission and distribution	(3,807,226)	(346,842)	-	(4,154,068)
Furniture and fixtures	(43,044)	(6,156)	2,404	(46,796)
Machinery and equipment	(144,911)	(21,136)	10,000	(156,047)
Building	(1,115)	(5,162)	-	(6,277)
Leasehold improvement	<u>(27,112)</u>	<u>(1,066)</u>	<u>-</u>	<u>(28,178)</u>
Total accumulated depreciation	<u>(4,023,408)</u>	<u>(380,362)</u>	<u>12,404</u>	<u>(4,391,366)</u>
Total capital assets, being depreciated, net	<u>10,133,928</u>	<u>(278,431)</u>	<u>(10,303)</u>	<u>9,845,194</u>
Business-type activities capital assets, net	<u>\$ 10,142,928</u>	<u>\$ (276,731)</u>	<u>\$ (10,303)</u>	<u>\$ 9,855,894</u>

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2012

5. **EMPLOYEES' RETIREMENT PLAN**
County Employees' Retirement System

1. **Plan Description and Provisions**

The District is a participant in the Commonwealth of Kentucky's County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of each participating county, city and school board and any additional eligible local agencies electing to participate in the CERS. 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. Prior to July 1, 2009, cost of living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgment the welfare of the Commonwealth so demands. CERS is administered by Kentucky Retirement Systems Board of Trustees pursuant to KRS 78.510-78.852.

2. **Contributions**

Covered employees are required by state statute to contribute 5 percent of their annual creditable compensation to CERS. Participating employers are required by state statute (KRS 61.565) 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 of Trustees of the Kentucky Retirement Systems on the basis of an annual valuation last preceding 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 contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the years ended December 31, 2012, 2011 and 2010 the employer contribution rates were 19.55%, 18.96%, and 16.93% respectively of member's compensation. The contribution requirement for the year ended December 31, 2012, was \$46,502 which was 100% funded. The requirement consisted of \$36,787 (18.96% and 19.55% of covered payroll) from the District and \$9,715 (5.00% and 6.00% for those hired after September 1, 2008) from employees. The payroll for employees covered by CERS for the year ended December 31, 2012, was \$190,748; the District's total payroll was \$204,648.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2012

terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

An Annual Financial Report is prepared by the Kentucky Retirement Systems and contains financial statements and required supplementary information for the County Employees Retirement System. The financial report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or on their website at <http://kyret.ky.gov>.

3. Post-retirement Healthcare Benefits

In addition to the pension benefits described above, the Kentucky Retirement Systems (KRS) provides post-retirement healthcare benefits, in accordance with Kentucky Revised Statutes. The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS), and the State Police Retirement System (SPRS). The Fund and members receiving benefits pay prescribed portions of the aggregate premiums paid by the Fund. For the fiscal year ended June 30, 2012, (the date of the latest available information), insurance premiums withheld from benefit payments to members of the CERS approximated \$27,541,099. As of June 30, 2012, the Fund had 96,742 retirees and beneficiaries for whom benefits were available. The allocation of insurance premiums paid by the Fund and amounts withheld from member benefits is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentage of the maximum contribution are as follows:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>
20 or more	100%
15 - 19	75%
10 - 14	50%
4 - 9	25%
Less than 4	0%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003 earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provision of Kentucky Revised Statute 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20 year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2012

percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

6. DEBT OBLIGATIONS

Revenue Bonds Payable

Description	Interest Rate	Maturity Date	Balance 12/31/2012	Due in One Year
Waterworks Revenue Bonds				
Series 1993	5.00%	2033	\$ 303,000	\$ 9,500
Series 1996	4.875%	2035	710,000	18,000
Series 1999	3.25%	2039	670,500	14,000
Series 1999	4.375%	2039	355,000	7,000
Series 2002	4.375%	2042	723,000	13,000
Series 2004	4.125%	2044	<u>550,000</u>	<u>8,000</u>
Total			3,311,500	<u>\$ 69,500</u>
Less current portion			<u>(69,500)</u>	
Long-term portion			<u>\$ 3,242,000</u>	

Principal and interest requirements of the revenue bonds payable as of December 31, 2012 are:

Year Ending December 31,	Principal	Interest & Fees	Total
2013	69,500	141,404	210,904
2014	73,000	138,391	211,391
2015	76,500	135,235	211,735
2016	79,500	131,922	211,422
2017	84,000	128,478	212,478
2018-2022	483,500	584,250	1,067,750
2023-2027	608,000	468,926	1,076,926
2028-2032	772,000	323,460	1,095,460
2033-2037	666,500	159,223	825,723
2028-2042	367,000	44,920	411,920
2043	<u>32,000</u>	<u>1,320</u>	<u>33,320</u>
Total	<u>\$ 3,311,500</u>	<u>\$ 2,257,529</u>	<u>\$ 5,569,029</u>

Information on individual debt instruments follows:

Series 1993

During 1993, Caldwell County Water District adopted a resolution to issue \$410,000 principal of Caldwell County Water District Water Revenue Bonds, Series 1993 dated October 22, 1993 for the purpose of line construction in Caldwell County.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2012

Bond covenants require that a depreciation account be funded in the amount of \$205 per month until there is accumulated an amount of at least \$24,600. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, the District must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds.

Principal maturities falling due prior to January 1, 2009 shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2009 shall be subject to prepayment by the District on any interest payment date falling on and after January 1, 2009 at par plus accrued interest, without any prepayment penalty. Interest, at 5.0% is paid each January 1 and July 1.

Series 1996

During 1996, Caldwell County Water District adopted a resolution to issue \$900,000 principal of Caldwell County Water District Water Revenue Bonds, Series 1996 dated November 12, 1996 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of \$611 per month until there is an accumulated amount of at least \$79,800. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, the District must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds.

Principal maturities falling due prior to January 1, 2009 shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2009 shall be subject to prepayment by the District on any interest payment date falling on and after January 1, 2009 at par plus accrued interest, without any prepayment penalty. Interest, at 4.875% is paid each January 1 and July 1.

Series 1999

During 1999, Caldwell County Water District adopted a resolution to issue \$800,000 principal of Caldwell County Water District Water Revenue Bonds, Series 1999 dated December 30, 1999 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of \$370 per month until the bonds are paid in full. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2012

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, the District must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 4.375% is paid each January 1 and July 1.

Series 1999

During 1999, Caldwell County Water District adopted a resolution to issue \$420,000 principal of Caldwell County Water District Water Revenue Bonds, Series 2000 dated December 30, 1999 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of \$205 per month until the bonds are paid in full. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, the District must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 3.25% is paid each January 1 and July 1.

Series 2003

During 2004, Caldwell County Water District adopted a resolution to issue \$815,000 principal of Caldwell County Water District Water Revenue Bonds, Series 2003 dated June 17, 2004 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of \$390 per month until there is accumulated in the Depreciation Fund the sum of at least \$46,800. These deposits are in addition to those required under the Prior Second Lien Bond Resolution. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, the District must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 3.25% is paid each January 1 and July 1.

Series 2004

During 2005, Caldwell County Water District adopted a resolution to issue \$600,000 principal of Caldwell County Water District Water Revenue Bonds, Series 2004 dated September 27, 2005 for the purpose of line construction in Caldwell County.

Bond covenants require that a depreciation account be funded in the amount of \$280 per month until there is accumulated in the Depreciation Fund the sum of at least \$33,600. These deposits are in addition to those required under the Prior Second Lien Bond Resolution. The Sinking Fund is to be funded monthly with 1/6th of the next succeeding six-month interest payment and 1/12th of the principal of any bonds maturing on the next succeeding January 1st.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2012

The bond covenants require that the rates for all utility services rendered by the District must be reasonable, the District must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the District must be equal to 120% of the maximum annual debt service that will be due each calendar year for both principal and interest on the bonds. Interest, at 4.125% is paid each January 1 and July 1.

Kentucky Infrastructure Authority Note Payable

In July 2004, Caldwell County Water District entered into an assistance agreement with Kentucky Infrastructure Authority. Assistance in the form of a \$150,000 loan was provided for line expansion. The loan is to be repaid in monthly installments beginning in September 2004 and ending June 2018. Interest is variable ranging from 2.25% to 5.25%.

Year Ending December 31,	Principal	Interest & Fees	Total
2013	\$ 10,000	\$ 3,550	\$ 13,550
2014	10,000	3,005	13,005
2015	10,000	2,522	12,522
2016	10,000	2,096	12,096
2017	20,000	6,608	26,608
2018	15,000	-	15,000
Total	<u>\$ 75,000</u>	<u>\$ 17,781</u>	<u>\$ 92,781</u>

Changes in Business-Type Activities Debt

A summary of changes in the business-type activities debt for the year ended December 31, 2012 follows:

	Balance 12/31/2011	Principal Payments	Balance 12/31/2012	Due Within One Year
<u>Business-Type Activities:</u>				
Revenue Bonds Payable	\$ 3,377,500	\$ 66,000	\$ 3,311,500	\$ 69,500
Kentucky Infrastructure Authority	85,000	10,000	75,000	10,000
Total Business-Type Activities	<u>\$ 3,462,500</u>	<u>\$ 76,000</u>	<u>\$ 3,386,500</u>	<u>\$ 79,500</u>

7. COMMITMENTS

Purchase Contracts

South Hopkins Water District

On March 3, 2004, the District entered into a long-term contract with South Hopkins Water District for the purchase of treated water. The contract for water is for a period of 40 years and calls for water sales not to exceed 250,000 gallons per month and not to exceed 15,000 gallons in any 24-hour period unless an emergency exists. The rate is equal to the cost of water from Dawson Springs, plus amortization of supply facilities (\$0.12 per 1,000 gallons), plus additional plumbing costs, plus 25%. Effective July 1, 2012 the rate changed to \$2.48 per 1,000 gallons. Payment is due by the 20th of each month. The District purchased \$2,023 from South Hopkins Water District during the year ended December 31, 2012.

Caldwell County Water District
Notes to the Financial Statements
For the Year Ended December 31, 2012

Princeton Water & Wastewater

On October 11, 2002, the District entered into a long-term contract with Princeton Water & Wastewater for the purchase of treated water. The contract for water is for a period of 45 years and calls for water sales not to exceed 12 million gallons per month. The rate increased on November 4, 2010 to \$2.706 per 1,000 gallons. Payment is due by the 15th of each month. The District purchased \$282,880 from Princeton Water & Wastewater during the year ended December 31, 2012.

Caldwell County Kentucky

On April 8, 2010, the District entered into a lease agreement with the Caldwell County Fiscal Court to lease the premises located at 118 W. Market Street. The term of this lease is for ten (10) years, ending on March 31, 2020, subject however to continuation of four (4) ten (10) year consecutive terms at the mutual agreement of both parties. There are no monetary terms associated with the lease, however, the District is responsible for taxes and insurance on the property.

8. PUBLIC SERVICE COMMISSION REGULATIONS

The District is required to file with the Public Service Commission (PSC) a report of its gross earnings or receipts derived from intra-state business for the preceding calendar year. The District has satisfied this requirement. The District has also filed the 2012 annual PSC Report as required. Further, the PSC requires that all customer deposit refunds be paid with interest. This requirement has been fulfilled.

9. ECONOMIC DEPENDENCIES

The majority of the District's revenue consists of charges for water-related services to customers in Caldwell County, Kentucky for the year ended December 31, 2012. The District also receives monies from the United States Department of Agriculture and the Kentucky Infrastructure Authority whenever funds are available.

10. COMPENSATED ABSENCES

The District grants employees vacation time based on years of service. Full-time employees, with one (1) year continuous service, are entitled to vacation pay according to the following schedule:

1 to 3 years	1 week
3 to 10 years	2 weeks
10+ years	3 weeks

Employees must use vacation within the twelve month period after the time is earned. Upon termination of employment, an employee will be paid for all unused vacation leave. The liability for unused vacation time at December 31, 2012 was \$6,416.

The District's policy on sick pay states that employees will be granted one sick day per month. During the employee's probationary period sick leave may be earned but not taken. Sick leave is forfeited upon termination of employment. The District's policy is to recognize the cost of compensated medical leave when actually paid to employees.

11. LITIGATION

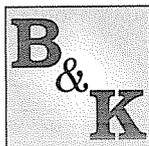
The District is not aware of any pending or threatened litigation in which it is involved which would have a material effect on these financial statements.

Caldwell County Water District
Detail Schedule of Operating Expenses
For the Year Ended December 31, 2012

	2012
Depreciation expense	\$ <u>380,361</u>
Water purchases	<u>284,903</u>
General operating expenses	
Salaries & wages	103,289
Retirement	36,787
Employee insurance	29,338
Legal & professional	21,251
Utilities	20,981
Insurance	16,232
Office supplies	5,224
Other contract services	4,705
License fees	3,668
Uniforms	2,924
Travel	2,621
Training & education	1,375
Dues & subscriptions	1,372
Miscellaneous	977
Advertising	937
Total general operating expenses	<u>251,681</u>
Transmission and distribution expenses	
Salaries & wages	105,499
Supplies & materials	45,294
Contract labor - meter reading	24,495
Repairs & maintenance	15,880
Equipment rent	575
Total water expenses	<u>191,743</u>
Payroll and other taxes	<u>14,582</u>
Customer accounts expenses	
Postage	9,911
Credit card fees	932
Collection Fees	499
Total customer accounts expenses	<u>11,342</u>
Bad debt expense	<u>9,173</u>
Water treatment	
Testing	7,193
Chemicals	201
Total water treatment	<u>7,394</u>
Total operating expenses	<u>\$ 1,151,179</u>

Caldwell County Water District
Statement of Revenues, Expenses, and
Changes in Net Assets - Budget and Actual
For the Year Ended December 31, 2012

	2012			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<u>Revenues:</u>				
Water revenues	\$ 1,000,500	\$ 1,000,500	\$ 1,049,215	\$ 48,715
Other	17,000	17,000	30,775	13,775
Total Operating Revenues	1,017,500	1,017,500	1,079,990	62,490
<u>Operating Expenses</u>				
Depreciation	390,000	390,000	380,361	9,639
Source of supply purchases	280,000	280,000	284,903	(4,903)
Administrative and general expenses	326,279	326,279	251,681	74,598
Transmission and distribution expenses	194,650	194,650	191,743	2,907
Payroll and other taxes	15,000	15,000	14,582	418
Customer accounts expenses	500	500	11,342	(10,842)
Bad debt expense	-	-	9,173	(9,173)
Water treatment	3,500	3,500	7,394	(3,894)
Total Operating Expenses	1,209,929	1,209,929	1,151,179	58,750
<u>Operating Income (Loss)</u>	(192,429)	(192,429)	(71,189)	121,240
<u>Nonoperating Revenues (Expenses)</u>				
Investment income	1,500	1,500	749	(751)
Gain (loss) on capital asset disposals	-	-	(10,303)	(10,303)
Interest on debt	(155,000)	(155,000)	(148,341)	6,659
Amortization of deferred charges related to debt	(3,071)	(3,071)	(3,071)	-
Total Nonoperating Revenue (Expenses)	(156,571)	(156,571)	(160,966)	(4,395)
<u>Net Income before Capital Contributions</u>	(349,000)	(349,000)	(232,155)	116,845
<u>Capital Contributions</u>	10,000	10,000	16,500	6,500
<u>Change in Net Assets</u>	\$ (339,000)	\$ (339,000)	(215,655)	\$ 123,345
<u>Net Assets-Beginning of Year</u>			7,714,723	
<u>Net Assets-End of Year</u>			\$ 7,499,068	



BERRY & KINGTON, PSC
CERTIFIED PUBLIC ACCOUNTANTS

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**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**

To the Board of Commissioners
Caldwell County Water District
Princeton, Kentucky

We have audited, in accordance with the 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 the Caldwell County Water District, as of and for the year ended December 31, 2012 and the related notes to the financial statements, which collectively comprise the Caldwell County Water District's basic financial statements, and have issued our report thereon dated March 14, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Caldwell County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting finding (2012-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Caldwell County 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 that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Berry & Knight PSC

Madisonville, Kentucky
March 14, 2013

Caldwell County Water District
Schedule of Findings and Responses
For The Year Ended December 31, 2012

2012-1 Segregation of Duties

Condition

There is an absence of appropriate segregation of duties consistent with appropriate control objectives.

Criteria

A prudent control environment requires various functions of internal control be allocated among various employees.

Effect

Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded and errors and irregularities may go undetected.

Cause

Lack of personnel.

Recommendation

We recommend that management review its financial operation for opportunities to separate incompatible functions. Where segregation of duties cannot be achieved due to the size of the staff, management should maintain its awareness of the weakness and compensate with other controls.

Response

We concur with the finding.