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Sent: Wednesday, March 27, 2013 5:11 PM
To: PSC - Reports
Cc: Dewayne Lewis
Subject: West Laurel Water Association, Inc. FINAL AUDIT report 12-31-12

Attached

West Laurel Water Association, Inc.
Audit Report
12/31/2012

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**WEST LAUREL WATER
ASSOCIATION, INCORPORATED**

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 AND 2011**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of West Laurel Water Association, Incorporated, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 assessment 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 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 business-type activities of the West Laurel Water Association, Incorporated, as of December 31, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2013 on our consideration of the West Laurel Water Association, Incorporated internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering West Laurel Water Association, Incorporated internal control over financial reporting and compliance.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
Certified Public Accountants
Corbin, Kentucky

March 20, 2013

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

Years ended December 31, 2012 and 2011

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

FINANCIAL HIGHLIGHTS

- In 2012, the Association's net position increased by \$92,122 or 140.57%, compared to an increase of \$38,923 or .99% in 2011.
- In 2012, sales of water increased by \$221,461 or 11.60%. In 2011, sales increased by \$22,196 or 1.18%.
- Operating expenses increased by \$175,952 or 9.65% in 2012 compared to a decrease of \$111,376, or 5.76% in 2011.
- Additions to capital assets in 2012 amounted to \$36,455 or .40%. In 2011, additions to capital assets were \$32,696 or .36%.
- Principal payments on long-term debt amounted to \$76,421 in 2012, compared to \$88,953 in 2011.

OVERVIEW OF FINANCIAL STATEMENTS

This report consists of the management's discussion and analysis and the basic financial statements. The financial statements include notes that explain information included in the basic financial statements.

FINANCIAL STATEMENTS

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

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

Years ended December 31, 2012 and 2011

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

NET POSITION

A summary of the Association's statement of net position as of December 31, 2012 and 2011 is presented below:

	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Net dollar Change</u>	<u>Net percentage Change</u>
Current and other assets	\$ 1,268,081	\$ 1,079,552	\$ 188,529	17.46%
Capital assets, net of accumulated depreciation	<u>5,332,762</u>	<u>5,495,033</u>	<u>\$ (162,271)</u>	-2.95%
Total Assets	<u><u>6,600,843</u></u>	<u><u>6,574,585</u></u>	<u><u>26,258</u></u>	0.40%
Long-term liabilities	2,320,303	2,387,302	(66,999)	-2.81%
Current portion of long-term debt	68,638	78,060	(9,422)	-12.07%
Other liabilities	<u>202,648</u>	<u>192,060</u>	<u>10,588</u>	5.51%
Total Liabilities	<u><u>2,591,589</u></u>	<u><u>2,657,422</u></u>	<u><u>(65,833)</u></u>	-2.48%
Net investment in capital assets	2,943,821	3,029,671	(85,850)	-2.83%
Restricted net positions	203,356	190,240	13,116	6.89%
Unrestricted (deficit) net positions	<u>862,078</u>	<u>697,222</u>	<u>164,856</u>	23.64%
Total Net Position	<u><u>\$ 4,009,255</u></u>	<u><u>\$ 3,917,133</u></u>	<u><u>\$ 92,122</u></u>	2.35%

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

A summary of the Association's statement of revenues, expenses and changes in net position for the year ended December 31, 2012 and 2011 is presented below:

	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Net dollar Change</u>	<u>Net percentage Change</u>
Operating revenue	\$ 2,213,060	\$ 1,985,077	\$ 227,983	11.48%
Nonoperating revenue	<u>1,212</u>	<u>2,388</u>	<u>(1,176)</u>	-49.25%
Total revenue	<u><u>2,214,272</u></u>	<u><u>1,987,465</u></u>	<u><u>226,807</u></u>	11.41%
Depreciation expense	198,726	198,106	620	0.31%
Other operating expense	1,799,917	1,624,585	175,332	10.79%
Nonoperating expense	<u>123,507</u>	<u>126,481</u>	<u>(2,974)</u>	-2.35%
Total expense	<u><u>2,122,150</u></u>	<u><u>1,949,172</u></u>	<u><u>172,978</u></u>	8.87%
Changes in net position	92,122	38,293	53,829	140.57%
Net position, beginning	<u>3,917,133</u>	<u>3,878,840</u>	<u>38,293</u>	0.99%
Net position, ending	<u><u>\$ 4,009,255</u></u>	<u><u>\$ 3,917,133</u></u>	<u><u>\$ 92,122</u></u>	2.35%

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

Years ended December 31, 2012 and 2011

As reported on the statement of revenues, expenses, and changes in net position, net position increased by \$92,122 for the year 2012 as compared to an increase of \$38,923 for the year 2011.

CAPITAL ASSETS

On December 31, 2012, the Association's investment in capital assets, net of depreciation, totaled \$5,332,762, which is a decrease of \$162,271, or 2.95%, over the capital asset balance of \$5,495,033 at December 31, 2011.

LONG-TERM DEBT

As of December 31, 2012, the Association had long-term debt of \$2,388,941 compared to \$2,465,362 at December 31, 2011, including current portion. During the year ended December 31, 2012, the Association paid \$76,421 of principal payments on the long-term debt compared to \$88,953 in 2011.

CONTACT INFORMATION

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

WEST LAUREL WATER ASSOCIATION, INCORPORATED
STATEMENTS OF NET POSITION
December 31, 2012 and 2011

ASSETS	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 596,291	\$ 443,872
Investments	112,430	111,756
Accounts receivable, less allowance for doubtful accounts	199,308	177,138
Unbilled accounts receivable	153,668	153,668
Utility deposit	20	20
Interest receivable	48	48
Prepaid expense	2,959	2,780
Total current assets	<u>1,064,724</u>	<u>889,282</u>
Noncurrent assets		
Restricted assets		
Restricted cash and cash equivalents	<u>203,356</u>	<u>190,240</u>
Capital Assets		
Nondepreciable capital assets		
Land and land structures	<u>67,727</u>	<u>67,727</u>
Total nondepreciable capital assets	<u>67,727</u>	<u>67,727</u>
Depreciable Capital Assets		
Source of supply and pumping	16,899	16,899
Intangible	7,677	7,677
Pumping plant	64,848	64,848
Transmission and distribution	8,863,463	8,831,155
General plant	40,825	36,678
Less accumulated depreciation	<u>(3,728,677)</u>	<u>(3,529,951)</u>
Total depreciable capital assets	<u>5,265,035</u>	<u>5,427,306</u>
Total capital assets (net of depreciation)	<u>5,332,762</u>	<u>5,495,033</u>
Total noncurrent assets	<u>5,536,118</u>	<u>5,685,273</u>
Total assets	<u>\$ 6,600,843</u>	<u>\$ 6,574,555</u>

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

WEST LAUREL WATER ASSOCIATION, INCORPORATED
STATEMENTS OF NET POSITION
December 31, 2012 and 2011

LIABILITIES	<u>2012</u>	<u>2011</u>
Current liabilities		
Accounts payable	\$ 137,780	\$ 125,064
Accrued expenses	5,292	4,984
Accrued interest	46,305	48,392
Current portion of long-term debt	68,638	78,060
Total current liabilities	<u>258,015</u>	<u>256,500</u>
Noncurrent liabilities		
Customer deposits	13,270	13,620
Long-term debt	2,320,303	2,387,302
Total noncurrent liabilities	<u>2,333,573</u>	<u>2,400,922</u>
Total liabilities	<u>2,591,588</u>	<u>2,657,422</u>
NET ASSETS		
Invested in capital assets net of related debt	2,943,821	3,029,671
Restricted for payment of long-term debt	203,356	190,240
Unrestricted	862,078	697,222
Total net assets	<u>\$ 4,009,255</u>	<u>\$ 3,917,133</u>

WEST LAUREL WATER ASSOCIATION, INCORPORATED
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues		
Water sales	\$ 2,130,574	\$ 1,909,113
Tap-on fees	24,910	24,430
Other	57,576	51,534
	<u>2,213,060</u>	<u>1,985,077</u>
Total operating revenues		
Operating expenses		
Purchased water and power	1,061,488	830,530
Water treatment	28,433	30,241
Transmission and distribution	314,778	366,936
Administration of customer accounts	278,064	280,853
Administration and general	117,154	116,025
Depreciation	198,726	198,106
	<u>1,998,643</u>	<u>1,822,691</u>
Total operating expenses		
Operating income (loss)	<u>214,417</u>	<u>162,386</u>
Nonoperating revenues (expenses)		
Interest income	1,212	2,388
Miscellaneous	(4,796)	(4,057)
Interest expense		
Interest on long-term debt	(118,711)	(122,424)
Interest on customer deposits	-	-
	<u>(122,295)</u>	<u>(124,093)</u>
Total nonoperating revenues (expenses)		
Change in net position	92,122	38,293
Net position, January 1	<u>3,917,133</u>	<u>3,878,840</u>
Net position, December 31	<u>\$ 4,009,255</u>	<u>\$ 3,917,133</u>

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

WEST LAUREL WATER ASSOCIATION, INCORPORATED
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Receipts from customers	\$ 2,190,361	\$ 1,969,777
Payment for goods and service	<u>(1,786,892)</u>	<u>(1,631,455)</u>
Net cash used in operating activities	<u>403,469</u>	<u>338,322</u>
Cash flows from capital and related activities		
Additions to capital assets	(36,455)	(32,696)
Principal payments on debt	(76,421)	(88,954)
Interest paid on debt	(120,798)	(125,218)
Other interest	-	-
Miscellaneous nonoperating income	-	-
Miscellaneous nonoperating expense	<u>(4,796)</u>	<u>(4,062)</u>
Cash provided (used) in capital and related activities	<u>(238,470)</u>	<u>(250,930)</u>
Cash flows from investing activities		
Interest received on investments	<u>536</u>	<u>757</u>
Cash provided (used) in investing activities	<u>1,212</u>	<u>757</u>
Net increase in cash and cash equivalents	165,535	88,149
Cash and cash equivalents, January 1	<u>634,112</u>	<u>545,963</u>
Cash and cash equivalents, December 31	<u>\$ 799,647</u>	<u>\$ 634,112</u>
Reconciliation of change in net position to net cash used in operating activities		
Adjustments to reconcile change in net position to net cash used in operating activities:		
Operating income	\$ 214,417	\$ 162,386
Depreciation	198,726	198,106
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	(22,170)	64
(Increase) Decrease in unbilled accounts receivable	-	(16,464)
Decrease (Increase) in prepaid expenses	(179)	9,258
Decrease in accounts payable	12,716	(16,058)
Decrease (Increase) in accrued expenses	309	(70)
Increase in customer deposits	<u>(350)</u>	<u>1,100</u>
Net cash provided by operating activities	<u>\$ 403,469</u>	<u>\$ 338,322</u>
Supplemental disclosures		
Interest paid	<u>\$ 118,711</u>	<u>\$ 122,424</u>
Reconciliation of Cash at End of Year		
Cash and cash equivalents	\$ 596,291	\$ 443,872
Restricted cash and cash equivalents	<u>203,356</u>	<u>190,240</u>
Total Cash at End of Year	<u>\$ 799,647</u>	<u>\$ 634,112</u>

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

**WEST LAUREL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

West Laurel Water Association, Incorporated, of Laurel County, Kentucky (the Association) was created in 1969 under Chapter 74 of the Kentucky Revised Statutes and is exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code. The Association is governed by a three person board of Commissioners, which is appointed by the Laurel County Fiscal Court. The Association is regulated by the Kentucky Public Service Commission.

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

Basis of Accounting, Financial Presentation and Measurement Focus

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

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

The basic financial statements of the Association have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. In addition, the Association applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

The statement of net position and statement of revenues, expenses and changes in net position display information about the Association as a whole. These statements include all funds of the Association. The statements distinguish between governmental and business-type activities. The Association does not have any governmental activities.

WEST LAUREL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2012 and 2011

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

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

Cash and Cash Equivalents

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

Investments

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

Accounts Receivable

Accounts receivable arise as services are rendered for which collections have not been realized and are carried net of a provision for doubtful accounts. The provision for doubtful accounts is estimated using a percentage of accounts more than 90 days past due. At December 31, 2012, and 2011, the provision for doubtful accounts were \$2,698 and \$2,698, respectively.

Unbilled Receivables

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

Prepaid Assets

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

Capital Assets

Capital assets include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, and equipment that have a useful life of more than one reporting period based on the Association's capitalization policy. The cost of additions to the utility plant and major replacements of retired property are capitalized, and the cost of repairs, maintenance, and minor

**WEST LAUREL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

replacements is recorded as expense. By Association policy, capital assets are defined as assets with a cost of \$1,000 or more and an estimated useful life in excess of one year. Cost includes direct labor, outside services, materials and transportation employee fringe benefits, and overhead. Interest incurred during construction is capitalized.

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

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

Accounts payable

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

Long-Term Debt and Costs

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

Customer Deposits

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

Income Taxes

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

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

**WEST LAUREL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

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

Net Position

Net position comprises the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

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

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

Unrestricted net position – This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

NOTE 2 – RESTRICTED CASH

The Association includes all funds required for other debt service, and funds related to specific projects or customer accounts to be restricted. At December 31, 2012, and 2011, restricted cash amounted to \$203,356 and \$190,240, respectively. This includes restrictions for customer deposits of \$13,116 and \$14,115 and restrictions for debt service of \$190,240 and \$176,125, respectively.

NOTE 3 – INVESTMENTS – INTEREST RATE RISK

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

**WEST LAUREL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2012 and 2011

NOTE 4 – CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. As of December 31, 2012, and 2011, \$363,242 and \$379,973, respectively, of the Association's bank balances of \$911,598 and \$742,539 were exposed to custodial credit risk. In accordance with Kentucky Revised Statute (KRS) 91A.060, deposits are to be collateralized to the extent uninsured by FDIC. According to KRS 41.240(4), the depository institution shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. The Association's deposits were fully insured or collateralized with securities held by an agent of the Association in the Association's name at December 31, 2012, and 2011.

NOTE 5 – CUSTOMER AND OTHER ACCOUNTS RECEIVABLE

At December 31, 2012, customer and other accounts receivable are as follows:

Due from consumers for sale of water	\$ 202,006
Allowance for doubtful accounts	<u>(2,698)</u>
	<u>\$ 199,308</u>

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

Continued on the next page

WEST LAUREL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2012 and 2011

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 and 2011 was as follows:

	Balance <u>December 31, 2011</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>December 31, 2012</u>
Land and Improvements	\$ 67,727	-	-	67,727
Intangible	7,677	-	-	7,677
Source of Supply and Pumping	16,899	-	-	16,899
Water Treatment Plant	64,848	-	-	64,848
Transmission and Distribution Plant	8,831,155	32,308	-	8,863,463
General Plant	36,678	4,148	-	40,826
Total Capital Assets	<u>9,024,984</u>	<u>36,455</u>	<u>-</u>	<u>9,061,440</u>
Less: Accumulated depreciation				
Intangible	7,486	191	-	7,677
Source of supply and pumping	7,092	338	-	7,430
Pumping plant	36,795	2,553	-	39,349
Transmission and distribution plant	3,463,495	191,805	-	3,655,301
General plant	15,083	3,839	-	18,922
Total accumulated depreciation	<u>3,529,951</u>	<u>198,726</u>	<u>-</u>	<u>3,728,678</u>
Total Capital Assets, Net	<u>\$ 5,495,033</u>	<u>\$ (162,271)</u>	<u>\$ -</u>	<u>\$ 5,332,762</u>

	Balance <u>December 31, 2010</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>December 31, 2011</u>
Land and Improvements	\$ 67,727	-	-	67,727
Intangible	7,677	-	-	7,677
Source of Supply and Pumping	16,899	-	-	16,899
Water Treatment Plant	64,848	-	-	64,848
Transmission and Distribution Plant	8,798,459	32,696	-	8,831,155
General Plant	36,678	-	-	36,678
Total Capital Assets	<u>8,992,288</u>	<u>32,696</u>	<u>-</u>	<u>9,024,984</u>
Less: Accumulated depreciation				
Intangible	7,295	191	-	7,486
Source of supply and pumping	6,754	338	-	7,092
Pumping plant	34,243	2,551	-	36,795
Transmission and distribution plant	3,272,101	191,394	-	3,463,495
General plant	11,452	3,631	-	15,083
Total accumulated depreciation	<u>3,331,845</u>	<u>198,106</u>	<u>-</u>	<u>3,529,951</u>
Total Capital Assets, Net	<u>\$ 5,660,443</u>	<u>\$ (165,410)</u>	<u>\$ -</u>	<u>\$ 5,495,033</u>

**WEST LAUREL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2012 and 2011

NOTE 7 – LONG-TERM DEBT

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

RURAL DEVELOPMENT								
<u>Date of Issue</u>	<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>12/31/11 Outstanding Balance</u>	<u>Retirements</u>	<u>12/31/12 Outstanding Balance</u>	<u>Due Within One Year</u>
5/19/1972	91-01	\$ 500,000	2012	5.00%	\$ 11,835	\$ 11,835	\$ -	\$ -
3/1/1979	91-03	448,000	2019	5.00%	179,903	17,405	162,498	19,958
9/26/1988	91-04	500,000	2028	5.00%	333,507	12,970	320,538	13,549
9/26/1988	91-05	153,000	2028	5.00%	102,031	3,970	98,060	4,145
10/11/1995	91-06	516,000	2035	5.00%	425,082	9,299	415,783	10,034
7/23/2002	91-07	1,536,000	2042	4.75%	1,413,003	20,941	1,392,062	20,953
Total RD Bonds Payable					\$ 2,465,362	\$ 76,421	\$ 2,388,941	\$ 68,638

Future bond principal and interest payment amounts are as follows:

See Table on Next Page

**WEST LAUREL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2012 and 2011

NOTE 7 – LONG-TERM DEBT – (continued)

YEAR	LOCAL		TOTAL
	PRINCIPAL	INTEREST	
2013	\$ 68,638	\$ 119,447	188,085
2014	\$ 72,072	\$ 116,015	188,087
2015	\$ 75,676	\$ 112,411	188,087
2016	\$ 79,460	\$ 108,628	188,087
2017	\$ 83,433	\$ 104,655	188,087
2018	\$ 87,604	\$ 100,483	188,087
2019	\$ 91,985	\$ 96,103	188,087
2020	\$ 68,501	\$ 91,504	160,004
2021	\$ 71,927	\$ 88,079	160,005
2022	\$ 75,522	\$ 84,482	160,004
2023	\$ 79,298	\$ 80,706	160,004
2024	\$ 83,263	\$ 76,741	160,004
2025	\$ 87,426	\$ 72,578	160,004
2026	\$ 91,799	\$ 68,207	160,005
2027	\$ 96,388	\$ 63,617	160,004
2028	\$ 101,207	\$ 58,797	160,004
2029	\$ 67,643	\$ 53,737	121,380
2030	\$ 71,026	\$ 50,355	121,380
2031	\$ 74,577	\$ 46,804	121,380
2032	\$ 78,306	\$ 43,075	121,380
2033	\$ 82,221	\$ 39,160	121,380
2034	\$ 86,332	\$ 35,048	121,380
2035	\$ 90,649	\$ 30,732	121,380
2036	\$ 64,356	\$ 26,199	90,556
2037	\$ 67,574	\$ 22,982	90,556
2038	\$ 70,953	\$ 19,603	90,556
2039	\$ 74,500	\$ 16,055	90,556
2040	\$ 78,225	\$ 12,330	90,556
2041	\$ 82,137	\$ 8,419	90,556
2042	\$ 86,243	\$ 4,312	90,556
	\$ 2,388,941	\$ 1,851,263	\$ 4,240,204

NOTE 8 – SERVICES PROVIDED BY WOOD CREEK WATER DISTRICT

West Laurel Water Association, Incorporated has no employed personnel with the exception of its board members. The Association obtains all maintenance, construction (including materials), and office services through contractual agreements with Wood Creek Water District. Wood Creek Water District bills, at cost, West Laurel Water District, Incorporated for services and materials on a monthly basis. West Laurel Water Association Incorporated also purchases water for resale from Wood Creek Water District.

**WEST LAUREL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2012 and 2011

NOTE 8 – SERVICES PROVIDED BY WOOD CREEK WATER DISTRICT – (continued)

At December 31, 2012, and 2011, the Association had accounts payable to Wood Creek Water District as follows:

	<u>2012</u>	<u>2011</u>
<u>Wood Creek Water District</u>		
Accounts Payable	\$ 136,470	\$ 120,547
Accounts Payable - Wastewater	517	3,037
	<u>\$ 136,987</u>	<u>\$ 123,584</u>

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

	<u>2012</u>	<u>2011</u>
<u>West Laurel Water Association, Incorporated</u>		
Purchased water	\$ 1,047,576	\$ 815,392
Materials, labor, and other	679,272	727,790
	<u>\$ 1,726,849</u>	<u>\$ 1,543,182</u>

NOTE 8 – INCOME TAX

Additionally, the Association has adopted ASC 740-10 as it related to uncertain tax positions for the year ended December 31, 2011 and has evaluated its tax positions taken for all open years. Currently, the Association believes 2012, 2011, 2010, 2009, and 2008 tax years are open and subject to examination by all relevant jurisdictions. However, the Association is not currently under audit nor has the Organization been contacted by any of these jurisdictions.

NOTE 9 – RISK MANAGEMENT

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

**WEST LAUREL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

Years ended December 31, 2012 and 2011

NOTE 10 – SUBSEQUENT EVENTS

Management of the Association has evaluated subsequent events through March 20, 2013, the date which the financial statements were available to be issued. No events have occurred subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

NOTE 11 – IMPLEMENTATION OF NEW GASB STANDARD

The Association has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ending December 31, 2012. This standard established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position.

The noticeable changes to this audit include the use of the new wording, "Net Position", instead of the previously used wording of "Net Assets." This was retroactively implemented on the financial statement presentation of December 31, 2011, as well as the current audit period.

**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 Commissioners
West Laurel Water Association, Incorporated
London, 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 business-type activities of West Laurel Water Association, Incorporated, as of and for the years ended December 31, 2012, and 2011, and the related notes to the financial statements, which collectively comprise West Laurel Water Association, Incorporated basic financial statements, and have issued our report thereon dated March 20, 2013.

Internal Control over Financial Reporting

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

Compliance and Other Matters

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

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.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
Corbin, Kentucky
March 20, 2013