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Subject: Fwd: audit report electronic copy

Western Pulaski County Water District '2011' and '2012' audit.

From: "Brent Billingsley"
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Date: Fri, 19 Apr 2013 14:38:12 -0500

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Western Pulaski County Water District

Financial Statements

December 31, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Western Pulaski County Water District
Somerset, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Western Pulaski County Water District, as of and for the years ended December 31, 2012 and 2011, 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 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 business-type activities of Western Pulaski County Water District as of December 31, 2012 and 2011 and the respective changes in financial position and cash flows 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 management's discussion and analysis and budgetary comparison information on pages 3-5 and 19-20 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 to 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 25, 2013 on our consideration of the Western Pulaski County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Western Pulaski County Water District's internal control over financial reporting and compliance.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

March 25, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Western Pulaski County Water District, we offer readers of the District's financial statements this narrative overview of the financial activities of the District for the fiscal years ending December 31, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

For the years ended December 31, 2012 and 2011 total operating and non-operating revenues (including capital contributions) were \$2,694,736 and \$2,837,904, respectively. This decrease is related primarily to a decrease in grant revenue.

Total operating and non-operating expenses amounted to \$2,818,577 and \$2,750,870 for the years ended December 31, 2012 and 2011.

Total assets decreased by \$299,372, and total liabilities decreased by \$175,531. These changes resulted in a decrease in net assets of \$123,841.

Overview of the Financial Statements

This report consists of this Management's Discussion and Analysis report, the Independent Auditor's Report, Financial Statements and Supplementary Information. The financial statements include notes which explain in detail some of the information included in the financial statements.

Required Financial Statements

The financial statements of Western Pulaski County Water District report information of Western Pulaski County Water District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of Western Pulaski County Water District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Western Pulaski County Water District creditors (liabilities). It also provides the basis for evaluation of the capital structure of Western Pulaski County Water District and assessing the liquidity and financial flexibility of Western Pulaski County Water District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of Western Pulaski County Water District's operations over the past year and can be used to determine whether Western Pulaski County Water District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Western Pulaski County Water District Summary of Net Assets December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Total Current Assets	\$ 1,149,105	\$ 1,189,030
Total Restricted Assets	116,298	84,471
Net Capital Assets	<u>11,846,803</u>	<u>12,138,077</u>
Total Assets	<u>13,112,206</u>	<u>13,411,578</u>
Liabilities		
Total Current Liabilities	374,926	447,457
Total Long-term Liabilities	<u>4,193,500</u>	<u>4,296,500</u>
Total Liabilities	<u>4,568,426</u>	<u>4,743,957</u>
Net Assets		
Invested in capital assets, net of related debt	7,562,803	7,722,077
Restricted for equipment replacement	57,497	44,340
Restricted for debt retirement	58,801	40,131
Unrestricted	<u>864,679</u>	<u>861,073</u>
Total Net Assets	<u>\$ 8,543,780</u>	<u>\$ 8,667,621</u>

The largest portion (89%) of the District's net assets reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding.

Restricted net assets (1%) represent resources that are subject to external restrictions on how they may be used.

The balance (10%) of unrestricted net assets may be used to meet the District's ongoing obligations to citizens, consumers and creditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Western Pulaski County Water District Summary of Changes in Net Assets For the Year Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Total operating revenues	\$ 2,482,761	\$ 2,290,240
Total operating expenses	<u>2,539,561</u>	<u>2,568,676</u>
Operating income (loss)	(56,800)	(278,436)
Total non-operating revenue (expense)	<u>(215,605)</u>	<u>(127,121)</u>
Income before capital contributions	(272,405)	(405,557)
Capital contributions	<u>148,564</u>	<u>492,591</u>
Increase (decrease) in net assets	(123,841)	87,034
Net assets, beginning of year	<u>8,667,621</u>	<u>8,580,587</u>
Net assets, end of year	<u>\$ 8,543,780</u>	<u>\$ 8,667,621</u>

Net assets decreased by \$123,841 from the prior year.

Capital Asset Changes

At December 31, 2012, the District had invested \$11,846,803 in capital assets net of accumulated depreciation. This amount represents a net decrease of \$291,274 from the previous year. This decrease is the result of depreciation expense.

Budgetary Highlights

The Western Pulaski County Water District adopts an annual operating budget after careful considerations of prior year and anticipated current year operations. The operating budget includes proposed expenses and the means to finance them. The District's operating budget remains in effect the entire year and is not revised. A budget comparison and analysis is presented on pages 19-20 of this report.

Debt Administration

At December 31, 2012, the District had \$4,284,000 bonds outstanding, a decrease of \$132,000 from the prior year's balance of \$4,416,000. The District incurred \$164,016 in interest expense associated with long term debt, a decrease of \$18,178, due to decrease in debt.

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of Western Pulaski County Water District's finances and to demonstrate Western Pulaski County Water District's accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact the Western Pulaski County Water District at 1059 West Highway 80, Somerset, KY or by phone (606) 679-1569.

WESTERN PULASKI COUNTY WATER DISTRICT
Statements of Net Assets
December 31, 2012 and 2011

Assets	<u>2012</u>	<u>2011</u>
Current Assets		
Cash	\$ 749,967	\$ 831,932
Accounts receivable	392,108	350,068
Prepaid assets	<u>7,030</u>	<u>7,030</u>
Total Current Assets	<u>1,149,105</u>	<u>1,189,030</u>
Non-current Assets		
Restricted Assets		
Cash - Depreciation fund	57,497	44,340
Cash - Bond and interest	<u>58,801</u>	<u>40,131</u>
Total Restricted Assets	<u>116,298</u>	<u>84,471</u>
Capital Assets		
Land and land rights	411,988	261,036
Utility plant in service	17,918,119	17,913,544
Equipment	502,757	465,316
Bond issuance costs, net of amortization	22,969	-
Accumulated depreciation	<u>(7,009,030)</u>	<u>(6,501,819)</u>
Net Capital Assets	<u>11,846,803</u>	<u>12,138,077</u>
Total Non-current Assets	<u>11,963,101</u>	<u>12,222,548</u>
 Total Assets	 <u>\$ 13,112,206</u>	 <u>\$ 13,411,578</u>

WESTERN PULASKI COUNTY WATER DISTRICT
Statements of Net Assets
December 31, 2012 and 2011

Liabilities	<u>2012</u>	<u>2011</u>
Current Liabilities		
Accounts payable	\$ 111,239	\$ 119,029
Construction accounts payable	-	43,568
Customer deposits	71,078	24,376
Accrued liabilities	36,667	48,908
Accrued interest	65,442	92,076
Current maturities of long-term debt	<u>90,500</u>	<u>119,500</u>
Total Current Liabilities	<u>374,926</u>	<u>447,457</u>
Long-term Liabilities		
Long-term debt, less current maturities	<u>4,193,500</u>	<u>4,296,500</u>
Total Long-term Liabilities	<u>4,193,500</u>	<u>4,296,500</u>
Total Liabilities	<u>4,568,426</u>	<u>4,743,957</u>
Net Assets		
Net Assets		
Invested in capital assets, net of related debt	7,562,803	7,722,077
Restricted for equipment replacement	57,497	44,340
Restricted for debt retirement	58,801	40,131
Unrestricted	<u>864,679</u>	<u>861,073</u>
Total Net Assets	<u>\$ 8,543,780</u>	<u>\$ 8,667,621</u>

WESTERN PULASKI COUNTY WATER DISTRICT
Statements of Revenue, Expenses, and Changes in Net Assets
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Residential water sales	\$ 2,245,610	\$ 2,042,952
Commercial water sales	120,296	115,706
Penalty collections	42,095	34,087
Miscellaneous	74,760	97,495
Total operating revenues	<u>2,482,761</u>	<u>2,290,240</u>
Operating expenses:		
Water purchases	1,202,508	1,179,761
Utilities	73,936	75,310
Transmission and distribution expense	77,997	100,035
Meter readers	82,697	81,889
Office expense	52,368	51,650
Rent and lease expense	32,642	32,734
Transportation expenses	33,683	46,232
Insurance	46,960	38,373
Directors' fees	12,400	12,200
Employees' salaries and wages	277,214	285,544
Employees' pensions and benefits	76,087	90,663
Depreciation and amortization	507,211	490,994
PSC tax assessment	4,112	3,749
Professional fees	36,578	53,742
Miscellaneous	23,168	25,800
Total operating expenses	<u>2,539,561</u>	<u>2,568,676</u>
Operating income (loss)	<u>(56,800)</u>	<u>(278,436)</u>
Non-operating revenue (expenses):		
Cell tower rental income	35,336	48,600
Contract settlement	(115,000)	-
Interest income	28,075	6,473
Interest expense on long-term debt	(164,016)	(182,194)
Total non-operating revenue (expenses)	<u>(215,605)</u>	<u>(127,121)</u>
Income/(loss) before capital contributions	<u>(272,405)</u>	<u>(405,557)</u>
Capital contributions		
Grant proceeds	75,719	449,356
Tap fees	72,845	43,235
Total capital contributions	<u>148,564</u>	<u>492,591</u>
Increase (decrease) in net assets	(123,841)	87,034
Net assets:		
Beginning of year (2011 restated)	<u>8,667,621</u>	<u>8,580,587</u>
End of year	<u>\$ 8,543,780</u>	<u>\$ 8,667,621</u>

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

WESTERN PULASKI COUNTY WATER DISTRICT
Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash receipts from customers	\$ 2,440,721	\$ 2,290,240
Cash payments to suppliers for goods and services	(1,695,947)	(1,645,914)
Cash payments to employees for services	<u>(353,301)</u>	<u>(376,207)</u>
Net cash provided (used) by operating activities	<u>391,473</u>	<u>268,119</u>
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(2,212,000)	(100,500)
Proceeds from long-term debt	2,080,000	-
Interest paid on long-term debt	(190,649)	(182,194)
Additions to capital assets	(215,937)	(578,332)
Contract settlement	(115,000)	-
Capital contributions	<u>148,564</u>	<u>492,591</u>
Net cash provided (used) in financing activities	<u>(505,022)</u>	<u>(368,435)</u>
Cash flows from investing activities:		
Rental income	35,336	48,600
Interest income	<u>28,075</u>	<u>6,473</u>
Net cash provided by (used) in investing activities	<u>63,411</u>	<u>55,073</u>
Net increase (decrease) in cash and cash equivalents	(50,138)	(45,243)
Cash and cash equivalents, beginning of year	<u>916,403</u>	<u>961,646</u>
Cash and cash equivalents, end of year	<u>\$ 866,265</u>	<u>\$ 916,403</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (56,800)	\$ (278,436)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	507,211	490,994
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(42,040)	6,272
(Increase) decrease in prepaid assets	-	(734)
Increase (decrease) in accounts payable	(51,359)	35,739
Increase (decrease) in customer deposits	46,702	12,884
Increase (decrease) in accrued expenses	<u>(12,241)</u>	<u>1,400</u>
Net cash provided (used) by operating activities	<u>\$ 391,473</u>	<u>\$ 268,119</u>

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

Note 1 – Description of Entity and Summary of Significant Accounting Policies

Organization

The Western Pulaski County Water District was organized under KRS 74.010 to provide water service to the residents of Western Pulaski County. The District's commissioners are appointed by the Pulaski County Judge-Executive.

The District grants credit to customers, substantially all of whom are local residents and commercial businesses in Western Pulaski County.

Measurement Focus and Basis of Accounting

The term *measurement focus* is used to denote what is being measured and reported in the District's financial statements. The District is accounted for on the flow of economic resources measurement focus. Under this measurement focus, all assets and all liabilities associated with the operations are included in the Statement of Net Assets.

The term *basis of accounting* is used to determine when a transaction or event is recognized on the District's financial statements. The District uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Financial Statement Presentation

The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities; (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The District adopted the provisions of Governmental Accounting Standards Board (GASB) No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*" GASB 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components: (i) invested in capital assets, net of related debt, (ii) restricted, and (iii) unrestricted.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued

These classifications are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net assets consists of capital assets, net of accumulated depreciation and 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.
- *Restricted* - This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* - This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Use of Restricted Funds

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Receivables

The District uses the direct write-off method to account for bad debts. No allowance for bad debts has been provided, as no material write-offs are expected for receivables as of December 31, 2012 and 2011. The direct write-off method does not significantly depart from generally accepted accounting principles.

Capital Assets

The utility plant in service is stated at cost. The cost of current repairs, maintenance, and minor replacements is charged to expense as incurred. Depreciation has been provided over estimated useful lives of the assets using the straight-line method. Depreciation expense for the year ending December 31, 2012 and 2011 was \$507,211 and \$490,994, respectively.

The estimated useful lives of capital assets are as follows:

Utility plant	40 - 50 years
Equipment	5 - 7 years

Cash and Investments

The District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Investments are reported at fair market value.

Long-Term Obligations

Long-term debt and other obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts are deferred and amortized over the life of the bonds.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued

Operating Revenues and Expenses

Operating revenues and expenses consists of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions.

Capital Contributions

Transmission and distribution system assets contributed to the District by installers are capitalized at the installers' costs and recorded as capital contributions when received. Also included in capital contributions are various grants received for infrastructure and payments received from customers for tap fees.

Income Taxes

The District is exempt from federal and state income taxes.

Extraordinary and Special Items

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses and changes in net assets.

Bond and Interest Redemption Fund

The ordinances authorizing the bond issues require monthly deposits of one-twelfth of the annual bond principal requirement and one-sixth of the semi-annual interest requirement. For the years ending December 31, 2012 and 2011, the District had complied with this requirement.

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Depreciation Fund

The ordinances authorizing the various bond issues of the District require annual transfers into a depreciation fund until the maximum requirement of \$250,140 is reached. These funds can be used for capital improvements, expansions and extraordinary repairs. For the years ended December 31, 2012 and 2011, the District had complied with this requirement.

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

Note 2 – Capital Assets

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

<u>2012</u>	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital Assets not being depreciated</i>				
Land and rights	\$ 261,036	\$ 150,952	\$ -	\$ 411,988
Total Non-Depreciable Capital Assets	<u>261,036</u>	<u>150,952</u>	<u>-</u>	<u>411,988</u>
<i>Capital Assets being depreciated</i>				
Transmission and distribution lines	6,850,768	-	-	6,850,768
Line extensions	7,892,680	-	-	7,892,680
Meter installations	1,986,530	4,575	-	1,991,105
Services	568,482	-	-	568,482
Communication radios	9,106	-	-	9,106
Office equipment	169,750	6,561	-	176,311
Equipment and tools	57,543	-	-	57,543
Office building	23,527	-	-	23,527
Distribution reservoir	43,277	-	-	43,277
Hydrants	20,147	-	-	20,147
Electric pumping equipment	528,133	-	-	528,133
Trucks	228,917	30,880	-	259,797
Total Depreciable Capital Assets	<u>18,378,860</u>	<u>42,016</u>	<u>-</u>	<u>18,420,876</u>
Bond issuance costs	-	22,969	-	22,969
Less: Accumulated depreciation	(6,501,819)	(507,211)	-	(7,009,030)
Total Net Capital Assets	<u>\$ 12,138,077</u>			<u>\$ 11,846,803</u>
<u>2011</u>	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital Assets not being depreciated</i>				
Land and rights	\$ 182,986	\$ 78,050	\$ -	\$ 261,036
Total Non-Depreciable Capital Assets	<u>182,986</u>	<u>78,050</u>	<u>-</u>	<u>261,036</u>
<i>Capital Assets being depreciated</i>				
Transmission and distribution lines	6,850,768	-	-	6,850,768
Line extensions	7,518,366	374,314	-	7,892,680
Meter installations	1,986,530	-	-	1,986,530
Services	568,482	-	-	568,482
Communication radios	9,106	-	-	9,106
Office equipment	169,750	-	-	169,750
Equipment and tools	-	57,543	-	57,543
Office building	23,527	-	-	23,527
Distribution reservoir	43,277	-	-	43,277
Hydrants	20,147	-	-	20,147
Electric pumping equipment	528,133	-	-	528,133
Trucks	160,492	68,425	-	228,917
Total Depreciable Capital Assets	<u>17,878,578</u>	<u>500,282</u>	<u>-</u>	<u>18,378,860</u>
Less: Accumulated depreciation	(6,010,825)	(490,994)	-	(6,501,819)
Total Net Capital Assets	<u>\$ 12,050,739</u>			<u>\$ 12,138,077</u>

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

Note 3 – Long-Term Debt

Long-term debt consists of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Series 2001A Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$1,616,000; due in annual installments on January 1, through 2025; interest rate of 5% due semi-annually on January 1 and July 1.	\$ -	\$ 1,186,000
Series 2001B Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$1,164,000; due in annual installments on January 1, through 2035; interest rate of 4.5% due semi-annually on January 1 and July 1.	-	991,000
Series 2002A Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$900,000; due in annual installments on January 1, through 2042; interest rate of 4.5% due semi-annually on January 1 and July 1.	812,000	825,000
Series 2002B Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$550,000; due in annual installments on January 1, through 2042; interest rate of 4.5% due semi-annually on January 1 and July 1.	495,000	503,000
Series 2010 Water Revenue Bonds issued through Rural Development of the USDA in the amount of \$911,000; due in annual installments on January 1, through 2049; interest rate of 2.25% due semi-annually on January 1 and July 1.	897,000	911,000
Series 2012E Water Revenue Bonds issued through Kentucky Rural Water Finance Corporation in the amount of \$2,080,000; (to refund Series 2001A and 2001B revenue bonds) due in annual installments on July 1, through 2035; interest rate of 2.2 - 3.7% due semi-annually on January 1 and July 1.	<u>2,080,000</u>	<u>-</u>
Total Debt	<u>\$ 4,284,000</u>	<u>\$ 4,416,000</u>

WESTERN PULASKI COUNTY WATER DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

Note 3 – Long-Term Debt, Continued

Principal and interest maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 90,500	\$ 135,028	\$ 225,528
2014	152,500	137,281	289,781
2015	153,000	133,384	286,384
2016	159,500	129,453	288,953
2017	162,000	125,334	287,334
2018-22	889,500	552,037	1,441,537
2023-27	802,000	398,260	1,200,260
2028-32	566,500	286,014	852,514
2033-37	568,000	174,514	742,514
2038-42	499,000	76,466	575,466
2043-47	170,500	17,781	188,281
2048-49	71,000	1,564	72,564
	<u>\$ 4,284,000</u>	<u>\$ 2,167,116</u>	<u>\$ 6,451,116</u>

Long-term debt activities for the year ended December 31, 2012 and 2011 are as follows:

<u>Debt</u>	<u>Balance</u> <u>January 1, 2012</u>	<u>Additions</u>	<u>Debt Payments</u> <u>and Reductions</u>	<u>Balance</u> <u>December 31, 2012</u>	<u>Amount Due</u> <u>within One Year</u>
RD 2001A	\$ 1,186,000	\$ -	\$ (1,186,000)	\$ -	\$ -
RD 2001B	991,000	-	(991,000)	-	-
RD 2002A	825,000	-	(13,000)	812,000	(13,000)
RD 2002B	503,000	-	(8,000)	495,000	(8,000)
RD 2010	911,000	-	(14,000)	897,000	(14,500)
KRWFC 2012E	-	2,080,000	-	2,080,000	(55,000)
	<u>\$ 4,416,000</u>	<u>\$ 2,080,000</u>	<u>\$ (2,212,000)</u>	<u>\$ 4,284,000</u>	<u>\$ (90,500)</u>

<u>Debt</u>	<u>Balance</u> <u>January 1, 2011</u>	<u>Additions</u>	<u>Debt Payments</u> <u>and Reductions</u>	<u>Balance</u> <u>December 31, 2011</u>	<u>Amount Due</u> <u>within One Year</u>
RD 2001A	\$ 1,243,500	\$ -	\$ (57,500)	\$ 1,186,000	\$ (60,500)
RD 2001B	1,014,000	-	(23,000)	991,000	(24,000)
RD 2002A	837,000	-	(12,000)	825,000	(13,000)
RD 2002B	511,000	-	(8,000)	503,000	(8,000)
RD 2010	911,000	-	-	911,000	(14,000)
	<u>\$ 4,516,500</u>	<u>\$ -</u>	<u>\$ (100,500)</u>	<u>\$ 4,416,000</u>	<u>\$ (119,500)</u>

**WESTERN PULASKI COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011**

Note 3 – Long-Term Debt, Concluded

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. The District performed calculations of excess investment earnings on various bonds and at December 31, 2012 and 2011 does not expect to incur a liability.

Note 4 – Cash and Investments

The carrying amount of the District's cash deposits was \$866,265 and \$916,403 for the years ending December 31, 2012 and 2011, respectively and the bank balances were \$881,623 and \$939,598. The difference between book and bank balances primarily represents checks that have been issued, but have not cleared the bank. The District's deposits included one certificate of deposit totaling approximately \$63,000 for 2012 and 2011 that matured annually, with an interest rate of .66%. All of the District's deposits were either insured by FDIC or by collateral pledged by Citizens National Bank.

Note 5 – Pension Plan

The District participates in the County Employee Retirement System (CERS), a cost-sharing multiple-employer retirement system administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). CERS is a defined benefit plan created by the Kentucky General Assembly. The Plan covers substantially all full-time employees. The Plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living adjustments are provided at the discretion of the State legislature. Benefits fully vest upon reaching at least five years of service and are established by the state statute. Benefits of CERS members are calculated on the basis of age, final average salary, and service credit. CERS issues a stand-alone financial report, which may be obtained from Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601 or on-line at www.kyret.com.

Employees are required to contribute 5%. If hired after September 1, 2009, they must contribute 6% of gross compensation to the plan. The Board of Trustees of KRS determines the Organization's required contribution annually, 18.96% and 16.93% for the years ended June 30, 2012 and 2011, respectively. For the year ended December 31, 2012, the District's covered payroll was approximately \$252,000 and the District contributed approximately \$44,000. For the year ended December 31, 2011 the District's covered payroll was approximately \$259,000 and the District contributed approximately \$44,000.

**WESTERN PULASKI COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011**

Note 5 – Pension Plan, Concluded

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the Plan and employers.

Three Year Trend Information:

CERS does not make separate measurements of assets and pension benefit obligation for individual employers. CERS presents six-year historical trend information in their June 30, 2012 financial statements showing progress in accumulating sufficient assets to pay benefits when due. The following table presents certain information regarding the Plans' status as a whole, derived from actuarial valuations performed as of the dates indicated.

	CERS as of June 30, 2012	CERS as of June 30, 2011	CERS as of June 30, 2010
Actuarial Value of Assets	\$ 7,294,614,896	\$ 7,409,156,576	\$ 7,296,321,679
Actuarial Accrued Liability (AAL)	<u>12,149,559,743</u>	<u>11,777,126,077</u>	<u>11,131,174,187</u>
Underfunded (Overfunded)	<u>\$ 4,854,944,847</u>	<u>\$ 4,367,969,501</u>	<u>\$ 3,834,852,508</u>

The following table presents the last three years of total employer contributions to the Plan and the District's contributions for the years ending December 31:

Total Plan Contributions

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
December 31, 2012	\$ 670,536,562	\$ 629,553,908	93.89%
December 31, 2011	\$ 620,406,321	\$ 619,074,617	99.79%
December 31, 2010	\$ 658,673,827	\$ 539,612,942	81.92%

Organization's Contributions

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
December 31, 2012	\$ 43,654	\$ 43,654	100.00%
December 31, 2011	\$ 43,685	\$ 43,685	100.00%
December 31, 2010	\$ 33,193	\$ 33,193	100.00%

WESTERN PULASKI COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

Note 6 – Commitments

The District has a commitment from Rural Development for bonds in the amount of \$1,400,000 and a grant in the amount of \$522,000. With these funds, the District plans to construct a new and larger pump station and associated water lines to provide more reliable service to their customers. At December 31, 2012, the money had not yet been received.

Note 7- Subsequent Events

Management has evaluated subsequent events through March 25, 2013, the date which the financial statements were available to be issued.

Note 8 - Restatement

Net assets at the beginning of 2011 have been adjusted for the correction of errors. The correction has no effect on the activity of fiscal year 2012 or 2011; however the effect increases beginning net assets for 2011 by approximately \$2,457,491. The corrections were to account for capital contributions (grant revenue and tap fees) as a component of changes in net assets and to correct the carrying value of cash and cash equivalents at December 31, 2010.

	<u>2010</u>
Net assets as previously reported	\$ 6,123,096
Capital contributions	2,483,365
Carrying value of cash and cash equivalents	<u>(25,874)</u>
Net assets as restated	<u>\$ 8,580,587</u>

Supplemental Information

WESTERN PULASKI COUNTY WATER DISTRICT
Statement of Revenues, Expenditures and
Change in Net Assets – Budget and Actual
For the Year Ended December 31, 2012

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:			
Water sales-residential	\$ 2,400,000	\$ 2,245,610	\$ (154,390)
Water sales-commercial	115,000	120,296	5,296
Miscellaneous service revenues	100,000	116,855	16,855
Rents from water property	50,000	35,336	(14,664)
Total operating revenues	<u>2,665,000</u>	<u>2,518,097</u>	<u>(146,903)</u>
Operating expenses:			
Salaries and wages - employees	250,000	252,324	(2,324)
Salaries and wages - commissioners	12,600	12,400	200
Employee pensions and benefits	96,000	76,087	19,913
Purchased water	1,120,000	1,202,508	(82,508)
Purchased power	58,000	59,470	(1,470)
Materials and supplies	140,000	128,394	11,606
Contractual services-engineering	15,000	6,500	8,500
Contractual services-accounting	20,000	13,200	6,800
Contractual services-legal	20,000	7,836	12,164
Contractual services-testing	10,000	9,042	958
Contractual services-other	85,000	82,697	2,303
Rental of building	14,400	13,200	1,200
Rental of equipment	18,000	19,442	(1,442)
Transportation expense	30,000	33,683	(3,683)
Insurance	41,800	46,960	(5,160)
Advertising expense	1,000	1,971	(971)
Miscellaneous expense	80,800	37,634	43,166
Depreciation	420,000	507,211	(87,211)
Utility regulatory assessment fee	3,800	4,112	(312)
Payroll taxes	32,000	24,890	7,110
Total operating expenses	<u>2,468,400</u>	<u>2,539,561</u>	<u>(71,161)</u>
Operating income	<u>196,600</u>	<u>(21,464)</u>	<u>(218,064)</u>
Non-operating revenue (expenses):			
Interest income and other	53,600	28,075	(25,525)
Lawsuit settlement	-	(115,000)	(115,000)
Interest expense on long-term debt	(170,000)	(164,016)	5,984
Total non-operating revenue (expenses)	<u>(116,400)</u>	<u>(250,941)</u>	<u>(134,541)</u>
Income before capital contributions	<u>80,200</u>	<u>(272,405)</u>	<u>(352,605)</u>
Capital contributions			
Grant proceeds	-	75,719	75,719
Customer contributions	50,000	72,845	22,845
Total capital contributions	<u>50,000</u>	<u>148,564</u>	<u>98,564</u>
Increase/(Decrease) in net assets	<u>\$ 130,200</u>	<u>\$ (123,841)</u>	<u>\$ (254,041)</u>

WESTERN PULASKI COUNTY WATER DISTRICT
Statement of Revenues, Expenditures and
Change in Net Assets – Budget and Actual
For the Year Ended December 31, 2011

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:			
Water sales-residential	\$ 2,290,000	\$ 2,042,952	\$ (247,048)
Water sales-commercial	110,000	115,706	5,706
Miscellaneous service revenues	107,700	131,582	23,882
Rents from water property	-	48,600	48,600
	<u>2,507,700</u>	<u>2,338,840</u>	<u>(168,860)</u>
Total operating revenues			
Operating expenses:			
Salaries and wages - employees	255,000	258,733	(3,733)
Salaries and wages - commissioners	12,600	12,200	400
Employee pensions and benefits	89,000	90,663	(1,663)
Purchased water	1,075,000	1,179,761	(104,761)
Purchased power	59,000	60,448	(1,448)
Materials and supplies	145,000	150,947	(5,947)
Contractual services-engineering	25,000	10,557	14,443
Contractual services-accounting	20,200	14,700	5,500
Contractual services-legal	20,000	21,627	(1,627)
Contractual services-testing	12,000	6,858	5,142
Contractual services-other	85,000	81,889	3,111
Rental of building	14,400	14,400	-
Rental of equipment	18,000	18,334	(334)
Transportation expense	36,000	46,232	(10,232)
Insurance	40,600	38,373	2,227
Advertising expense	1,000	738	262
Miscellaneous expense	50,000	40,662	9,338
Depreciation	425,000	490,994	(65,994)
Utility regulatory assessment fee	3,600	3,749	(149)
Payroll taxes	34,400	26,811	7,589
	<u>2,420,800</u>	<u>2,568,676</u>	<u>(147,876)</u>
Total operating expenses			
Operating income			
	<u>86,900</u>	<u>(229,836)</u>	<u>(316,736)</u>
Non-operating revenue (expenses):			
Interest income and other	35,600	6,473	(29,127)
Lawsuit settlement	-	-	-
Interest expense on long-term debt	(168,465)	(182,194)	(13,729)
	<u>(132,865)</u>	<u>(175,721)</u>	<u>(42,856)</u>
Total non-operating revenue (expenses)			
Income before capital contributions			
	<u>(45,965)</u>	<u>(405,557)</u>	<u>(359,592)</u>
Capital contributions			
Grant proceeds	-	449,356	449,356
Customer contributions	50,000	43,235	(6,765)
	<u>50,000</u>	<u>492,591</u>	<u>442,591</u>
Total capital contributions			
Increase/(Decrease) in net assets	<u>\$ 4,035</u>	<u>\$ 87,034</u>	<u>\$ 82,999</u>

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

Board of Directors
Western Pulaski County Water District
Somerset, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Western Pulaski County Water District, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements and have issued our report thereon dated March 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Western Pulaski 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 Western Pulaski County Water District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. (2012-1)

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. (2012-2 and 2012-3)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Western Pulaski County Water District's financial statements are free from 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*.

Western Pulaski County Water District's Response to Findings

Western Pulaski County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Western Pulaski County Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

March 25, 2013

WESTERN PULASKI COUNTY WATER DISTRICT
Schedule of Findings and Responses
December 31 2012, and 2011

2012-1

Criteria:

Rural Development requires that revenue from customers be deposited into a separate bank account and that a separate account exists for bond and interest payments.

Condition:

While performing our audit procedures relating to revenue, we determined that customer deposits were being made into the operating account.

Cause:

Separate accounts were not established under the bond ordinances.

Effect:

Rural Development requirements were not met at December 31, 2012.

Recommendation:

We recommend that a separate bank account be established to deposit all water revenues from customers and a separate account exist for bond and interest payments.

Management Response:

To meet Rural Development requirements, management will establish and maintain a separate bank account for revenue and bond and interest payments.

2012-2

Criteria:

A work order system should be established for capital projects.

Condition:

While performing our audit procedures relating to capital projects, we determined that a proper work order system had not been established.

Cause:

All materials were being expensed, while materials associated with smaller internal capital projects should be capitalized.

Effect:

Total costs of internal construction are being underreported.

Recommendation:

We recommend that a work order system be established to properly allocate the cost of materials associated with capital projects.

Management Response:

Management will establish a work order system for all capital projects.

WESTERN PULASKI COUNTY WATER DISTRICT
Schedule of Findings and Responses
December 31 2012, and 2011

2012-3

Criteria:

Wages associated with capital projects should be capitalized.

Condition:

While performing our audit procedures relating to capital projects, we determined that there was no system in place to allocate wages associated with internal capital projects.

Cause:

All wages were being expensed, while wages associated with capital projects should be capitalized.

Effect:

Total costs of internal construction are being underreported.

Recommendation:

We recommend that a separate time sheet be used for employees to properly allocate time associated with capital projects.

Management Response:

Management will use separate time sheets and allocate time associated with capital projects.