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Pierce & Associates, PLLC
Certified Public Accountants

SOUTH 641 WATER DISTRICT

**FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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SOUTH 641 WATER DISTRICT

**FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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INTRODUCTION

The South 641 Water District is a de jure Water District, situated wholly in Calloway County, Kentucky, and exists by virtue of a Judgment and Order of the Calloway County Court entered on May 7, 1979.

On May 10, 1979, the Commission of the South 641 Water District adopted a resolution providing for the construction and installation of a water-works system in and for said District, and authorizing the issuance of Waterworks System Revenue Bonds to provide for the costs thereof. On May 21, 1981, bonds in the amount of \$472,000 were sold.

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To the Commissioners
South 641 Water District
Hazel, KY 42049

We have audited the accompanying balance sheet of South 641 Water District as of December 31, 2011, and the related statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South 641 Water District as of December 31, 2011, and the results of its operations and changes in retained earnings and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2012 on our consideration of the South 641 Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Pierce & Associates, PLLC

Pierce & Associates, PLLC
Certified Public Accountants

September 7, 2012

SOUTH 641 WATER DISTRICT
BALANCE SHEET
December 31, 2011

ASSETS			
	<u>Water</u>	<u>Sewer</u>	<u>Combined</u>
<u>Fixed Assets</u>			
Waterworks System in Service	\$ 1,164,042	\$ 1,090,072	\$ 2,254,114
Less: Accumulated Depreciation	(892,112)	(303,312)	(1,195,424)
Net Fixed Assets	271,930	786,760	1,058,690
<u>Cash and Investments</u>			
Unrestricted:			
Cash in Bank-Operations	308,787	(237,042)	71,745
Petty Cash	86	-	86
Certificates of Deposit	49,860	40,794	90,654
Restricted:			
Cash for Debt Service	173	93	266
Cash - EPA Grant	-	5,326	5,326
Cash for Meter Fund	13,974	-	13,974
Total Cash and Investments	372,880	(190,829)	182,051
<u>Receivables</u>			
Accounts Receivable	11,085	3,544	14,629
Total Receivables	11,085	3,544	14,629
Total Current Assets	383,965	(187,285)	196,680
TOTAL ASSETS	\$ 655,895	\$ 599,475	\$ 1,255,370
LIABILITIES & EQUITY CAPITAL			
<u>Capital</u>			
Donated Capital	\$ 620,548	\$ 656,245	\$ 1,276,793
Proceeds from Capital Contributions	3,000	254,148	257,148
Retained Earnings	(110,087)	(381,089)	(491,176)
Total Capital	513,461	529,304	1,042,765
<u>Long-Term Debt</u>			
Waterworks System Revenue Bonds (Net of Current Portion)	117,650	63,350	181,000
<u>Current Liabilities</u>			
Accrued Expenses	637	521	1,158
Customers Deposits	12,447	-	12,447
Current Portion of Long-Term Debt	11,700	6,300	18,000
Total Current Liabilities	24,784	6,821	31,605
Total Liabilities	142,434	70,171	212,605
TOTAL LIABILITIES AND EQUITY CAPITAL	\$ 655,895	\$ 599,475	\$ 1,255,370

See Accountants' Audit Report and Notes to the Financial Statements

SOUTH 641 WATER DISTRICT
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011

	Water	Sewer	Total
<u>Operating Revenue</u>			
Water & Sewer Revenues	\$ 136,304	\$ 39,685	\$ 175,989
Customer Penalties Collected	3,298	877	4,175
Reconnection Charges & Miscellaneous	1,464	389	1,853
Total Revenues	141,066	40,951	182,017
<u>Operating Expenses</u>			
Water Purchases	35,114	-	35,114
Operating Supplies	1,756	1,437	3,193
Salaries	24,952	20,415	45,367
Auto Expense	4,005	3,277	7,282
Repairs and Maintenance	11,024	9,020	20,044
Utilities & Phone	5,810	4,753	10,563
Payroll Tax Expense	2,103	1,721	3,824
Supplies & Postage	2,788	2,281	5,069
Insurance	2,475	2,025	4,500
Contractual Services	3,211	2,627	5,838
Depreciation	30,820	29,740	60,560
Employee Benefits	254	208	462
Miscellaneous	1,559	1,275	2,834
Total Operating Expenses	125,871	78,779	204,650
<u>Operating Income</u>	15,195	(37,828)	(22,633)
<u>Other Income (Expense)</u>			
Interest Income	220	178	398
Revenue Bond Interest Expense	(5,940)	(4,860)	(10,800)
Proceeds from Capital Contributions	3,000	254,148	257,148
Total Other Income (Expense)	(2,720)	249,466	246,746
Net Income (Loss)	\$ 12,475	\$ 211,638	\$ 224,113

See Accountants' Audit Report and Notes to the Financial Statements

SOUTH 641 WATER DISTRICT
STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Unrestricted Retained Earnings	Donated Capital	Total Retained Earnings & Donated Capital
RETAINED EARNINGS, January 1, 2011	\$ (458,141)	\$ 1,276,793	\$ 818,652
Net Income (Loss)	(33,035)		(33,035)
Contributed Capital		257,148	257,148
RETAINED EARNINGS, December 31, 2011	<u>\$ (491,176)</u>	<u>\$ 1,533,941</u>	<u>\$ 1,042,765</u>

See Accountants' Audit Report and Notes to the Financial Statements

SOUTH 641 WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (22,633)	
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	60,560	
Decrease (Increase) in Accounts Receivable	2,518	
Decrease (Increase) in Unbilled Receivables	5,109	
Increase (Decrease) in Accrued Expenses	(1,317)	
Increase (Decrease) in Customer Deposits	(822)	
Net Cash Provided By Operating Activities	\$ 43,415	
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to Plant in Service	(262,316)	
Principle Paid on Revenue Bonds	(17,000)	
Proceeds from Capital Contributions	257,148	
Interest Paid on Revenue Bonds	(10,800)	
Net Cash Used By Financing Activities	(32,968)	
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income Earned on Bank Accounts	398	
Net Cash Provided By Investing Activities	398	
 NET INCREASE (DECREASE) IN CASH		 10,845
CASH - January 1, 2011		171,206
CASH - December 31, 2011		\$ 182,051

Cash Flow Disclosures:

Interest Paid:	\$ 10,800
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See Accountants' Audit Report and Notes to the Financial Statements

SOUTH 641 WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

**SOUTH 641 WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of South 641 Water District are prepared on the accrual basis of accounting. Therefore, income is recognized as it is earned rather than when cash is received, and expenditures are recognized as incurred rather than when paid, in accordance with generally accepted accounting principles.

Cash

For the purposes of the statement of cash flows, all cash investments with an original maturity of three months or less are considered to be cash equivalents. Kentucky Revised Statutes control the type of investment which is allowable for the District to utilize. Certificates of deposit are an authorized type of investment.

Accounts Receivable

The District does not have an allowance for doubtful accounts, instead, the direct write-off method is used and accounts are written-off as they become uncollectible. This method is not expected to differ materially from the allowance method.

Asset Capitalization and Depreciation Expense

The assets purchased by the District are capitalized at cost. Depreciation for these assets is provided using the straight-line method over their estimated useful lives. The estimated useful lives of the assets are as follows:

Waterworks System & Improvements	50 Years
Building	33 Years
Equipment	10 Years
Office Furniture & Equipment	10 Years
Vehicles	10 Years

Income Taxes

As a special taxing district of local government, the District is exempt from Federal income tax. Therefore, no provision is made for income tax expense.

Accruals

The District does not compensate for days not worked, therefore no accrual has been made for compensated absences.

Advertising costs are expensed as incurred.

**SOUTH 641 WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with U.S. 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.

Reporting Entity

The South 641 Water District operates as a proprietary fund, and is considered to be a separate reporting entity, and not a component unit subject to inclusion in the financial statements of any other entity. Criteria considered in determining the reporting entity included evaluating oversight responsibility, financial interdependency, selection of board members and management personnel, influence over operations, and accountability for fiscal matters.

Fund Accounting

The accounts of the South 641 Water District are organized using governmental fund accounting, which uses the basis of funds or account groups, each of which is considered a separate reporting entity. The operations of each fund or account group are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues, and expenditures.

The District is considered to be a proprietary fund type, or enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water services to the general public on a continuing basis are financed through user charges.

NOTE 2 - PROPERTY, PLANT AND EQUIPMENT

Fixed assets at December 31, 2011, are stated at cost less depreciation as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
<u>Water System:</u>			
Waterworks System in Service	\$1,085,950	\$ 849,926	\$ 236,024
Land	20,000	0	20,000
Equipment	47,458	31,813	15,645
Office Furniture & Equipment	10,634	10,373	261
<u>Sewer System:</u>			
Sewer System in Service	1,084,962	298,202	786,760
Office Furniture & Equipment	<u>5,110</u>	<u>5,110</u>	<u>0</u>
TOTALS:	<u>\$2,254,114</u>	<u>\$ 1,195,424</u>	<u>\$ 1,058,690</u>

The charge of \$60,560 represents depreciation for the current year ended December 31, 2011.

**SOUTH 641 WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 3 - CASH

Cash balances in bank at December 31, 2011 consisted of the following:

Demand Deposits:

BB&T Bank, Operations—unrestricted Earning 0% A.P.R.	\$ 74,250
BB&T Bank, Debt Service—restricted Earning 0% A.P.R.	5,326
BB&T Bank, Business IDA – restricted Earning 0.25% A.P.R.	37,003
BB&T Bank, Money Rate Savings – restricted Earning 0.15% A.P.R.	22,667
BB&T Bank, Business IDA – restricted Earning 0.25% A.P.R.	43,422
BB&T Bank, Business IDA – restricted Earning 0.25% A.P.R.	10,229
BB&T Bank, Meter Fund—restricted Earning .01% A.P.R.	<u>13,974</u>
Total	206,871
Insured by FDIC Insurance	<u>250,000</u>
Over or (Under) Insured	<u>\$ 43,129</u>

Overall Risk to the District \$ 0

The District's cash in bank demand deposits at December 31, 2011, does not exceed the FDIC insured amount. If the District exceeds FDIC insurance amounts this excess would represent a potential loss in the event the financial institution failed to perform on its obligations. The bank has pledged collateral to secure the District's excess deposits.

**SOUTH 641 WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 4 - ACCOUNTS RECEIVABLE

Customer accounts receivable at December 31, 2011 totals \$14,629. This represents the amount of current December bills and any amount in arrears due from customers.

NOTE 5 - CAPITAL

Donated Capital amounting to \$1,276,793 have been received over the total period of time that the District has been in operation. Of this amount, \$4,950 represents tap on fees paid by customers. These advances from customers represent non-refundable contributions for the purpose of offsetting part of the cost of tapping onto the system. The remainder of this account has been received from various other governmental entities. Current year contributions amounted to \$257,148.

NOTE 6 - LONG-TERM DEBT

Water and Sewer revenue bonds were issued in 1981 in the original amount of \$472,000 payable to the U.S. Department of Agriculture at 5.00% per annum. Interest is payable semi-annually on January 1 and July 1 of each year beginning in 1984 and ending in 2020. The system is subject to a statutory mortgage lien until the indebtedness is repaid. Bonds maturing after January 1, 1992 are optional for redemption prior to maturity on any interest payment date falling after January 1, 1991.

The following is a summary of principal maturities of debt and interest obligations during the next five years and five year increments thereafter:

<u>Maturity Date</u> <u>December 31,</u>	<u>Principal</u> <u>Amounts</u>	<u>Interest</u>
2011	17,000	10,800
2012	18,000	9,950
2013	19,000	9,050
2014-2018	110,000	30,000
2019-2020	52,000	3,950
Total	<u>\$ 216,000</u>	<u>\$ 63,750</u>

**SOUTH 641 WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 7 - ACCRUED TAXES PAYABLE

Accrued Taxes Payable as of December 31, 2011, consisted of the following:

Payroll Taxes	\$ 808
Sales Tax	<u>350</u>
Total Current Liabilities:	<u><u>\$1,158</u></u>

NOTE 8 – RELATED PARTIES

Related parties have been noted in the Engagement Acceptance and Continuance Workpapers. There is a potential for an impairment of independence due to the relationship of a part-time employee of Pierce & Associates, PLLC and an employee at South 641 Water District. In order to compensate for this independence threat, testing was increased and all transactions were examined closely as well as all board minutes.

**ADDITIONAL REPORTS REQUIRED
BY *GOVERNMENT AUDITING STANDARDS***

PIERCE & ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Commissioners
South 641 Water District
Hazel, KY 42049

We have audited the financial statements of South 641 Water District as of and for the year ended December 31, 2011, and have issued our report thereon dated September 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of South 641 Water District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South 641 Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the board of directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Pierce & Associates, PLLC

Pierce & Associates, PLLC

September 7, 2012