

THE CITY WATER & SEWER SYSTEM

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RECEIVED

OCT 10 2012

PUBLIC SERVICE
COMMISSION

September 19, 2011

Public Service Commission
RE: Case No 2010-00074
P.O. Box 615, 211 Sower Boulevard
Frankfort, Kentucky 40602-0615

RECEIVED

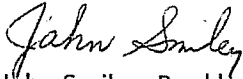
OCT 10 2012

PUBLIC SERVICE
COMMISSION

Dear Sir:

As required, you will find our 2011 audit with the calculation of the cost of water per the contract with South Hopkins Water District.

Respectfully,


Jahn Smiley, Bookkeeper/Clerk

Enclosures

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

COMPUTATION OF UNIT COST OF WATER PRODUCED

for the year ended June 30, 2012
(and comparable amounts for the year ended June 30, 2011)

Direct cost of water production per audit	\$ 551,592	
Ten percent (10%) of general and administrative expense, \$123,638 per audit	<u>12,364</u>	
Total operation and maintenance costs	563,956	
Debt service cost (\$107,878 x 88.5%)	<u>95,472</u>	
Total cost of water produced		\$ 659,428
Total gallons pumped per meter records maintained by Superintendent	416,666,040	
Less water used internally	<u>36,935,935</u>	
Net gallons pumped		<u>379,730,105</u>
Unit cost per 1,000 gallons: \$659,428/379,730,105		\$ 1.73657
Computation of underpayment (overpayment):		
Total gallons purchased by South Hopkins Water District		<u>312,550,000</u>
Total cost of gallons purchased 312,550,000 X .00173657		\$ 542,765
Total billed and paid		<u>629,470</u>
Due from (to) South Hopkins Water District		<u>\$ (86,705)</u>
Comparable amounts for the year ended June 30, 2011		
Total cost of water produced		<u>\$ 728,468</u>
Net gallons pumped		361,664,065
Unit cost per 1,000 gallons		\$ 2.01421
Total gallons purchased by South Hopkins Water District		<u>311,396,000</u>
Total cost of gallons purchased		\$ 627,217
Total billed and paid		<u>546,250</u>
Due from South Hopkins Water District		<u>\$ 80,967</u>

**DAWSON SPRINGS MUNICIPAL
WATERWORKS AND SEWER SYSTEM**
(a component unit of the City of Dawson Springs, Kentucky)
**AUDIT OF FINANCIAL STATEMENTS
and SUPPLEMENTAL INFORMATION**

For the years ended June 30, 2012 and 2011

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the Dawson Springs
Municipal Waterworks and Sewer System
Dawson Springs, Kentucky

We have audited the accompanying financial statements of the business-type activities of Dawson Springs Municipal Waterworks and Sewer System, component unit of the City of Dawson Springs, Kentucky, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Dawson Springs Municipal Waterworks and Sewer System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Dawson Springs Municipal Waterworks and Sewer System's management. 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 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 the business-type activities of the Dawson Springs Municipal Waterworks and Sewer System as of June 30, 2012 and 2011 and the results of its operations and its cash flows for the years 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 August 2, 2012 on our consideration of the Dawson Springs Municipal Waterworks and Sewer System'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Dawson Springs Municipal Waterworks and Sewer System has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Dawson Springs Municipal Waterworks and Sewer System's financial statements taken as a whole. The supplemental information, as listed in the table of contents, is presented for the purposes of additional analysis and is not a required part of the financial statements. The supplemental information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Alford, Nance & Jones, LLP

August 2, 2012

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

STATEMENT OF NET ASSETS

June 30, 2012 and 2011

ASSETS	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 255,729	\$ 111,819
Receivables:		
Customers	133,425	122,743
Landfill fees	22,332	21,841
Utility tax	1,113	1,027
South Hopkins Water District	-	80,967
Supplies inventory	22,636	22,475
Prepaid insurance	<u>5,161</u>	<u>5,397</u>
Total current assets	<u>440,396</u>	<u>366,269</u>
Noncurrent assets:		
Restricted assets - Cash	496,226	506,164
Capital assets, net of accumulated depreciation	8,916,276	9,235,943
Bond discount and issuance costs, net of accumulated amortization	<u>36,119</u>	<u>8,504</u>
Total noncurrent assets	<u>9,448,621</u>	<u>9,750,611</u>
Total assets	<u>9,889,017</u>	<u>10,116,880</u>
LIABILITIES		
Current liabilities:		
Accounts payable	14,372	4,896
Payable to South Hopkins Water District	86,705	-
Accrued liabilities	33,490	31,335
Current portion of bond and loan obligations	253,974	227,455
Customer deposits	65,244	63,789
Accrued interest payable	<u>18,071</u>	<u>36,010</u>
Total current liabilities	471,856	363,485
Noncurrent portion of bond and loan obligations	<u>2,946,899</u>	<u>3,174,525</u>
Total liabilities	<u>3,418,755</u>	<u>3,538,010</u>
NET ASSETS		
Invested in capital assets, net of related debt	5,751,522	5,842,467
Restricted for:		
Debt service	139,553	141,399
Capital projects	335,887	327,548
Unrestricted	<u>243,300</u>	<u>267,456</u>
Total net assets	<u>\$ 6,470,262</u>	<u>\$ 6,578,870</u>

The notes to the basic financial statements
are an integral part of this statement.

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS**

for the years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Water department	\$ 900,245	\$ 993,111
Sewer department	380,952	380,338
Other	<u>33,478</u>	<u>24,706</u>
Total operating revenues	<u>1,314,675</u>	<u>1,398,155</u>
Operating expenses:		
Water production	551,592	618,154
Water distribution	102,300	108,643
Sewer	184,450	157,265
General and administrative	123,638	105,540
Depreciation	<u>370,682</u>	<u>356,635</u>
Total operating expenses	<u>1,332,662</u>	<u>1,346,237</u>
Operating income (loss)	(17,987)	51,918
Nonoperating revenues (expenses):		
Interest income	300	2,521
Interest expense	(106,133)	(124,800)
Forgiveness of KIA debt	-	-
Amortization of bond costs	<u>(2,655)</u>	<u>(2,305)</u>
Income (loss) before capital contributions	(126,475)	(72,666)
Capital contributions		
-tap fees	875	450
-facility reserve	16,992	15,576
-capital grants	<u>-</u>	<u>20,717</u>
Change in net assets	(108,608)	(35,923)
Total net assets, July 1	<u>6,578,870</u>	<u>6,614,793</u>
Total net assets, June 30	<u><u>\$ 6,470,262</u></u>	<u><u>\$ 6,578,870</u></u>

The notes to the basic financial statements
are an integral part of this statement.

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

STATEMENT OF CASH FLOWS

for the years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Receipts from customers	\$ 1,472,543	\$ 1,359,656
Payments to suppliers	(635,945)	(663,699)
Payments to employees	(314,329)	(313,822)
Net cash provided by operating activities	522,269	382,135
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(51,015)	(872,571)
Proceeds from capital debt, net	938,306	809,953
Principal paid on capital debt	(1,162,806)	(189,106)
Interest paid on capital debt	(130,949)	(126,322)
Capital contributions	17,867	36,743
Net cash used for capital and related financing activities	(388,597)	(341,303)
Cash flows from investing activities:		
Interest received	300	2,521
Net cash provided by investing activities	300	2,521
Net increase (decrease) in cash and cash equivalents	133,972	43,353
Cash and cash equivalents, beginning of year	617,983	574,630
Cash and cash equivalents, end of year	\$ 751,955	\$ 617,983

Continued

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

STATEMENT OF CASH FLOWS, Continued

for the years ended June 30, 2012 and 2011

	2012	2011
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (17,987)	\$ 51,918
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	370,682	356,635
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	69,708	(38,499)
Inventory	(161)	(991)
Prepaid insurance	236	1,679
Increase (decrease) in:		
Accounts payable	96,181	3,648
Accrued liabilities	2,155	5,497
Customer deposits	1,455	2,248
Net cash provided by operating activities	\$ 522,269	\$ 382,135

Noncash disclosure : None

The notes to the basic financial statements
are an integral part of this statement.

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

1. Summary of Significant Accounting Policies

The more significant accounting policies of the Dawson Springs Municipal Waterworks and Sewer System (System) are as follows. The System applies all Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case GASB prevails.

(a) Reporting Entity

The System provides municipal water and sewer services to users in the City of Dawson Springs, as well as being the water supply to South Hopkins Water District (see Note 8). These financial statements include only the accounts of the Dawson Springs Municipal Waterworks and Sewer System, and are not intended to represent the accounts of the City of Dawson Springs, Kentucky in conformance with Statement No. 14 of the Governmental Accounting Standards Board "The Financial Reporting Entity." The System is a component unit of the City of Dawson Springs, Kentucky (primary government) due to its financial accountability to the City. It is governed by a three-member board of commissioners, appointed by the City.

(b) Basis of Presentation/Measurement Focus

The System presents its accounts on the basis prescribed by accounting principles generally accepted in the United States for enterprise funds (a proprietary fund classification). An enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determinations of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

An enterprise fund is accounted for on a flow of economic resources measurement focus. This means that all assets and liabilities (whether current or noncurrent) are included on the statement of net assets. The statement of revenue, expenses and changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the System finances and meets the cash flow needs of its activities.

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

(c) Basis of Accounting

The accounts of the System are maintained on the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

(d) Deposits and Investments

Cash and cash equivalents (certificates of deposit) are deposited in local financial institutions. All investments with a maturity of 90 days or less are considered to be cash equivalents. Investments, if any, are stated at quoted market value. Kentucky Revised Statute 66.480 permits the System to invest in U.S. Treasury and Agency Obligations, certain federal investments, repurchase agreements, commercial banks' certificates of deposit, savings and loan deposits and the Commonwealth of Kentucky investment pool.

The System does not have a formal deposit and investment policy for credit risk, custodial credit risk, concentration of credit risk, or limitations on deposits and investments.

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

1. Summary of Significant Accounting Policies, continued

(e) Accounts Receivable

Accounts receivable are considered substantially collectible and a provision for doubtful accounts has not been provided.

(f) Supplies Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consists of expendable supplies and replacement parts. The cost is recorded as an asset at the time purchased and as an expenditure when used (consumption method).

(g) Capital Assets

Property, plant and equipment are recorded at historical cost. Capital assets are defined by the System as assets with an initial, individual cost of more than \$100 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest expense incurred during a construction period is capitalized. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Water and sewer plant, lines, mains and hydrants	40-50 years
Equipment	5-33 years
Meters and garage building	20-25 years

(h) Operating Revenues and Expenses

Operating revenues and expenses generally result from providing sewer services, producing and delivering water and other operating related revenues. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(i) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

(j) Risk Management

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System carries commercial insurance for these types of risk of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

2. Deposits

At June 30, 2012, the carrying amount of the System's deposits was \$751,885 (excluding \$70 change fund) and the bank balance was \$779,571. Of the bank balance, \$350,923 was covered by federal depository insurance and the balance was covered by collateral held by the pledging bank's affiliate in the System's name.

At June 30, 2011, the carrying amount of the System's deposits was \$617,913 (excluding \$70 change fund) and the bank balance was \$659,192. Of the bank balance, \$335,918 was covered by federal depository insurance, and the balance was covered by collateral held by the pledging bank's affiliate in the System's name.

3. Restricted Assets

Restricted cash accounts, as described in Note 5, are as follows at June 30:

	2012	2011
Bond and Interest Redemption Accounts:		
Refunding Revenue Bonds of 1997	\$ 89,641	\$ 85,918
Refunding Revenue Bonds of 2002	12,918	47,916
KIA Loan of 1994	5,273	4,682
Revenue Bonds of 2004	18,667	16,383
Revenue Bonds of 2008	14,347	13,657
KIA Loan of 2010 (ARRA)	5,496	8,853
KRWFC Loan 2012C	11,282	-
Subtotal	157,624	177,409
Depreciation Accounts:		
Water Treatment Facility Reserve	179,211	177,524
Wastewater Treatment Facility Reserve	33,270	37,583
KIA R&M Reserve	91,520	91,520
Sewer Reserve	8,750	5,750
Water Tank Reserve	16,340	13,760
KIA (ARRA) Reserve	6,750	1,350
Subtotal	335,841	327,487
Construction Accounts:		
Water Line Replacement	-	50
KIA (wastewater rehab)	-	11
Subtotal	-	61
Utility (KU/LGE) Collection Account	2,761	1,207
	\$ 496,226	\$ 506,164

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

4. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	2011 Balance	Increases	Decreases	2012 Balance
Capital assets not being depreciated:				
Land and rights	\$ 33,898	\$ -	\$ -	\$ 33,898
Construction in progress	-	-	-	-
	<u>33,898</u>	<u>-</u>	<u>-</u>	<u>33,898</u>
Capital assets being depreciated:				
Buildings and system:				
Water	7,623,390	37,675	73,876	7,587,189
Sewer	6,741,541	13,236	25,187	6,729,590
Machinery and equipment	112,523	-	-	112,523
Office furniture and equipment	15,831	105	-	15,936
Vehicles	55,555	-	-	55,555
Garage building	20,486	-	-	20,486
Total capital assets being depreciated	<u>14,569,326</u>	<u>51,016</u>	<u>99,063</u>	<u>14,521,279</u>
Less accumulated depreciation for:				
Buildings and system				
Water	2,967,734	181,824	73,876	3,075,682
Sewer	2,241,150	176,319	25,187	2,392,282
Machinery and equipment	68,888	10,771	-	79,659
Office furniture and equipment	14,880	715	-	15,595
Vehicles	54,218	1,004	-	55,222
Garage building	20,411	50	-	20,461
Total accumulated depreciation	<u>5,367,281</u>	<u>370,683</u>	<u>99,063</u>	<u>5,638,901</u>
Total capital assets being depreciated, net	<u>9,202,045</u>	<u>(319,667)</u>	<u>-</u>	<u>8,882,378</u>
Business-type activities capital assets, net	<u>\$ 9,235,943</u>	<u>\$ (319,667)</u>	<u>\$ -</u>	<u>\$ 8,916,276</u>

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

5. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2012:

	KIA Loan (sewer)	Refunding Revenue Bonds of 1997	Refunding Revenue Bonds of 2002	Revenue Bonds of 2004	Revenue Bonds of 2007	KIA/ARRA Loan (water lines)	KRWFC Loan 2012C	Total
Balance, June 30, 2011	\$ 276,054	\$ 300,000	\$ 970,000	\$ 439,500	\$ 521,000	\$ 934,659	\$ -	\$ 3,441,213
Debt Proceeds						19,164	970,000	989,164
Debt Defeased			(935,000)					(935,000)
Debt Payments	(41,773)	(95,000)	(35,000)	(5,500)	(6,000)	(44,533)		(227,806)
Subtotal	234,281	205,000	-	434,000	515,000	909,290	970,000	3,267,571
Unamortized deferred amount on refunding		(8,321)					(58,377)	(66,698)
Balance, June 30, 2012	<u>\$ 234,281</u>	<u>\$ 196,679</u>	<u>\$ -</u>	<u>\$ 434,000</u>	<u>\$ 515,000</u>	<u>\$ 909,290</u>	<u>\$ 911,623</u>	<u>\$ 3,200,873</u>
Due within one year	<u>\$ 42,024</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 6,000</u>	<u>\$ 6,000</u>	<u>\$ 44,950</u>	<u>\$ 55,000</u>	<u>\$ 253,974</u>

KIA Loan Payable

On June 29, 1994, the Kentucky Infrastructure Authority authorized the issuance of a revolving loan, with an interest rate of .6%, to the City of Dawson Springs, Kentucky (City) for a Wastewater Treatment Plant Upgrade and Rehabilitation. Debt service payments of \$21,684 are due on each June 1 and December 1 through December, 2017. A loan servicing fee of two-tenths of one percent of the annual outstanding loan balance is payable to the Authority. The System is also required to reserve \$8,904 per year for repair and maintenance until such time a balance of \$89,040 is accumulated.

Refunding Revenue Bonds, Series 1997

On September 1, 1997, the City authorized and provided for the issuance and sale of \$1,115,000 principal amount of City of Dawson Springs, Kentucky Water and Sewer Refunding Revenue Bonds of 1997. The purpose of the issuance was for the advance refunding of a portion of the outstanding Refunding Revenue Bonds of 1989. The net proceeds were placed in an escrow account from which U.S. Government Securities were purchased for the purpose of generating resources for the future debt service payments on \$1,005,000 of refunded debt. As a result, \$1,005,000 of the Refunding Revenue Bonds of 1989 is considered to be defeased and the liability has been removed from long-term debt. The defeased bonds were called on September 1, 1999 @103, in accordance with terms of the bond ordinance. The advance refunding was undertaken to reduce total debt service payments over the next sixteen years by \$108,398 and resulted in an economic gain of \$77,694. The new refunding debt discount (\$3,624), issuance costs (\$29,414) and original deferred amount on refunding (\$106,533) have been deferred and are being amortized on the straight-line method over the life of the debt (16 years). The bonds bear interest at 5.1%.

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

5. Long-Term Debt, Continued

Refunding Revenue Bonds of 2002

On February 21, 1989, the City of Dawson Springs, Kentucky (City) authorized and provided for the issuance and sale of \$1,263,000 principal amount of City of Dawson Springs Waterworks and Sewer System Revenue Bonds of 1989. The purpose of the issuance was for financing the cost (not otherwise provided) of the construction, expansion and upgrading of the wastewater treatment plant of the System.

On July 1, 2002, the City of Dawson Springs, Kentucky (City) authorized and provided for the issuance and sale of \$1,190,000 principal amount of City of Dawson Springs Water and Sewer Refunding Revenue Bonds Series 2002. The purpose of the issuance was for financing the cost of refunding the outstanding prior bond issue of 1989. The refunding was accomplished by selling the \$1,190,000 bonds at a 1.75% discount (\$20,825) which provided net proceeds of \$1,172,923, including accrued interest of \$3,748. The debt discount of (\$20,825), original deferred amount on refunding (\$37,903), and issuance costs (\$26,839) have been deferred and are being amortized to expense (straight-line method) over the life of the debt (25 years). The advance refunding was undertaken to reduce total debt service payments over twenty-six years by \$111,970 and resulted in an economic gain of \$76,180. The bonds bear interest from 2.25% to 5.25%, with a net interest cost of 5.1175%.

The Refunding Revenue Bonds of 2002 were advance refunded with the KRWFC Series 2012C loan on May 2, 2012 (see Note 5-KRWFC Series 2012C loan). Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements. As of June 30, 2012, \$935,000 of bonds outstanding are considered defeased.

After the issuance and delivery of the Refunding Revenue Bonds of 2002 and the Refunding Revenue Bonds of 1997 (which have parity), the income and revenues of the System shall be collected, segregated, accounted for and distributed as follows:

(a) Revenue Fund

This separate account of the System will continue to receive all revenues of the System. The monies in the Revenue Fund shall be used, disbursed and applied by the System only for the purpose and in the order of priorities hereinafter specified.

(b) Bond and Interest Redemption Fund

This separate account of the System shall receive a monthly transfer from the Revenue Fund in an amount sufficient to pay the interest on and principal of the outstanding bonds, a sum equal to the total of the following:

- (1) An amount equal to one-sixth (or such larger amount as is necessary) of the next succeeding six-month interest installment to become due, plus
- (2) An amount equal to one-tenth (or such larger amount as is necessary) of the principal of outstanding bonds maturing on the next succeeding September 1.

Any excess over the requirements during the next twelve months for paying the principal of and interest on outstanding bonds, as same fall due, may be used for redemption of outstanding bonds prior to maturity, as set forth in this note.

All or any part of the excess of the interest and principal requirements becoming due within the next succeeding six months may be invested in U.S. Obligations which may be converted readily into cash, having a maturity date or being subject to retirement at the option of the holder prior to the date when the sums invested will be needed for meeting interest and/or principal payments. Any such investments will be a part of the Fund and income from such investments will be credited to the Fund.

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

5. Long-Term Debt, Continued

(c) Depreciation Fund

This separate account of the System shall consist of (1) the Water Treatment Facility Reserve Account, and (2) the Wastewater Treatment Facility Reserve Account.

- (1) There shall be transferred monthly from said Revenue Fund and deposited in the Water Treatment Facility Reserve Account the sum of \$1,600, a portion of which monthly sum will be contributed to the Account by the South Hopkins Water District until there is accumulated in such Water Treatment Facility Reserve Account the sum of \$192,000, after which no further deposits need be made into such account except to replace withdrawals. Monies in such account may be withdrawn and used for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals and/or replacements to the water treatment facility.
- (2) There shall be transferred monthly from said Revenue Fund and deposited in the Wastewater Treatment Facility Reserve Account the sum of \$742 until there is accumulated the sum of \$89,040. No further deposits need be made into such account except to replace withdrawals, after which monies in such account may be withdrawn and used for the purpose of paying the cost of unusual or extraordinary maintenance repairs, renewals and/or replacements to the wastewater treatment facility of the city.

Monies in the Depreciation Fund may be withdrawn and used for the purpose of making payments of principal and interest on the Bonds if the amount on deposit in the Bond and Interest Redemption Fund is not sufficient to make such payments.

Monies in the Depreciation Fund may be invested in U.S. Obligations having a maturity date or being subject to redemption at the option of the holder within not more than five years subsequent to the date of investment, and all such investments, as well as the income therefrom, shall be carried to the credit of the appropriate accounts of the Depreciation Fund.

(d) Operation and Maintenance Fund

This special account of the System shall continue to be maintained. The System shall transfer in each month and deposit into said Operation and Maintenance Fund from monies remaining in the Revenue Fund, after the transfers required above are made in each month, an amount sufficient to maintain therein a sum equal to the anticipated expenses of operating and maintaining the System for the current month and the next two succeeding months. Funds in the Operation and Maintenance Fund may be invested in U.S. Obligations having a maturity date or being subject to redemption at the option of the holder within not more than 30 days subsequent to the date of investment. All income from such investments shall be carried to the credit of the Operation and Maintenance Fund.

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

5. Long-Term Debt, Continued

(e) Surplus Funds

Subject to the provisions for the disposition of the revenues of the System as set forth above, which provisions are cumulative, and after all of the required transfers from the Revenue Fund are currently being made, the remaining balance in the Revenue Fund in excess of an amount equal to the required deposits to the Bond and Interest Redemption Fund for a period of two months, such balance may, upon order of the System's Board of Commissioners, be used for one or more of the following purposes:

- (1) Transferred to the Depreciation Fund to be earmarked for the purpose of paying for or financing the cost of future extensions, additions and/or improvements to the System;
- (2) To purchase or retire outstanding bonds payable from the Sinking Fund at a price not exceeding the redemption terms on the next succeeding redemption date; or
- (3) To pay the interest on or principal of other obligations of the City incurred in connection with the System.

Revenue Bonds of 2004

On April 7, 2004, the City authorized and provided for the issuance and sale of \$460,000 principal amount of City of Dawson Springs Water System Revenue Bonds, Series 2004. The closing on the sale of the bonds occurred on September 27, 2005. The purpose of the issuance was for financing the cost, not otherwise provided, of the construction of extensions, additions and improvements to the existing water System (consisting primarily of the erection of an elevated water tank). The bonds bear interest at 4.125%.

There shall be transferred monthly, from the revenues of the System, into the sinking fund amounts sufficient to provide for semi-annual interest payments and annual principal payments as such become due and payable. There shall be further transferred from the revenues of the System the sum of at least \$215 each month into the depreciation fund until there is accumulated the sum of at least \$25,800.

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

5. Long-Term Debt, Continued

Revenue Bonds of 2007

On June 18, 2007, the City authorized and provided for the issuance and sale of \$533,000 principal amount of City of Dawson Springs Water System Revenue Bonds, Series 2007. The closing on the sale of the bonds occurred on November 14, 2008. The purpose of the issuance was for financing the cost, not otherwise provided, of the construction of improvements to the existing sewer system. The bonds bear interest at 4.5%.

KIA/ARRA Loan Payable

On August 20, 2009, the City was approved for an "American Recovery and Reinvestment Act ("ARRA") loan for a waterline replacement project. The total cost of the project shall not exceed \$2,120,000 of which the Kentucky Infrastructure Authority (KIA) shall provide 100% of the funding. An assistance agreement was entered into with KIA on December 1, 2009 containing the following terms: 1) the loan shall contain principal forgiveness of 54.1%, 2) the loan shall bear interest at the rate of 1.0% commencing with the first draw of funds, 3) the loan shall be repaid over 20 years from the date of closing, 4) interest shall be payable on the unforgiven amount of funds received and principal and interest shall be payable each June 1 and December 1 and, 5) a loan servicing fee of .25% of the annual outstanding loan balance shall be payable to the KIA as part of each interest payment. The System is also required to reserve \$5,300 per year for repair and maintenance until such time a balance of \$53,000 is accumulated. As of June 30, 2012, \$2,120,000 had been drawn on the loan, of which \$1,146,920 (54.1% of \$2,120,000) has been forgiven and \$63,740 had been repaid, resulting in a balance due on the loan of \$909,290.

All Bonds are secured by a pledge of and are payable from the gross revenues derived from the operation of the City of Dawson Springs Municipal Water and Sewer Commission and a statutory mortgage lien on the property as provided by Kentucky Revised Statutes 96.400.

KRWFC Series 2012C Loan

On May 2, 2012, the City borrowed \$970,000 from the Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2012C to advance refund \$935,000 plus accrued interest of outstanding Refunding Revenue Bonds of 2002. The net proceeds of \$967,302 (after payment of \$49,188 in underwriting fees, issuance costs and net of \$15,581 reoffering premium) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Refunding Revenue Bonds of 2002. As a result, the Refunding Revenue Bonds of 2002 are considered to be defeased and the liability for those bonds has been removed from the statement of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$58,377. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2028 using the effective-interest method. The reoffering premium (\$15,581), issuance costs (\$31,455), underwriting expense (\$17,733) and original deferred amount on refunding (\$58,377) have been deferred and are being amortized to expense (straight-line method) over the life of the loan (16 years). The City completed the advance refunding to reduce its total debt service payments over the next 16 years by \$141,344 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$99,058.

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

5. Long-Term Debt, Continued

The annual requirements to amortize all long-term debt as of June 30, 2012 are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 253,974	\$ 81,273	\$ 335,247
2014	255,777	81,394	337,171
2015	151,931	76,073	228,004
2016	153,186	73,528	226,714
2017	159,844	71,358	231,202
2018-2022	642,119	325,285	967,404
2023-2027	697,740	229,910	927,650
2028-2032	389,500	143,144	532,644
2033-2037	161,500	103,456	264,956
2038-2042	203,000	62,940	265,940
2043-2047	199,000	16,622	215,622
	<u>\$ 3,267,571</u>	<u>\$ 1,264,983</u>	<u>\$4,532,554</u>

6. Retirement Plan

Plan Description. The System contributes to the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit plan administered by the Board of Trustees of Kentucky Retirement Systems (KRS). CERS provides 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 (COLA) are provided at the discretion of the State legislature. Section 61.645 of the Kentucky Revised Statutes assigns the authority to establish and amend benefit provisions to the KRS Board of Trustees. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601, or by calling 1-502-564-4646.

Funding Policy. Plan members are required to contribute 5% (6% if hired after September, 2008) of their annual creditable compensation and the System is required to contribute at an actuarially determined rate. The current rate is 18.96% of annual covered payroll. The contribution requirements of plan members and the System are established and may be amended by KRS Board of Trustees. The System's contributions to CERS for the years ended June 30, 2012, 2011 and 2010 were \$56,264, \$50,359 and \$51,943, respectively, equal to the required contributions (100%) for each year.

7. Water and Sewer System Revenue

As of June 30, 2012, there were 1,008 metered water customers of which 860 were residential and 148 were commercial or other. There were 866 sewer customers of which 732 were residential and 136 were commercial or other.

As of June 30, 2011, there were 1,005 metered water customers of which 850 were residential and 155 were commercial or other. There were 861 sewer customers of which 723 were residential and 138 were commercial or other.

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2012 and 2011

7. Water and Sewer System Revenue, continued

(a) The water rates are as follows:

	Effective <u>6/01/09</u>
First 267 cubic feet - minimum bill	\$12.84
Next 401 per cubic foot	.04150
Next 2,006 per cubic foot	.03508
Next 4,011 per cubic foot	.02990
All over 6,685 per cubic foot	.02501

(b) The sewer rates are as follows (based on water consumption):

	Effective <u>06/01/09</u>
First 267 cubic feet - minimum bill	\$14.39
Next 401 per cubic foot	.04879
Next 2,006 per cubic foot	.04396
Next 4,011 per cubic foot	.03828
All over 6,685 per cubic foot	.03221

(c) Other charges are as follows:

Meter Installation charge (eff. 01/98)	\$450 each
Second meter installation charge (eff. 07/89)	\$ 25 each
Water or sewer tapping fee (eff. 07/89)	\$ 50 each
Reconnection charge (eff. 07/89)	\$ 5 each
Meter deposit (eff. 07/89)	\$ 60 each

8. Major Customer

The System entered into a long-term contract (through 2040) to provide water to the South Hopkins Water District, effective March 2, 1978. The contract requires an annual computation of the cost of water. A unit cost of \$1.73657 per 1,000 gallons has been computed for the year ended June 30, 2012. An adjustment will be made to the billings for the year ended June 30, 2012 which were based on the prior year's rate. This unit cost will be used for billing purposes during the fiscal year ended June 30, 2013. Sales made to the District were \$542,765 and \$627,217 which amounted to approximately 60% and 63% of total water sales for the years ended June 30, 2012 and 2011, respectively.

9. Subsequent Events

Management has evaluated subsequent events through August 2, 2012 the date on which the financial statements were available to be issued.

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

SCHEDULE OF OPERATING REVENUES

for the years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Water department:		
Metered residential sales	\$ 286,509	\$ 283,459
Metered commercial sales	70,275	81,874
Water sales for resale	542,765	627,217
Tank water sales	646	561
Water taps	50	-
	<u>900,245</u>	<u>993,111</u>
Sewer department:		
Sewer service sales	380,852	380,288
Sewer taps	100	50
	<u>380,952</u>	<u>380,338</u>
Total water and sewer revenues	<u>1,281,197</u>	<u>1,373,449</u>
Other operating revenues:		
Penalties on delinquent accounts	10,786	11,322
Collection of landfill fees	8,965	8,081
Bad debts collected	1,252	1,091
Miscellaneous	12,475	4,212
	<u>33,478</u>	<u>24,706</u>
Total other operating revenues	<u>33,478</u>	<u>24,706</u>
Total operating revenues	<u>\$ 1,314,675</u>	<u>\$ 1,398,155</u>

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

SCHEDULE OF OPERATING EXPENSES

for the years ended June 30, 2012 and 2011

	2012	2011
Water production:		
Operation supervision	\$ 13,806	\$ 16,555
Operation labor	116,042	126,958
Maintenance labor	304	76
Payroll taxes - FICA	9,212	10,326
Employee retirement benefits	28,845	28,750
Group health insurance	15,094	15,229
Maintenance	12,592	45,824
Power purchased	88,463	93,091
Chemicals	227,153	246,362
Operating supplies	6,246	5,484
Insurance	14,361	15,278
Laboratory	14,324	10,140
Miscellaneous	18	-
Allocated admin. expense	3,617	2,502
Allocated truck expense	1,515	1,579
	551,592	618,154
Water distribution:		
Operation supervision	27,612	27,561
Maintenance labor	34,529	34,093
Payroll taxes - FICA	4,386	4,314
Employee retirement benefits	8,170	6,215
Group health insurance	7,547	7,614
Maintenance	4,026	8,244
Operating supplies	790	5,139
Insurance	7,109	7,412
Miscellaneous	15	-
Allocated admin. expense	543	-
Allocated truck expense	7,573	8,051
	102,300	108,643

Continued

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

SCHEDULE OF OPERATING EXPENSES, Continued

for the years ended June 30, 2012 and 2011

	2012	2011
Sewer:		
Operation supervision	\$ 13,806	\$ 15,829
Operation labor	28,935	28,917
Maintenance labor	19,871	8,173
Payroll taxes - FICA	4,586	3,706
Employee retirement benefits	9,803	7,514
Group health insurance	9,811	10,275
Maintenance	20,592	12,688
Power and heat	34,683	32,073
Chemicals	6,769	6,011
Operating supplies	2,377	2,493
Insurance	15,116	15,465
Laboratory	6,965	7,171
Miscellaneous	178	-
Allocated admin. Expense	4,900	509
Allocated truck expense	6,058	6,441
	184,450	157,265
General and administrative:		
Commissioners' salaries	2,173	1,779
Office salaries	51,070	48,300
Other salaries	7,604	6,303
Maintenance Labor	210	1,262
Payroll taxes - FICA	4,346	4,099
Employee retirement benefits	9,679	8,191
Group health insurance	5,283	4,954
Telephone	2,146	2,249
Postage	4,360	3,961
Publishing and printing	1,916	924
Office supplies	5,853	2,921
Insurance	1,799	2,035
Legal and audit	10,300	9,800
Office rent	2,400	2,400
Garage building expense	4,200	4,200
Bad debts	5,729	-
Miscellaneous	4,570	2,162
	123,638	105,540
Depreciation	370,682	356,635
Total operating expenses	\$ 1,332,662	\$ 1,346,237

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component unit of the City of Dawson Springs, Kentucky)

COMPUTATION OF UNIT COST OF WATER PRODUCED

for the year ended June 30, 2012
(and comparable amounts for the year ended June 30, 2011)

Direct cost of water production per audit	\$ 551,592	
Ten percent (10%) of general and administrative expense, \$123,638 per audit	<u>12,364</u>	
Total operation and maintenance costs	563,956	
Debt service cost (\$107,878 x 88.5%)	<u>95,472</u>	
Total cost of water produced		\$ 659,428
Total gallons pumped per meter records maintained by Superintendent	416,666,040	
Less water used internally	<u>36,935,935</u>	
Net gallons pumped		<u><u>379,730,105</u></u>
Unit cost per 1,000 gallons: \$659,428/379,730,105		\$ 1.73657
Computation of underpayment (overpayment):		
Total gallons purchased by South Hopkins Water District		<u><u>312,550,000</u></u>
Total cost of gallons purchased 312,550,000 X .00173657		\$ 542,765
Total billed and paid		<u>629,470</u>
Due from (to) South Hopkins Water District		<u><u>\$ (86,705)</u></u>
Comparable amounts for the year ended June 30, 2011		
Total cost of water produced		<u><u>\$ 728,468</u></u>
Net gallons pumped		361,664,065
Unit cost per 1,000 gallons		\$ 2.01421
Total gallons purchased by South Hopkins Water District		<u><u>311,396,000</u></u>
Total cost of gallons purchased		\$ 627,217
Total billed and paid		<u>546,250</u>
Due from South Hopkins Water District		<u><u>\$ 80,967</u></u>

**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
Dawson Springs Municipal Waterworks and Sewer System
Dawson Springs, Kentucky 42408

We have audited the basic financial statements of Dawson Springs Municipal Waterworks and Sewer System (System) as of and for the year ended June 30, 2012, and have issued our report thereon dated August 2, 2012. 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.

Internal Control Over Financial Reporting

Management of Dawson Springs Municipal Waterworks and Sewer System is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Dawson Springs Municipal Waterworks and Sewer System'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 Dawson Springs Municipal Waterworks and Sewer System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System'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 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 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 material weaknesses, as defined above. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting (2005-1 and 2008-1). A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and other Matters

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

Dawson Springs Municipal Waterworks and Sewer System's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Dawson Springs Municipal Waterworks and Sewer System's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the members of the Dawson Springs Municipal Waterworks and Sewer System management, Commissioners, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Atford, Nance & Jones, LLP

August 2, 2012

DAWSON SPRINGS MUNICIPAL WATERWORKS AND SEWER SYSTEM
(a component of the City of Dawson Springs, Kentucky)
SCHEDULE OF FINDINGS
for the year ended June 30, 2012

2005-1 Lack of Segregation of Duties

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

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

Effect: Although no instances were noted, lack of segregation of duties can create situations where assets are not properly safeguarded.

Cause: Lack of personnel

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

Response: We concur with the finding, but cannot feasibly alleviate the cause due to budget.

2008-1 Lack of Financial Reporting Expertise

Condition: Management lacks the knowledge (qualifications and training) to apply generally accepted accounting principles in preparing the System's financial statements, including required disclosures.

Criteria: A prudent control environment would be to employ (or outsource) an individual with the necessary accounting expertise to prevent, detect, and correct a potential misstatement in the financial statements and disclosures drafted by the auditor, or to internally prepare such financial statements and disclosures.

Effect: Although no instances were noted, the absence of such controls may allow errors to go undetected.

Cause: Lack of personnel who possess the required knowledge.

Recommendation: We recommend the System consider outsourcing the review of the financial statements and disclosures to a qualified individual or accounting firm (auditor is precluded from serving in this capacity due to professional independence standards).

Response: We concur with the finding, but cannot feasibly alleviate the concern due to budget.