

WEST CARROLL WATER DISTRICT
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

At December 31, 2012 and 2011

**WEST CARROLL WATER DISTRICT
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITOR'S REPORTS**

Years Ended December 31, 2012 and 2011

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To the Commissioners of the
West Carroll Water District
Carrollton, Kentucky 41008

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of West Carroll Water District as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the West Carroll Water District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Carroll Water District, as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2013, on our consideration of the West Carroll 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 West Carroll Water District's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

March 27, 2013

**WEST CARROLL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012**

Our discussion and analysis of the West Carroll Water District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2012. Please read it in conjunction with the District's financial statements, which begin on page 6.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information about the District's use of accounting methods which are similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The balance sheet includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to District creditors (liabilities). It also provides the basis for evaluating the capital of the District and assessing its liquidity and financial flexibility.

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 the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its water rates and other fees.

The final required financial statement is its statement of cash flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reported period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and the change in cash during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

FINANCIAL HIGHLIGHTS

The following are key financial highlights:

- Total assets at year-end were \$2,649,981 and exceeded liabilities in the amount of \$812,492 by \$1,837,489 (i.e. net assets). Of the total net position, \$220,923 was unrestricted and available to support short-term operations. Total net position increased from year end 2011 to 2012 in the amount of \$9,309.
- Operating revenues increased approximately 2.5% during the year due to an increase for non-recurring charges approved by Public Service Commission that were effective April 1, 2012 and an increase in water charges of 1.6% due to increased customer usage due to drought conditions.
- Total operating expenses decreased by \$88,829, due primarily to a decrease in the amount recorded for depreciation expense based on a recommendation from PSC to raise the useful lives of fixed assets.
- The District was in compliance with all debt covenants.

Balance Sheet, Statement of Net Position

Utility Plant decreased by \$67,201 in 2012 reflecting decreases associated with depreciation expense, reflecting an increase in useful lives as recommended by PSC. (See diagram below.) Current assets increased \$37,852 representing an increase in cash and accounts receivable. Other non-current assets increased \$6,156 representing an increase in restricted cash.

	Condensed Assets		
	2012	2011	Difference
Utility Plant	\$ 2,213,263	\$ 2,280,464	\$ (67,201)
Current Assets	254,693	216,841	37,852
Other Non-Current Assets	182,025	175,869	6,156
Total Net Assets	\$ 2,649,981	\$ 2,673,174	\$ (23,193)

**WEST CARROLL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012**

At the end of December 31, 2012, the District had \$2,213,263 invested in capital assets (net of depreciation) including buildings, equipment, and water lines. (See table below.)

	<u>2012</u>	<u>2011</u>
Land & Land Rights	\$ 18,754	\$ 16,754
Organizational Fees	3,261	3,707
Distribution System	2,188,593	2,257,002
Machinery & Equipment	<u>2,655</u>	<u>3,001</u>
Totals	<u>\$ 2,213,263</u>	<u>\$ 2,280,464</u>

There were no major transactions for the District regarding fixed assets for 2012, but some additional meters and services were installed for customers and a joint project with Carrollton Utilities is being planned for construction in 2013. This project will include the construction of a booster station at the bottom of Kings Ridge Road, replacement of aging infrastructure, i.e. main distribution lines on Gilgal Road, and other short main line extensions to unserved customers. Construction will be underway in 2013 and fully complete in 2014.

Liability amounts presented in the Statement of Net Position are presented as current (payable within one year) and non-current as of December 31, 2012. Decreases in long-term debt are from principal repayments.

Condensed Liabilities

	<u>2012</u>	<u>2011</u>	<u>Difference</u>
Noncurrent Liabilities	\$ 725,975	\$ 762,225	\$ (36,250)
Current Liabilities	86,517	82,769	3,748
Total Liabilities	<u>\$ 812,492</u>	<u>\$ 844,994</u>	<u>\$ (32,502)</u>

Net Position

At December 31, 2012, net position increased \$9,309 due to the District's loss before contributions of \$2,345 offset by tap-on fees and other capital contributions of \$11,654 and resulting from a decrease in depreciation expense due to a recommendation from PSC to increase the useful lives of fixed assets.

	<u>2012</u>	<u>2011</u>	<u>Difference</u>
Net Investment in Capital Assets	\$ 1,470,337	\$ 1,503,806	\$ (33,469)
Restricted for Debt Service	146,229	138,743	7,486
Unrestricted	220,923	185,631	35,292
Total Net Position	<u>\$ 1,837,489</u>	<u>\$ 1,828,180</u>	<u>\$ 9,309</u>

Income Statement

Water charges increased approximately 1.6% for 2012 due to normal usage increase due to drought conditions. A decrease in depreciation expense contributed to the overall decrease in operating expenses and increase in operating income. The increase in non-operating income (expense) is attributable to decreased investment income.

**WEST CARROLL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012**

Condensed Statement of Revenues and Expenses

	<u>2012</u>	<u>2011</u>	<u>Difference</u>
Operating Revenues	\$ 497,934	\$ 485,823	\$ 12,111
Operating Expenses	467,036	555,865	88,829
Net Operating Revenue	\$ 30,898	\$ (70,042)	\$ 100,940
Non-Operating Income (Expense)	(33,243)	(33,222)	(21)
Net Income (Loss) Before Contributions	\$ (2,345)	\$ (103,264)	\$ 100,919
Capital Contributions	11,654	15,065	(3,411)
Net Income (Loss)	\$ 9,309	\$ (88,199)	\$ 97,508
Net Position Beginning of Year	1,828,180	1,916,379	(88,199)
Net Position End of Year	<u>\$ 1,837,489</u>	<u>\$ 1,828,180</u>	<u>\$ 9,309</u>

Statement of Cash Flows

Cash from Operating Activities increased in 2012 due to an increase in receipts from customers. Other receipt payments also increased due to increased receipts for service charges and reconnect fees. An increase in cash from Investing Activities reflects interest earnings on deposits and an investment redeemed for use in a future project.

Condensed Statement of Cash Flows

	<u>2012</u>	<u>2011</u>	<u>Difference</u>
Cash from Operating Activities (Net)	\$ 102,542	\$ 93,933	\$ 8,609
Cash from Capital & Related Financing Activities	(70,308)	(58,064)	(12,244)
Cash from Investing Activities	20,287	1,430	18,857
Change in Cash	\$ 52,521	\$ 37,299	\$ 15,222
Cash Balance, Beginning of Year	297,857	260,558	37,299
Cash Balance, End of Year	<u>\$ 350,378</u>	<u>\$ 297,857</u>	<u>\$ 52,521</u>

NOTES PAYABLE AND LONG-TERM DEBT

All bond payments have been paid timely. The District does not have any short term debts at this time.

	<u>2012</u>	<u>2011</u>	<u>Difference</u>
Long Term Debt	<u>\$ 751,500</u>	<u>\$ 785,500</u>	<u>\$ (34,000)</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's office at 225 Sixth Street, Carrollton, KY 41008.

Vickie Edwards
Chairperson

Chastity Robbins
Director of Finance

WEST CARROLL WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2012 and 2011

	2012	2011
ASSETS		
Current Assets:		
Cash, Including Time Deposits	\$ 186,990	\$ 160,214
Accounts Receivable (Net)	54,494	48,853
Inventory	9,765	4,302
Prepaid Expense	3,444	3,472
Total Current Assets	\$ 254,693	\$ 216,841
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 173,388	\$ 166,898
Interest Receivable	63	129
Bond Issuance Costs (Net)	8,574	8,842
Capital Assets (Net)	2,213,263	2,280,464
Total Noncurrent Assets	\$ 2,395,288	\$ 2,456,333
Total Assets	\$ 2,649,981	\$ 2,673,174
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 31,153	\$ 28,715
Utility Tax Payable	2,357	2,238
Sales Tax Payable	238	235
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable - Customer Deposits	22	22
Accrued Interest Payable - Long-Term Debt	16,747	17,559
Revenue Bonds Payable	36,000	34,000
Total Current Liabilities	\$ 86,517	\$ 82,769
Noncurrent Liabilities:		
Revenue Bonds Payable	\$ 715,500	\$ 751,500
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	10,475	10,725
Total Noncurrent Liabilities	\$ 725,975	\$ 762,225
Total Liabilities	\$ 812,492	\$ 844,994
NET POSITION		
Net Investment in Capital Assets	\$ 1,470,337	\$ 1,503,806
Restricted for Debt Service	146,229	138,743
Unrestricted	220,923	185,631
Total Net Position	\$ 1,837,489	\$ 1,828,180

WEST CARROLL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 474,985	\$ 467,313
Total Charges for Services	<u>\$ 474,985</u>	<u>\$ 467,313</u>
Other Charges and Miscellaneous:		
Service Charges	\$ 13,156	\$ 14,937
Reconnect and Disconnect Charges	7,117	3,573
Miscellaneous	2,676	-
Total Other Charges and Miscellaneous	<u>\$ 22,949</u>	<u>\$ 18,510</u>
Total Operating Revenues	<u>\$ 497,934</u>	<u>\$ 485,823</u>
Operating Expenses:		
Commissioner Fees	\$ 9,000	\$ 9,000
Contractual Service - Sampling	1,717	6,468
Insurance	7,400	7,485
Maintenance Agreement	194,048	188,591
Maintenance of Distribution System	15,994	27,406
Office Supplies and Administrative Expense	2,497	2,799
Other Interest Expense	22	22
Payroll Taxes	688	689
Professional Services	6,409	5,360
Purchased Water	132,958	134,211
Regulatory Fees	859	700
Telephone	1,167	2,371
Utilities - Pumping	13,868	12,512
Depreciation Expense	80,409	158,251
Total Operating Expenses	<u>\$ 467,036</u>	<u>\$ 555,865</u>
Operating Income (Loss)	<u>\$ 30,898</u>	<u>\$ (70,042)</u>
Nonoperating Revenue (Expense):		
Investment Income	\$ 966	\$ 1,512
Interest Expense	(33,495)	(35,116)
Amortization Expense	(714)	(714)
Gain (Loss) on Sale of Fixed Assets	-	1,096
Total Nonoperating Revenues (Expense)	<u>\$ (33,243)</u>	<u>\$ (33,222)</u>
Income (Loss) Before Contributions	<u>\$ (2,345)</u>	<u>\$ (103,264)</u>
Capital Contributions	<u>11,654</u>	<u>15,065</u>
Change in Net Position	<u>\$ 9,309</u>	<u>\$ (88,199)</u>
Net Position--Beginning of Year	<u>1,828,180</u>	<u>1,916,379</u>
Net Position--End of Year	<u>\$ 1,837,489</u>	<u>\$ 1,828,180</u>

WEST CARROLL WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 492,165	\$ 493,807
Payments to Suppliers	(151,948)	(163,859)
Other Receipts (Payments)	(237,675)	(236,015)
Net Cash Provided (Used) by Operating Activities	\$ 102,542	\$ 93,933
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	\$ 11,654	\$ 15,065
Purchases of Capital Assets	(13,654)	(6,343)
Principal Paid on Capital Debt	(34,000)	(32,000)
Interest Paid on Capital Debt	(34,308)	(35,882)
Proceeds from Sale of Capital Assets	-	1,096
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (70,308)	\$ (58,064)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments Redeemed	\$ 19,255	\$ (46)
Interest on Investments	1,032	1,476
Net Cash Provided (Used) by Investing Activities	\$ 20,287	\$ 1,430
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 52,521	\$ 37,299
Balances-Beginning of the Year	297,857	260,558
Balances-End of the Year	\$ 350,378	\$ 297,857

	Balances Per December 31, 2012 Statement of Net Position	Balances Per December 31, 2012 Statement of Cash Flows
Cash	\$ 186,990	\$ 186,990
Restricted Cash	163,388	163,388
Restricted Time Deposits	10,000	-
Total Cash and Cash Equivalents, End of Year	\$ 360,378	\$ 350,378

	Balances Per December 31, 2011 Statement of Net Position	Balances Per December 31, 2011 Statement of Cash Flows
Cash	\$ 160,214	\$ 160,214
Restricted Cash	137,643	137,643
Restricted Time Deposits	29,255	-
Total Cash and Cash Equivalents, End of Year	\$ 327,112	\$ 297,857

**WEST CARROLL WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011**

	2012	2011
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 30,898	\$ (70,042)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	80,409	158,251
Change in Assets and Liabilities:		
Receivables, Net	(5,641)	8,574
Inventories	(5,463)	(85)
Prepaid Expenses	28	13
Accounts and Other Payables	2,439	(2,170)
Accrued Expenses	122	(308)
Customer Meter Deposits Escrow Payable	(250)	(300)
Net Cash Provided by Operating Activities	\$ 102,542	\$ 93,933

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

There were no outstanding capital expenditures at December 31, 2012 or 2011.

**WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The West Carroll Water District is a rural water company serving approximately 1000 customers in Carroll, Trimble and Henry Counties, Kentucky, and is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water company was formed under the laws of the above-mentioned counties through their Fiscal Courts and began operations in July, 1960.

In evaluating how to define West Carroll Water District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

A summary of the District's significant accounting policies follows:

Basis of presentation and accounting: As stated in Kentucky Revised Statutes (KRS) 278.015, "any water district shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission." In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) 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 determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into net investment in capital assets, restricted; and unrestricted components.

Revenues and expenses: Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

The District adheres to the use restrictions established by Bond Agreements when expenses are incurred for which both restricted and unrestricted net position is available. The District has no policy defining which resources (restricted or unrestricted) to use first.

WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012 and 2011

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment: Property and equipment purchased or constructed is stated at cost. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Costs associated with hook-up fees are capitalized as meters, installations, and services. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives by type of asset is as follows:

- Distribution System	10-50 years
- Wells	25 years
- Machinery & Equipment	5-20 years

As part of the rate increase study performed by the Public Service Commission (PSC) it was recommended to the District that the lives of distribution system assets be extended to reflect recommendations made by the PSC during its review. Depreciation Expense has been calculated using straight line depreciation as applied to the assets' historical costs over the revised asset lives.

Inventory: Inventories are stated at latest cost.

Income Taxes: The West Carroll Water District is not subject to income taxes.

Bond Issuance Costs: Such costs are amortized over the life of the respective bond issue using the straight line method.

Contributed capital: Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues in the statement of revenues, expenses and changes in fund net assets. FEMA Funds of \$8,722 were received in the year ended December 31, 2011. No grant funds were received in the year ended December 31, 2012. Tap-on fees of \$11,654 and \$6,343 were received by the District for the years ended December 31, 2012 and 2011.

Net position: The District adopted Statement of Governmental Standards (GASB Statement) No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*, which requires the District to report net position and changes the title of the Statement of Net Assets to the Statement of Net Position (effective for periods beginning after December 15, 2011). Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted; and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net position not included in the above categories.

Estimates: The preparation of financial statements 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.

Statement of Cash Flows: For the purpose of the Statement of Cash Flows, West Carroll Water District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS

The Bond and Interest Sinking Account was established with the original RECD bond issue, and is to be continued to be maintained as long as any of the 1975, 1981, 1994 or 2005 issues are outstanding. Under the bond resolution which established this account, it was provided that a minimum balance be maintained in this account as security to the bondholders. In order to attain the minimum balance, a monthly transfer must be made as follows:

**WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012 and 2011**

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS (Continued)

+ one sixth (1/6) of the next semiannual interest payment
 + one twelfth (1/12) of next annual principal payment
 = monthly transfer

Transfers sufficient to meet the total obligation outstanding on all issues were made timely during the years ended December 31, 2012 and 2011.

Under the bond resolution of the original 1975 bonds, a Depreciation Account was to be established to provide funds for extraordinary repairs and extensions to the system, and to make up any deficiency in the Bond and Interest Sinking Fund Account. Under the provisions of the 2005 Bond Resolution, it was determined that the monthly transfer required to be made to the Depreciation Account would be a minimum of \$435 each month until a balance of \$73,200 (increased from \$52,200) is accumulated. When the required balance of \$73,200 is attained, the monthly transfers may be discontinued, but are subject to resumption if the depreciation account is depleted below the required balance. The Depreciation Account is to be maintained as long as any of the bonds are outstanding.

Sufficient funds were transferred during the years ended December 31, 2012 and 2011.

NOTE 3 – CASH AND INVESTMENTS

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

West Carroll Water District's policies regarding deposits of cash are discussed above. The table presented below is designed to disclose the level of custody credit risk assumed by the District based upon how its deposits were insured or secured with collateral at December 31, 2012 and 2011. The categories of credit risk are defined as follows:

Category 1 – Insured by FDIC Insurance or collateralized with a depository surety bond or securities held by the District (public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name; or collateralized with no written or approved collateral agreement.

December 31, 2012

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Time/Savings Deposits	\$ 360,301	\$ 360,301	\$ -	\$ -	\$ 360,328
Total Deposits	\$ 360,301	\$ 360,301	\$ -	\$ -	\$ 360,328

December 31, 2011

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Time/Savings Deposits	\$ 325,756	\$ 325,756	\$ -	\$ -	\$ 327,062
Total Deposits	\$ 325,756	\$ 325,756	\$ -	\$ -	\$ 327,062

WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012 and 2011

NOTE 3 – CASH AND INVESTMENTS (Continued)

Reconciliation to Statement of Net Position:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Unrestricted Cash, Including Time Deposits	\$ 186,990	\$ 160,214
Restricted Cash, Including Time Deposits	173,388	166,898
Less Cash on Hand	(50)	(50)
	<u>\$ 360,328</u>	<u>\$ 327,062</u>

NOTE 4 – RESTRICTED ASSETS

Restricted cash and investments consist of the following:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Bond and Interest Sinking Account	\$ 55,559	\$ 54,363
Depreciation Account	107,354	101,810
Customer Deposits	10,475	10,725
Total	<u>\$ 173,388</u>	<u>\$ 166,898</u>

Restricted receivables consist of the following:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Interest Receivable	\$ 63	\$ 129
Total	<u>\$ 63</u>	<u>\$ 129</u>

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$6,203 and \$7,801 at December 31, 2012 and 2011, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

NOTE 6 – CAPITAL ASSETS

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

	<u>Balance at January 1, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at December 31, 2012</u>
Land & Land Rights	\$ 16,754	\$ 2,000	\$ -	\$ 18,754
Organizational Fees	17,854	-	-	17,854
Distribution System	4,421,382	11,654	-	4,433,036
Machinery & Equipment	12,482	-	-	12,482
Totals at Historical Cost	<u>\$ 4,468,472</u>	<u>\$ 13,654</u>	<u>\$ -</u>	<u>\$ 4,482,126</u>
Less: Accumulated Depreciation				
Organizational Fees	\$ (14,147)	\$ (446)	\$ -	\$ (14,593)
Distribution System	(2,164,380)	(80,063)	-	(2,244,443)
Machinery & Equipment	(9,481)	(346)	-	(9,827)
Total Accumulated Depreciation	<u>\$ (2,188,008)</u>	<u>\$ (80,855)</u>	<u>\$ -</u>	<u>\$ (2,268,863)</u>
Capital Assets, Net	<u>\$ 2,280,464</u>	<u>\$ (67,201)</u>	<u>\$ -</u>	<u>\$ 2,213,263</u>

WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012 and 2011

NOTE 6 – CAPITAL ASSETS (Continued)

	Balance at January 1, 2011	Additions	Disposals	Balance at December 31, 2011
Land & Land Rights	\$ 16,754	\$ -	\$ -	\$ 16,754
Organizational Fees	17,854	-	-	17,854
Distribution System	4,415,039	6,343	-	4,421,382
Machinery & Equipment	12,482	-	-	12,482
Totals at Historical Cost	\$ 4,462,129	\$ 6,343	\$ -	\$ 4,468,472
Less: Accumulated Depreciation				
Organizational Fees	\$ (13,701)	\$ (446)	\$ -	\$ (14,147)
Distribution System	(2,006,736)	(157,644)	-	(2,164,380)
Machinery & Equipment	(8,874)	(607)	-	(9,481)
Total Accumulated Depreciation	\$ (2,029,311)	\$ (158,697)	\$ -	\$ (2,188,008)
Capital Assets, Net	\$ 2,432,818	\$ (152,354)	\$ -	\$ 2,280,464

Included under the District's Plant Assets were \$90,751 and \$85,632 of fully depreciated assets, at December 31, 2012 and 2011, respectively. Land and land rights and construction in process are capital assets not being depreciated.

Amortization expense on organizational fees and depreciation expense aggregated \$80,855 and \$158,697 in 2012 and 2011, respectively.

NOTE 7 – CUSTOMER DEPOSITS/ESCROW

Customer deposits are collected upon installation of water service. This amount is to be refunded to the customer upon discontinuation of service (after the customer's bill has been paid in full). Records were maintained which detailed the accrued interest on each customer's deposit based on a one-quarter (.25) of a percent annual rate for the years ended December 31, 2012 and 2011. Accrued interest is paid when the deposit is refunded or credited to the customer's account annually. At December 31, 2012, and 2011, accrued interest on customer deposits was \$22 and \$22, respectively.

NOTE 8 – LONG-TERM DEBT

As of December 31, 2012 and 2011, the long-term debt payable consisted of the following:

Bonds Payable:

	December 31, 2012	December 31, 2011
RECD Revenue Bonds of 1975 Series A, original issue amount of \$343,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Final maturity is January 1, 2015.	\$ 59,000	\$ 76,000
RECD Revenue Bonds of 1981 Series B, original issue amount of \$114,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Final maturity is January 1, 2021.	48,500	52,500
RECD Revenue Bonds of 1994, original issue amount of \$395,000, secured by water revenues. Interest is charged at the rate of 4.5% per annum. Final maturity is January 1, 2033.	300,000	308,000

**WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012 and 2011**

NOTE 8 – LONG-TERM DEBT (Continued)

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
RECD Revenue Bonds of 2005, original issue amount of \$369,000, secured by water revenues. Interest is charged at the rate of 4.25% per annum. Final maturity is January 1, 2044.	344,000	349,000
Total Bonds Payable	\$ 751,500	\$ 785,500
Current Portion	\$ 36,000	\$ 34,000
Noncurrent Portion	715,500	751,500
Total Bonds Payable	\$ 751,500	\$ 785,500

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the years ended December 31, 2012 and 2011.

December 31, 2012

	<u>Balance at January 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2012</u>	<u>Current Portion</u>
Bonds Payable	\$ 785,500	\$ -	\$ (34,000)	\$ 751,500	\$ 36,000

December 31, 2011

	<u>Balance at January 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2011</u>	<u>Current Portion</u>
Bonds Payable	\$ 817,500	\$ -	\$ (32,000)	\$ (785,500)	\$ 34,000

The annual requirements for all bonds payable outstanding at December 31, 2012 are as follows:

<u>Principal Due January 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 36,000	\$ 31,775	\$ 67,775
2014	38,500	29,933	68,433
2015	40,000	28,015	68,015
2016	21,000	27,060	48,060
2017	21,500	26,080	47,580
2018-2022	116,500	114,410	230,910
2023-2027	118,000	88,805	206,805
2028-2032	151,000	58,635	209,635
2033-2037	88,000	31,705	119,705
2038-2042	83,000	15,428	98,428
2043-2044	38,000	808	38,808
	\$ 751,500	\$ 452,654	\$ 1,204,154

**WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012 and 2011**

NOTE 8 – LONG-TERM DEBT (Continued)

The annual requirements for all bonds payable outstanding at December 31, 2011 are as follows:

<u>Principal Due January 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 34,000	\$ 33,495	\$ 67,495
2013	36,000	31,775	67,775
2014	38,500	29,933	68,433
2015	40,000	28,015	68,015
2016	21,000	27,060	48,060
2017-2021	118,000	119,690	237,690
2022-2026	112,500	94,010	206,510
2027-2031	143,000	65,295	208,295
2032-2036	106,500	35,498	141,998
2037-2041	80,000	18,955	98,955
2042-2044	56,000	2,423	58,423
	<u>\$ 785,500</u>	<u>\$ 486,149</u>	<u>\$ 1,271,649</u>

NOTE 9 – INTEREST EXPENSE

Interest expense incurred for the years ended December 31, 2012 and 2011 was \$33,517 and \$35,138, respectively. No interest was capitalized in 2012 or 2011.

NOTE 10 – FUND EQUITY-RESTRICTED NET POSITION

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Restricted for Debt Service:		
RECD Revenue Bonds of 1975, 1981, 1994, and 2005		
Cash	\$ 162,913	\$ 156,173
Add: Accrued Interest Receivable	63	129
Less: Accrued Interest Payable	(16,747)	(17,559)
Total Restricted for Debt Service	<u>\$ 146,229</u>	<u>\$ 138,743</u>

NOTE 11 – BAD DEBT EXPENSE

Water revenue charges have been netted with an estimated bad debt expense of \$3,198 and \$4,176 at December 31, 2012 and 2011, respectively.

NOTE 12 – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks is covered through the contributions, premiums and assessments to the Kentucky Association of All Lines Fund (KALF).

NOTE 13 – ECONOMIC DEPENDENCY

The Water District purchases 100% of the water it sells from the following entities: Carrollton Utilities, the Henry County Water District, the Trimble County Water District, and the City of Milton Water and Sewer Utility.

**WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012 and 2011**

NOTE 14 – OPERATION AND MAINTENANCE CONTRACT

Effective April 1, 1998, the District entered into an agreement with Carrollton Utilities under which Carrollton Utilities agreed to provide the operation and maintenance of the District's facilities, customer billing services, accounting functions, and related services. Effective July 1, 2012 and 2011, the annual fee for these services was \$200,402 and \$194,565, respectively.

NOTE 15 – CONTINGENCIES

The District incurred \$9,200 in maintenance costs to repair lines damaged in area flooding during the year ended December 31, 2010. A claim was submitted to FEMA for funding assistance. The District received \$8,722 on this claim during the year ended December 31, 2011.

The District and Carrollton Utilities have been conditionally approved for financing through the Kentucky Infrastructure Authority of a county wide improvement project. Under the project West Carroll Water District will construct a booster station at the bottom of Kings Ridge Road and replace distribution lines on Gilgal Road along with other line extensions. The total cost of the project shall not exceed \$1,850,270, which will be financed by a federally financed 1% loan. The loan shall contain principal forgiveness in the amount of 35%. West Carroll Water District's share of the project is estimated at \$868,097. Strand Associates have been chosen to provide engineering services for the project.

To the Commissioners of the
West Carroll Water District
Carrollton, KY 41008

**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**

INDEPENDENT AUDITOR'S REPORT

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 West Carroll Water District as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise West Carroll Water District's basic financial statements, and have issued our report thereon dated March 27, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered West Carroll 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of West Carroll Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of West Carroll 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.

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 (Item 12-1).

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether West Carroll 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*.

WEST CARROLL WATER DISTRICT'S RESPONSE TO FINDINGS

West Carroll Water District's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. West Carroll 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.

Raisor, Zapp & Woods, P.S.C.

RAISOR, ZAPP, & WOODS P.S.C
Certified Public Accountants
Carrollton, Kentucky

March 27, 2013

**WEST CARROLL WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2012**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the West Carroll Water District.
2. One deficiency in internal control related to the audit of the financial statements are reported in the 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*. Item 12-1 is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of West Carroll Water District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL

12-1 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CONDITION:

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2011 as 11-1.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

CAUSE:

The draft financial statements and disclosures are prepared during the audit process.

EFFECT:

Management engaged the auditor to prepare the draft of the financial statements, including the related notes to the financial statements.

RECOMMENDATION:

District management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

RESPONSE:

The outsourcing of this service is a result of management's cost benefit decision to avoid incurring internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities. We are aware of our responsibilities for the financial statements. We have reviewed and accepted the financial statements as presented.

**WEST CARROLL WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (Continued)
For the Year Ended December 31, 2012**

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

GOVERNMENT AUDITING STANDARDS (CONTINUED)

COMPLIANCE AND OTHER MATTERS

NONE