

John O. Hicks, III

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June 14, 2012

Hon. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
P. O. Box 615
Frankfort, KY 40602-0615

RECEIVED

JUN 18 2012

PUBLIC SERVICE
COMMISSION

RE: North McLean County Water District
KY 136 / KY 250 Water Line Project
WX21149025

Dear Mr. Derouen:

As previously related to you under my letter of April 5, 2012, North McLean County Water District (NMCWD) is undertaking the North McLean County Water District Line Extension and Replacement Project (also known as KY 136, KY 250 Waterline Project) to increase the volume of water delivery by the NMCWD to better serve its approximately 1,200 customers in the central and eastern portions of McLean County. To reiterate the information contained in my previous letter, this project involves adding 11,684 L.F. of 12" and 16" PVC water distribution lines. The first phase of the project has been constructed and the second phase will be funded through a \$250,000 loan from the Kentucky Infrastructure Authority (KIA) Fund B, Loan/Grant, with an immediate loan forgiveness of 80%, resulting in a 20% loan in the amount of \$50,000.

There are no rate changes resulting from this project; and essentially there will be no new customers added by virtue of the project. Work is now expected to begin sometime near or close to mid-July.

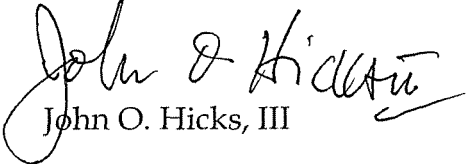
The project engineer is Michael Hesse of DLZ Engineers, 201 Brighton Park Blvd., Frankfort, KY 40601, telephone (502) 695-2300, e-mail address: mhesse@dlz.com.

Hon. Jeff Derouen
Page Two
June 14, 2012

Enclosed is the Application for Approval from the Kentucky Public Service Commission for a Certificate of Public Convenience and Necessity, as may be required. We would appreciate your processing the enclosed as expeditiously as possible in that we understand there is a July 15, 2012, deadline looming for completion of this certification process.

Thank you for your consideration and assistance in this matter. Should further information be required, please advise us right away. We look forward hearing from you and obtaining prompt resolution of this matter.

Very truly yours,


John O. Hicks, III

JOH/ac

cc: Gerald Wuetcher, Executive Advisor
Kelly Thurman, McLean County Judge Executive
Michael Hesse

RECEIVED

JUN 18 2012

PUBLIC SERVICE
COMMISSION

North McLean County Water District

Application for Approval

from the

Kentucky Public Service Commission

February 15, 2012

ORIGINAL

This Application has been prepared in accordance with the Financing File Requirements Checklist, see Appendix A.

Item 1 **807 KAR 5:001 Section 8(1)**

North McLean County Water District
217 Hill Street
P. O. Box 68
Livermore, Kentucky 42352

North McLean County Water District is seeking approval by the Public Service Commission of Kentucky to accept a \$250,000 Loan/Grant from the Kentucky Infrastructure Authority, as required by KRS 278.300(2).

Item 2 **807 KAR 5:001 Section 8(2)**

The original and 10 copies of the application (11 total) are provided with this submittal. There are no declared interested parties at this time.

Item 3 **807 KAR 5:001 Section 8(3)**

North McLean County Water District is organized as a Class B Water District under the McLean County Fiscal Court. There are no Articles of incorporation for the North McLean County Water District on file with the Kentucky Secretary of State.

Item 4 **KRS 278.300(2)**

This application is signed by Winfred W. Williams, Chairman of the North McLean County Water District.

The initial application for the loan was submitted by McLean County Judge Executive Larry Whitaker using the North McLean County financial information with the intent of the North McLean County Water District assuming the responsibility for the Loan/Grant. See Appendix B, Application for Fund B – Infrastructure Revolving Fund.

Please see Appendix C, Interlocal Agreement between McLean County Fiscal Court and the North McLean County Water District, which states the Water District will assume the responsibility for the Loan/Grant.

The total amount of the Loan/Grant is \$250,000 with 80% principal forgiveness.

Grant	=	\$200,000
Loan	=	\$ 50,000
Time held	=	20 years
Interest rate	=	3.0%
Payee	=	Kentucky Infrastructure Authority

Item 5 **Section 11(2)(1)**

North McLean County requests a waiver from providing the Financial Exhibits, as requested for the following reasons:

1. North McLean County Water District is organized as a Class B Water District under the McLean County Fiscal Court. This is a public entity.
2. North McLean County Water District intends to pay off the loan with the first payment from cash reserves. No rate increase is anticipated as a result of this project.

Item 6 **Section 11(2)(b)**

The 1985 bondholders hold a statutory mortgage lien against the assets of the Water District. There is also a pledge of net revenues of the Water District for future bond and interest payments. See Item 11 hereinbelow.

Item 7 **Section 11(2)(c)**

The waterline project will be placed in existing right of way. No property will be acquired from this project.

The project will change the Statement of Net Assets by the following:

Current Assets	will increase by \$250,000 (estimated)
Net Assets	will increase by \$200,000 (estimated)
Current Liabilities	will increase by \$ 50,000 (estimated)

Item 8 **807 KAR 5:001 (Section 6(1))**

North McLean County Water District does not have any stock authorized, as it is a public entity.

Item 9 **807 KAR 5:001(Section 6(2))**

North McLean County Water District does not have any stock issued or outstanding, as it is a public entity.

Item 10 **807 KAR 5:001 Section 6(3)**

North McLean County Water District does not have any preferred stock, as it is a public entity.

Item 11 **807 KAR 5:001 Section 6(4)**

The 1985 bondholders hold a statutory mortgage lien against the assets of the Water District, as detailed hereinbelow. There is also a pledge of net revenues of the Water District for future bond and interest payments.

Date of Execution:	1985
Payee:	United States Department of Agriculture 7 5/8% Revenue Bond, Series 1985
Amount of Original Obligation:	\$245,000
Balance owing 12-31-2011:	\$175,000
Interest paid in last fiscal year:	\$ 13,878
Sinking fund provisions:	*

*Under the terms of the revenue bond ordinances, certain funds were created to set aside money for future bond payments. More complete details may be found on Page 9 of the *North McLean County Water District Audit Report for the Years Ended December 31, 2011 and 2010*, a copy of which is attached hereto. A brief description of the funds that were created follows:

Replacement and Extension Fund – Monthly transfers will be made in the amount of \$125.00 until the sum of \$32,000.00 is accumulated.

1985 Sinking Fund – Monthly transfers will be made to equal the next bond and interest payment until the sum of \$24,000 is accumulated.

NMCWD currently has no other outstanding indebtedness.

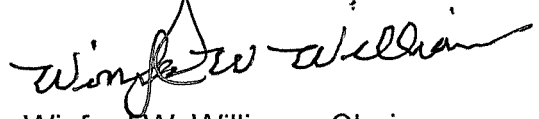
Item 12 **807 KAR 5:001 Section 6(8)**

North McLean County Water District has not paid dividends during the five (5) previous years, as it is a public entity.

Item 13 **807 KAR 5:0001 Section 6(9)**

In order to provide a detailed Balance Sheet and Income Statement, a copy of the *North McLean County Water District Audit Report for the Years Ended December 31, 2011 and 2010* as prepared by independent auditors, Hoover and Morris, PLLC, P. O. Box 399, Livermore, Kentucky 42352, is attached to this application.

Respectfully submitted by,

A handwritten signature in black ink, appearing to read "Winfred W. Williams". The signature is written in a cursive style with a large initial 'W'.

Winfred W. Williams, Chairman
North McLean County
Water District

Appendix A

Financing File Requirement Checklist

FINANCING

Filing Requirements Checklist

(Applicable Regulation: 807 KAR 5:001, Sections 6 & 11)

Case No. _____ Applicant Name _____ Received Date _____ Form Circulation Date _____

Instructions:

- 1) Each division noted by checkmark () is to complete its review and pass on within two days of receipt.
- 2) This form is to list only the specific filing deficiencies as identified in the regulations. If additional information is needed, an information request must be issued.
- 3) Staff member should use initials and list date review is completed.
- 4) Return to Docket Section following review by all divisions.

Reviewed by following Divisions:	Date	<u>Staff Member</u>
_____ Filings	_____	_____
_____ Financial Analysis	_____	_____
_____ Engineering	_____	_____
_____ Legal	_____	_____

Division Responsible	Law/Regulation	Filing Requirement	Requirement Met		Waiver Requested		Approve Waiver?	
			Yes	No	Yes	No	Yes	No
	<u>807 KAR 5:001:</u>							
Filings	Section 8(1)	Full name and post office address of applicant and a reference to the particular provision of law requiring Commission approval.						
Filings	Section 8(2)	The original and 10 copies of the application with an additional copy for any party named therein as an interested party.						
Legal	Section 8(3)	If applicant is a corporation, a certified copy of the Articles of Incorporation and all amendments thereto or if the articles were filed with the PSC in a prior proceeding, a reference to the style and case number of the prior proceeding.						
Legal	KRS 278.300(2)	Every financing application shall be made under oath, and shall be signed and filed on behalf of the utility by its president, or by a vice president, auditor, comptroller or other executive officer having knowledge of the matters set						

Division Responsible	Law/Regulation	Filing Requirement	Requirement Met		Waiver Requested	Approve Waiver?	
			Yes	No		Yes	No
		--Total amount					
		--Time held					
		--Interest rate					
		--Payee					
Financial Analysis	Section 11(2)(a)	Financial Exhibit (see below)					
Financial Analysis	Section 11(2)(b)	Copies of all trust deeds or mortgages. If previously filed, state case number.					
Engineering	Section 11(2)(c)	If Property to be acquired: --Maps and plans of property.					
Financial Analysis	Section 11(2)(c)	--Detailed estimates by USOA account number.					

ALL INFORMATION BELOW IN SECTIONS 6(1) THROUGH 6(9) SHOULD COVER THE PERIOD ENDING NOT MORE THAN 90 DAYS PRIOR TO DATE ON WHICH APPLICATION WAS FILED:

Financial Analysis	807 KAR 5:001 Section 6(1)	Amount and types of stock authorized.					
Financial Analysis	Section 6(2)	Amount and types of stock issued and outstanding.					
Financial Analysis	Section 6(3)	Detail of preference terms of preferred stock.					
Financial Analysis	Section 6(4)	<u>Mortgages:</u> --Date of Execution --Name of Mortgagor --Name of Mortgagee or Trustee --Amount of Indebtedness Secured --Sinking Fund Provisions					

Division Responsible	Law/Regulation	Filing Requirement	Requirement Met		Waiver Requested	Approve Waiver?	
			Yes	No		Yes	No
		-Interest Paid in Last Fiscal Yr.					
Financial Analysis	Section 6(8)	Rate and amount of dividends paid during the five (5) previous fiscal years and the amount of capital stock on which dividends were paid each year.					
Financial Analysis	Section 6(9)	Detailed income statement and balance sheet.					

IF APPLICANT IS A SEWER UTILITY, THE FOLLOWING ADDITIONAL FILING REQUIREMENTS APPLY:

Financial Analysis	Section 3(3)(a)	Copy of amortization schedules of present and proposed indebtedness.					
Financial Analysis	Section 3(3)(a)	A full and complete explanation of any corporate or business relationships between applicant and parent or brother-sister corporation, subsidiary(ies), a development corporation(s), or any other party or business to afford the PSC a full understanding of the situation.					

Appendix B

**Application for Fund B
Infrastructure Revolving Fund**



October 25, 2010

Ms. Kasi White
Kentucky Infrastructure Authority
1024 Capital Center Drive, Suite 340
Frankfort, Kentucky 40601

RE: WX21149025 North McLean Co. Water District Line Extensions and Replacements

Dear Ms. White,

Thank you for the opportunity to submit an application for the Fund B – Infrastructure Revolving Fund. Please find enclosed is the application and supplemental attachments. If you have any questions, please contact me.

Sincerely,
DLZ Kentucky, Inc

Michael Hesse
Project Manager

INFRASTRUCTURE REVOLVING LOAN FUND (Fund B) LOAN APPLICATION

I. GENERAL PROJECT SUMMARY

1. **PROJECT TITLE** North McLean County Water District Line
Extensions and Replacements

PROJECT NUMBER WX21149025
(WX or SX #)

2. LEGAL APPLICANT

Applicant Name: McLean County Fiscal Court

Street/P.O. Box: 210 Main Street, P.O Box 127

City, State & Zip Code: Calhoun, Kentucky 42327

Telephone: (270)273-3213

Email: lbwhitaker@att.net

County: McLean County

Contact Person: Larry Whitaker, Judge Executive

3. APPLICATION CONTACT PERSON (Consultant, Area Development District, etc.)

Name: Michael Hesse, PE

Title: Project Manager

Firm: DLZ Kentucky, Inc

Street/P.O. Box: 201 Brighton Park, Blvd

City, State & Zip Code: Frankfort, Kentucky 40601

Telephone: (502) 695-2300

Email: mhesse@dlz.com

4. ENGINEERING FIRM

Name: Michael Hesse, PE
 Street/P.O. Box: 201 Brighton Park, Blvd
 City, State, Zip Code: Frankfort, Kentucky 40601
 Telephone: (502) 695-2300
 Contact Person: Michael Hesse, PE
 Email: mhesse@dlz.com

5. BRIEF DESCRIPTION OF PROJECT (Attach project maps)
 (this description will be reviewed against the existing project profile for the project and should be consistent with the description therein)

THIS PROJECT PROPOSES TO CONSTRUCT A WATER LINE EXTENDING FROM THE CALHOUN TANK AND TIE INTO A 10 INCH LINE ON KY 250. A MASTER METER WILL BE INCLUDED. ON THE WHOLE, THE PROJECT WILL ENSURE BETTER SERVICE TO ALL CUSTOMERS OF THE NORTH MCLEAN COUNTY WATER DISTRICT.

6. FINANCING PACKAGE PROPOSED

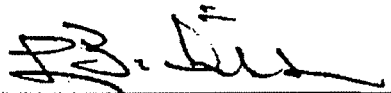
Source	Amount	Type Loan/Grant	Rate%	Term	Status
Fund B	\$ 250,000	Loan/Grant		20 years	Application
HB 380 141C-2007	\$ 200,000	Grant			Fully Drawn
HB 608	\$ 250,000	Grant			\$1,007 Remaining
North McLean Co. Water District	\$ 37,871	Grant			Fully Drawn
TOTAL	\$ 737,871				

Attach evidence of commitment from other funds.

7. CERTIFICATION

To the best of my knowledge and belief, the information contained in this application is true and correct.

Larry Whitaker
 McLean Co. Judge Executive


 Signature


10/6/2010
 Date

**KENTUCKY INFRASTRUCTURE AUTHORITY
PROJECT BUDGET
PROJECT # WX21149025 North McLean
County Water District Line Extensions and
Replacements**

Cost Classification		Infrastructure Revolving Fund (Fund B)	Other Funding Source A HB 380 141C-2007	Other Funding Source B HB 608 303N-2008	Other Funding Source C	Local Funds North McLean Co. Water District	Total Project Cost
1	Administrative Expenses (Including Interim Financing)	\$ 5,000	\$ 1,900	\$ 2,375			\$ 9,275
2	Legal Expenses						
3	Land, Appraisals, Easements, Right-of-Way						
4	Relocation Expense & Payments						
5	Planning	\$ 20,120	\$ 15,070				\$ 35,190
6	Engineering Fees - Design	\$ 15,040	\$ 42,270				\$ 57,330
7	Engineering Fees - Construction						
8	Engineering Fees - Inspection	\$ 8,570	\$ 31,680				\$ 40,250
9	Construction	\$ 189,767	\$ 109,080	\$ 246,618		\$ 37,871.10	\$ 583,336
10	Equipment						
11	Contingency	\$ 11,493		\$ 1,007			\$ 12,250
12	Other						
	Total	\$ 250,000	\$ 200,000	\$ 250,000			\$ 737,861

Funding Sources	Amount	Date Committed
A HB 380 141C-2007	\$ 200,000	
B HB 608 303N-2008	\$ 250,000	
C		

Please identify all sources and amounts of Local Funding		Amount
1	North McLean Co. Water District	37,871.10
2		
3		


 Signature
 Judge Executive
 Title
 10/8/2010
 Date

II. GENERAL PROJECT INFORMATION

1. Have business closings or disruptions occurred due to infrastructure inadequacy or failure?

Yes No
If yes, describe.

The Water District has cut poultry farms off from the water supply to provide an adequate and safe water supply to other customers.

2. Is the applicable infrastructure system under sanction from any enforcement agency?

Yes No N/A

If yes, describe (include deadlines, fines imposed and whether the project will satisfy sanction order.)

3. Are easements or land acquisition needed for the project?

Yes No Number of Parcels 4
Explain status of each parcel.

1. McLean County Board of Education – Negotiating with Property Owner
2. Ralph B. & Carol A. Hayden - Negotiating with Property Owner
3. Ray & elna Hayden - Negotiating with Property Owner
4. Gerald A. Hayden - Negotiating with Property Owner

4. If applicant has obtained the necessary land, indicate if by:

Leasehold interest Fee simple title Other (Specify)

5. Have plans and specifications been reviewed and approved by the Division of Water?

Yes No
If no, explain status.

4. Operator Certification:

Number of certified operators required for system 1
Level of certification required Class II
Number of operators employed by system 1
Are all operators properly certified Yes No

IV. FINANCIAL ANALYSIS

1. Are revenues and expenses for this system accounted for separately from other utility services?

Yes No
If no, explain.

2. Identify all revenues, other than service fees, which are dedicated to the system.

A. 2009 Water Sales \$ 590,907.84
B. Hook-On Fees \$ 8,079.47
C. Interest \$ 1,623.26

3. Is there outstanding debt on the system? Yes No

A. Source USDA
B. Principal outstanding \$188,000
C. Annual debt requirement 2010 - interest \$7,168
2011 - interest \$14,107, premium \$6,000
D. Date of final payment 2025

Attach a copy of debt service schedule(s).

4. Has a rate study been prepared in anticipation of a rate increase?

_____ Yes No

Rate study is currently being prepared by PSC. Unable to provide copy of proposed Rate schedule at this time.

If yes, attach a copy.

5. Are water or sewer services provided by other communities or districts to this system?

Yes _____ No

Attach copy of service agreements and briefly describe terms.

Service Agreement for Calhoun, West Daviess, & Livermore

Service Agreements are extremely old and are not reproducible.

6. Does this system provide services to other communities or districts?

_____ Yes No

<u>Community/District</u>	<u># of Customers</u>	<u>Amount of Revenue Derived</u>
_____	_____	\$ _____
_____	_____	\$ _____
_____	_____	\$ _____

Attach copy of service agreement(s) and briefly describe terms.

7. Rate structure (attach copy of current and any proposed rate ordinance).

A.	Current 4,000 gallon rate	\$ <u>30.23</u>
B.	Proposed 4,000 gallon rate	\$ <u>PSC Auditing</u>
C.	Average usage/bill	\$ <u>36.51</u>
D.	Date last rate increase/amount of change	<u>3/11/10 \$0.36</u>
E.	Method of collection of service fees	<u>Mail and Hand Delivered</u>
F.	Percentage rate of collection	<u>> 95%</u>

- G. Do any users provide more than 5% of the service revenue for the system?

_____ Yes No
If yes, list.

<u>Company</u>	<u>% Service Revenue</u>
_____	_____
_____	_____
_____	_____

8. Compare rates with other providers in your area.

Calhoun – See Attachment
Livermore – See Attachment

9. Operation and Maintenance.

	<u>Year</u>	<u>Cost</u>
A. Annual operation and maintenance costs for last 3 years.	2008	\$ 3,267.04
	2009	\$ 4,674.49
	<u>2010</u>	<u>\$ 3,418.41</u>

B. Estimated total cost after project completion. 2011 \$ 4,850.00

C. Current annual funding requirements for depreciation, and operation and maintenance reserves.

\$24,500.00

D. Are operation and maintenance payments required by prior bond or ordinance?

Yes _____ No

If yes, are you in compliance? Yes _____ No

If no, explain.

E. Are operation and maintenance functions assigned to another party?

_____ Yes No

If yes, provide details of the agreement.

F. Provide a copy of the current operating budget of the system affected by this proposed funding.

10. Tap fee amounts.

- A. Residential \$ 660.50 for ¾" x 5/8" meters
- B. Commercial \$ 828.54 for 1" meters
- C. Other \$ 1,966.93 for 1½ " meters
- D. How collected \$ 2,091.32 for 2" meters
- All same rates and collected before setting meter

11. Outline the applicant's plan for producing revenues sufficient to cover debt service and operations.

Bond Premium and Interest fund. NMCWD sets aside enough monthly to make payments.

Using rate per number of days -- 51.181150

12. List any security available to support the proposed debt, if applicable. This may include liens on mortgages or projected revenues.

Special Accounts set aside.

V. IMPLEMENTATION SCHEDULE

1. Anticipated engineering design time required (including plan review).

Design Completed

2. Anticipated number of contracts. Please list contracts below:

Contract #/Name/Description

Estimated Amount

1. DLZ	Planning & Engineering	\$ 92,520.00
	Construction Administration	\$ 57,330.00
	Project Administration	\$ 3,500.00
2.	Ernie Davis – Construction of Phase 1	\$ 355,698.40
3.	Contractor – construction of Phase 2	\$ 180,000.00

3. Anticipated bid advertising date(s). March 2010
4. Anticipated bid opening date(s). March 2010
5. Anticipated construction start date(s). May 2010
6. Anticipated construction completion date(s). September 2010
7. Will force account labor be used?

Yes No
 If yes, list activities.

8. List any construction or bid requirements related to other funding sources, which could affect timely implementation.

VI. MANAGEMENT CAPACITY

These questions relate to compliance with statutory mandates placed on each type of applicant. Answer each question as appropriate.

1. Audit Requirement.

A. Is applicant required to have annual audit performed?

Yes No
 If no, explain.

B. Date of last audit completed: 2009

C. Attach four (4) of the most recent financial statements, current year-to-date unaudited financials and current budget.

2. All Other Applicants

A. Explain designation of responsibility for financial accountability and personnel administration.

See Letter

B. Have any public meetings been held on the proposed project or service fee increases in the last six months?

 Yes X No
If yes, provide minutes.

VII. CAPITAL INVESTMENT

Federal/State Funding History.

List all federal and state funding (grant and loan) awarded to the jurisdiction during the last five (5) years for infrastructure or economic development projects.

YEAR	PROJECT	SOURCE	AMOUNT
2008	US 431 Water Tank	HB 608	\$ 250,000
2006	Nucklos Water Line	HB 380 142C-07	\$ 30,000
2008	Nuckos Water Line	HB 608 308- N-2008	\$ 77,770.29
2008	NMCWD Water Line Extensions	HB 608	\$ 250,000.00
2006	NMCWD Water Line Extensions	HB 380 141C-2007	\$ 200,000.00

North McLean Water Billing Rates

<u>Water Consumption</u>	<u>Current Rate - March 11, 2010</u>	
First 2,000 Gals	\$14.88	Minimum Bill
Next 8,000 Gals	\$ 5.39	Per 1000 Gals
Next 30,000 Gals	\$ 4.88	Per 1000 Gals
Over 40,000 Gals	\$ 4.40	Per 1000 Gals

City of Livermore, Kentucky Water Rates

OLD RATE		NEW RATE
	IN-TOWN	
\$12.62	1ST 1000 GALLONS (MINIMUM CHARGE)	\$13.12
\$6.63	EACH 1000 GALLONS	\$7.13
	RURAL	
\$15.12	1ST 1000 GALLONS (MINIMUM CHARGE)	\$16.38
\$6.87	EACH 1000 GALLONS	\$8.13

**New water rate is effective as of October 27, 2010

NORTH MCLEAN COUNTY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2009 and 2008

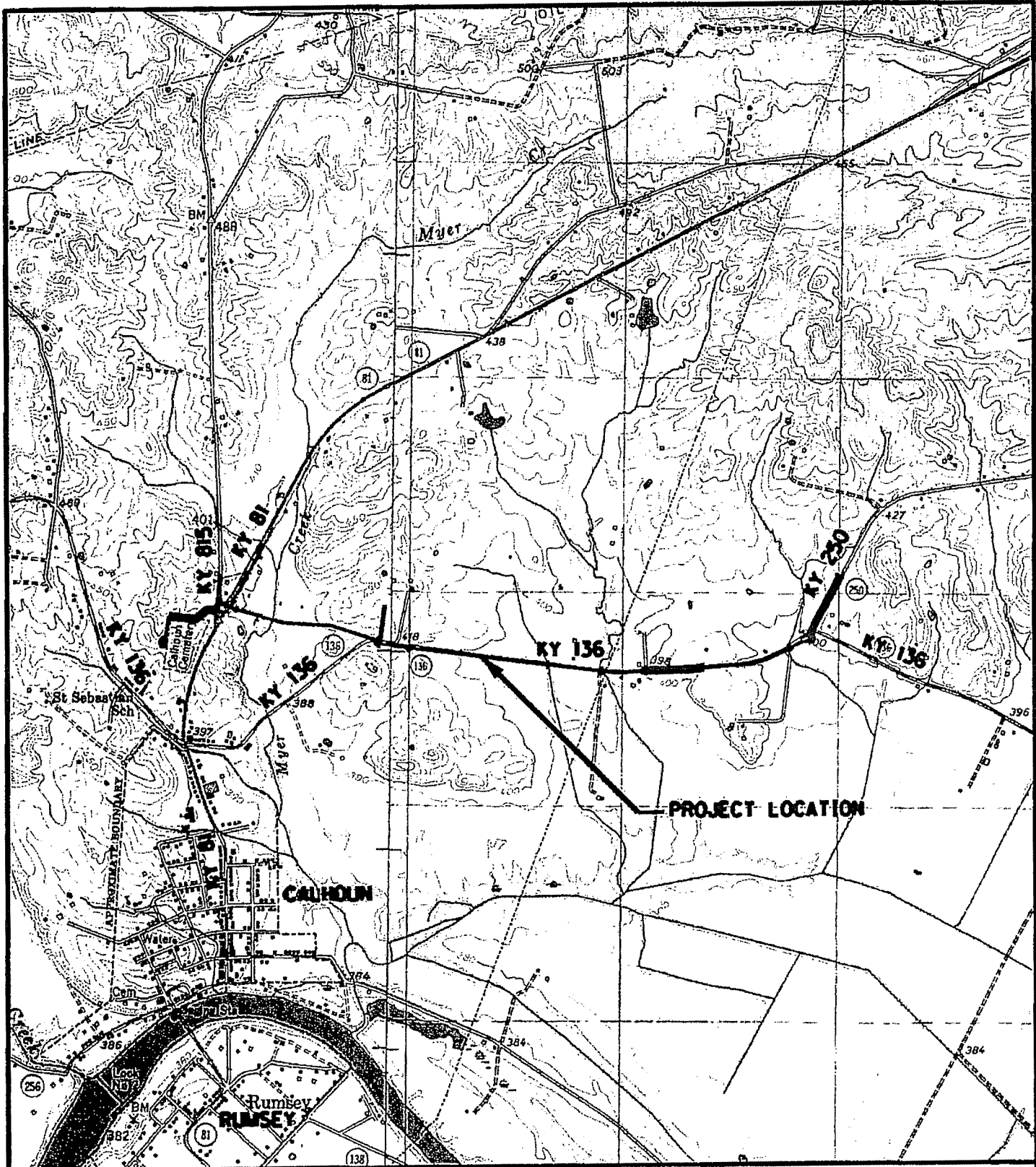
The annual requirements to amortize revenue bonds outstanding as of December 31, 2009, follows:

	Series 1985				
	Interest	Interest	Principal	Totals	
	Jan. 1	July 1	Jan. 1	Interest	Principal
2010	\$ -	\$ 7,168	\$ -	\$ 7,168	\$ -
2011	7,168	6,939	6,000	14,107	6,000
2012	6,939	6,672	7,000	13,611	7,000
2013	6,672	6,405	7,000	13,077	7,000
2014	6,405	6,100	8,000	12,505	8,000
2015-2019	26,688	24,591	55,000	51,279	55,000
2020-2024	14,183	10,980	84,000	25,163	84,000
2025	801	-	21,000	801	21,000
	<u>\$ 68,856</u>	<u>\$ 68,855</u>	<u>\$ 188,000</u>	<u>\$ 137,711</u>	<u>\$ 188,000</u>

Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended December 31, 2009:

	Amount of Original Obligation	Range of Final Maturity Dates	Range of Interest Rates	Balance Jan 1, 2009	Issued	Retired	Balance Dec 31, 2009	Amount Due within One Year
1971 Revenue bonds	\$ 157,000			\$ 9,000	\$ -	\$ (9,000)	\$ -	\$ -
1985 Revenue bonds	245,000	2010-2025	5 3/4%	194,000	-	(6,000)	188,000	6,000
Customer Deposits			7 5/8%	30,545	3,640	(1,995)	32,190	2,500
TOTAL LONG TERM LIABILITIES				<u>\$ 233,545</u>	<u>\$ 3,640</u>	<u>\$ (16,995)</u>	<u>\$ 220,190</u>	<u>\$ 8,500</u>



DLZ KENTUCKY, INC.
 201 BRIGHTON PARK BLVD.
 FRANKFORT, KY 40601
 (502) 695-2300

KY 136 / KY 250
 WATER LINE CONSTRUCTION
 McLEAN COUNTY FISCAL COURT
 210 MAIN ST.
 P.O. BOX 127
 CALHOUN, KY 42327

SCALE: 1" = 2000'



Appendix C

Interlocal Agreement

between

McLean County Fiscal Court

and

North McLean County Water District

RESOLUTION NO 3.15.11-5
OF THE
MCLEAN COUNTY FISCAL COURT

WHEREAS, the Kentucky Infrastructure Authority has awarded the McLean County Fiscal Court and North McLean County Water District a loan in the amount of \$250,000.00 which is coupled with an immediate 80% principal forgiveness; and

WHEREAS, the KIA has agreed that the North McLean County Water District can be the recipient of the loan without having to channel paperwork through the McLean County Fiscal Court.


NOW, THEREFORE, be it resolved by the McLean County Fiscal Court that the Kentucky Infrastructure Authority is hereby requested to permit North McLean County Water District to be the recipient for the Kentucky Infrastructure Authority, for the \$250,000.00 loan.

Upon acceptance of this responsibility by the North McLean County Water District, the McLean County Fiscal Court shall have no financial responsibility concerning this loan.

Adopted this 15th day of March, 2011.

Ayes - 5

Nays - 0



KELLY THURMAN, MCLEAN
COUNTY JUDGE EXECUTIVE

ATTEST:



STACY PATRICK, CLERK

**RESOLUTION
OF THE
NORTH MCLEAN COUNTY WATER DISTRICT**

WHEREAS, the Kentucky Infrastructure Authority has awarded the McLean County Fiscal Court and North McLean County Water District a loan in the amount of \$250,000.00 which is coupled with an immediate 80% principal forgiveness; and

WHEREAS, the KIA has agreed that the North McLean County Water District can be the recipient of the loan without having to channel paperwork through the McLean County Fiscal Court.

NOW, THEREFORE, be it resolved by the North McLean County Water District that the Kentucky Infrastructure Authority is hereby requested to permit North McLean County Water District to be the recipient for the Kentucky Infrastructure Authority, for the \$250,000.00 loan.

Upon acceptance of this responsibility by the North McLean County Water District, the McLean County Fiscal Court shall have no financial responsibility concerning this loan.

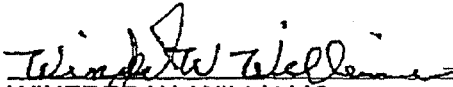
NOW, THEREFORE, be it resolved by the North McLean County Water District that it accept responsibility as the recipient for the Kentucky Infrastructure Authority for the \$250,000.00 loan, and

NOW, THEREFORE, be it further resolved by the North McLean County Water District that the McLean County Fiscal Court shall have no financial responsibility in connection with said loan.

Adopted this 21st day of March, 2011.

Ayes – 4

Nays – 0



WINFRED W. WILLIAMS,
Chairman

ATTEST:

CARROL B. TROUTMAN,
Secretary-Treasurer

NORTH MCLEAN COUNTY WATER DISTRICT

AUDIT REPORT

FOR THE YEARS ENDED
DECEMBER 31, 2011 AND 2010

HOOVER AND MORRIS, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 399

LIVERMORE, KENTUCKY 42352

(270) 278-5118

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Board of Commissioners
North McLean County Water District
McLean County, Kentucky

Independent Auditors' Report

We have audited the statements of net assets of North McLean County Water District as of December 31, 2011 and 2010, and the related statements of revenue and expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of North McLean County Water District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 audits provide 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 North McLean County Water District as of December 31, 2011 and 2010, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The district has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2012, on our consideration of North McLean County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance

with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Above and Merius, PLLC

May 2, 2012

NORTH MCLEAN COUNTY WATER DISTRICT
STATEMENTS OF NET ASSETS
December 31, 2011 and 2010

ASSETS	2011	2010
CURRENT ASSETS		
Cash in bank	\$ 255,555	\$ 241,420
Customer deposit checking	37,257	36,638
Certificates of deposit	165,112	163,061
Accounts receivable	60,878	53,373
Due from other governments	355	407
Inventory	21,342	20,287
Interest receivable	209	660
Prepaid insurance	5,188	5,004
TOTAL CURRENT ASSETS	<u>545,896</u>	<u>520,850</u>
NONCURRENT ASSETS		
Restricted Assets:		
Sinking fund reserve	31,246	31,282
Replacement and extension fund	32,842	31,208
Capital Assets:		
Utility plant	3,088,408	3,064,801
Accumulated depreciation	(918,616)	(868,869)
TOTAL NONCURRENT ASSETS	<u>2,233,880</u>	<u>2,258,422</u>
TOTAL ASSETS	<u>2,779,776</u>	<u>2,779,272</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	19,903	20,035
Taxes payable	5,677	5,166
Employee IRA withholding	55	390
Accrued interest on customer deposits	-	161
Customer deposits	3,000	2,500
Bonds payable	7,000	7,000
TOTAL CURRENT LIABILITIES	<u>35,635</u>	<u>35,252</u>
NONCURRENT LIABILITIES		
7 5/8% Revenue Bond, Series 1985	168,000	175,000
Customer deposits	28,395	29,140
TOTAL NONCURRENT LIABILITIES	<u>196,395</u>	<u>204,140</u>
TOTAL LIABILITIES	<u>232,030</u>	<u>239,392</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,994,792	2,013,932
Restricted for debt requirements	56,000	56,000
Unrestricted	496,954	469,948
TOTAL NET ASSETS	<u>\$ 2,547,746</u>	<u>\$ 2,539,880</u>

The notes to the financial statements are an integral part of these statements.

NORTH MCLEAN COUNTY WATER DISTRICT
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Water sales	\$ 596,806	\$ 592,923
Penalties and miscellaneous	18,969	21,565
TOTAL OPERATING REVENUES	<u>615,775</u>	<u>614,488</u>
OPERATING EXPENSES		
Salaries and wages	142,656	134,383
Depreciation	76,791	59,518
Purchased water	267,386	276,905
Purchased power	4,084	4,248
Materials and supplies	32,890	31,428
Contractual services	33,552	32,395
Rents	2,040	2,060
Transportation expenses	18,629	14,614
Insurance	9,407	9,480
Employee benefits	2,446	1,986
Miscellaneous	1,280	1,617
Interest on customer deposits	9	167
Advertising	89	400
Taxes	12,624	11,807
TOTAL OPERATING EXPENSES	<u>603,883</u>	<u>581,008</u>
OPERATING INCOME (LOSS)	<u>11,892</u>	<u>33,480</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	3,922	5,080
Interest expense	(13,878)	(14,335)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(9,956)</u>	<u>(9,255)</u>
CHANGE IN NET ASSETS BEFORE CONTRIBUTIONS	1,936	24,225
CAPITAL CONTRIBUTIONS	<u>5,930</u>	<u>451,635</u>
CHANGE IN NET ASSETS	7,866	475,860
NET ASSETS- BEGINNING	<u>2,539,880</u>	<u>2,064,020</u>
NET ASSETS- ENDING	<u>\$ 2,547,746</u>	<u>\$ 2,539,880</u>

The notes to the financial statements are an integral part of these statements.

NORTH MCLEAN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Receipts from customers	\$ 603,405	\$ 602,357
Other receipts	4,672	7,141
Payments to suppliers	(385,792)	(377,520)
Payments to employees	(142,656)	(134,383)
Net cash provided (used) by operating activities	<u>79,629</u>	<u>97,595</u>
Cash Flows from Noncapital Financing Activities		
Net cash provided(used) by noncapital financing activities	<u>-</u>	<u>-</u>
Cash Flows from Capital & Related Financing Activities		
Purchase of capital assets	(50,651)	(43,333)
Principal paid on bonds	(7,000)	(6,000)
Interest paid	(13,878)	(14,335)
Capital contributions from customers	5,930	2,642
Net cash provided (used) by capital & related financing activities	<u>(65,599)</u>	<u>(61,026)</u>
Cash Flows from Investing Activities		
Decrease(increase) in certificates of deposit	(2,487)	(27,571)
Interest on investments	4,373	4,588
Net cash provided (used) by investing activities	<u>1,886</u>	<u>(22,983)</u>
Net increase (decrease) in cash & cash equivalents	15,916	13,586
Balances- Beginning of year	<u>310,605</u>	<u>297,019</u>
Balances- End of year	<u>\$ 326,521</u>	<u>\$ 310,605</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities:		
Operating income (loss)	\$ 11,892	\$ 33,480
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	76,791	59,518
(Increase) decrease in:		
Accounts receivable	(7,453)	(4,262)
Inventories	(1,055)	1,975
Prepaid insurance	(184)	58
Increase (decrease) in:		
Accounts payable	(132)	3,794
Taxes payable	511	3,203
Employee IRA withholding	(335)	390
Accrued interest on customer deposits	(161)	(11)
Customer deposits	(245)	(550)
Net cash provided (used) by operating activities	<u>\$ 79,629</u>	<u>\$ 97,595</u>
Non-Cash Capital and Financing Activities		
Capital assets contributed by other governments	<u>\$ -</u>	<u>\$ 448,993</u>
Total Non-Cash Capital and Financing Activities	<u>\$ -</u>	<u>\$ 448,993</u>

The notes to the financial statements are an integral part of these statements.

NORTH MCLEAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

North McLean County Water District is a Kentucky water district that was organized in 1971. McLean County Fiscal Court appoints the Board of Commissioners that manages the water district. Accounting policies of the water district conform to generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The district applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The district's only fund is a proprietary fund which applies Financial Accounting Standards Board (FASB) Statements and Interpretations and Pronouncements issued on or before November 30, 1989, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

REPORTING ENTITY

In evaluating how to define the 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 responsibilities 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, there are no component units required to be reported by the District.

PROPRIETARY FUND ACCOUNTING

The activities of the Water District are similar to those found in the private sector. Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

INVENTORY

Inventory is stated at cost determined on a "first-in, first-out basis." Inventory consists mainly of supplies to be used for future repair and maintenance.

UTILITY PLANT IN SERVICE

Utility plant in service is stated at cost. Depreciation has been provided using the straight line method. Pumping, distribution equipment, and meters are being depreciated over a 20 to 40 year life. The transmission lines are being depreciated over a 60 to 80 year life and tanks are being depreciated over a 40 to 60 year life. Vehicles are depreciated over a 5 year life and other equipment is depreciated over 5 to 10 years.

NORTH MCLEAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

CONTRIBUTION IN AID OF CONSTRUCTION

With approval of the water district, customers have in some cases constructed their own water lines and donated them to the district for future maintenance, control, etc. Those assets have been recorded on the water district's books and are being depreciated under the same policy as other assets.

The water district has implemented GASB Statement No. 33, which requires capital contributions to be recognized as revenue effective for periods beginning after June 15, 2000.

CASH AND EQUIVALENTS

For purposes of the statements of cash flows, the district considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Below is a reconciliation of cash on the balance sheets to cash on the statements of cash flows.

	<u>2011</u>	<u>2010</u>
Cash in bank	\$ 255,555	\$ 241,420
Customer deposit checking	37,257	36,638
Sinking fund reserve	5,899	6,371
Replacement fund	27,810	26,176
	<u>\$ 326,521</u>	<u>\$ 310,605</u>

CASH AND INVESTMENTS

Cash includes amounts in bank accounts. The only investments include certificates of deposit. These investments are reported at cost, which reasonably estimates fair value.

KRS 66.480 authorizes the district to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

COMPENSATED ABSENCES

The District does not allow employees to accumulate unused personal or vacation days. Sick leave is earned at the rate of one day per month with a maximum accumulation of sixty days. Sick leave may only be used pursuant to a doctor's excuse and may not be converted to cash. It is impractical to estimate the amount of compensation for future sick leave and accordingly no liability has been recorded in the accompanying financial statements. The District's policy is to recognize the cost of compensated absences when paid to employees.

CAPITALIZED INTEREST

The District capitalizes net interest cost as part of the cost of constructing various utility projects when material. All interest was expensed since no construction projects were financed during the current year.

NORTH MCLEAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

ACCOUNTS RECEIVABLE

The District has not provided for an allowance for bad debts. It is management's opinion based on prior history that any uncollectible accounts would have no significant effect on the financial statements. Uncollectible accounts are written off annually directly to sales. Bad debt expense was \$1,735 for 2011 and \$2,435 for 2010.

2. DEPOSITS AND INVESTMENTS

A. Deposits

The District maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (C) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of December 31, 2011 all deposits including the certificates of deposit held as investments were covered by FDIC insurance or a properly executed collateral security agreement.

B. Investments

As of December 31, 2011, the District had the following investment:

<u>Investment</u>	<u>Maturity</u>		<u>Fair Value (Cost)</u>
Certificates of Deposit	Greater than 90 days	\$	195,491

Interest Rate Risk

The District does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. In general, non-negotiable certificates of deposit are not subject to interest rate risk.

Credit Risk

KRS 66.489 limits the District's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government. Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity. Uncollateralized certificates of deposit issued by a bank or savings and loan institutions rated in one of the three highest categories by a nationally recognized rating agency. Bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally recognized rating agency.

NORTH MCLEAN COUNTY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2011 and 2010

Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities, securities issued by a state or local government, or any instrumentality or agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the District is limited to investing no more than 20% in any one of the preceding investments as allowed by KRS 66.480. The District had no investment policy that would further limit its investments choices. In general, non-negotiable certificates of deposit are not subject to investment credit risk.

3. RESTRICTED ASSETS

Under the terms of the revenue bond ordinances, certain funds were created to set aside money for future bond payments. The funds that were created and a brief description follows:

Replacement and Extension Fund- Monthly transfers will be made in the amount of \$125.00 until the sum of \$32,000.00 is accumulated. The transfers for 2011 and 2010 were timely made.

1985 Sinking Fund- Monthly transfers will be made to equal the next bond and interest payment until the sum of \$24,000.00 is accumulated. During 2011 and 2010, transfers were made to provide for the next bond and interest payment.

When restricted and unrestricted resources are available for use, it is the district's policy to use restricted resources first.

A summary of the changes in restricted assets is as follows:

	1985 Sinking Fund	Reserve Replacement Fund	
FUND BALANCE, JANUARY 1, 2010	\$ 5,971	\$ 29,581	
CASH RECEIPTS			
Transfers from operations	45,181	1,500	
Interest income	465	127	
CASH DISBURSEMENTS			
Bond and interest payments	20,335	-	
FUND BALANCE, DECEMBER 31, 2010	31,282	31,208	
CASH RECEIPTS			
Transfers from operations	20,348	1,500	
Interest income	494	134	
CASH DISBURSEMENTS			
Bond and interest payments	20,878	-	
FUND BALANCE, DECEMBER 31, 2011	\$ 31,246	\$ 32,842	

NORTH MCLEAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

4. PROPERTY AND EQUIPMENT

A summary of the property and equipment as of December 31, 2011 and 2010, is as follows:

	Jan. 1 2010	Increases	Decreases	Dec. 31 2010
Capital assets not being depreciated:				
Land	\$ 17,186	\$ -	\$ -	\$ 17,186
Capital assets being depreciated:				
Buildings and improvements	163,837	2,819	-	166,656
Equipment	187,731	-	1,653	186,078
Water distribution system	2,151,402	489,507	-	2,640,909
Vehicles	53,972	-	-	53,972
Total capital assets being depreciated	2,556,942	492,326	1,653	3,047,615
Less accumulated depreciation for:				
Buildings and improvements	9,855	4,557	-	14,412
Equipment	80,654	6,743	1,653	85,744
Water distribution system	673,917	45,261	-	719,178
Vehicles	46,578	2,957	-	49,535
Total accumulated depreciation	811,004	59,518	1,653	868,869
Total capital assets being depreciated, net	1,745,938	432,808	-	2,178,746
Capital assets, net	<u>\$ 1,763,124</u>	<u>\$ 432,808</u>	<u>\$ -</u>	<u>\$ 2,195,932</u>

	Jan. 1 2011	Increases	Decreases	Dec. 31 2011
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 14,901	\$ -	\$ 14,901
Land	17,186	-	-	17,186
Total capital assets being depreciated	17,186	14,901	-	32,087
Capital assets being depreciated:				
Buildings and improvements	166,656	-	-	166,656
Equipment	186,078	-	-	186,078
Water distribution system	2,640,909	35,750	27,044	2,649,615
Vehicles	53,972	-	-	53,972
Total capital assets being depreciated	3,047,615	35,750	27,044	3,056,321
Less accumulated depreciation for:				
Buildings and improvements	14,412	4,569	-	18,981
Equipment	85,744	8,782	-	94,526
Water distribution system	719,178	60,483	27,044	752,617
Vehicles	49,535	2,957	-	52,492
Total accumulated depreciation	868,869	76,791	27,044	918,616
Total capital assets being depreciated, net	2,178,746	(41,041)	-	2,137,705
Capital assets, net	<u>\$ 2,195,932</u>	<u>\$ (26,140)</u>	<u>\$ -</u>	<u>\$ 2,169,792</u>

5. LONG-TERM DEBT

Revenue Bonds

The 1985 bondholders hold a statutory mortgage lien against the assets of the water district. There is also a pledge of net revenues of the water district for future bond and interest payments.

NORTH MCLEAN COUNTY WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2011 and 2010

The annual requirements to amortize revenue bonds outstanding as of December 31, 2011, follows:

	Series 1985			Totals	
	Interest	Interest	Principal	Interest	Principal
	<u>Jan. 1</u>	<u>July 1</u>	<u>Jan. 1</u>		
2012	\$ -	\$ 6,672	\$ -	\$ 6,672	\$ -
2013	6,672	6,405	7,000	13,077	7,000
2014	6,405	6,100	8,000	12,505	8,000
2015	6,100	5,757	9,000	11,857	9,000
2016	5,757	5,376	10,000	11,133	10,000
2017-2021	22,303	19,825	65,000	42,128	65,000
2022-2025	7,511	4,613	76,000	12,124	76,000
	<u>\$ 54,748</u>	<u>\$ 54,748</u>	<u>\$ 175,000</u>	<u>\$ 109,496</u>	<u>\$ 175,000</u>

Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended December 31, 2011:

	Amount of Original Obligation	Range of Final Maturity Dates	Range of Interest Rates	Balance Jan 1, 2011	Issued	Retired	Balance Dec 31, 2011	Amount Due within One Year
1985 Revenue bonds	\$ 245,000	2011-2025	7 5/8%	\$ 182,000	\$ -	\$ (7,000)	\$ 175,000	\$ 7,000
Customer Deposits				31,640	3,150	(3,395)	31,395	3,000
TOTAL LONG TERM LIABILITIES				<u>\$ 213,640</u>	<u>\$ 3,150</u>	<u>\$ (10,395)</u>	<u>\$ 206,395</u>	<u>\$ 10,000</u>

NORTH MCLEAN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

6. INCOME TAXES

The water district is a local government unit which is exempt from income taxes.

7. PURCHASE COMMITMENTS

The water district is committed to purchasing a minimum of 3,000,000 gallons of water each month from the City of Calhoun until approximately August 1, 2016. The District's water purchases from the City of Calhoun exceeded this minimum amount each month

8. RESTRICTED NET ASSETS

The District's net assets equivalent to the restricted assets of the revenue bonds has been restricted for revenue bond retirement.

9. RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District has obtained insurance coverage through a commercial insurance company.

OTHER REPORTS

HOOVER AND MORRIS, PLLC

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

Board of Commissioners
North McLean County Water District
Livermore, KY 42352

We have audited the Statement of Net Assets of North McLean County Water District as of and for the year ended December 31, 2011, and the statements of revenues, expenses and changes in net assets, and cash flows, and have issued our report thereon dated May 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North McLean County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North McLean County Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North McLean County Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of North McLean County Water District'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 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. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

- With an office staff of only two employees, the bookkeeping, payroll, cash collections, accounts receivable, and disbursements of funds can not be completely segregated.
- The auditee lacks the expertise in financial reporting to draft its own financial statements and related note disclosures.

The District offered the following responses:

- The District does not feel it is economically feasible to hire additional staff.
- District personnel will carefully review the draft financial statements for errors.

A material weakness is a significant deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we consider the combination of the significant deficiencies described above to be a material weakness.

We noted certain matters that we reported to management of North McLean County Water District in a separate letter dated May 2, 2012.

North McLean County Water District's response to the findings identified in our audit is described above. We did not audit North McLean County Water District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Commissioners, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Howe and Morris, PLLC

May 2, 2012