

EAST CASEY COUNTY WATER DISTRICT
Liberty, Kentucky

FINANCIAL STATEMENTS
December 31, 2012 and 2011

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Independent Auditors' Report

Board of Commissioners
East Casey County Water District
Liberty, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the East Casey County 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 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.

Auditors' 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 auditors' 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.

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Opinion

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

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with **Government Auditing Standards**, we have also issued our report dated March 7, 2013 on our consideration of the East Casey County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering East Casey County Water District's internal control over financial reporting and compliance.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
Lexington, Kentucky
March 7, 2013

**EAST CASEY COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31,**

| ASSETS | 2012 | 2011 |
|---|----------------------|----------------------|
| Current assets | | |
| Cash and cash equivalents | \$ 623,022 | \$ 524,878 |
| Investments - certificates of deposit | 838,630 | 831,334 |
| Customer accounts receivable, net | 117,743 | 122,181 |
| Accrued interest receivable | <u>1,499</u> | <u>1,982</u> |
| | <u>1,580,894</u> | <u>1,480,375</u> |
| Restricted assets | | |
| Cash and cash equivalents | <u>575,374</u> | <u>543,730</u> |
| | <u>575,374</u> | <u>543,730</u> |
| Capital assets | | |
| Land | 59,657 | 59,657 |
| Property, plant and equipment, net | 12,142,954 | 12,315,908 |
| Construction-in-progress | <u>103,887</u> | <u>163,260</u> |
| | <u>12,306,498</u> | <u>12,538,825</u> |
| TOTAL ASSETS | <u>\$ 14,462,766</u> | <u>\$ 14,562,930</u> |
| LIABILITIES AND NET POSTION | | |
| Current liabilities | | |
| Accounts payable | \$ 87,753 | \$ 97,295 |
| Taxes payable | 9,482 | 8,434 |
| Construction payable | 4,500 | - |
| Customer deposits payable | 25,950 | 25,550 |
| Accrued interest payable | 90,694 | 92,837 |
| Current portion of long-term debt | <u>68,500</u> | <u>63,500</u> |
| | <u>286,879</u> | <u>287,616</u> |
| Long-term debt | | |
| Bonds payable, net | <u>3,043,000</u> | <u>3,111,500</u> |
| Net position | | |
| Net investment in capital assets | 9,194,998 | 9,363,825 |
| Restricted for reserves | 575,374 | 543,730 |
| Unrestricted | <u>1,362,515</u> | <u>1,256,259</u> |
| | <u>11,132,887</u> | <u>11,163,814</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 14,462,766</u> | <u>\$ 14,562,930</u> |

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

EAST CASEY COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION
for the years ended December 31,

| | 2012 | 2011 |
|--|----------------------|----------------------|
| OPERATING INCOME | | |
| Water sales | \$ 1,574,725 | \$ 1,508,735 |
| Late charges | 45,311 | 47,455 |
| Other revenue | <u>28,094</u> | <u>23,697</u> |
| Total operating income | <u>1,648,130</u> | <u>1,579,887</u> |
| OPERATING EXPENSES | | |
| Water purchases | 620,645 | 607,365 |
| Salaries | 215,950 | 204,914 |
| Employee benefits | 121,005 | 110,980 |
| Taxes | 18,768 | 15,646 |
| Office expense & postage | 48,776 | 37,861 |
| Insurance | 24,324 | 24,156 |
| Transportation expense | 27,805 | 29,577 |
| Line upkeep | 99,780 | 250,144 |
| Contract labor | 85,735 | 70,231 |
| Utilities & telephone | 76,342 | 77,887 |
| Legal & professional | 16,546 | 16,274 |
| Miscellaneous | 9,034 | 9,024 |
| Regulatory commission expenses | <u>2,771</u> | <u>2,483</u> |
| Total operating expense | <u>1,367,481</u> | <u>1,456,542</u> |
| Operating income before depreciation | 280,649 | 123,345 |
| Depreciation expense | <u>(298,962)</u> | <u>(275,911)</u> |
| OPERATING INCOME | (18,313) | (152,566) |
| Non-operating income (expenses) | | |
| Interest income | 15,337 | 18,017 |
| Interest expense | <u>(141,482)</u> | <u>(144,424)</u> |
| INCOME BEFORE CAPITAL CONTRIBUTIONS | (144,458) | (278,973) |
| Capital Contributions | | |
| Grants received | 65,430 | 342,174 |
| Tap fees | 33,916 | 32,137 |
| Contributed land | 10,000 | - |
| Other | <u>4,185</u> | <u>1,820</u> |
| Change in net position | (30,927) | 97,158 |
| Net position, beginning of year | <u>11,163,814</u> | <u>11,066,656</u> |
| NET POSITION END OF YEAR | <u>\$ 11,132,887</u> | <u>\$ 11,163,814</u> |

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

**EAST CASEY COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
for the years ended December 31,**

| | 2012 | 2011 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$ 1,652,568 | \$ 1,595,119 |
| Payment to suppliers | (952,885) | (1,234,934) |
| Payment for employee services and benefits | <u>(422,690)</u> | <u>(386,125)</u> |
| Net cash provided (used) by operating activities | <u>276,993</u> | <u>(25,940)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Principal payments | (63,500) | (61,500) |
| Interest payments | (143,625) | (146,495) |
| Additions to property, plant and equipment | (52,135) | (547,126) |
| Tap fees | 33,916 | 32,137 |
| Other capital contributions | 4,185 | 1,820 |
| Grants received | <u>65,430</u> | <u>793,729</u> |
| Net cash provided (used) by financing activities | <u>(155,729)</u> | <u>72,565</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of certificates of deposit | (7,296) | (11,303) |
| Interest income | <u>15,820</u> | <u>19,515</u> |
| Net cash provided by investing activities | <u>8,524</u> | <u>8,212</u> |
| NET INCREASE (DECREASE) IN CASH | 129,788 | 54,837 |
| Cash and cash equivalents at beginning of year | <u>1,068,608</u> | <u>1,013,771</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 1,198,396</u> | <u>\$ 1,068,608</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | |
| Operating income | \$ (18,313) | \$ (152,566) |
| Noncash items included in operating income | | |
| Depreciation | 298,962 | 275,911 |
| Changes in assets and liabilities | | |
| (Increase) decrease in receivables | 4,438 | 15,232 |
| Increase (decrease) in accounts payable | (9,542) | (168,050) |
| Increase (decrease) in customer deposits | 400 | (571) |
| Increase (decrease) in taxes/other payables | <u>1,048</u> | <u>4,104</u> |
| Net cash provided by operating activities | <u>\$ 276,993</u> | <u>\$ (25,940)</u> |
| Noncash additions to property, plant and equipment | | |
| Donated land | <u>\$ 10,000</u> | <u>\$ -</u> |

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

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

1. ORGANIZATION AND ACCOUNTING POLICIES

The East Casey County Water District was created and organized as a public body corporate in Casey County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Casey County Fiscal Court to operate a water distribution system. The District is regulated by the Kentucky Public Service Commission.

The net position of the District is classified into three categories; net investment in capital assets, restricted and unrestricted. The restricted net assets consist of reserves for bond retirement and depreciation costs relating to the construction, replacement, extension, additions and/or improvements to the system. These reserves are discussed in note 5.

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

For purposes of the statement of cash flows, the District defines cash and cash equivalents to include cash on hand, cash in bank and certificates of deposit with original maturities of 90 days or less.

The District records revenue as billed to its customers on monthly meter reading cycles. At the end of each year, water service which has been rendered from the latest date of each meter reading to the year end is unbilled.

The District reports all revenues and expenses as operating, except interest income, interest expense, amortization, and capital contributions.

Fixed assets are recorded at cost. Donated assets are valued at their fair market value on the date of donation. Interest incurred during the period of construction is capitalized as a part of the construction costs. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets.

The allowance for uncollectible accounts at December 31, 2012 and 2011 was \$354,724 and \$317,127, respectively. The District charges all uncollected accounts directly against current earnings. Charges against earnings for the years ended December 31, 2012 and 2011 were \$37,597 and \$54,261, respectively.

Investments consist of certificates of deposit with original maturities of 90 days or longer. Investments are recorded at cost, which approximates fair value.

The District has evaluated and considered the need to recognize or disclose subsequent events through March 7, 2013, which represents the date that these financial statements were available for issuance. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2012, have not been evaluated by the District.

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

2. CASH AND CASH EQUIVALENTS

Statutory Requirements

The East Casey County Water District deposits at December 31, 2012 were entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name. The bank balances of the District's deposits were \$2,042,115 at December 31, 2012.

Revised Statutes authorize local governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

Statement of Cash Flows

The Statement of Cash Flows includes as cash and cash equivalents the following:

| | 2012 | | 2011 |
|-----------------|---------------------|--|---------------------|
| Cash | \$ 623,022 | | \$ 524,878 |
| Restricted Cash | <u>575,374</u> | | <u>543,730</u> |
| | <u>\$ 1,198,396</u> | | <u>\$ 1,068,608</u> |

3. PROPERTY, PLANT, AND EQUIPMENT

A summary of capital asset activity during the year follows:

| | Balance 12/31/11 | Additions | Deductions | Balance 12/31/12 |
|--------------------------------------|-----------------------------|---------------------|--------------------|-----------------------------|
| Capital assets not depreciated: | | | | |
| Land | \$ 59,657 | \$ - | \$ - | \$ 59,657 |
| Construction in Progress | <u>163,260</u> | <u>22,387</u> | <u>(81,760)</u> | <u>103,887</u> |
| Totals | 222,917 | 22,387 | (81,760) | 163,544 |
| Capital assets that are depreciated: | | | | |
| Personal Property & Equipment | <u>16,986,062</u> | <u>126,008</u> | <u>(24,716)</u> | <u>17,087,354</u> |
| Less Accumulated Depreciation | <u>4,670,154</u> | <u>298,962</u> | <u>(24,716)</u> | <u>4,944,400</u> |
| Totals | <u>12,315,908</u> | <u>(172,954)</u> | <u>-</u> | <u>12,142,954</u> |
| Capital Assets, net | <u>\$ 12,538,825</u> | <u>\$ (150,567)</u> | <u>\$ (81,760)</u> | <u>\$ 12,306,498</u> |

4. REVENUE BONDS PAYABLE

Long-term debt consists of two issues of 5% bonds issued in 1987 and 1990 for \$301,000 and \$500,000, respectively, four issues of 4.5% issued in 1993, 1997, 2000 and 2004, collateralized by the water distribution system payable to United States of America, Rural Development, and a 2008 issue of 4.38% bonds for \$1,001,000.

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

4. REVENUE BONDS PAYABLE, continued

The annual requirements to amortize all long-term debt outstanding as of December 31, 2012, are as follows:

| Year Ending | Principal | Interest | Payment |
|-------------|---------------------|---------------------|---------------------|
| 2013 | \$ 68,500 | \$ 141,237 | \$ 209,737 |
| 2014 | 70,000 | 138,065 | 208,065 |
| 2015 | 73,000 | 134,799 | 207,799 |
| 2016 | 77,000 | 131,415 | 208,415 |
| 2017 | 80,000 | 127,825 | 207,825 |
| 2018-2022 | 463,000 | 579,480 | 1,042,480 |
| 2023-2027 | 585,000 | 460,808 | 1,045,808 |
| 2028-2032 | 572,500 | 322,410 | 894,910 |
| 2033-2037 | 516,000 | 199,595 | 715,595 |
| 2038-2042 | 387,500 | 92,483 | 479,983 |
| 2043-2047 | <u>219,000</u> | <u>18,859</u> | <u>237,859</u> |
| | <u>\$ 3,111,500</u> | <u>\$ 2,346,976</u> | <u>\$ 5,458,476</u> |

The following is a summary of long term debt for the year ended December 31, 2012:

| | Interest Rate | Balance January 1, 2012 | Issued | Principal Payments | Balance December 31, 2012 |
|-------------|---------------|----------------------------|-------------|-----------------------|------------------------------|
| Series 1987 | 5.00% | \$ 193,000 | \$ - | \$ 8,000 | \$ 185,000 |
| Series 1990 | 5.00% | 357,000 | - | 12,000 | 345,000 |
| Series 1993 | 4.50% | 311,000 | - | 8,000 | 303,000 |
| Series 1997 | 4.50% | 441,000 | - | 9,000 | 432,000 |
| Series 2000 | 4.50% | 528,000 | - | 9,500 | 518,500 |
| Series 2004 | 4.50% | 378,000 | - | 5,000 | 373,000 |
| Series 2007 | 4.38% | <u>967,000</u> | <u>-</u> | <u>12,000</u> | <u>955,000</u> |
| | | <u>\$ 3,175,000</u> | <u>\$ -</u> | <u>\$ 63,500</u> | <u>\$ 3,111,500</u> |

5. COMPLIANCE WITH BOND ORDINANCE

The East Casey County Water District is required to comply with the bond agreements of all bond issues as follows:

Sinking Fund

The District is required to set aside an amount into a special account known as the East Casey County Water District Water System Revenue Bonds, Bond and Interest Sinking Fund. The amount to be set aside and paid each month shall be not less than the following respective amounts:

- 1) A sum equal to one sixth (1/6) of the interest becoming due on the next succeeding interest due date, with respect to all outstanding Bond Issues.
- 2) A sum equal to one twelfth (1/12) of the principal of all such bonds maturing on the next succeeding January 1.

The District had set aside \$213,978 into a restricted account at December 31, 2012, and \$209,812 at December 31, 2011. Reserve requirements were met during 2012.

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

5. COMPLIANCE WITH BOND ORDINANCE, continued

Depreciation Fund

The District is required to deposit into the Depreciation Fund account the proceeds from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of extensions, additions and/or improvements to the project, plus the proceeds of any property damage insurance not immediately used to replace damaged or destroyed property. Monies in the Depreciation Fund shall be available and used, upon appropriate certification to the bank, for the purpose of paying the cost of construction replacements, extensions, additions and/or improvements to the project. Whenever the balance in the Depreciation Fund shall equal \$72,000 the monthly payments may be discontinued, or by order of the governing body of the District, be diverted into the Sinking Fund Account. The 2000 issue requires an additional deposit of \$275 per month for the life of the loan once the facility becomes operational. Furthermore, the 2007 series requires an additional \$455 per month for the life of the loan. The District had set aside \$361,396 and \$333,918 at December 31, 2012 and 2011.

6. RETIREMENT PLAN

The District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended December 31, 2012, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Participating employers were required to contribute at an actuarially determined rate. Employees hired after August 31, 2008 and not already in the retirement system must contribute an additional 1% to subsidize health insurance premiums that are primarily withheld from CERS retirees' benefit payments. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2012, participating employers contributed 18.96% through June 30 and 19.55% thereafter, of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

6. RETIREMENT PLAN, continued

The required contribution (employer and employee) and the actual percentage contributed for the District for the current and previous two years are as follows:

| <u>Year</u> | <u>Required Contribution</u> | <u>Percentage Contributed</u> |
|-------------|----------------------------------|-----------------------------------|
| 2012 | \$ 52,756 | 100% |
| 2011 | \$ 47,309 | 100% |
| 2010 | \$ 45,239 | 100% |

7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the district also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

8. CONTINGENCIES

The District had elected to be recognized as a reimbursing employer for state unemployment compensation purposes. Accordingly, the District will become liable for direct payment of unemployment benefits as they become due.

9. RECLASSIFICATIONS

Certain presentations of accounts previously reported have been reclassified in these financial statements. Such reclassifications had no effect on net income or fund balances as previously reported.

**EAST CASEY COUNTY WATER DISTRICT
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 Auditors' Report

Board of Commissioners
East Casey County Water District
Liberty, Kentucky

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the East Casey County Water District (the "District") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the East Casey County Water District's basic financial statements, and have issued our report thereon dated March 7, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 discussed below, 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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying *schedule of findings and responses* to be a material weakness (2012-1).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**EAST CASEY COUNTY WATER DISTRICT
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 (continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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*.

East Casey County Water District's Response to Findings

East Casey County Water District's response to the finding identified in our audit is described in the accompanying *schedule of findings and responses*. The 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 result of that testing, and not to provide an opinion on the effectiveness of the District'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.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
March 7, 2013

**EAST CASEY COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2012**

FINDING:

2012-1

The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

The District lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures and thus, does not have the internal control procedures required to take responsibility for the financial statements in conformity with generally accepted accounting principles.

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

RESPONSE:

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.