

**EDMONSON COUNTY WATER DISTRICT  
BROWNSVILLE, KENTUCKY**

**REPORT ON AUDITS OF FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**For the Years Ended December 31, 2011 and 2010**



**JAMES D. SPURLOCK**  
*Certified Public Accountant*

## CONTENTS

	<b>Page</b>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-5
Financial Statements:	
Balance Sheets	6
Statement of Revenues, Expenses and Changes in Net Assets	7
Statement of Cash Flows	8-9
Statement of Net Assets - Sewer	10
Statement of Revenues, Expenses and Changes in Net Assets - Sewer	11
Statement of Cash Flows - Sewer	12
Notes to Financial Statements	13-25
Supplementary Information:	
Schedule of Operating Expenses	26
Required Supplementary Information:	
Statement of Revenues and Expenses - Budget and Actual	27
Statement of Revenues and Expenses - Budget and Actual - Sewer	28
Schedule of Expenditures of Federal Awards	29
Other Required Reports:	
Report on Compliance and in Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	30-31
Report on Compliance with Requirements Applicable to Each Major Program and Internal control over Compliance in Accordance with OMB Circular A-133	32-33
Schedule of Findings and Questioned Costs	34
Summary Schedule of Prior Year Audit Findings	35



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**INDEPENDENT AUDITOR'S REPORT**

To the Commissioners  
Edmonson County Water District  
Brownsville, Kentucky

I have audited the accompanying financial statements of Edmonson County Water District as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Edmonson County Water District's management. My responsibility is to express an opinion on these financial statements based on my audit.

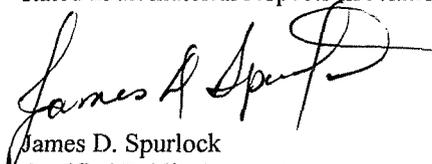
I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audits 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 basic financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Edmonson County Water District as of December 31, 2011 and 2010, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 13, 2012, on my consideration of the Edmonson County Water District's internal control over financial reporting and on my tests of its compliance with certain laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audits.

The management's discussion and analysis and budgetary comparison information on pages 3 through 5 and 27 through 28, respectively, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Edmonson County Water District's basic financial statements. The accompanying schedule of operating expenses and schedule of expenditures of federal awards are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "James D. Spurlock". The signature is written in a cursive style with a large, stylized initial "J".

James D. Spurlock  
Certified Public Accountant  
February 13, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of Edmonson County Water District's financial performance provides an overview of the District's financial activities for the year ending December 31, 2011. This information is presented in conjunction with the audited financial statements that follow this section.

### **FINANCIAL HIGHLIGHTS**

Operating revenues for the year ending December 31, 2011, were \$2,839,860 or a decrease of 1.72% from the previous year. The decrease was due to a wet spring, short summer and fewer visits by lake customers because of the depressed economy.

Operating expenses for the year ending December 31, 2011, were \$2,554,428 or a increase of 2.60% from previous year expenses. Expenses were basically the same, except increased gas prices caused operating and supply costs to increase and depreciation expense increased by 16.62% from last year.

Total assets for the year ending December 31, 2011, were \$31,587,161 an decrease of 2.72% from the previous year, while total liabilities were \$14,496,461 or a decrease of 4.90 % from the previous year.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This report consists of management's discussion and analysis, financial statements, and supplementary information. The financial statements include notes, which explain in detail some of the information included in the financial statements.

The financial statements present the financial position of Edmonson County Water District as of December 31, 2011 and 2010, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Each years' revenues and expenses are accounted for in the statement of revenues, expenses and changes in net assets. This statement measures the success of Edmonson County Water District's operations over the past two years.

**Edmonson County Water District  
Summary of Net Assets  
December 31, 2011 and 2010**

	2011	2010
<b>Assets:</b>		
Total Current Assets	\$ 4,208,064	\$ 5,917,092
Net Capital Assets	27,146,749	26,356,633
Other Assets	232,348	196,479
<b>Total Assets</b>	<b>\$ 31,587,161</b>	<b>\$ 32,470,204</b>
<b>Liabilities:</b>		
Total Current Liabilities	\$ 598,461	\$ 1,012,327
Total Long-Term Liabilities	13,898,000	14,231,600
<b>Total Liabilities</b>	<b>\$ 14,496,461</b>	<b>\$ 15,243,927</b>
<b>Nets Assets:</b>		
Invested in Capital Assets, Net of Related Debt	\$ 13,100,765	\$ 11,573,664
Restricted	2,731,138	4,698,140
Unrestricted	1,258,797	954,473
<b>Total Net Assets</b>	<b>\$ 17,090,700</b>	<b>\$ 17,226,277</b>

The net assets for the year ending December 31, 2011 showed an decrease of \$135,577 or approximately .78 % from the previous year. This was primarily due to an operating revenue decrease and significant increase in depreciation expense.

**Edmonson County Water District  
Summary of Changes in Net Assets  
December 31, 2011 and 2010**

	2011	2010
Total Operating Revenues	\$ 2,839,860	\$ 2,889,590
Total Operating Expenses	(2,554,428)	(2,489,658)
Operating Income	285,432	399,932
Total Nonoperating Revenues (Expenses)	(514,442)	(639,901)
Income (Loss) before Extraordinary Loss and Capital Contributions	(229,010)	(239,969)
Extraordinary Loss	-	(69,145)
Capital Contributions	93,433	1,769,771
Change in Net Assets	(135,577)	1,460,657
Net Assets, Beginning of Year	17,226,277	15,765,620
<b>Net Assets, Ending of Year</b>	<b>\$ 17,090,700</b>	<b>\$ 17,226,277</b>

Net assets decreased \$135,577 from the previous year. This decrease was basically due to operating revenues decreasing and operating expenses increasing.

## **CAPITAL ASSET CHANGE**

Net capital assets for the year ending December 31, 2011, were \$27,146,749, which was a net increase of \$790,116. This increase was due to completion of utility plant projects and major equipment purchases.

## **DEBT ADMINISTRATION**

Bonds and loans outstanding for the year ending December 31, 2011 were \$14,045,000. Principal payments on bonds and loans amounted to \$684,600 for the year.

## **REQUEST FOR INFORMATION**

This analysis is designed to provide a general overview of Edmonson County Water District's finances and to demonstrate Edmonson County Water District's accountability for the funds it receives whether from water sales or construction proceeds. If you have any questions about this report or need any additional information please contact Edmonson County Water District at P. O. Box 208, Brownsville, Kentucky, 42210 or by telephone at (270) 597-2165.

**EDMONSON COUNTY WATER DISTRICT  
BALANCE SHEET**

**ASSETS**

	DECEMBER 31,	
	2011	2010
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 980,537	\$ 729,626
Accounts Receivable - Note A	143,724	148,634
Other Receivables - Note A	-	774,310
Material and Supplies Inventory	85,694	73,464
Prepaid Expenses	28,596	28,353
Restricted Cash and Cash Equivalents - Note B	2,969,513	4,162,705
	<u>4,208,064</u>	<u>5,917,092</u>
<b>UTILITY PLANT - NOTE A</b>		
Utility Plant in Service	38,648,412	36,342,209
Less Accumulated Depreciation	<u>(11,501,663)</u>	<u>(10,817,166)</u>
Net Utility Plant in Service	27,146,749	25,525,043
Construction in Progress	-	831,590
	<u>27,146,749</u>	<u>26,356,633</u>
<b>OTHER ASSETS</b>		
Unamortized Debt Discount and Expense - Note A	232,348	196,479
	<u>232,348</u>	<u>196,479</u>
<b>TOTAL ASSETS</b>	<u>\$ 31,587,161</u>	<u>\$ 32,470,204</u>

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

**LIABILITIES AND NET ASSETS**

	<u>DECEMBER 31,</u>	
	<u>2011</u>	<u>2010</u>
<b>CURRENT LIABILITIES</b>		
Current Portion of Long-Term Debt - Note C	\$ 147,000	\$ 498,000
Accounts Payable	25,951	26,594
Contractors Payable	-	65,587
Customers Deposits	238,375	238,875
Compensated Absences - Note G	135,314	135,396
Accrued Interest	984	3,130
Accrued and Other Liabilities	50,837	44,745
	<u>598,461</u>	<u>1,012,327</u>
<b>LONG-TERM LIABILITIES</b>		
Long-Term Debt - Note C	<u>13,898,000</u>	<u>14,231,600</u>
	<u>13,898,000</u>	<u>14,231,600</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	13,100,765	11,557,776
Restricted	2,731,138	4,698,140
Unrestricted	<u>1,258,797</u>	<u>970,361</u>
	<u>17,090,700</u>	<u>17,226,277</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 31,587,161</u>	<u>\$ 32,470,204</u>

**EDMONSON COUNTY WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	YEAR ENDED DECEMBER 31,	
	2011	2010
OPERATING REVENUES		
Water Sales	\$ 2,726,422	\$ 2,795,523
Consumers' Forfeited Discounts	66,419	64,821
Service Fees	47,019	29,246
Total Operating Revenues	2,839,860	2,889,590
OPERATING EXPENSES		
Water Treatment	496,807	536,349
Transmission and Distribution	511,990	506,933
Customer Accounts	261,330	319,669
General and Administrative	370,084	334,349
Depreciation	848,278	727,380
Taxes, Other Than Income	65,939	64,978
Total Operating Expenses	2,554,428	2,489,658
Net Income from Operations	285,432	399,932
NONOPERATING REVENUES (EXPENSES)		
Amortization	(8,983)	(8,230)
Interest Income	66,227	75,620
Interest Expense	(541,956)	(535,462)
Gain (Loss) on Disposition of Utility Plant	(79,357)	(180,457)
Nonutility Income	51,725	11,458
Miscellaneous Nonutility Expense	(2,098)	(2,830)
Total Nonoperating Revenues (Expense), Net	(514,442)	(639,901)
Income (Loss) Before Extraordinary Loss and Capital Contributions	(229,010)	(239,969)
Extraordinary (Loss) - Note H	-	(69,145)
Income (Loss) Before Capital Contributions	(229,010)	(309,114)
CAPITAL CONTRIBUTIONS		
Tap Fees	34,775	48,988
Contributed Capital	58,658	47,195
Grants	-	1,673,588
Total Capital Contributions	93,433	1,769,771
Change in Net Assets	(135,577)	1,460,657
Net Assets, Beginning of Year	17,226,277	15,765,620
Net Assets, End of Year	\$ 17,090,700	\$ 17,226,277

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

**EDMONSON COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS**

	YEAR ENDED DECEMBER 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Receipts from Customers	\$ 2,872,808	\$ 2,880,568
Cash Paid to Suppliers for Goods and Services	(982,767)	(1,028,156)
Cash Paid To Employees	(758,487)	(725,852)
Net Cash Provided by Operating Activities	1,131,554	1,126,560
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Other Income/Expenses	49,627	8,628
Extraordinary Loss	-	(69,145)
Net Cash Provided (Used) by Noncapital Financing Activities	49,627	(60,517)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions of Utility Plant Assets	(1,816,720)	(2,061,041)
Bond and Note Proceeds	-	3,438,609
Proceeds from Sale of Utility Plant Assets	51,982	40,033
Principal Payments on Debt	(641,811)	(2,262,599)
Interest Payments on Debt	(544,101)	(535,575)
Increase in Other Assets	(44,852)	(27,183)
Cash Contributed in Aid of Construction	31,503	167,851
Grants	774,310	900,253
Net Cash (Used) for Capital and Related Financing Activities	(2,189,689)	(339,652)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	66,227	75,620
Net Cash Provided from Investing Activities	66,227	75,620
Net Increase (Decrease) in Cash and Cash Equivalents	(942,281)	802,011
Cash and Cash Equivalents, Beginning of year	4,892,331	4,090,320
Cash and Cash Equivalents, End of Year	\$ 3,950,050	\$ 4,892,331

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

**EDMONSON COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS (CONTINUED)**

	YEAR ENDED DECEMBER 31,	
	2011	2010
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM		
OPERATING ACTIVITIES		
Net Income from Operations	\$ 285,432	\$ 399,932
Adjustments to Reconcile Net Income from Operations to Net Cash		
Provided by Operating Activities		
Depreciation	848,278	727,380
Changes in Assets and Liabilities		
Accounts Receivable	10,848	(11,622)
Inventory	(12,230)	(9,004)
Prepaid Expenses	(243)	(1,694)
Accounts Payable	(103)	1,529
Customer Deposits	(500)	2,600
Compensated Absences	(82)	15,625
Accrued Liabilities	154	1,814
	<u>\$ 1,131,554</u>	<u>\$ 1,126,560</u>
Net Cash Provided by Operating Activities		
NON-CASH, CAPITAL AND FINANCING ACTIVITIES		
Capital Assets Acquired by Accrued Liabilities	\$ -	\$ 66,127
Receipt of Contributed Assets	61,930	-
	<u>\$ 61,930</u>	<u>\$ 66,127</u>
Total Non-Cash, Capital and Financing Activities		

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

**EDMONSON COUNTY WATER DISTRICT - SEWER DIVISION  
BALANCE SHEET**

**ASSETS**

	DECEMBER 31,	
	2011	2010
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 79,248	\$ 76,271
Accounts Receivable - Note A	550	626
Grants Receivable	1,614,315	1,690,413
Restricted Cash and Cash Equivalents	3,469	2,825
Total Current Assets	1,697,582	1,770,135
 <b>UTILITY PLANT - NOTE A</b>		
Utility Plant in Service	1,618,128	1,618,128
Less Accumulated Depreciation	(199,995)	(163,556)
Net Utility Plant in Service	1,418,133	1,454,572
Construction in Progress	95,822	19,724
Net Utility Plant	1,513,955	1,474,296
 <b>OTHER ASSETS</b>		
Unamortized Debt Discount and Expense - Note A	14,383	14,825
Utility Deposit	100	100
Total Other Assets	14,483	14,925
 <b>TOTAL ASSETS</b>	 <b>\$ 3,226,020</b>	 <b>\$ 3,259,356</b>

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

**LIABILITIES AND NET ASSETS**

	<u>DECEMBER 31,</u>	
	<u>2011</u>	<u>2010</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable	<u>\$ 781</u>	<u>\$ 93</u>
Total Current Liabilities	<u>781</u>	<u>93</u>
<b>LONG-TERM LIABILITIES</b>		
Long-Term Debt - Note C	<u>94,100</u>	<u>95,400</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	1,419,855	1,378,896
Restricted	1,617,784	1,693,238
Unrestricted	<u>93,500</u>	<u>91,729</u>
Total Net Assets	<u>3,131,139</u>	<u>3,163,863</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u><u>\$ 3,226,020</u></u>	 <u><u>\$ 3,259,356</u></u>

**EDMONSON COUNTY WATER DISTRICT - SEWER DIVISION  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	YEAR ENDED DECEMBER 31,	
	2011	2010
<b>OPERATING REVENUES</b>		
Sewer Sales	\$ 18,123	\$ 19,572
Consumers' Forfeited Discounts	370	302
Total Operating Revenues	18,493	19,874
<b>OPERATING EXPENSES</b>		
Labor and Expenses	10,090	11,819
Purchased Power	873	804
Customer Accounts	136	133
Administrative and General	137	84
Taxes, Other Than Income	236	106
Depreciation	36,439	36,391
Total Operating Expenses	47,911	49,337
Net (Loss) from Operations	(29,418)	(29,463)
<b>NONOPERATING REVENUE (EXPENSES)</b>		
Amortization	(443)	(443)
Interest Income	1,191	1,538
Interest Expense	(4,054)	(4,107)
Total Nonoperating (Expense)	(3,306)	(3,012)
(Loss) before Capital Contributions	(32,724)	(32,475)
<b>CAPITAL CONTRIBUTIONS</b>		
Grants	-	750,000
Total Capital Contributions	-	750,000
Change in Net Assets	(32,724)	717,525
Net Assets, Beginning of Year	3,163,863	2,446,338
Net Assets, End of Year	\$ 3,131,139	\$ 3,163,863

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

**EDMONSON COUNTY WATER DISTRICT - SEWER DIVISION  
STATEMENT OF CASH FLOWS**

	YEAR ENDED DECEMBER 31,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Receipts from Customers	\$ 18,433	\$ 19,759
Cash Paid to Suppliers for Good and Services	(10,648)	(13,808)
Net Cash Provided from Operating Activities	7,785	5,951
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of Utility Plant Assets	(76,099)	(15,763)
Payments on Debt	(1,300)	(1,200)
Interest Payments on Debt	(4,054)	(4,107)
Payment to Water District	-	(15,483)
Grant Proceeds	76,098	14,787
Net Cash Provided (Used) for Capital and Related Financing Activities	(5,355)	(21,766)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received on Investments	1,191	1,538
Net Cash Provided from Investing Activities	1,191	1,538
Net Increase (Decrease) in Cash and Cash Equivalents	3,621	(14,277)
Cash and Cash Equivalents, Beginning of Year	79,096	93,373
Cash and Cash Equivalents, End of Year	\$ 82,717	\$ 79,096
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>		
Net (Loss) from Operations	\$ (29,418)	\$ (29,463)
Adjustments to Reconcile Net Income from Operations to Net Cash Provided by Operating Activities		
Depreciation	36,439	36,391
Changes in Assets and Liabilities		
Accounts Receivable	76	(115)
Accounts Payable	688	(862)
Net Cash Provided by Operating Activities	\$ 7,785	\$ 5,951

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

**EDMONSON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**Note A - Summary of Significant Accounting Policies**

**Organization**

Edmonson County Water District was organized in 1967 to provide water services to residents and commercial businesses of Edmonson County. The District is governed by a three commission Board, which is appointed by the Edmonson County Judge Executive and approved by the Edmonson County Fiscal Court. The Judge Executive and Fiscal Court have no other authority over the District. On January 28, 2003, the Board passed a resolution to implement a waste water collection system to provide collection sewer services to Edmonson County.

**Reporting Entity**

The Edmonson County Water District is a governmental unit having oversight responsibilities over all activities related to water and sewer services within Edmonson County and portions of surrounding counties excluding the City of Brownsville. The District is not included in any other governmental reporting entity as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards* because District commissioners have decision making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

**Revenue Recognition**

The District's revenue from sales of water and sewer services is recognized when billed to consumers. All consumers are billed on a monthly basis.

**Accounts Receivable/Bad Debts**

Accounts receivable are shown at net realizable value. The District uses the direct write-off method for bad debts, thus no allowance is provided for doubtful accounts. This method does not significantly depart from generally accepted accounting principles.

**Other Receivables**

Other receivables consist of approved federal and state grants for current construction projects. These amounts will be received in the subsequent year as construction progresses.

**Inventory**

Inventory of material and supplies is stated at average cost.

**Unamortized Debt Expense**

Unamortized debt expense as of December 31, 2011 for the water system consisted of debt issue costs of \$277,696 and debt discount of \$21,354. Respective accumulated amortization was \$59,869 and \$6,833. Unamortized debt expense for the sewer system amounted to \$16,817 with \$2,434 of accumulated amortization. These amounts are being amortized by the straight-line method over the lives of the bond issues and loans, which are 38, 26, and 25 years.

**Estimates**

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

**EDMONSON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note A - Summary of Significant Accounting Policies (Continued)**

**Water Utility Plant**

Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011
Franchises	\$ 10,262	\$ -	\$ -	\$ 10,262
Land and Land Rights	346,547	15,535	-	362,082
Structures and Improvements	4,441,473	45,137	24,522	4,462,088
Lake, River and Other Intakes	746,435	-	-	746,435
Power Generation Equipment	33,632	150	-	33,782
Pumping Equipment	1,381,278	95,651	18,516	1,458,413
Water Treatment Equipment	1,716,572	5,332	-	1,721,904
Distribution Reservoirs	5,520,972	499,735	-	6,020,707
Transmission Mains	17,582,257	1,073,658	30,721	18,625,194
Services	1,090,332	23,572	-	1,113,904
Meters and Meter Installations	2,325,651	602,579	122,502	2,805,728
Hydrants	124,531	1,046	-	125,577
Other Miscellaneous Equipment	5,285	-	-	5,285
Office Equipment	286,428	946	23,982	263,392
Transportation Equipment	292,625	33,234	42,152	283,707
Tools and Shop Equipment	40,699	6,978	299	47,378
Laboratory Equipment	5,426	-	-	5,426
Power Operated Equipment	156,569	191,142	29,847	317,864
Communications Equipment	225,501	4,538	2,290	227,749
Miscellaneous Equipment	9,734	2,090	289	11,535
Subtotal	36,342,209	2,601,323	295,120	38,648,412
Construction Work in Progress	831,590		831,590	-
Total Cost	<u>\$ 37,173,799</u>	<u>\$ 2,601,323</u>	<u>\$ 1,126,710</u>	<u>\$ 38,648,412</u>

**Sewer Utility Plant**

Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011
Land and Land Rights	\$ 876	\$ -	\$ -	\$ 876
Collection Sewers - Force	78,997	-	-	78,997
Collection Sewers - Gravity	1,293,245	-	-	1,293,245
Services	43,545	-	-	43,545
Flow Measuring Devices	15,835	-	-	15,835
Pumping Equipment	174,507	-	-	174,507
Tools and Shop Equipment	115	-	-	115
Communications Equipment	10,044	-	-	10,044
Miscellaneous Equipment	964	-	-	964
Subtotal	1,618,128		-	1,618,128
Construction Work in Progress	19,724	76,098	-	95,822
Total Cost	<u>\$ 1,637,852</u>	<u>\$ 76,098</u>	<u>\$ -</u>	<u>\$ 1,713,950</u>

**EDMONSON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**Note A - Summary of Significant Accounting Policies (Continued)**

**Water Utility Plant**

Accumulated Depreciation activity for the year ended December 31, 2011 was as follows:

	Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011
Franchises	\$ -	\$ -	\$ -	\$ -
Land and Land Rights	-	-	-	-
Structures and Improvements	1,415,538	94,077	12,751	1,496,864
Lake, River and Other Intakes	218,204	14,929	-	233,133
Power Generation Equipment	2,286	677	-	2,963
Pumping Equipment	347,855	36,988	5,184	379,659
Water Treatment Equipment	574,810	36,607	-	611,417
Distribution Reservoirs	1,048,019	115,632	-	1,163,651
Transmission Mains	5,639,610	371,091	12,903	5,997,798
Services	423,665	22,263	-	445,928
Meters and Meter Installations	490,129	81,133	37,066	534,196
Hydrants	26,986	2,501	-	29,487
Other Miscellaneous Equipment	5,285	-	-	5,285
Office Equipment	165,452	17,642	21,271	161,823
Transportation Equipment	238,066	28,062	42,153	223,975
Tools and Shop Equipment	25,150	2,933	180	27,903
Laboratory Equipment	568	543	-	1,111
Power Operated Equipment	148,464	14,960	29,847	133,577
Communications Equipment	39,152	7,725	2,290	44,587
Miscellaneous Equipment	7,927	515	136	8,306
Total Accumulated Depreciation	<u>\$ 10,817,166</u>	<u>\$ 848,278</u>	<u>\$ 163,781</u>	<u>\$ 11,501,663</u>

**Sewer Utility Plant**

Accumulated Depreciation activity for the year ended December 31, 2011 was as follows:

	Balance 12/31/2010	Additions	Disposals	Balance 12/31/2011
Land and Land Rights	\$ -	\$ -	\$ -	\$ -
Collection Sewers - Force	7,110	1,580	-	8,690
Collection Sewers - Gravity	116,392	25,865	-	142,257
Services	3,919	871	-	4,790
Flow Measuring Devices	2,849	634	-	3,483
Pumping Equipment	31,411	6,980	-	38,391
Tools an Shop Equipment	18	11	-	29
Communications Equipment	1,809	401	-	2,210
Miscellaneous Equipment	48	97	-	145
Total Accumulated Depreciation	<u>\$ 163,556</u>	<u>\$ 36,439</u>	<u>\$ -</u>	<u>\$ 199,995</u>

**EDMONSON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Utility Plant/Depreciation (Continued)**

Plant additions and improvements are capitalized at cost. The cost and accumulated depreciation applicable to plant dispositions are removed from the respective accounts. Interest costs on temporary financing during construction of utility plant assets are capitalized when utility plant under construction becomes operational.

Depreciation is calculated by the straight-line method over the estimated useful lives of the utility plant assets which range from three to fifty years.

**Note B - Restricted Cash Funds**

The special funds were established and are being maintained in accordance with the water and sewer system bond resolutions of the Edmonson County Water District dated January 24, 1994, December 12, 1994, February 14, 1996, October 29, 1997, March 12, 2001, October 28, 2003, June 14, 2005, July 10, 2007, May 25, 2010, November 24, 2010, and December 15, 2010.

Deposits to the revenue fund are made daily from current revenues. Disbursements from this fund are made into the following funds as required by the bond covenants and are more fully described in the subsequent paragraphs:

- (1) Operation and Maintenance Fund
- (2) Depreciation Fund
- (3) Bonds Sinking Fund

Each month there is to be withdrawn from the revenue fund and deposited into the operations and maintenance fund an amount sufficient to pay the reasonable necessary monthly cost of operating and maintaining the plant. This fund is reported on the balance sheet as cash and working funds.

The bond covenants require monthly deposits into a depreciation fund until all outstanding bonds are paid or until a maximum amount is reached. Detailed below is a listing of the funding requirements for the years ended December 31, 2011 and 2010:

<b>Water System</b>				
Bond <u>Issues</u>	Funds <u>Per Month</u>	Funding <u>Required</u>	Funds <u>Deposited</u>	Funds <u>Remaining</u>
Prior		\$ 495,000	\$ 495,000	\$ -
2001	\$ 1,610	772,800	162,610	610,190
2003	\$ 205	24,600	14,760	9,840
2007	\$ 780	93,000	24,180	68,820
2010	\$ 1,135	136,200	4,830	131,370
Balance 2010		1,521,600	701,380	820,220
Funding 2011		-	41,820	(41,820)
Balance 2011		<u>\$ 1,521,600</u>	<u>\$ 743,200</u>	<u>\$ 778,400</u>

**EDMONSON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note B - Restricted Cash Funds (Continued)**

<b>Sewer System</b>				
<u>Bond Issue</u>	<u>Funds Per Month</u>	<u>Funding Required</u>	<u>Funds Deposited</u>	<u>Funds Remaining</u>
2005	\$ 50	\$ 6,000	\$ 2,700	\$ 3,300
Balance 2010		6,000	2,700	3,300
Funding 2011		-	600	(600)
Balance 2011		<u>\$ 6,000</u>	<u>\$ 3,300</u>	<u>\$ 2,700</u>

Disbursements from this fund are restricted to expenditures for renewals, replacements, extensions, improvements, acquisitions and additions to the utility plant. Timely deposits are being made into the depreciation fund.

In addition, proceeds of all property damage insurance maintained in connection with the System, proceeds from sales of worn out or obsolete properties of the System and fees levied for the privilege of connecting to the System shall be deposited into the depreciation fund.

Each month sufficient deposits are made into the bonds sinking fund to pay when due the interest and principal on bonds dated 1994, 1996, 1997, 2001, 2003, 2005, 2007, and 2010 as required by the bond resolutions. The bonds sinking fund is restricted to the payment of interest and principal on the bonds outstanding under the authority of the bond resolutions.

There shall be deposited into the water system revenue bonds sinking fund on or before the (20th) day of each month a sum which together with other funds available in the bonds sinking fund for such purpose will be equal to one-sixth (1/6) of the next succeeding interest installment to become due on all bonds then outstanding and a sum equal to one-twelfth (1/12) of the principal of all bonds maturing on the next succeeding January 1.

All payments into the above special funds shall be made on or before the (20th) day of each month, except when the (20th) day of any month shall be a Sunday or a legal holiday, then such payment shall be made on the next succeeding business day.

There shall be transferred on or before the (15th) day of each month from the sewer system revenue fund, as a first charge thereon, and deposited in the sewer system revenue bonds fund, sums not less than:

- (1) beginning with and including the month in which interest shall last be payable from bond proceeds a sum equal to one-sixth (1/6) of the next succeeding interest installment to become due on all bonds then outstanding; and
- (2) beginning on January 15, 2007, a sum equal to one-twelfth (1/12) of the principal of all bonds maturing on the next succeeding January 1.

A separate and special fund distinct and apart from all other funds and accounts was created and identified as the water system revenue bond debt service reserve fund, which shall be maintained so long as there are outstanding any 1997 bonds. All moneys deposited in the debt service fund from time to time shall be held and applied, and are irrevocably pledged solely if and to the extent insufficient funds are available therefore in the bond fund.

**EDMONSON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS ( CONTINUED)**

**Note B - Restricted Cash Funds (Continued)**

In addition, to the above mentioned funds, there is also a construction fund which is funded by the proceeds of the bond issues. Its use is restricted to plant expansion.

The Kentucky Infrastructure Loan Agreements require the District to maintain a debt service reserve fund and bonds sinking fund. The debt service reserve fund is to be used for subsequent prepayments of the refunding bonds. The bonds sinking fund is to be used for funding payment of current interest and principal obligations as stipulated in the loan agreements.

**EDMONSON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note C - Notes and Bonds Payable**

1. Water and sewer system revenue bonds payable to USDA, Rural Development as of December 31, 2011

Maturity Date January 1,	1994	1994	1994	1997	2001	2001
	Series A 4.50% Interest	Series B 4.50% Interest	Series C 4.50% Interest	Series 4.50% Interest	Series A 3.25% Interest	Series B 4.50% Interest
2012	\$ 38,000	\$ 6,000	\$ 16,000	\$ 11,000	\$ 68,000	\$ 4,100
2013	41,000	6,500	18,000	11,500	70,000	4,300
2014	42,000	7,000	18,000	12,000	72,500	4,400
2015	45,000	7,000	19,000	12,500	74,500	4,700
2016	47,000	7,500	20,000	13,000	77,500	4,800
2017	49,000	8,000	21,000	14,000	79,500	5,100
2018	52,000	8,000	22,000	14,000	82,500	5,300
2019	54,000	9,000	23,000	15,000	85,000	5,600
2020	57,000	9,000	25,000	15,500	87,500	5,800
2021	60,000	9,500	25,000	16,500	90,500	6,100
2022	63,000	10,000	27,000	17,000	93,500	6,300
2023	66,000	10,500	28,000	18,000	96,500	6,600
2024	69,000	11,000	30,000	18,500	99,500	6,900
2025	73,000	11,500	31,000	19,500	103,000	7,200
2026	76,000	11,500	33,000	20,500	106,000	7,600
2027	80,000	12,500	34,000	21,500	110,000	7,900
2028	84,000	13,000	36,000	22,000	113,000	8,300
2029	88,000	13,500	38,000	23,500	117,000	8,600
2030	93,000	14,500	40,000	24,000	121,000	9,000
2031	97,000	15,000	42,000	26,000	124,500	9,400
2032	102,000	16,000	44,000	27,000	129,000	9,900
2033	106,000	16,000	46,000	28,500	133,000	10,300
2934	-	-	52,000	29,500	137,000	10,700
2035	-	-	-	31,000	142,000	11,300
2036	-	-	-	32,000	146,000	11,700
2037	-	-	-	-	151,000	12,300
2038	-	-	-	-	156,000	12,800
2039	-	-	-	-	161,000	13,400
2040	-	-	-	-	166,500	14,000
2041	-	-	-	-	172,000	14,700
2042	-	-	-	-	-	-
2043	-	-	-	-	-	-
2044	-	-	-	-	-	-
2045	-	-	-	-	-	-
2046	-	-	-	-	-	-
2047	-	-	-	-	-	-
2048	-	-	-	-	-	-
2049	-	-	-	-	-	-
2050	-	-	-	-	-	-
Due December 31, 2010	1,482,000	232,500	688,000	493,500	3,365,000	249,100
Maturing January 1, 2012	(38,000)	(6,000)	(16,000)	(11,000)	(68,000)	(4,100)
Due December 31, 2011	<u>\$ 1,444,000</u>	<u>\$ 226,500</u>	<u>\$ 672,000</u>	<u>\$ 482,500</u>	<u>\$ 3,297,000</u>	<u>\$ 245,000</u>

and 2010 are as follows:

**Water System**

2003 Series 4.375% Interest	2007 Series A 4.375% Interest	2007 Series B 4.125% Interest	2009 Series A 4.125% Interest	2010 Series A 2.25% Interest	2010 Series B 2.25% Interest
\$ 6,500	\$ 14,000	\$ 6,000	\$ 17,000	\$ -	\$ -
6,500	15,000	7,000	17,500	9,000	11,000
7,000	15,000	7,000	18,500	9,000	11,000
7,000	16,000	7,000	19,000	9,500	11,500
7,500	17,000	7,000	20,000	9,500	12,000
8,000	17,000	8,000	21,000	10,000	12,000
8,000	18,000	8,000	22,000	10,000	12,500
8,500	19,000	8,000	23,000	10,500	13,000
9,000	20,000	9,000	24,000	10,500	13,000
9,500	21,000	9,000	25,000	11,000	13,500
10,000	22,000	10,000	26,000	11,500	14,000
10,000	22,000	10,000	27,000	11,500	14,000
10,500	23,000	10,000	28,000	12,000	14,500
11,000	24,000	11,000	29,500	12,000	15,000
11,500	25,000	11,000	31,000	12,500	15,500
12,000	27,000	12,000	32,000	13,000	16,000
12,500	28,000	12,000	33,500	13,000	16,000
13,000	29,000	13,000	35,000	13,500	16,500
14,000	30,000	13,000	36,500	14,000	17,000
14,500	32,000	14,000	38,000	14,000	17,500
15,000	33,000	14,000	40,000	14,500	18,000
16,000	34,000	15,000	41,500	15,000	18,500
16,500	36,000	15,000	43,500	15,500	19,000
17,000	37,000	16,000	45,000	16,000	19,500
18,000	39,000	17,000	47,000	16,000	20,000
19,000	41,000	17,000	49,500	16,500	20,500
19,500	43,000	18,000	51,500	17,000	21,000
20,500	44,000	19,000	53,500	17,500	21,500
21,500	46,000	20,000	56,000	18,000	22,000
22,500	48,000	21,000	58,500	18,500	22,500
23,000	51,000	21,000	61,000	19,000	23,000
-	53,000	22,000	63,500	19,500	24,000
-	55,000	23,000	66,500	20,000	24,500
-	57,000	24,000	69,500	20,500	25,000
-	60,000	25,000	72,500	21,000	26,000
-	63,000	29,000	75,500	21,500	26,500
-	-	-	77,000	22,000	27,000
-	-	-	-	22,500	28,000
-	-	-	-	23,500	28,000
405,000	1,174,000	508,000	\$ 1,495,000	570,000	700,000
(6,500)	(14,000)	(6,000)	(17,000)	-	-
<u>\$ 398,500</u>	<u>\$ 1,160,000</u>	<u>\$ 502,000</u>	<u>\$ 1,478,000</u>	<u>\$ 570,000</u>	<u>\$ 700,000</u>

**Sewer System**

2005 Series 4.25% Interest
\$ 1,300
1,400
1,400
1,500
1,500
1,600
1,700
1,700
1,800
1,900
2,000
2,100
2,100
2,200
2,300
2,400
2,500
2,600
2,700
2,900
3,000
3,100
3,200
3,400
3,500
3,700
3,800
4,000
4,200
4,300
4,500
4,700
4,900
5,500
-
-
-
-
-
-
95,400
(1,300)
<u>\$ 94,100</u>

**EDMONSON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note C - Notes and Bonds Payable (Continued)**

A statutory mortgage upon the system and appurtenant facilities, together with all future additions and improvements thereto, and extensions thereof, is created by Section 106.080 of the Kentucky Revised Statutes and by the bond resolutions for the benefit and protection of the holder of the bonds, and the same shall remain in effect until payment in full of the principal of and interest on the bonds.

The annual requirements to amortize all bonds outstanding as of December 31, 2011, including interest payments are as follows:

Year Ending December 31,	Water System	Sewer System
2012	610,744	5,399
2013	607,872	5,340
2014	609,023	5,380
2015	610,622	5,317
2016	611,538	5,353
2016-49	15,088,020	150,081
Total Principal and Interest	18,137,819	176,870
Less Interest	(6,962,319)	(82,770)
Due December 31, 2011	<u>\$ 11,175,500</u>	<u>\$ 94,100</u>

The 2009 and 2010 bond issues are considered as Build America Bonds under the American Recovery and Reinvestment Act of 2009. Therefore, interest rebates equal to 35% of interest paid will be refunded to the District each year. These rebates are reflected in the schedule above.

2. On March 18, 2009, the District executed a revenue bond anticipation note with the Kentucky Rural Water Finance Corporation for the purpose of obtaining funds to finance on an interim basis the cost of construction of line extensions, additions and improvements to the existing water system. The total principal amount of the loan was \$1,511,000 with interest accruing at 3.70% and would mature on February 10, 2010. This note was a special obligation of the Edmonson County Water District and was to be paid solely from the proceeds of the sale of Edmonson County Water District System Revenue Bonds, 2009 Series A, authorized by the District and to be purchased by Rural Development. The proceeds of the bonds and, on a subordinate basis, the income and revenues derived from the operation of the water system were irrevocably pledged to the payment of the note. At December 31, 2009, the outstanding loan balance was \$890,590. On February 10, 2010, the note was renewed and an additional sum of \$544,433 was borrowed through June 2010 at which time the note was retired with funds derived from issuance of Series A 2009 revenue bonds.

3. On May 14, 2010, the District executed a revenue bond anticipation note with the Kentucky Rural Water Finance Corporation for the purpose of obtaining funds to finance on an interim basis the cost of construction of line extensions, additions and improvements to the existing water system. The total principal amount of the loan was \$570,000 with interest accruing at 3.70%. The proceeds of the bonds, and on a subordinate basis, the income and revenues derived from the operation of the water system were irrevocably pledged to the payment of the note. \$162,199 was borrowed on the note through December 15, 2010, at which time the note was retired with proceeds derived from Edmonson County Water District Revenue Bonds, Series 2010 A, authorized by the District and purchased by Rural Development.

**EDMONSON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note C - Notes and Bonds Payable (Continued)**

4. On May 29, 2008, the District refinanced \$950,000 of Edmonson County Water District Water System Refunding Revenue Bonds Series 1996 A with the Kentucky Rural Water Finance Corporation. This refinancing occurred in order to save the District \$294,623 in total debt service payments. The refinancing created an obligation with the Kentucky Rural Water Finance Corporation amounting to \$830,000, which is due in monthly installments. The schedule below reflects total annual principal payment requirements.

Maturity <u>Date</u>	Interest <u>Rate</u>	<u>Amount</u>
02/01/11-07/01/11	3.05%	25,000
08/01/11-01/01/12	3.05%	25,000
02/01/12-07/01/12	3.30%	27,500
08/01/12-01/01/13	3.30%	27,500
02/01/13-07/01/13	3.30%	27,500
08/01/13-01/01/14	3.30%	27,500
02/01/14-07/01/14	3.55%	30,000
08/01/14-01/01/15	3.55%	30,000
02/01/15-07/01/15	3.55%	27,500
08/01/15-01/01/16	3.55%	27,500
02/01/16-07/01/16	4.05%	30,000
08/01/16-01/01/17	4.05%	30,000
02/01/17-07/01/17	4.05%	32,500
08/01/17-01/01/18	4.05%	32,500
02/01/18-07/01/18	4.05%	32,500
08/01/18-01/01/19	4.05%	32,500
02/01/19-07/01/19	4.05%	35,000
08/01/19-01/01/20	4.05%	35,000
02/01/20-07/01/20	4.05%	35,000
08/01/20-01/01/21	4.05%	35,000
02/01/21-07/01/21	4.175%	37,500
08/01/21-01/01/22	4.175%	37,500
Due December 31, 2010		680,000
Paid as of December 31, 2011		(50,000)
Due December 31, 2011		\$ 630,000

The annual requirements to amortize the loan outstanding as of December 31, 2011, including interest payments are as follows:

Year Ending December 31,						Total Principal & Interest
<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017-2022</u>	<u>2011-2022</u>
\$ 79,209	\$ 77,394	\$ 80,579	\$ 73,449	\$ 76,496	\$ 388,399	\$ 775,526
Less Interest						(145,526)
Due December 31, 2011						\$ 630,000

**EDMONSON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note C - Notes and Bonds Payable (Continued)**

5. On July 29, 2004, the District refinanced their loans with the Kentucky Infrastructure Authority. This refinancing resulted in a \$526,226.10 difference (decrease) between the reacquisition price of the new debt and net carrying amount of the old debt including the application of the debt service reserves. This decrease is reported in the accompanying statement of revenues, expenses and changes in net assets as an extraordinary gain on refinancing of long-term debt. The refinancing reduced total debt service payments by \$1,585,468.

The new loan with the Kentucky Infrastructure Authority matures in monthly installments in accordance with the following schedule:

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
1/1/11 - 12/1/11	3.75%	\$ 360,000
1/1/12 - 12/1/12	0.00%	-
1/1/13 - 12/1/13	5.25%	112,500
1/1/14 - 6/1/14	5.25%	<u>112,500</u>
Due December 31, 2010		585,000
Maturing 2011		<u>(360,000)</u>
Due December 31, 2011		<u><u>\$ 225,000</u></u>

The future annual requirements to amortize the loan as of December 31, 2011, including interest payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2012	\$ 11,813
2013	124,312
2014	<u>118,406</u>
Total Principal and Interest	254,531
Less Interest	<u>(29,531)</u>
Balance December 31, 2011	<u><u>\$ 225,000</u></u>

**EDMONSON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note C - Notes and Bonds Payable (Continued)**

6. On March 24, 2004, the District refinanced \$2,559,500 of Rural Development Bonds, Series 1988 A & B, 1990, and 1991 A & B with the Kentucky Rural Water Finance Corporation. This refinancing occurred in order to save the District \$395,245 in total debt service payments. The refinancing created an obligation with the Kentucky Rural Water Finance Corporation amounting to \$2,654,000, which is due in monthly installments. The schedule below reflects total annual principal payment requirements.

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
3/1/2007	2.375%	\$ 500	1/1/20-12/1/20	4.125%	\$ 123,667
1/1/11-12/1/11	3.30%	80,666	1/1/21-12/1/21	4.25%	129,500
1/1/12-12/1/12	3.50%	91,667	1/1/22-12/1/22	4.25%	133,667
1/1/13-12/1/13	4.00%	95,666	1/1/23-12/1/23	4.375%	141,333
1/1/14-12/1/14	4.00%	97,833	1/1/24-12/1/24	4.375%	145,667
1/1/15-12/1/15	4.00%	101,667	1/1/25-12/1/25	4.375%	153,333
1/1/16-12/1/16	4.00%	105,667	1/1/26-12/1/26	4.375%	163,167
1/1/17-12/1/17	4.00%	111,500	1/1/27-12/1/27	4.375%	169,500
1/1/18-12/1/18	4.00%	115,667	1/1/28-12/1/28	4.375%	21,500
1/1/19-12/1/19	4.125%	119,667	1/1/2029	4.375%	666
Due December 31, 2010					2,102,500
Maturing 2010					(80,666)
Maturing January 1, 2012					(7,334)
Due December 31, 2011					<u>\$ 2,014,500</u>

The future annual requirements to amortize the loan as of December 31, 2011, including interest payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2012	176,933
2013	177,252
2014	175,413
2015	175,492
2016	175,412
2017-2029	1,945,768
Total Principal and Interest	2,826,270
Less Interest	(811,770)
Balance December 31, 2011	<u>\$ 2,014,500</u>

7. On December 15, 2000, the District entered into a contract for the purchase of a nineteen acre tract of land for \$130,000. The terms of the contract requires the District to deposit with an escrow agent a \$130,000 certificate of deposit as security for the future annual land payments. Annual payments of \$13,000 are to be made each year over a ten year period until fully expended. At December 31, 2009, the unexpended provision for future payments amounted to \$13,000. This debt was retired in 2010.

**EDMONSON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note D - Retirement Plans**

On July 24, 2000, the District terminated its old retirement plan and elected to provide a deferred compensation plan for its employees. The District executed an agreement with the Kentucky Public Employees' Deferred Compensation Authority to participate in the Kentucky Public Employees' 401(k) Deferred Compensation Plan.

Under the 401(k) Plan, employees can defer up to 25% of compensation (wages) not to exceed an annual dollar limit of \$10,500. The District has elected to provide 401(k) discretionary supplemental contributions in an amount equal to 8% (not to exceed 15%) of each participant's 40 hours per week eligible compensation. The District's share of 401(k) contributions amounted to \$47,705 on \$596,313 of eligible wages for the year ended December 31, 2010, and \$50,868 on \$635,853 of eligible wages for the year ended December 31, 2011. The plan is funded every week based on the weeks eligible payroll.

On March 1, 2005, the District adopted a retiree health plan pursuant to KRS 74.070, in order to provide retiree health benefits in the form of premium payments for health insurance coverage. The benefit is for the sole purpose of making premium payments for an individual policy of health insurance, including a Medicare supplement policy, for any participant who qualifies.

Each employee is eligible to participate immediately upon the earlier to occur of March 1, 2005 or employee's date of hire.

A participant is eligible to receive benefits under the plan after termination of employment, not including any termination for cause, upon attaining at least age 55 and completion of at least 25 years of service. Benefits are paid as a premium payment made directly to each insurer that provides an individual policy of health insurance for a participant.

The plan is totally funded by District contributions and are made and deposited in a Grantor Trust. Amounts and timing for contributions are solely at the discretion of the District, but in any event shall not consist of an amount for any participant in excess of the lifetime maximum. The maximum lifetime benefit paid to a participant shall not exceed \$32,400. The maximum monthly benefit paid to a participant in any given month shall not exceed \$1,000.

In March 2005, the District totally funded the plan for all eligible participants based on age and years of service at the date of the contribution. This contribution amounted to \$220,000. Contributions for the years ended December 31, 2011 and 2010 amounted to \$0 and \$12,636 respectively. These amounts are included in the operating expenses on the statement of revenues, expenses, and changes in net assets.

**EDMONSON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**Note E - Schedule of Deposits with Financial Institutions**

<u>Name</u>	<u>Cash Balance</u>	<u>FDIC Insured</u>	<u>*Secured by Collateral</u>	<u>Unsecured</u>
Bank of Edmonson County Brownsville, Kentucky	<u>\$ 3,022,860</u>	<u>\$ 250,000</u>	<u>\$ 3,000,020</u>	<u>\$ -</u>
PBI Bank Brownsville, Kentucky	<u>\$ 1,324,793</u>	<u>\$ 250,000</u>	<u>\$ 1,931,712</u>	<u>\$ -</u>

\*Collateralized with federal and state securities held and pledged by financial institutions in the District's name.

**Note F - Cash Flows Statements**

For purposes of the statements of cash flows, the District considers all certificate of deposits, highly liquid investments with a maturity of twelve months or less when purchased, and all government funds to be cash equivalents.

**Note G - Compensated Absences**

Full time permanent employees are granted one to six weeks vacation benefits per year depending on tenure with the District. All vacation benefits can be carried over from year to year. Accrued vacation benefits are paid on retirement, resignation and termination. As of December 31, 2011 and 2010, the District was liable for an estimated \$135,314 and \$135,396, respectively, of accrued vacation benefits.

The District has established a cash fund in which deposits are made until the balance equals current year liability.

**Note H - Extraordinary Loss**

In May the District incurred significant amounts of damage to transmission and distribution lines and the water treatment plant due to flooding related to a torrential rainstorm lasting for several hours. This event was infrequent and unusual in nature, thus those expenses incurred are classified as an extraordinary loss on the statement of revenues, expenses and changes in net assets.

**Note I - Reclassification**

In order to maintain comparability, the 2010 financial information has been reclassified where appropriate to conform to the 2011 presentation.

**EDMONSON COUNTY WATER DISTRICT  
SCHEDULE OF OPERATING EXPENSES**

	YEAR ENDED DECEMBER 31,	
	2011	2010
<b>WATER TREATMENT</b>		
Salaries	\$ 171,711	\$ 175,098
Employee Benefits	36,452	41,182
Purchased Power	137,239	148,504
Chemicals	85,218	79,208
Materials and Supplies	9,920	13,241
Maintenance	21,385	49,645
Contractual Services	20,521	20,862
Rent of Equipment	1,751	862
Transportation	8,407	4,069
Miscellaneous	4,203	3,678
Total	496,807	536,349
<b>TRANSMISSION AND DISTRIBUTION</b>		
Salaries	244,901	226,055
Employee Benefits	69,740	72,081
Purchased Power	79,558	82,278
Chemicals	1,172	462
Materials and Supplies	9,768	16,620
Maintenance	68,033	71,186
Contractual Services	3,641	6,068
Rent of Equipment	-	1,157
Transportation	31,835	28,563
Miscellaneous	3,342	2,463
Total	511,990	506,933
<b>CUSTOMER ACCOUNTS</b>		
Salaries	117,745	131,825
Employee Benefits	47,736	57,997
Materials and Supplies	37,098	35,405
Contractual Services	31,131	64,932
Bad Debts	6,663	11,388
Miscellaneous	20,957	18,122
Total	261,330	319,669
<b>ADMINISTRATIVE AND GENERAL</b>		
Salaries	169,354	166,746
Employee Benefits	37,360	40,595
Purchased Power	4,792	5,339
Materials and Supplies	29,300	17,117
Contractual Services	44,431	32,120
Transportation	4,168	3,011
Insurance	57,305	51,399
Advertising	6,192	618
Miscellaneous	17,182	17,404
Total	370,084	334,349
Total Operating Expenses	\$ 1,640,211	\$ 1,697,300

**EDMONSON COUNTY WATER DISTRICT  
STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL**

FOR THE YEAR ENDED DECEMBER 31,

	2011			2010		
	Actual	Budget	Variance	Actual	Budget	Variance
<u>Operating Revenues</u>						
Metered Water Sales	\$ 2,726,422	\$ 2,837,500	\$ (111,078)	\$ 2,795,523	\$ 2,811,238	\$ (15,715)
Forfeited Discounts	66,419	60,000	6,419	64,821	60,000	4,821
Miscellaneous Service Revenues	47,019	25,000	22,019	29,246	25,000	4,246
Total Operating Revenues	<u>2,839,860</u>	<u>2,922,500</u>	<u>(82,640)</u>	<u>2,889,590</u>	<u>2,896,238</u>	<u>(6,648)</u>
<u>Operating Expenses</u>						
Salaries and Wages, Employees	740,405	720,000	(20,405)	723,477	664,530	(58,947)
Salaries and Wages, Commissioners	18,000	18,000	-	18,000	18,000	-
Employee Benefits	191,288	265,000	73,712	211,855	214,864	3,009
Purchased Power	221,588	205,120	(16,468)	236,121	213,160	(22,961)
Chemicals	86,390	100,112	13,722	79,670	95,973	16,303
Material and Supplies	97,665	160,480	62,815	106,694	94,780	(11,914)
Contractual Services	122,870	107,780	(15,090)	178,749	168,936	(9,813)
Rental of Equipment	1,751	3,180	1,429	2,019	3,280	1,261
Transportation Expense	44,410	30,670	(13,740)	35,643	28,050	(7,593)
Insurance	57,305	65,648	8,343	51,399	84,000	32,601
Advertising	6,192	1,500	(4,692)	618	2,500	1,882
Bad Debts	6,663	10,000	3,337	11,388	9,500	(1,888)
Miscellaneous Expense	45,684	34,790	(10,894)	41,667	38,850	(2,817)
Depreciation	848,278	685,000	(163,278)	727,380	645,000	(82,380)
Taxes, Other than Income	65,939	70,800	4,861	64,978	70,315	5,337
Total Operating Expenses	<u>2,554,428</u>	<u>2,478,080</u>	<u>(76,348)</u>	<u>2,489,658</u>	<u>2,351,738</u>	<u>(137,920)</u>
Operating Income (Loss)	<u>285,432</u>	<u>444,420</u>	<u>(158,988)</u>	<u>399,932</u>	<u>544,500</u>	<u>(144,568)</u>
<u>Nonoperating Revenues and Expenses</u>						
Amortization	(8,983)	-	(8,983)	(8,230)	-	(8,230)
Interest Income	66,227	75,000	(8,773)	75,620	90,000	(14,380)
Allowance for Funds Used During						
Construction	-	(1,625,000)	1,625,000	-	(3,300,875)	3,300,875
Interest Expense	(541,956)	(574,464)	32,508	(535,462)	(572,236)	36,774
Gain (Loss) on Disposition of Assets	(79,357)	-	(79,357)	(180,457)	-	(180,457)
Nonutility Income (Expense) - Net	49,627	1,000	48,627	8,628	1,000	7,628
Total Nonoperating Revenues and Expenses	<u>(514,442)</u>	<u>(2,123,464)</u>	<u>1,609,022</u>	<u>(639,901)</u>	<u>(3,782,111)</u>	<u>3,142,210</u>
Income (Loss) Before Capital Contributions and Extraordinary Loss	(229,010)	(1,679,044)	1,450,034	(239,969)	(3,237,611)	2,997,642
Capital Contributions	93,433	1,681,875	(1,588,442)	1,769,771	3,300,875	(1,531,104)
Income (Loss) Before Extraordinary Loss	(135,577)	2,831	(138,408)	1,529,802	63,264	1,466,538
Extraordinary Loss	-	-	-	(69,145)	-	(69,145)
Change in Net Assets	<u>\$ (135,577)</u>	<u>\$ 2,831</u>	<u>\$ (138,408)</u>	<u>\$ 1,460,657</u>	<u>\$ 63,264</u>	<u>\$ 1,397,393</u>

**EDMONSON COUNTY WATER DISTRICT - SEWER DIVISION  
STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL**

FOR THE YEAR ENDED DECEMBER 31,

	2011			2010		
	Actual	Budget	Variance	Actual	Budget	Variance
<u>Operating Revenues</u>						
Metered Sewer Sales	\$ 18,123	\$ 19,540	\$ (1,417)	\$ 19,572	\$ 20,030	\$ (458)
Forfeited Discounts	370	300	70	302	500	(198)
Total Operating Revenues	<u>18,493</u>	<u>19,840</u>	<u>(1,347)</u>	<u>19,874</u>	<u>20,530</u>	<u>(656)</u>
<u>Operating Expenses</u>						
Salaries and Wages, Employees	614	2,000	1,386	735	3,300	2,565
Employee Benefits	-	360	360	-	650	650
Purchased Power	873	725	(148)	804	700	(104)
Chemicals	-	150	150	-	300	300
Material and Supplies	153	350	197	217	400	183
Contractual Services	9,460	12,808	3,348	11,084	8,700	(2,384)
Transportation Expense	-	250	250	-	350	350
Insurance	-	400	400	-	500	500
Bad Debts	136	-	(136)	-	-	-
Miscellaneous	-	200	200	-	200	200
Depreciation	36,439	39,000	2,561	36,391	38,000	1,609
Taxes Other Than Income	236	150	(86)	106	350	244
Total Operating Expenses	<u>47,911</u>	<u>56,393</u>	<u>8,482</u>	<u>49,337</u>	<u>53,450</u>	<u>4,113</u>
Operating Income Loss)	<u>(29,418)</u>	<u>(36,553)</u>	<u>7,135</u>	<u>(29,463)</u>	<u>(32,920)</u>	<u>3,457</u>
<u>Nonoperating Revenues and Expenses</u>						
Amortization	(443)	-	(443)	(443)	-	(443)
Interest Income	1,191	-	1,191	1,538	2,100	(562)
Allowance for Funds Used During Construction	-	(1,710,000)	1,710,000	-	(1,710,000)	1,710,000
Interest Expense	(4,054)	(4,105)	51	(4,107)	(4,106)	(1)
Total Nonoperating Revenues and Expenses	<u>(3,306)</u>	<u>(1,714,105)</u>	<u>1,710,799</u>	<u>(3,012)</u>	<u>(1,712,006)</u>	<u>1,708,994</u>
Income (Loss) Before Capital Contributions	<u>(32,724)</u>	<u>(1,750,658)</u>	<u>1,717,934</u>	<u>(32,475)</u>	<u>(1,744,926)</u>	<u>1,712,451</u>
Capital Contributions	<u>-</u>	<u>1,710,000</u>	<u>(1,710,000)</u>	<u>750,000</u>	<u>1,710,000</u>	<u>(960,000)</u>
Change in Net Assets	<u>\$ (32,724)</u>	<u>\$ (40,658)</u>	<u>\$ 7,934</u>	<u>\$ 717,525</u>	<u>\$ (34,926)</u>	<u>\$ 752,451</u>

**EDMONSON COUNTY WATER DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2011**

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Program Award</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture/ Water and Waste Disposal Systems for Rural Communities			
Revenue Bond Series 2010 A	10.760	570,000	369,725
Grant	10.760	249,500	249,500
Revenue Bond Series 2010 B	10.760	700,000	637,153
Grant	10.760	295,000	295,000
U.S. Department of Homeland Security/ Disaster Grants - Public Assistance (Presidentially Declared Disasters)			
FEMA Public Assistance Grant-DR-1912-KY	97.036	34,985	<u>34,985</u>
Total Expenditures			<u>\$ 1,586,363</u>

Note 1 - The Edmonson County Water District uses the accrual basis of accounting to account for expenditures of federal awards. Therefore, expenditures are recognized when the obligations are incurred rather than when paid.

Note 2 - Water and Waste Disposal Systems for Rural Communities is considered a major program.

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

To the Commissioners  
Edmonson County Water District  
Brownsville, Kentucky

I have audited the financial statements of Edmonson County Water District as of and for the year ended December 31, 2011 and 2010, and have issued my report thereon dated February 13, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing my audit, I considered Edmonson County Water District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Edmonson County Water District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Edmonson County Water District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Edmonson County Water District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Edmonson County Water District's financial statements that is more than inconsequential will not be prevented or detected by Edmonson County Water District's internal control.

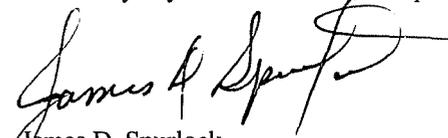
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Edmonson County Water District's internal control.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Edmonson County Water District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

This report is intended for the information of the governing body, management, and others within the organization, federal rewarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parities.



James D. Spurlock  
Certified Public Accountant  
February 13, 2012

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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Commissioners  
Edmonson County Water District  
Brownsville, Kentucky

**Compliance**

I have audited the compliance of Edmonson County Water District, with the types of compliance requirements described in *the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2011. Edmonson County Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Edmonson County Water District's management. My responsibility is to express an opinion on Edmonson County Water District's Compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Edmonson County Water District's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Edmonson County Water District's compliance with those requirements.

In my opinion, Edmonson County Water District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2011.

**Internal Control over Compliance**

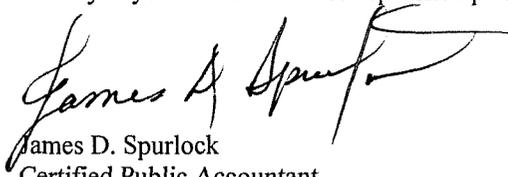
The management of Edmonson County Water District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Edmonson County Water District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

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



James D. Spurlock  
Certified Public Accountant  
February 13, 2012

**EDMONSON COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**I. SUMMARY OF AUDITOR'S RESULTS**

- a. As detailed on page one, an unqualified report was issued on the financial statements.
- b. The audit disclosed no significant deficiencies.
- c. The audit disclosed no audit findings of noncompliance, which would have been material to the financial statements.
- d. The audit disclosed no significant deficiencies in internal control over major programs.
- e. As detailed in pages 32 and 33, an unqualified report was issued on compliance for major programs.
- f. The audit disclosed no audit findings reportable under Section 510(a) of OMB Circular A-133.
- g. Department of Agriculture, Water and Waste Water Disposal Systems for Rural Communities was identified as a major program for purposes of the audit.
- h. The dollar threshold used for distinguishing between Type A and Type B programs was \$300,000.
- i. Edmonson County Water District did not qualify as a low-risk auditee in accordance with OMB Circular A-133.

**II. FINDINGS RELATING TO FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

- a. None

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

- a. None

**EDMONSON COUNTY WATER DISTRICT  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND  
QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**I. FINDINGS REQUIRED TO BE REPORTED BY GOVERNMENT AUDITING STANDARDS.**

a. None

**II. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS.**

a. None