

PUBLIC SERVICE COMMISSION
ANNUAL REPORT BRANCH
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Allen County Water District

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

For the Years Ended December 31, 2011 and 2010

Montgomery & Webb, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

BOWLING GREEN, KENTUCKY

RUSSELLVILLE, KENTUCKY



ALLEN COUNTY WATER DISTRICT

**Report On Audit Of Financial Statements
And Supplementary Information**

For the Years Ended December 31, 2011 and 2010

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Independent Auditors' Report

To the Commissioners of Allen County Water District
Scottsville, Kentucky

We have audited the accompanying financial statements of Allen 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 District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2011, on our consideration of Allen 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis and budgetary comparison information on pages 3 through 5 and 22, 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. We 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, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Allen County Water District's basic financial statements. The schedules of operating expenses and statement of revenues and expenses – actual versus budget (all funds) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of operating expenses and statement of revenues and expenses – actual versus budget (all funds) have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Montgomery & Webb, PSC

Montgomery & Webb, PSC
Certified Public Accountants

Bowling Green, Kentucky
February 7, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Allen County Water District's (the District) financial performance provides an overview of its financial activities for the year ended December 31, 2011. Please read it in conjunction with the District's financial statements, which begin on page 6.

Basic Financial Statements

The basic financial statements are cited in the table of contents and consist of the following:

- Balance Sheet, which presents our current financial position,
- Statement of Revenues and Expenses and Changes in Net Assets, which presents the results of our operations, and
- Statement of Cash Flows, which presents the changes in our sources and uses of cash.

Condensed Financial Data

	December 31	
	2011	2010
Current Assets	\$ 4,728,407	\$ 4,514,468
Capital Assets, Net of Depreciation	11,921,776	12,129,603
Other Assets	987,704	935,978
Total Assets	17,637,884	17,580,049
Current Liabilities, Including Current Portion of		
Long-Term Debt	413,709	355,280
Long-Term Debt	4,652,000	4,751,500
Total Liabilities	5,065,709	5,106,780
Metered Water Sales	2,017,133	2,020,963
Other Operating Revenue	140,356	113,307
Total Operating Revenue	2,157,489	2,134,270
Water Purchased	638,157	669,077
Transmission and Distribution Costs	279,295	254,428
Other Operating Expenses	1,150,806	1,158,036
Total Operating Expenses	2,068,258	2,081,541
Net Nonoperating Revenue and (Expenses)	(75,225)	(65,476)
Grants and Other Capital Contributions	84,900	70,426
Increase in Net Assets	98,906	57,679
Net Assets - End of Year	\$12,572,175	\$12,473,269

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Financial Highlights

The District financial results continued to show strong profitability during 2011. For the period, the increase in net assets was \$98,906. Driving the profit for 2011 was increased revenue brought about by other operating revenue, countering overall usage declining. During the year, an additional 87 customers were added to the system. Revenue increased by approximately \$23,000. Expenses for the year compared to last year were approximately \$31,000 better, driven by a decrease in water purchased. Finally, tap fees improved by nearly \$15,000, which contributed to the increase in net assets.

The district added approximately 2.94 miles of four-inch transmission lines to service customers in previously non-serviced areas. This expansion was installed by District personnel and self funded.

Significant Transactions and Changes in Individual Funds

There were no individually significant transactions or changes in individual funds.

Actual versus Budget Comparison

During 2011 actual operating revenues were approximately \$2,157,000 nearly \$88,000 less than budgeted revenues, while operating expenses were \$31,000, or 1.5%, greater than budgeted operating expenses. The revenue variance was caused by a decrease in commercial sales and overall usage. Two factors mainly drove the increase of actual expenses over budget. These two items were an increase in employee wages and other general costs.

Overall, the income/loss before other revenues, expenses and capital expenditures was an income of \$14,006 versus a plan income of \$141,500.

Capital Assets and Debt Administration

See Financial Highlights above regarding the acquisition and financing of capital assets. Funding for major expansions of the water distribution system has been obtained primarily from loans through United States Department of Agriculture - Rural Development Agency and Kentucky Rural Water Finance Corporation revenue bonds at interest rates varying from 4.15% to 5.00%. Maturity of the loans and revenue bonds range from 2018 through 2046. See Footnote 5 to the financial statements for unpaid balances of the loans and revenue bonds as of December 31, 2011, and for maturity balances over the next 5 years and thereafter. During 2011 the District paid principal on the loans and revenue bonds totaling \$96,500 and interest totaling \$230,736.

During the year, work started on the \$1.147 million Old U S 231 Transmission Main and Pump Station Project (Phase VIII). Construction is to be completed in 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Economic Factors and Next Year's Budgets and Rates

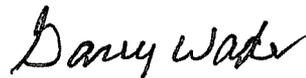
Due to its position as the sole provider of water to Allen County residents, other than ground wells and other self-provided methods by individual consumers, the District's operations are considered stable. To insure the continued stability of the District, in December, rates were increased to its customers. No increase in the cost of purchased water is anticipated from suppliers in the upcoming year as also no increase in customer fees. Moreover, the District's debt structure consists of long-term, fixed rate financing at rates considered low by historical standards, reinforcing the expectation of stability.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to show its accountability for the money it receives. If you have questions about this report or need additional financial information, contact District Office Manager Sue Carter, P.O. Box 58, 330 New Gallatin Road, Scottsville, KY 42164 or by phone at (270) 622-3040.



Bobby G. Carter
Chairman, Board of Commissioners



Garry Wade
Manager

**ALLEN COUNTY WATER DISTRICT
BALANCE SHEETS
December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets:		
Cash	\$ 318,636	\$ 288,602
Certificates of Deposit	3,920,233	3,985,591
Construction in Progress	245,243	-0-
Accounts Receivable from Customers (Note 1)	216,944	204,641
Prepaid Insurance	11,658	15,147
Accrued Interest Receivable	<u>15,693</u>	<u>20,487</u>
Total Current Assets	<u>4,728,407</u>	<u>4,514,468</u>
Utility Plant:		
Utility Plant in Service (Notes 1 and 3)	17,047,287	16,885,442
Less: Accumulated Depreciation	<u>(5,125,514)</u>	<u>(4,755,839)</u>
Total Utility Plant, Net	<u>11,921,773</u>	<u>12,129,603</u>
Other Assets:		
Cash (Notes 1 and 4)	857,752	804,925
Certificates of Deposit (Notes 1 and 4)	78,326	77,152
Utility Deposits	555	555
Other Deferred Charges, Net of Accumulated Amortization of \$25,646 and \$23,371, respectively (Note 1)	<u>51,071</u>	<u>53,346</u>
Total Other Assets	<u>987,704</u>	<u>935,978</u>
Total Assets	<u>\$17,637,884</u>	<u>\$17,580,049</u>

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

**ALLEN COUNTY WATER DISTRICT
BALANCE SHEETS (Continued)
December 31, 2011 and 2010**

	2011	2010
Liabilities and Net Assets		
Current Liabilities:		
Notes Payable, Due Within One Year (Note 5)	\$ 172,821	\$ 96,500
Accounts Payable, Payroll Taxes and Other Payables	68,147	83,732
Customer Deposits	61,280	61,280
Accrued Interest	111,461	113,768
Total Current Liabilities	413,709	355,280
Long-Term Liabilities:		
Notes Payable	4,652,000	4,751,500
Total Liabilities	5,065,709	5,106,780
Net Assets:		
Unrestricted	4,298,791	4,333,484
Invested in Capital Assets, Net of Related Debt	7,342,196	7,259,681
Total Unrestricted Net Assets	11,640,987	11,593,165
Temporarily Restricted:		
Bond and Interest Redemption Fund (Note 1)	629,234	600,457
Depreciation Fund (Note 1)	301,954	279,647
Total Temporarily Restricted Net Assets	931,188	880,104
Total Net Assets	12,572,175	12,473,269
Total Liabilities and Net Assets	<u>\$17,637,884</u>	<u>\$17,580,049</u>

The accompanying notes are an integral part of the financial statements

ALLEN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
For The Years Ended December 31, 2011 and 2010

	<u>Year Ended December 31, 2011</u>			<u>Year Ended December 31, 2010</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>All Funds</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>All Funds</u>
<u>Operating Revenues</u>						
Metered Water Sales	\$ 2,017,133	\$ -0-	\$ 2,017,133	\$ 2,020,963	\$ -0-	\$ 2,020,963
Forfeited Discounts	46,240	-0-	46,240	51,181	-0-	51,181
Pumping Charges for Water Returns to Supplier	59,708	-0-	59,708	31,034	-0-	31,034
Miscellaneous Service Revenue	34,408	-0-	34,408	31,092	-0-	31,092
Total Operating Revenues	<u>2,157,489</u>	<u>-0-</u>	<u>2,157,489</u>	<u>2,134,270</u>	<u>-0-</u>	<u>2,134,270</u>
<u>Operating Expense</u>						
Source of Supply and Pumping	638,157	-0-	638,157	669,077	-0-	669,077
Transmission and Distribution	279,295	-0-	279,295	254,428	-0-	254,428
Customer Accounts	175,954	-0-	175,954	149,647	-0-	149,647
Administrative and General	563,204	-0-	563,204	601,061	-0-	601,061
Depreciation (Note 1)	369,675	-0-	369,675	367,940	-0-	367,940
Amortization (Note 1)	2,275	-0-	2,275	2,275	-0-	2,275
Taxes Other Than Income	39,698	-0-	39,698	37,113	-0-	37,113
Total Operating Expenses	<u>2,068,258</u>	<u>-0-</u>	<u>2,068,258</u>	<u>2,081,541</u>	<u>-0-</u>	<u>2,081,541</u>
Operating Income	<u>89,231</u>	<u>-0-</u>	<u>89,231</u>	<u>52,729</u>	<u>-0-</u>	<u>52,729</u>
<u>Nonoperating Revenues and (Expenses)</u>						
Interest Income	140,913	2,837	143,750	151,057	3,618	154,675
Interest Expense (Note 4)	(119)	(230,617)	(230,736)	(104)	(232,204)	(232,308)
Miscellaneous Income	11,761	-0-	11,761	12,157	-0-	12,157
Net Nonoperating Revenues and (Expenses)	<u>152,555</u>	<u>(227,780)</u>	<u>(75,225)</u>	<u>163,110</u>	<u>(228,586)</u>	<u>(65,476)</u>
Income (Loss) Before Other Revenues, Expenses and Transfers	<u>241,786</u>	<u>(227,780)</u>	<u>14,006</u>	<u>215,839</u>	<u>(228,586)</u>	<u>(12,747)</u>
<u>Other Revenues, (Expenses) and Transfers</u>						
Revenues from Grants – County Fiscal Court	-0-	-0-	-0-	-0-	-0-	-0-
Revenues from Capital Contributions –Water Tap Fees, Other	84,900	-0-	84,900	70,426	-0-	70,426
Transfers Out	96,500	(96,500)	-0-	92,000	(92,000)	-0-
Transfers In	(373,390)	373,390	-0-	(373,265)	373,265	-0-
Net Other Revenues, (Expenses) and Transfers	<u>(191,990)</u>	<u>276,890</u>	<u>84,900</u>	<u>(210,839)</u>	<u>281,265</u>	<u>70,426</u>
Increase (Decrease) in Net Assets, as Adjusted	49,796	49,110	98,906	5,000	52,679	57,679
Reclassification	(1,974)	1,974	-0-	(9,836)	9,736	(100)
Net Assets – Beginning of Year, as Adjusted	<u>11,593,165</u>	<u>880,104</u>	<u>12,473,269</u>	<u>11,598,001</u>	<u>817,689</u>	<u>12,415,690</u>
Net Assets – End of Year, as Adjusted	<u>\$11,640,987</u>	<u>\$ 931,188</u>	<u>\$12,572,175</u>	<u>\$11,593,165</u>	<u>\$ 880,104</u>	<u>\$ 12,473,269</u>

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

**ALLEN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities and Non-Operating Revenues:		
Receipts From Customers	\$2,156,948	\$2,165,946
Salaries, Wages and Employee Benefits	(789,335)	(734,765)
Purchased Water	(638,157)	(669,077)
Other Operating Expenses	(333,865)	(359,118)
Non-Operating Revenues	<u>-0-</u>	<u>-0-</u>
Cash Provided by Operations and Non-Operating Revenues	<u>395,591</u>	<u>402,986</u>
Cash Flows From Capital and Related Financing Activities:		
Customer Deposits	-0-	2,117
Purchase of Capital Assets and Deferred Charges	(356,443)	(131,264)
Proceeds From Interim Construction Funding	73,321	-0-
Principal Paid on Revenue Bonds and Notes Payable	(96,500)	(92,000)
Interest Paid on Revenue Bonds and Other Debt	(230,736)	(232,204)
Fiscal Court Grants	-0-	-0-
Rural Development Grant	-0-	-0-
Customer Tap Fees and Other Capital Contributions	<u>84,900</u>	<u>70,426</u>
Cash Used in Capital and Related Financing Activities	<u>(525,458)</u>	<u>(382,925)</u>
Cash Flows From Investing Activities:		
Interest on Cash Balances	<u>148,544</u>	<u>154,859</u>
Net Increase in Cash and Cash Equivalents	18,677	174,920
Cash and Cash Equivalents, Beginning of Year	<u>5,156,270</u>	<u>4,981,350</u>
Cash and Cash Equivalents, End of Year	<u>\$5,174,947</u>	<u>\$5,156,270</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities and Non-Operating Revenues:		
Operating Income	\$ 89,231	\$ 52,729
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities and Non-Operating Revenues –		
Depreciation and Amortization Expense	371,950	370,215
(Increase) Decrease in Accounts Receivable	(12,303)	19,623
(Increase) Decrease in Prepaid Insurance	3,489	(515)
Increase (Decrease) in Acc. Payable and Acc. Expenses	(15,585)	13,865
Capitalized Labor Costs	(52,953)	(64,984)
Other Non-Operating Revenue	<u>11,762</u>	<u>12,053</u>
Net Cash Provided by Operations and Non-Operating Revenues	<u>\$ 395,591</u>	<u>\$ 402,986</u>

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

**ALLEN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS (Continued)
For The Years Ended December 31, 2011 and 2010**

	2011	2010
Reconciliation of Cash and Cash Equivalents at End of Year To Balance Sheets:		
Current Assets --		
Cash	\$ 318,636	\$ 288,602
Certificates of Deposit/Government Bond Fund	3,920,233	3,985,591
Other Assets --		
Cash	857,752	804,925
Certificates of Deposit	<u>78,326</u>	<u>77,152</u>
Total Cash and Cash Equivalents at End of Year	<u>\$ 5,174,947</u>	<u>\$ 5,156,270</u>

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

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

1. Summary of Significant Accounting Policies:

Organization:

Allen County Water District was organized in 1974 under KRS 74:010 to provide water services to portions of Allen County, Kentucky. The commissioners are appointed by the Allen County Judge, who has no other authority over the District.

The District grants credit to customers, substantially all of whom are local residents and commercial businesses.

Basis of Accounting and Significant Accounting Policies:

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. The District also has the option to apply FASB pronouncements issued after that date to its business-type activities, except for those that conflict with or contradict GASB pronouncements, and has elected to do so.

In accordance with GASB Statement No. 6, the District is organized and operated on a fund basis. All of its operations are classified as proprietary-enterprise funds since they are financed and conducted in a manner similar to private business enterprises.

Funds are further classified as either unrestricted, temporarily restricted, or permanently restricted depending on the nature and extent of the restrictions. All funds of the District are unrestricted except for the depreciation and sinking funds, which are temporarily restricted. See Bond and Interest Redemption Fund and Depreciation Fund for information on those restrictions.

The District's financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Cash Flows:

For purposes of the statement of cash flows, the District considers all certificates of deposit, highly liquid investments with a maturity of three months or less when purchased, and all U.S. government bond funds to be cash equivalents.

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies: (Continued)

Estimates:

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 reporting period. Actual results could differ from those estimates.

Risk:

During the course of normal business operations, the Water District is exposed to various risks of loss from catastrophic occurrences. The Water District has purchased third party insurance, with a deductible of \$500, to limit the risk of catastrophic loss.

Utility Plant and Capitalization Policy:

All fixed assets are accounted for as capital assets, and are reported as utility plant in service in the District's balance sheet. All fixed assets are stated at historical cost which includes certain materials, labor, transportation and certain indirect costs. Interest costs on temporary financing, when utilized, are capitalized until such time as the plant under construction becomes operational in accordance with FAS ASC 835-20.

Depreciation:

Depreciation is calculated by the straight-line method to allocate the cost of utility plant assets over their estimated useful lives. The District recognizes one-half of regular annual depreciation in the year of acquisition or disposition of an asset.

The range of estimated useful lives by type of assets are as follows:

Structures (except the office building), pumping equipment, distribution reservoir and standpipes, transmission and distribution mains, services, and hydrants	50 Years
Office building	30 Years
Office furniture, tools, shop and garage equipment, power equipment, meters and communications equipment	10 Years
Transportation equipment	5 Years

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies: (Continued)

Bond and Interest Redemption Fund:

The ordinance that authorizes the bond issues of the District requires a monthly deposit of 1/6 of the semi-annual interest requirement and 1/12 of the annual principal requirement.

Depreciation Fund:

The ordinances authorizing the bond issues of the District require monthly transfers into a depreciation fund. These funds may be used for capital improvements, expansions and extraordinary repairs, upon the authorization of the Office of Rural Development, United States Department of Agriculture. For the bonds issued in 1978, 1990, 1994 and 1997 the District is required to deposit a cumulative amount of \$765 per month into the fund until a maximum funding of \$91,800 is reached. The maximum funding amount for the first four bond issues was attained during 2000. For the bond issued in 1999, \$970 per month is required to be deposited in the depreciation fund beginning January 1, 2001. The monthly deposit for the 1999 bond issue is required for the life of the bond, currently scheduled for retirement in January 2038. For the years ended December 31, 2011 and 2010 deposits were made into the depreciation fund as required. For the bond issued in 2007 \$750 per month is required to be deposited in the depreciation fund until a maximum funding of \$90,000 is reached.

Receivables/Bad Debts:

The District uses the direct write-off method for bad debts. No allowance for bad debts has been provided as no material write-offs are expected for receivables at year end. The results of the direct write-off method do not significantly depart from generally accepted accounting principles. Bad debts written off during 2011 and 2010 were \$9,135 and \$12,012, respectively.

Other Deferred Charges:

Other deferred charges consist of debt issues costs of \$78,992 as of both December 31, 2011 and 2010, which are amortized by the straight-line method over the life of the bonds, typically 20 or 40 years.

Operating Revenue and Expenses:

Operating revenues and expenses are those that result from providing water services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

2. Cash and Temporary Cash Investments:

All deposits, certificates of deposit, U.S. Government bond funds, and marketable certificates of deposit are in various accounts with Farmers National Bank, Morgan Keegan as custodian and Hilliard Lyons as custodian, and are carried at cost. The fair market value of marketable certificates of deposit approximate cost. All deposits in banks are insured by FDIC up to \$250,000 per financial institution. All financial instruments held by Morgan Keegan and Hilliard Lyons as custodian are insured by SIPC up to \$500,000 for securities, and \$100,000 for uninvested cash. Hilliard Lyons, additionally, has a third party policy subject to an aggregate limit of \$100 million for all of their customers.

	December 31	
	2011	2010
Insured FDIC and SIPC	\$ 3,544,416	\$ 3,823,620
U. S. Government bond fund	620,197	181,772
Cash on hand	1,000	1,000
Uninsured	1,009,334	1,149,878
	\$ 5,174,947	\$ 5,156,270

Uninsured amounts represent balances at banks in excess of the \$250,000 FDIC limit. At December 31, 2011, all uninsured amounts were secured by U.S. government agency bonds and Kentucky school district bonds held as collateral by the pledging bank in the Water District's name.

3. Construction in Progress:

During the year, the District started work on the \$1.147 million Old 231 Transmission Main and Pump Station Project. Financing for the project is composed of a USDA Rural Development Loan of \$797,000, USDA grant of \$200,000 and District contributions of \$150,000. Interim financing, as of year-end, of \$73,321 is provided by the USDA Rural Development Agency and upon completion of the work will be recharacterized as the above mentioned loan. As of December 31, 2011, \$245,243 of work has been completed on the project.

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

4. Property and Equipment:

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

	Balance at 12/31/2010	Additions	Disposals	Balance at 12/31/2011
Communications Equipment	\$ 45,954	\$ -0-	\$ -0-	\$ 45,954
Distribution Reservoir/Standpipes	887,164	-0-	-0-	887,164
Hydrants	43,860	-0-	-0-	43,860
Land and Land Rights	86,434	240	-0-	86,674
Meters	968,828	107,339	-0-	1,076,167
Office Building	560,378	-0-	-0-	560,378
Office Furniture and Equipment	122,716	12,981	-0-	135,697
Power Operated Equipment	216,887	-0-	-0-	216,887
Pumping Equipment	344,964	8,410	-0-	353,374
Services	454,991	-0-	-0-	454,991
Structures and Improvements	40,988	-0-	-0-	40,988
Tools, Shop and Garage Equipment	24,615	-0-	-0-	24,615
Transmission/Distribution Mains	12,826,430	54,797	-0-	12,881,227
Transportation Equipment	239,311	-0-	-0-	239,311
Construction Work in Progress	21,922	223,321	-0-	245,243
Totals at Historical Cost	<u>\$16,885,442</u>	<u>\$ 407,088</u>	<u>\$ -0-</u>	<u>\$17,292,530</u>

Less Accumulated Depreciation –

	Balance at 12/31/2010	Additions	Disposals	Balance at 12/31/2011
Communications Equipment	\$ 45,452	\$ 59	\$ -0-	\$ 45,511
Distribution Reservoir/Standpipes	324,327	17,744	-0-	342,071
Hydrants	12,193	878	-0-	13,071
Land and Land Rights	-0-	-0-	-0-	-0-
Meters	263,742	35,949	-0-	299,691
Office Building	196,132	18,680	-0-	214,812
Office Furniture and Equipment	105,969	4,957	-0-	110,926
Power Operated Equipment	186,838	12,690	-0-	199,528
Pumping Equipment	93,223	6,984	-0-	100,207
Services	171,259	9,099	-0-	180,358
Structures and Improvements	24,238	819	-0-	25,057
Tools, Shop and Garage Equipment	21,616	760	-0-	22,376
Transmission/Distribution Mains	3,089,447	257,076	-0-	3,346,523
Transportation Equipment	221,403	3,980	-0-	225,383
Construction Work in Progress	-0-	-0-	-0-	-0-
Totals at Historical Cost	<u>\$ 4,755,839</u>	<u>\$ 369,675</u>	<u>\$ -0-</u>	<u>\$ 5,125,514</u>

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

5. Long-Term Debt:

Long-term debt consists of the following Serial Water Revenue Bonds, payable from bond and interest fund assets, and a term loan from Kentucky Rural Water Finance Corporation.

Series of 1978 due annually with principal payments of \$2,500 for 2012, plus interest at 5%. Principal payments vary until final maturity, 2018	\$ 22,000
Series of 1990 due annually with principal payments of \$6,000 for 2012, plus interest at 5%. Principal payments vary until final maturity, 2029	180,000
Series of 1994 due annually with principal payments of \$12,000 for 2012, plus interest at 4.5%. Principal payments vary until final maturity, 2033	480,000
Series of 1997 due annually with principal payments of \$10,000 for 2012, plus interest at 4.875%. Principal payments vary until final maturity, 2037	529,500
Series of 1999 due annually with principal payments of \$32,000 for 2012, plus interest at 4.75%. Principal payments vary until final maturity, 2038	1,719,000
Series of 2006 due annually with principal payments of \$ 19,000 for 2012, plus interest at 4.5%. Principal payments vary until final maturity, 2046	<u>1,561,000</u>
Total Serial Water Revenue Bonds	4,491,500
Kentucky Rural Water Finance Corporation, term loan with principal payments of \$18,000 for 2012, plus interest at 5.15%. Principal payments and interest rate vary until final maturity, 2022	<u>260,000</u>
Total Long-Term Debt	<u>\$ 4,751,500</u>

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

5. Long-Term Debt: (Continued)

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

	<u>Balance at</u> <u>12/31/2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at</u> <u>12/31/2011</u>
Serial Water Revenue Bonds:				
Series of 1978	\$ 24,500	\$ -0-	\$ 2,500	\$ 22,000
Series of 1990	186,000	-0-	6,000	180,000
Series of 1994	492,000	-0-	12,000	480,000
Series of 1997	539,000	-0-	9,500	529,500
Series of 1999	1,750,000	-0-	31,000	1,719,000
Series of 2006	1,579,500	-0-	18,500	1,561,000
Ky. Rural Water loan	<u>277,000</u>	<u>-0-</u>	<u>17,000</u>	<u>260,000</u>
Total long-term debt	<u>\$ 4,848,000</u>	<u>\$ -0-</u>	<u>\$ 96,500</u>	<u>\$ 4,751,500</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2011, are as follows –

	Serial Water Revenue Bonds	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 81,500	\$ 207,690
2013	87,500	203,531
2014	91,000	199,338
2015	94,500	195,221
2016	101,000	191,104
Thereafter	4,036,000	2,649,389

	Kentucky Rural Water Loan	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 18,000	\$ 13,549
2013	19,000	12,596
2014	20,000	11,555
2015	21,000	10,422
2016	22,000	9,234
Thereafter	160,000	26,341

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

5. Long-Term Debt: (Continued)

	Total Long-Term Debt	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 99,500	\$ 221,239
2013	106,500	216,127
2014	111,000	210,893
2015	115,500	205,643
2016	123,000	200,338
Thereafter	4,196,000	2,675,730

6. Defined Benefit Pension Plan:

Effective January 1, 1999, the District adopted a defined benefit pension plan. The plan is a single-employer plan, administered by the District. Assets of the plan are invested primarily in equity mutual funds. Membership in the plan and applicable benefit provisions, annual pension costs and actual assumptions are as follows –

Eligibility Factors, Contribution Methods, and Benefit Provisions –

Provision	As of December 31, 2011
a. Eligible to participate	Full-time employees age 21 or greater, with six months minimum service
b. Contribution Requirements:	
Authorization	By Board of Directors
Actuarially Determined	Yes
Employer Rate	28.78% of covered payroll
Employee Rate	0.00% - employees cannot contribute
c. Period Required to Vest	20% a year after 2 years (100% after 6 years)
d. Eligibility for Distribution	Plan anniversary nearest age 65 and the completion of 5 years of participation.
e. Benefit Determination Base	Highest consecutive 5 year average salary over all service. Annual salary up to \$210,000 considered.
f. Benefit Determination Method	75% of compensation (see determination base, above)
g. Form of Benefit Payments	Single life annuity. Qualified joint and survivor annuity is the required standard option.

ALLEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

6. Defined Benefit Pension Plan: (Continued)

Annual Pension Costs:

For the year ended December 31, 2011 the District's annual pension cost and required contributions to payoff the unfunded actuarial liability in 10 years, determined by actuarial valuation, was \$130,601. The full minimum contribution was made by the District resulting in no pension plan obligations at December 31, 2011.

Actuarial Assumptions:

- | | |
|---|---|
| a. Date of Last Actuarial Valuation | January 1, 2011 |
| b. Actuarial Cost Method | Entry age normal cost method |
| c. Annual Rate of Return on Investments | 7%, Pre-retirement
5.5%, Post-retirement |
| d. Projected Salary Increase | 4.5% per year |

Trend Information:

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation at End of Year</u>
December 31, 2005	\$ 89,870	100.00%	\$ -0-
December 31, 2006	101,404	100.00%	-0-
December 31, 2007	115,818	100.00%	-0-
December 31, 2008	103,001	100.00%	-0-
December 31, 2009	126,778	119.96%	(25,300)
December 31, 2010	117,965	117.48%	(45,926)
December 31, 2011	114,636	113.93%	(61,691)

Required Supplementary Information:

(a)	(b)	(c)	(d)	(e)	(f)	(g)
Actuarial Valuation Date	Actuarial Value of Plan Assets	Entry Age Actuarial Accrued Liability	Unfunded Accrued Liability UAL=(c)-(b)	Funded Ratio (b)/(c)	Annual Covered Payroll	UAL as % of Covered Payroll (d)/(f)
12/31/07	750,811	1,076,033	325,222	69.8%	409,560	79.4%
12/31/08	702,434	1,229,678	527,244	57.1%	410,064	128.6%
12/31/09	988,764	1,418,616	429,852	69.7%	436,413	98.5%
12/31/10	1,080,808	1,432,683	351,875	75.4%	453,035	77.7%

**ALLEN COUNTY WATER DISTRICT
SCHEDULE OF OPERATING EXPENSES
For The Year Ended December 31, 2011**

	<u>Source of Supply and Pumping</u>	<u>Transmission and Distribution</u>	<u>Customer Accounts</u>	<u>Administrative and General</u>	<u>Total (Memorandum Only)</u>
Salaries and Wages, Employees	\$ -0-	\$ 70,171	\$ 118,622	\$ 235,013	\$ 423,806
Salaries, Commissions	-0-	-0-	-0-	17,400	17,400
Employee Benefits (Inc. Pension)	-0-	104,160	36,650	154,366	295,176
Purchased Water	638,157	-0-	-0-	-0-	638,157
Purchased Power	-0-	45,372	-0-	9,413	54,785
Materials and Supplies	-0-	6,388	20,020	16,849	43,257
Contractual Services, Legal and Accounting	-0-	-0-	-0-	33,721	33,721
Contractual Services, Other	-0-	-0-	662	42,670	43,332
Transportation Expense	-0-	34,511	-0-	-0-	34,511
Insurance, Liability	-0-	-0-	-0-	13,434	13,434
Insurance, Workers Compensation	-0-	-0-	-0-	7,997	7,997
Insurance, Other	-0-	-0-	-0-	5,439	5,439
Bad Debt Expense	-0-	-0-	-0-	9,135	9,135
Equipment Rental	-0-	-0-	-0-	3,166	3,166
Miscellaneous	-0-	18,693	-0-	14,601	33,294
Totals	<u>\$ 638,157</u>	<u>\$ 279,295</u>	<u>\$ 175,954</u>	<u>\$ 563,204</u>	<u>\$ 1,656,610</u>

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

**ALLEN COUNTY WATER DISTRICT
SCHEDULE OF OPERATING EXPENSES
For The Year Ended December 31, 2010**

	<u>Source of Supply and Pumping</u>	<u>Transmission and Distribution</u>	<u>Customer Accounts</u>	<u>Administrative and General</u>	<u>Total (Memorandum Only)</u>
Salaries and Wages, Employees	\$ -0-	\$ 53,278	\$ 116,432	\$ 206,510	\$ 376,220
Salaries, Commissions	-0-	-0-	-0-	17,700	17,700
Employee Benefits (Inc. Pension)	-0-	88,548	-0-	202,774	291,322
Purchased Water	669,077	-0-	-0-	-0-	669,077
Purchased Power	-0-	45,030	-0-	6,168	51,198
Materials and Supplies	-0-	4,771	14,022	21,582	40,375
Contractual Services, Legal and Accounting	-0-	-0-	-0-	44,905	44,905
Contractual Services, Other	-0-	135	-0-	69,209	69,344
Transportation Expense	-0-	53,567	-0-	6	53,573
Insurance, Liability	-0-	7,876	3,938	3,938	15,752
Insurance, Workers Compensation	-0-	1,223	2,673	4,742	8,638
Insurance, Other	-0-	-0-	-0-	5,074	5,074
Bad Debt Expense	-0-	-0-	12,012	-0-	12,012
Equipment Rental	-0-	-0-	-0-	2,696	2,696
Miscellaneous	-0-	-0-	570	15,757	16,327
Totals	<u>\$ 669,077</u>	<u>\$ 254,428</u>	<u>\$ 149,647</u>	<u>\$ 601,061</u>	<u>\$ 1,674,213</u>

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

ALLEN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES AND EXPENSES – ACTUAL VERSUS BUDGET (ALL FUNDS)
Years Ended December 31, 2011 and 2010

	2011			2010		
	Actual	Budget	Variance	Actual	Budget	Variance
<u>Operating Revenues</u>						
Metered Water Sales	\$2,017,133	\$2,121,000	\$(103,867)	\$2,020,963	\$1,971,000	\$ 49,963
Forfeited Discounts	46,240	48,000	(1,760)	51,181	42,500	8,681
Pumping Charges for Water Returned To Supplier	59,708	36,000	23,708	31,034	30,500	534
Miscellaneous Service Revenue	<u>34,408</u>	<u>40,000</u>	<u>(5,592)</u>	<u>31,092</u>	<u>39,500</u>	<u>(8,408)</u>
Total Operating Revenues	<u>2,157,489</u>	<u>2,245,000</u>	<u>(87,511)</u>	<u>2,134,270</u>	<u>2,083,500</u>	<u>50,770</u>
<u>Operating Expenses</u>						
Salaries and Wages, Employees	423,806	363,000	(60,806)	376,220	341,000	(35,220)
Non-employee Compensation, Commissioners	17,400	18,000	600	17,700	18,000	300
Employee Benefits (Including Pension)	295,176	358,500	63,324	291,322	279,000	(12,322)
Purchased Water	638,157	633,000	(5,157)	669,077	668,500	(577)
Purchase Power	54,785	54,500	(285)	51,198	51,000	(198)
Materials and Supplies	43,257	37,000	(6,257)	40,375	37,000	(3,375)
Contractual Services	77,053	71,500	(5,553)	114,249	47,400	(66,849)
Transportation Expense	34,511	41,500	6,989	53,573	36,000	(17,573)
Insurance	26,870	40,000	13,130	29,464	36,500	7,036
Miscellaneous and Other	45,595	18,000	(27,595)	31,035	18,500	(12,535)
Depreciation	369,675	369,000	(675)	367,940	357,500	(10,440)
Amortization	2,275	-0-	(2,275)	2,275	-0-	(2,275)
Taxes, Other Than Income	<u>39,698</u>	<u>33,000</u>	<u>(6,698)</u>	<u>37,113</u>	<u>35,000</u>	<u>(2,113)</u>
Total Operating Expenses	<u>2,068,258</u>	<u>2,037,000</u>	<u>(31,258)</u>	<u>2,081,541</u>	<u>1,925,400</u>	<u>(156,141)</u>
Operating Income	<u>89,231</u>	<u>208,000</u>	<u>(118,769)</u>	<u>52,729</u>	<u>158,100</u>	<u>(105,371)</u>
<u>Nonoperating Revenue and Expenses</u>						
Interest Income	143,750	157,500	(13,750)	154,675	130,000	24,675
Interest Expense	(230,736)	(226,000)	(4,736)	(232,308)	(231,000)	(1,308)
Miscellaneous Income	<u>11,761</u>	<u>2,000</u>	<u>9,761</u>	<u>12,157</u>	<u>1,500</u>	<u>10,657</u>
Total Nonoperating Revenue and Expenses	<u>(75,225)</u>	<u>(66,500)</u>	<u>(8,725)</u>	<u>(65,476)</u>	<u>(99,500)</u>	<u>34,024</u>
Income (Loss) Before Other Revenues, Expenses, and Capital Expenditures	<u>\$ 14,006</u>	<u>\$ 141,500</u>	<u>\$(127,494)</u>	<u>\$(12,747)</u>	<u>\$ 58,600</u>	<u>\$(71,347)</u>

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

**ALLEN COUNTY WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For The Year Ended December 31, 2011**

DEPARTMENT OF AGRICULTURE

Water and Waste Disposal Systems for Rural Communities – CFDA No. 10.760

None



**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 of Allen County Water District:

We have audited the financial statements of Allen County Water District as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated February 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 the entity'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 the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

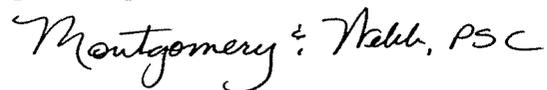
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessary identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the accompanying schedule of findings and questioned costs is a material weakness.

Compliance and Other Matters

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

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



Montgomery & Webb, PSC
Certified Public Accountants

Bowling Green, Kentucky
February 7, 2012

**ALLEN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended December 31, 2011**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Allen County Water District.
2. Reportable conditions relating to the audit of the financial statements of Allen County Water District are reported in this Schedule. The reportable conditions are not considered material weaknesses.
3. No instances of noncompliance material to the financial statements of Allen County Water District were disclosed during the audit.
4. The auditor's report on internal control over financial reporting and on compliance and other matters for Allen County Water District expresses an unqualified opinion.

FINDINGS – FINANCIAL STATEMENTS AUDIT

Significant Deficiency

11-1 Units Capitalization Policy

Condition: The District does not have a capitalization policy that would set minimum capital limits and comply with the December 2009 Public Service Commission (PSC) Audit Report.

Criteria: Controls should be in place to establish a minimum amount to capitalize. Additionally, all capital projects should follow the reporting criteria established by the Kentucky Public Service Commission.

Effect: The fixed asset accounts do not have the proper documentation to meet PSC requirements. Additionally, there are no set standards as to when a transaction should be capitalized.

Cause: No procedure is in place to comply with the PSC request and to establish a set amount to capitalize.

Recommendation: Management should put in place procedures to insure compliance with the PSC guidelines and establish capitalization guidelines.

Response: Management will put in place procedures by June 2012 to insure future compliance with PSC and establish capitalization standards. Management recognizes that due to lack of information and cost involved, compliance with the PSC guidelines for past capital projects is impractical.