# Monroe County Water District

**205 Capp Harlan Road**
**Tompkinsville, Ky 42167**
**Phone: 270-487-8131**
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April 20, 2012

Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615

PUBLIC SERVICE COMMISSION
ANNUAL REPORT BRANCH
APR 23 2012
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EXAMINED BY

RE: 2011 annual audit report

To Whom It May Concern:

Enclosed you will find a copy of the Monroe County Water District annual audit. If you have any questions, please contact me at the office.

Sincerely,

Jana Dubree

Jana Dubree, Office Manager
Monroe County Water District

# CAMPBELL, MYERS & RUTLEDGE, PLLC

## Certified Public Accountants

Cindy L. Greer, CPA
L. Joe Rutledge, CPA
Jonathan W. Belcher, CPA
R. Brent Billingsley, CPA

Skip R. Campbell, CPA
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410 South Broadway
Glasgow, KY 42141
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March 26, 2012

To the Manager and Commissioners
Monroe County Water District

We have audited the financial statements of the business-type activities of Monroe County Water District for the year ended December 31, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 22, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Monroe County Water District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Monroe County Water District's financial statements was :

> Management's estimate of the depreciable lives of capital assets is based on the required guidelines as determined by their regulatory body, Kentucky Public Service Commission. We evaluated the key factors and assumptions used to develop the appropriate asset lives in determining that it is reasonable in relation to the financial statements taken as a whole.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 26, 2012.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of commissioners and management of Monroe County Water District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Campbell, Myers & Ratledge, PLLC*

# Monroe County Water District

## Financial Statements

## December 31, 2011 and 2010

CAMPBELL, MYERS & RUTLEDGE

CERTIFIED PUBLIC ACCOUNTANTS

PUBLIC SERVICE COMMISSION
ANNUAL REPORT BRANCH

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# Monroe County Water District

## Financial Statements

## December 31, 2011 and 2010

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# CAMPBELL, MYERS & RUTLEDGE, PLLC

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## INDEPENDENT AUDITOR'S REPORT

Monroe County Water District
Tompkinsville, Kentucky

We have audited the accompanying financial statements of Monroe County Water District, as of and for the years ended December 31, 2011 and 2010, which collectively comprise the Monroe County Water District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Monroe County Water District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 respective financial position of the Monroe County Water District, as of December 31, 2011 and 2010, and the respective changes in financial position, and cash flows, thereof 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 March 26, 2012, on our consideration of the Monroe County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the

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

*Campbell, Myers & Ratledge, PLLC*

Certified Public Accountants
Glasgow, Kentucky

March 26, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Monroe County Water District, we offer readers of the District's financial statements this narrative overview of the financial activities of the District for the fiscal years ending December 31, 2011 and 2010. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

### Financial Highlights

For the year ending December 31, 2011, total operating and non-operating revenues (including capital contributions) totaled $2,172,049. This represents a 35% increase in revenues from the prior year. This change was due to an increase of grant proceeds received in 2011.

Total operating expenses amounted to $1,394,746, an increase of 15% from the prior year. This increase was primarily the result of a increase in water purchase expense, salary expense and depreciation expense.

Total assets increased by $613,552, and total liabilities decreased by $27,623. These changes resulted in an increase in net assets of $641,175.

### Overview of the Financial Statements

This report consists of this Management's Discussion and Analysis report, the Independent Auditor's Report, Financial Statements and Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the Financial Statements.

### Required Financial Statements

The financial statements of Monroe County Water District report information of Monroe County Water District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of Monroe County Water District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Monroe County Water District creditors (liabilities). It also provides the basis for evaluation of the capital structure of Monroe County Water District and assessing the liquidity and financial flexibility of Monroe County Water District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of Monroe County Water District's operations over the past year and can be used to determine whether Monroe County Water District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

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

| | 2011 | 2010 |
|---|---|---|
| Assets | | |
| Total Current Assets | $ 873,438 | $ 868,272 |
| Total Restricted Assets | 583,588 | 573,010 |
| Net Capital Assets | 8,917,133 | 8,319,325 |
| **Total Assets** | $ 10,374,159 | $ 9,760,607 |
| | | |
| Liabilities | | |
| Total Current Liabilities | $ 214,516 | $ 164,413 |
| Total Liabilities Payable from Restricted Assets | 203,717 | 196,943 |
| Total Long-term Liabilities | 2,785,000 | 2,869,500 |
| **Total Liabilities** | $ 3,203,233 | $ 3,230,856 |
| | | |
| Net Assets | | |
| Invested in capital assets, net of related debt | $ 6,038,336 | $ 5,361,528 |
| Restricted for equipment replacement | 341,682 | 338,525 |
| Restricted for debt retirement | 121,774 | 115,548 |
| Restricted - other | 915 | 994 |
| Unrestricted | 668,219 | 713,156 |
| **Total Net Assets** | $ 7,170,926 | $ 6,529,751 |

The largest portion (84%) of the District's net assets reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding. This represents 2% percent increase from the prior year.

Restricted net assets (7%) represent resources that are subject to external restrictions on how they may be used.

The balance (9%) of unrestricted net assets may be used to meet the District's ongoing obligations to citizens, consumers and creditors.

**Monroe County Water District**
**Summary of Changes in Net Assets**
**For the Year Ended December 31, 2011 and 2010**

| | 2011 | 2010 |
|---|---|---|
| Total operating revenues | $1,304,543 | $ 1,233,001 |
| Total operating expenses | 1,394,746 | 1,214,589 |
| Operating Income | $ (90,203) | $ 18,412 |
| Total non-operating revenue (expenses) | (128,347) | (126,232) |
| Income before capital contributions | $ (218,550) | $ (107,820) |
| Capital contributions | 859,725 | 356,542 |
| Increase in net assets | $ 641,175 | $ 248,722 |
| Beginning of year | 6,529,751 | 6,281,029 |
| End of year | $7,170,926 | $ 6,529,751 |

Net assets increased by $641,175, from the prior year.

Capital Asset Changes

At December 31, 2011, the District had invested $8,917,133 in capital assets net of accumulated depreciation. This amount represents a net increase of $597,808 or 7% more than the previous year. This increase is the result of continuing construction projects being implemented in 2011 by the District.

The Monroe County Water District completed several projects including over 4 miles of water line extensions during the year of 2011. There were 35 new water connections set for service during the year of 2011. The Monroe County Water District has a very active meter testing program, having tested 746 meters during the year of 2011.

Monroe County Water District has worked diligently on the Monroe – Tompkinsville Regional Water Treatment Plant Project since 2006. The total project cost is $16,800,000 which consists of treatment plant, transmission lines, storage tanks, land acquisition, engineering and administration. Preliminary design work was completed in 2011. There is hope of acquiring the location site in 2012 for the treatment plant. The Water Treatment Plant Transmission Line, Contract IIA, was 80% completed in 2011. The Contract IIIA, a 350,000 gallon storage tank, was bid in 2011 to be completed in 2012, this will replace the current storage tank at Persimmon. In December 2011, bids were received for Contract IID, a new Pump Station on Capp Harlan Road. Construction for this new Pump Station is planned in 2012. Funding applications have been filed. Grant funding has been appropriated from Kentucky General Assembly HB 380 ($150,000 for design and $1,200,000 for construction) and HB 608 ($1,250,000 for construction). Environmental Protection Agency Special Appropriations Projects grant has been designated for our project ($1,350,000 for construction). Monroe County Water District was placed on the top priority list for the Kentucky Drinking Water State Revolving Fund ($8,000,000 loan) for this project. Monroe County Water District has been fortunate to have the continued support from the Kentucky Legislators and the Kentucky Division of Water to help assist with moving our project forward. Monroe, Metcalfe and Cumberland Counties all share the need for a more abundant source and a higher quality of raw water. Health issues and restricted water use were continuing concerns in 2011. This is a major project for Monroe County Water District, but

the need for upgrading and maintenance projects are also anticipated to help improve the distribution system and to better serve our customers.

## Budgetary Highlights

The Monroe County Water District adopts an annual operating budget after careful considerations of prior year and anticipated current year operations. The operating budget includes proposed expenses and the means to finance them. The District's operating budget remains in effect the entire year and is not revised. A budget comparison and analysis is presented on page 18 of this report.

## Debt Administration

At December 31, 2011, the District had $2,948,500 bonds outstanding, a decrease of $78,000 from the prior year's balance of $3,026,500. The District incurred $139,941 in interest expense associated with long term debt, a decrease of $3,764 due to the increase amount paid on the principle.

## Request for Information

This financial report is designed to provide our customers and creditors with a general overview of Monroe County Water District's finances and to demonstrate Monroe County Water District's accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact the Monroe County Water District at 205 Capp Harlan Road, Tompkinsville, Kentucky 42167, or by phone (270) 487-8131.

MONROE COUNTY WATER DISTRICT
Statements of Net Assets
December 31, 2011 and 2010

| Assets | 2011 | 2010 |
|---|---|---|
| **Current Assets** | | |
| Cash | $ 566,263 | $ 596,932 |
| Accounts receivable | 160,871 | 134,218 |
| Inventory | 146,304 | 137,122 |
| Total Current Assets | 873,438 | 868,272 |
| **Non-current Assets** | | |
| Restricted Assets | | |
| Cash - Depreciation fund | 341,682 | 338,525 |
| Cash - Bond and interest redemption fund | 189,839 | 185,519 |
| Cash - Meter Deposits | 52,067 | 48,966 |
| Total Restricted Assets | 583,588 | 573,010 |
| Capital Assets | | |
| Land and land rights | 126,842 | 126,842 |
| Utility plant in service | 10,252,031 | 10,165,731 |
| Furniture and equipment | 769,626 | 691,042 |
| Construction in progress | 1,602,573 | 850,010 |
| Accumulated depreciation and amortization | (3,833,939) | (3,514,300) |
| Net Capital Assets | 8,917,133 | 8,319,325 |
| Total Non-current Assets | 9,500,721 | 8,892,335 |
| Total Assets | $ 10,374,159 | $ 9,760,607 |

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

MONROE COUNTY WATER DISTRICT
Statements of Net Assets
December 31, 2011 and 2010

| Liabilities | 2011 | 2010 |
|---|---|---|
| **Current Liabilities** | | |
| Accounts payable | $ 61,599 | $ 59,440 |
| Construction accounts payable | 50,086 | 28,230 |
| Accrued liabilities | 102,831 | 76,743 |
| Total Current Liabilities | 214,516 | 164,413 |
| **Liabilities Payable from Restricted Assets** | | |
| Current maturities of long-term debt | 84,500 | 79,000 |
| Customer deposits | 51,152 | 47,972 |
| Accrued interest | 68,065 | 69,971 |
| Total Liabilities Payable from Restricted Assets | 203,717 | 196,943 |
| **Long-term Liabilities** | | |
| Long-term debt, less current maturities | 2,785,000 | 2,869,500 |
| Total Long-term Liabilities | 2,785,000 | 2,869,500 |
| Total Liabilities | 3,203,233 | 3,230,856 |
| **Net Assets** | | |
| **Net Assets** | | |
| Invested in capital assets, net of related debt | 6,038,336 | 5,361,528 |
| Restricted for equipment replacement | 341,682 | 338,525 |
| Restricted for debt retirement | 121,774 | 115,548 |
| Restricted - other | 915 | 994 |
| Unrestricted | 668,219 | 713,156 |
| **Total Net Assets** | $ 7,170,926 | $ 6,529,751 |

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

MONROE COUNTY WATER DISTRICT
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| **Operating revenues:** | | |
| Residential water sales | $ 1,135,946 | $ 1,120,102 |
| Commerical water sales | 80,456 | 68,820 |
| Penalty collections | 25,925 | 24,447 |
| Miscellaneous | 62,216 | 19,632 |
| Total operating revenues | 1,304,543 | 1,233,001 |
| **Operating expenses:** | | |
| Water purchases | 430,385 | 381,516 |
| Utilities | 57,615 | 58,786 |
| Repairs and maintenance | 16,915 | 28,811 |
| Meter readers | 40,453 | 40,406 |
| Office expense | 36,865 | 36,143 |
| Transportation expenses | 25,796 | 25,638 |
| Insurance | 24,752 | 23,102 |
| Commissioners' fees | 6,000 | 6,000 |
| Employees' salaries and wages | 304,379 | 256,326 |
| Employees' pensions and benefits | 92,517 | 95,465 |
| Depreciation | 319,639 | 228,515 |
| PSC tax assessment | 1,885 | 1,890 |
| Meter deposit interest expense | 517 | 563 |
| Bad debt expense | 4,875 | 4,761 |
| Professional fees | 12,515 | 10,215 |
| Miscellaneous | 19,638 | 16,452 |
| Total operating expenses | 1,394,746 | 1,214,589 |
| Operating income | (90,203) | 18,412 |
| **Non-operating revenue (expenses):** | | |
| Interest income | 7,781 | 13,709 |
| Interest expense on bonds | (136,128) | (139,941) |
| Total non-operating revenue (expenses) | (128,347) | (126,232) |
| Income/(loss) before capital contributions | (218,550) | (107,820) |
| **Capital contributions** | | |
| Grant proceeds | 826,991 | 319,582 |
| Tap fees | 32,734 | 36,960 |
| Total capital contributions | 859,725 | 356,542 |
| Increase in net assets | 641,175 | 248,722 |
| **Net assets:** | | |
| Beginning of year | 6,529,751 | 6,281,029 |
| End of year | $ 7,170,926 | $ 6,529,751 |

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

MONROE COUNTY WATER DISTRICT
Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash receipts from customers | $ 1,216,402 | $ 1,188,922 |
| Cash payments to suppliers for goods and services | (524,288) | (554,417) |
| Cash payments to employees for services | (443,349) | (398,197) |
| Net cash provided (used) by operating activities | 248,765 | 236,308 |
| **Cash flows from capital and related financing activities:** | | |
| Principal paid on long-term debt | (79,000) | (78,000) |
| Interest paid on long-term debt | (139,915) | (141,822) |
| Additions to capital assets | (917,447) | (391,639) |
| Capital contributions | 859,725 | 356,542 |
| Net cash provided (used) in financing activities | (276,637) | (254,919) |
| **Cash flows from investing activities:** | | |
| Interest income | 7,781 | 13,709 |
| Net cash provided by (used) in investing activities | 7,781 | 13,709 |
| **Net increase (decrease) in cash and cash equivalents** | (20,091) | (4,902) |
| Cash and cash equivalents, beginning of year | 1,169,942 | 1,174,844 |
| **Cash and cash equivalents, end of year** | $ 1,149,851 | $ 1,169,942 |
| **Reconciliation of operating income to net cash provided by operating activities:** | | |
| Operating income | $ (90,203) | $ 18,412 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 319,639 | 228,515 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (26,653) | 51,885 |
| (Increase) decrease in inventory | (9,182) | (18,247) |
| Increase (decrease) in accounts payable | 24,015 | (64,046) |
| Increase (decrease) in customer deposits | 3,180 | 1,107 |
| Increase (decrease) in accrued expenses | 27,969 | 18,682 |
| Net cash provided (used) by operating activities | $ 248,765 | $ 236,308 |

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

## Note 1 – Description of Entity and Summary of Significant Accounting Policies

Organization
The Monroe County Water District was organized in 1975 under KRS 74.010 to provide water service to the residents of Monroe County. The District's commissioners are appointed by the Monroe County Judge-Executive.

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

Measurement Focus and Basis of Accounting
The term *measurement focus* is used to denote what is being measured and reported in the District's financial statements. The District is accounted for on the flow of economic resources measurement focus. Under this measurement focus, all assets and all liabilities associated with the operations are included in the Statement of Net Assets.

The term *basis of accounting* is used to determine when a transaction or event is recognized on the District's financial statements. The District uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Financial Statement Presentation
The District has elected under GASB Statement *No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting,* to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities; (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

On January 1, 2004, the District adopted the provisions of Governmental Accounting Standards Board (GASB) No. 34 *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments."* GASB 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components: (i) invested in capital assets, net of related debt, (ii) restricted, and (iii) unrestricted.

**Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued**

These classifications are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

- *Restricted* - This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted net assets* - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Use of Restricted Funds
When both restricted and unrestricted resources are available for use, it is the Company's policy to use restricted resources first, then unrestricted resources as they are needed.

Receivables
The District uses the direct write-off method to account for bad debts. No allowance for bad debts has been provided, as no material write-offs are expected for receivables as of December 31, 2011. The direct write-off method does not significantly depart from generally accepted accounting principles.

Capital Assets
The utility plant in service is stated at cost. The cost of additions to the utility plant and major replacements of retired units of property is capitalized. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses and changes in net assets. The cost of current repairs, maintenance, and minor replacements is charged to expense as incurred. Depreciation has been provided over estimated useful lives of the assets using the straight-line method. Depreciation expense for the year ending December 31, 2011 and 2010 was $319,639 and $228,515, respectively.

The estimated useful lives of capital assets are as follows:

| | |
|---|---|
| Utility plant | 20-63 years |
| Equipment | 7--13 years |
| Other | 23 years |

Cash and Investments
The District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Investments are reported at fair market value.

Long-Term Obligations
Long-term debt and other obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts are deferred and amortized over the life of the bonds.

**Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued**

Operating Revenues and Expenses
Operating revenues and expenses consists of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions.

Capital Contributions
Transmission and distribution system assets contributed to the District by installers are capitalized at the installers' costs and recorded as capital contributions when received. Also included in capital contributions are various grants received for infrastructure and payments received from customers for tap fees.

Income Taxes
The District is exempt from federal and state income taxes.

Extraordinary and Special Items
Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses and changes in net assets.

Bond and Interest Redemption Fund
The ordinances authorizing the bond issues require monthly deposits of one-twelfth of the annual bond principal requirement and one-sixth of the semi-annual interest requirement. For the year ending December 31, 2011, the District had complied with this requirement.

Inventory
Inventory is valued at cost using the first in, first out method. Inventory in the Proprietary Funds consists of expendable supplies held for future consumption or capitalization. The cost is recorded as an expense or capital addition as inventory items are consumed.

Use of Estimates
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.

Compensated Absences
Accumulated unpaid vacation and sick pay amounts are accrued when benefits vest to employees and the unpaid liability is reflected in accrued liabilities.

Depreciation Fund
The ordinances authorizing the various bond issues of the District require monthly transfers into a depreciation fund until the maximum requirement of $209,520 is reached. These funds can be used for capital improvements, expansions and extraordinary repairs. For the years ended December 31, 2011 and 2010, the District had a balance in excess of the required amount in the depreciation fund.

## Note 1 – Description of Entity and Summary of Significant Accounting Policies, Concluded

Reclassifications

Comparative data for the prior year have been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in the Corporation's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation.

## Note 2 – Capital Assets

Capital asset activity for the year ended December 31, 2011 and 2010, was as follows:

| | Balance 01/01/11 | Additions | Deletions | Balance 12/31/11 |
|---|---|---|---|---|
| *Capital Assets not being depreciated* | | | | |
| Land & Rights | $ 126,842 | $ - | $ - | $ 126,842 |
| Construction In Progress | 850,010 | 752,563 | - | 1,602,573 |
| Total Non-Depreciable Capital Assets | 976,852 | 752,563 | - | 1,729,415 |
| *Capital Assets being depreciated* | | | | |
| Structures and Improvements | 415,304 | 4,822 | - | 420,126 |
| Pumping Equipment | 208,835 | 3,913 | - | 212,748 |
| Distribution Reservoirs | 1,292,754 | 539 | - | 1,293,293 |
| Transmission and Distribution Mains | 7,624,519 | 51,863 | - | 7,676,382 |
| Services | 120,774 | - | - | 120,774 |
| Meters and Installations | 710,836 | 29,076 | - | 739,912 |
| Other Plant | 32,370 | - | - | 32,370 |
| Furniture and Equipment | 85,363 | 12,886 | - | 98,249 |
| Transportation Equipment | 181,758 | - | - | 181,758 |
| Power Operated Equipment | 184,260 | 61,785 | - | 246,045 |
| Total Depreciable Capital Assets | 10,856,773 | 164,884 | - | 11,021,657 |
| Less: Accumulated Depreciation and Amortization | 3,514,300 | 319,639 | - | 3,833,939 |
| Total Net Capital Assets | $ 8,319,325 | | | $ 8,917,133 |

| | Balance 01/01/10 | Additions | Deletions | Balance 12/31/10 |
|---|---|---|---|---|
| *Capital Assets not being depreciated* | | | | |
| Land & Rights | $ 126,842 | $ - | $ - | $ 126,842 |
| Construction In Progress | 671,903 | 178,107 | - | 850,010 |
| Total Non-Depreciable Capital Assets | 798,745 | 178,107 | - | 976,852 |
| *Capital Assets being depreciated* | | | | |
| Structures and Improvements | 413,988 | 1,316 | - | 415,304 |
| Pumping Equipment | 208,835 | - | - | 208,835 |
| Distribution Reservoirs | 1,292,182 | 572 | - | 1,292,754 |
| Transmission and Distribution Mains | 7,479,795 | 160,724 | (16,000) | 7,624,519 |
| Services | 120,774 | - | - | 120,774 |
| Meters and Installations | 672,571 | 38,265 | - | 710,836 |
| Other Plant | 32,370 | - | - | 32,370 |
| Furniture and Equipment | 85,363 | - | - | 85,363 |
| Transportation Equipment | 173,102 | 8,656 | - | 181,758 |
| Power Operated Equipment | 220,260 | 4,000 | (40,000) | 184,260 |
| Total Depreciable Capital Assets | 10,699,240 | 213,533 | (56,000) | 10,856,773 |
| Less: Accumulated Depreciation and Amortization | 3,341,785 | 228,515 | (56,000) | 3,514,300 |
| Total Net Capital Assets | $ 8,156,200 | | | $ 8,319,325 |

**Note 3 – Long-Term Debt**

Long-term debt consists of the following at December 31, 2011 and 2010:

| | 2011 | 2010 |
|---|---|---|
| Series 1978 Water Revenue Bonds issued through the Rural Development of the USDA in the amount of $277,000; due in annual installments on January 1 ranging from $1,000 to $15,000 through January 2018; interest rate of 5% due semi-annually on January 1 and July 1. | $ 92,000 | $ 103,000 |
| Series 1987 Water Revenue Bonds issued through the Rural Development of the USDA in the amount of $391,000; due in annual installments on January 1 ranging from $4,000 to $21,000 through January 2027; interest rate of 5% due semi-annually on January 1 and July 1. | 250,000 | 260,000 |
| Series 1990 Water Revenue Bonds issued through the Rural Development of the USDA in the amount of $811,000; due in annual installments on January 1 ranging from $8,000 to $45,000 through January 2031; interest rate of 5% due semi-annually on January 1 and July 1. | 579,000 | 597,000 |
| Series 1992 Water Revenue Bonds issued through the Rural Development of the USDA in the amount of $490,000; due in annual installments on January 1 ranging from $4,500 to $27,000 through January 2031; interest rate of 5% due semi-annually on January 1 and July 1. | 361,500 | 372,000 |
| Series 1994 Water Revenue Bonds issued through the Rural Development of the USDA in the amount of $570,000; due in annual installments on January 1 ranging from $5,000 to $32,000 through January 2033; interest rate of 4.5% due semi-annually on January 1 and July 1. | 442,000 | 453,000 |
| Series 1998 Water Revenue Bonds issued through the Rural Development of the USDA in the amount of $500,000; due in annual installments on January 1 ranging from $5,000 to $26,500 through January 2038; interest rate of 4.5% due semi-annually on January 1 and July 1. | 429,000 | 437,000 |
| Series 1999 Water Revenue Bonds issued through the Rural Development of the USDA in the amount of $270,000; due in annual installments on January 1 ranging from $2,500 to $15,500 through January 2038; interest rate of 4.75% due semi-annually on January 1 and July 1. | 235,000 | 239,000 |
| Series 2003 Water Revenue Bonds issued through the Rural Development of the USDA in the amount of $517,000; due in annual installments on January 1 ranging from $5,500 to $27,500 through January 2043; interest rate of 4.5% due semi-annually on January 1 and July 1. | 481,000 | 487,500 |
| Total debt | $ 2,869,500 | $ 2,948,500 |

**Note 3 – Long-Term Debt, Continued**

Principal and interest maturities of long-term debt are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| 2012 | $ 84,500 | $ 136,128 | $ 220,628 |
| 2013 | 87,000 | 132,050 | 219,050 |
| 2014 | 91,500 | 127,851 | 219,351 |
| 2015 | 95,000 | 123,438 | 218,438 |
| 2016 | 101,000 | 118,853 | 219,853 |
| 2017-21 | 534,000 | 518,740 | 1,052,740 |
| 2022-26 | 639,500 | 382,855 | 1,022,355 |
| 2027-31 | 656,500 | 221,580 | 878,080 |
| 2032-36 | 330,000 | 98,783 | 428,783 |
| 2037-41 | 197,000 | 33,706 | 230,706 |
| 2042-43 | 53,500 | 3,645 | 57,145 |
| | $ 2,869,500 | $ 1,897,629 | $ 4,767,129 |

Long-term debt activities for the year ended December 31, 2011 and 2010 are as follows:

| | Balance 01/01/11 | Additions | Debt Payments and Reductions | Balance 12/31/11 | Amount Due within One Year |
|---|---|---|---|---|---|
| Series 1978 | $ 103,000 | $ - | $ (11,000) | $ 92,000 | $ 12,000 |
| Series 1987 | 260,000 | - | (10,000) | 250,000 | 11,000 |
| Series 1990 | 597,000 | - | (18,000) | 579,000 | 19,000 |
| Series 1992 | 372,000 | - | (10,500) | 361,500 | 11,000 |
| Series 1994 | 453,000 | - | (11,000) | 442,000 | 12,000 |
| Series 1998 | 437,000 | - | (8,000) | 429,000 | 8,500 |
| Series 1999 | 239,000 | - | (4,000) | 235,000 | 4,000 |
| Series 2003 | 487,500 | - | (6,500) | 481,000 | 7,000 |
| | $ 2,948,500 | $ - | $ (79,000) | $ 2,869,500 | $ 84,500 |

| | Balance 01/01/10 | Additions | Debt Payments and Reductions | Balance 12/31/10 | Amount Due within One Year |
|---|---|---|---|---|---|
| Series 1978 | $ 114,000 | $ - | $ (11,000) | $ 103,000 | $ 11,000 |
| Series 1987 | 270,000 | - | (10,000) | 260,000 | 10,000 |
| Series 1990 | 615,000 | - | (18,000) | 597,000 | 18,000 |
| Series 1992 | 382,000 | - | (10,000) | 372,000 | 10,500 |
| Series 1994 | 464,000 | - | (11,000) | 453,000 | 11,000 |
| Series 1998 | 444,500 | - | (7,500) | 437,000 | 8,000 |
| Series 1999 | 243,000 | - | (4,000) | 239,000 | 4,000 |
| Series 2003 | 494,000 | - | (6,500) | 487,500 | 6,500 |
| | $ 3,026,500 | $ - | $ (78,000) | $ 2,948,500 | $ 79,000 |

## Note 3 – Long-Term Debt, Concluded

Arbitrage
The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. During the current year, the District performed calculations of excess investment earnings on various bonds and at December 31, 2011 does not expect to incur a liability.

## Note 4 – Cash and Investments

The carrying amount of the District's cash deposits was $1,149,851 and $1,169,942 for the years ending December 31, 2011 and 2010, respectively and the bank balances all at one institution, were $1,158,517 and $1,062,580. The difference between book and bank balances primarily represents checks that have been issued, but have not cleared the bank. The District's deposits included five certificates of deposit totaling approximately $250,000 for 2011 and 2010 that matured annually. All were with the same financial institution at rates between 3.450% and 2.480% for the year ending December 31, 2011 and 2010, respectively. All of the District's deposits were either insured by FDIC or by collateral pledged by South Central Bank of Monroe County.

## Note 5 – Pension Plan

The District provided a defined contribution plan, as of January 1, 2006, to its employees, who meet certain age and length of service requirements set forth by the Board of Commissioners. The plan is a deferred compensation plan as defined by the IRC 457(b). The District contributes 8% of covered payroll and each employee contributes 4% of their wages. For the years ended December 31, 2011 and 2010, employer contributions were $23,162 and $21,769 respectively and employee contributions were $11,581 and $10,885, respectively. Voluntary contributions were $2,080 in 2011 and $2,100 in 2010. Covered payroll was approximately $225,000 and $235,000 for years 2011 and 2010, respectively.

## Note 6 – Commitments

The District has plans for a new regional water treatment facility to supply Monroe county and other water districts. The total cost of the project is projected to be $16,800,000. The District has secured grant funds from KIA and EPA for approximately $3,992,000 and is in the process of securing additional grant and loan funds of $12,808,000. As of December 31, 2011 the District has received $1,732,513 of the above grant funds.

The District has secured grant funds for highway projects on Highway 163 and Highway 90 from the Kentucky Department of Highways in the amount of $137,338. As of December 31, 2011 the District has received all but $33,936 of the funds.

The District also secured KIA grant funds for various water line projects for prior years in the amount of $400,000. As of December 31, 2011 the District has received all but $20,414 of the funds.

**Note 7- Subsequent Events**

Management has evaluated subsequent events through March 26, 2012, the date which the financial statements were available to be issued.

## Supplemental Information

**MONROE COUNTY WATER DISTRICT**
**Statement of Revenues, Expenditures and Change in Equity – Budget and Actual**
**For the Year Ended December 31, 2011**

| | Original and Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| **Operating revenues:** | | | |
| Water Sales | $ 1,247,784 | $ 1,216,402 | $ (31,382) |
| Penalties and other | 49,386 | 88,141 | 38,755 |
| Total operating revenues | 1,297,170 | 1,304,543 | 7,373 |
| **Operating expenses:** | | | |
| Water purchases | 370,000 | 430,385 | (60,385) |
| Utilities | 60,000 | 57,615 | 2,385 |
| Materials | 50,000 | 16,915 | 33,085 |
| Contractual | 59,900 | 40,453 | 19,447 |
| Insurance | 69,000 | 24,752 | 44,248 |
| Salaries and benefits | 311,351 | 402,896 | (91,545) |
| Depreciation | 280,000 | 319,639 | (39,639) |
| Other | 108,950 | 102,091 | 6,859 |
| Total operating expenses | 1,309,201 | 1,394,746 | (85,545) |
| Operating income | (12,031) | (90,203) | (78,172) |
| **Non-operating revenue (expenses):** | | | |
| Interest Income and Other | 13,676 | 7,781 | (5,895) |
| Interest expense on bonds | (147,000) | (136,128) | 10,872 |
| Total non-operating revenue (expenses) | (133,324) | (128,347) | 4,977 |
| *Income before capital contributions* | (145,355) | (218,550) | (73,195) |
| **Capital contributions** | | | |
| Grant Proceeds | 3,354,000 | 826,991 | (2,527,009) |
| Tap Fees | 39,053 | 32,734 | (6,319) |
| Total capital contributions | 3,393,053 | 859,725 | (2,533,328) |
| Increase/(Decrease) in net assets | $ 3,247,698 | $ 641,175 | $ (2,606,523) |

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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*

Monroe County Water District
Tompkinsville, Kentucky

We have audited the financial statements of Monroe County Water District, as of and for the year ended December 31, 2011 and 2010, which collectively comprise the Monroe County Water District's basic financial statements and have issued our report thereon dated March 26, 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

Management of Monroe County Water District, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Monroe 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 Monroe County Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Monroe County Water District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Monroe 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 solely for the information and use of management and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

*Campbell, Myers & Ratledge, PLLC*

Certified Public Accountants
Glasgow, Kentucky

March 26, 2012