



**Montgomery County Water
District #1**

**Financial Statements and
Independent Auditor's Report**

December 31, 2011 and 2010

PREPARED BY
VICKIE C. RICHARDSON, CPA, PSC
114 EAST HIGH STREET
MT. STERLING, KY 40353

Montgomery County Water District #1

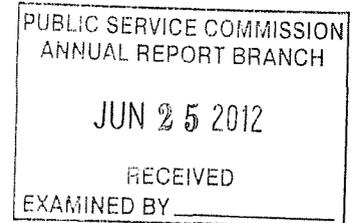
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Vickie C. Richardson, CPA, PSC
114 East High Street
Mount Sterling, KY 40353

INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Montgomery County Water District #1
Mt. Sterling, Kentucky



I have audited the accompanying financial statements of the Montgomery County Water District #1 (the District), component unit of Montgomery County Fiscal Court, 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. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Montgomery County Water District #1 as of December 31, 2011 and 2010, and the respective changes in the financial position, and, where applicable, 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*, I have also issued my report dated June 18, 2012, on my consideration of the District's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Commissioners
June 18, 2012
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 4 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide assurance on the information because the limited procedures do not provide me with the sufficient evidence to express an opinion or provide any assurance.

Vickie C. Richardson, CPA, PSC

June 18, 2012

This report contains 13 pages.

Montgomery County Water District #1
Management's Discussion and Analysis
For the years ended December 31, 2011 and 2010

Our discussion and analysis of the Montgomery County Water District #1 (the District) financial performance provides an overview of the District's financial activities for the fiscal years ended December 31, 2011 and 2010. Please review it in conjunction with the District's financial statements, which begin on page five.

FINANCIAL HIGHLIGHTS

- Total assets increased \$14,458 which represents a .73% increase from 2010. Total assets at December 31, 2011 are \$1,984,071 including \$1,728,964 of capital assets.
- Total liabilities increased \$7,387 which represents a 2.5% increase from 2010. Total liabilities at December 31, 2011 are \$296,388 including long term liabilities of \$182,000.
- Total fund equity increased \$7,071 which represents an .42% increase from 2010. Fund equity at December 31, 2011 is \$1,687,683.
- The District's revenues increased \$39,212 which represents a 14% increase from 2010. Grant income is reflected in the fund equity account, Contributed Capital. The amount of income from grants in 2011 and 2010, respectively, were \$8,213 and \$131,891.
- The District's expenses increased \$32,844 which represents an 11.6% increase from 2010.
- The District's expenses exceeded revenues by \$2,643.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the District's basic financial statements. The basic financial statements include a balance sheet, statement of activities, statement of changes in fund equity, statement of cash flows and notes to the financial statements.

BUDGET VERSUS ACTUAL RESULTS

	2011 <u>Budget</u>	2011 <u>Actual</u>	<u>Variance</u>
Revenues	\$327,000	\$322,119	\$ 4,881
Expenses	\$322,400	\$325,862	\$ (3,462)

CAPTIAL ASSETS

Property and equipment increased \$69,838 in 2011. The District started construction of an office building in 2010. The project was completed in 2011. As of the report date, the District has no plans for future projects.

Montgomery County Water District #1
Management's Discussion and Analysis
For the years ended December 31, 2011 and 2010

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Montgomery County Water District #1, 4412 Camargo Road, Mt. Sterling, KY 40353.

Gregory Wilson
Chairman

Montgomery County Water District #1
COMPARATIVE BALANCE SHEET
For the years ended December 31, 2011 and 2010

ASSETS		
	<u>2011</u>	<u>2010</u>
Current assets		
Cash	\$ 78,610	\$ 54,255
Accounts receivable	<u>29,049</u>	<u>31,480</u>
Total current assets	<u>107,659</u>	<u>85,735</u>
Restricted assets		
Cash – reserve accounts	147,448	163,051
Property and equipment		
Water system	2,535,530	2,363,825
Vehicle	18,027	18,027
Office equipment	41,768	24,089
Land	58,609	58,609
Construction in progress	<u>0</u>	<u>119,547</u>
	2,653,934	2,584,097
Less accumulated depreciation	<u>(924,970)</u>	<u>(863,270)</u>
Net property and equipment	<u>1,728,964</u>	<u>1,720,827</u>
Total assets	<u>\$1,984,071</u>	<u>\$1,969,613</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 50,067	\$ 48,278
Customer deposits	26,911	26,587
Accrued taxes	2,860	2,832
Accrued interest payable	5,335	0
Payable from restricted cash	215	304
Notes payable - current portion	<u>29,000</u>	<u>14,000</u>
Total current liabilities	<u>114,388</u>	<u>92,001</u>
Notes payable- long term	<u>182,000</u>	<u>197,000</u>
Total liabilities	<u>296,388</u>	<u>289,001</u>
Fund equity		
Contributed capital	2,028,735	2,019,022
Unrestricted net assets	<u>(341,052)</u>	<u>(338,410)</u>
Total fund equity	<u>1,687,683</u>	<u>1,680,612</u>
Total liabilities and fund equity	<u>\$1,984,071</u>	<u>\$1,969,613</u>

See accompanying notes.

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Montgomery County Water District #1
COMPARATIVE STATEMENT OF ACTIVITIES
For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenues		
User fees	\$ 298,860	\$ 265,498
Late charges	5,925	5,133
Reconnect fees	1,573	1,550
Miscellaneous	30	-0-
Jobbing & contract	<u>14,547</u>	<u>9,542</u>
Total revenues	<u>320,935</u>	<u>281,723</u>
Expenses		
Water purchased	93,740	94,000
Salaries, taxes and benefits	96,009	88,542
Professional Fees	5,185	250
Office expense	7,203	10,052
Insurance	6,725	5,506
Utilities	7,515	4,025
Legal and accounting	5,850	5,900
Water tests	2,180	2,265
Contract labor	4,890	6,676
Maintenance and repairs	13,008	2,989
Supplies	5,320	4,094
Depreciation	61,700	53,705
Advertising	536	684
Miscellaneous	<u>5,079</u>	<u>3,408</u>
Total operating expenses	<u>314,940</u>	<u>282,096</u>
Operating income	<u>5,995</u>	<u>(373)</u>
Nonoperating revenues (expenses)		
Gain on disposal of property	999	-0-
Interest income	1,285	1,887
Interest expense	<u>(10,922)</u>	<u>(11,589)</u>
Net nonoperating expenses	<u>(8,638)</u>	<u>(9,702)</u>
Net decrease in unrestricted net assets	<u>\$ (2,643)</u>	<u>\$ (10,075)</u>

See accompanying notes.

Montgomery County Water District #1
COMPARATIVE STATEMENT OF CHANGES IN FUND EQUITY
For the years ended December 31, 2011 and 2010

	<u>Net Assets</u>	<u>Contributed Capital</u>	<u>Total</u>
Balances, January 1, 2010	\$ (328,335)	\$ 1,882,630	\$ 1,554,295
Net decrease in unrestricted net assets	(10,075)		(10,075)
Grant revenue & tap on fees	<u> </u>	<u>136,392</u>	<u>136,392</u>
Balances, December 31, 2010 as previously reported	(338,410)	2,019,022	1,680,612
Net decrease in unrestricted net assets	(2,643)		(2,643)
Grant revenue & tap on fees	<u> </u>	<u>9,713</u>	<u>9,713</u>
Balances, December 31, 2011	<u>\$ (341,053)</u>	<u>\$ 2,028,735</u>	<u>\$1,687,682</u>

See accompanying notes.

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Montgomery County Water District #1
COMPARATIVE STATEMENT OF CASH FLOWS
For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Tap on fees	\$ 1,500	\$ 4,500
Grants	8,213	131,891
Receipts from customers	310,571	273,366
Jobbing and contract	15,304	13,074
Water purchased	(94,122)	(96,856)
Payments to and for employees	(98,946)	(88,940)
Payments to contractors and suppliers	<u>(60,629)</u>	<u>(37,856)</u>
Net cash provided by operating activities	<u>81,891</u>	<u>199,179</u>
Cash flows from investing activities:		
Capital expenditures	(69,838)	(125,731)
Insurance proceeds from disposed asset	999	0
Interest income	<u>1,285</u>	<u>1,887</u>
Net cash used by investing activities	<u>(67,554)</u>	<u>(123,844)</u>
Cash flows from financing activities:		
Interest expense	(5,585)	(11,589)
Note payments	<u>0</u>	<u>(14,000)</u>
Net cash used by financing activities	<u>(5,585)</u>	<u>(25,589)</u>
(Decrease)/increase in cash	8,752	49,746
Cash at beginning of year	<u>217,306</u>	<u>167,560</u>
Cash at end of year	<u><u>\$ 226,058</u></u>	<u><u>\$ 217,306</u></u>
Cash consists of:		
Cash - unrestricted	\$ 78,610	\$ 54,255
Cash - restricted	<u>147,448</u>	<u>163,051</u>
	<u><u>\$ 226,058</u></u>	<u><u>\$ 217,306</u></u>

See accompanying notes.

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Montgomery County Water District #1
COMPARATIVE STATEMENT OF CASH FLOWS-CONTINUED
For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Operating decrease in unrestricted net assets	\$ 5,995	\$ (372)
Adjustments to reconcile operating increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation	61,700	53,705
Tap on fees	1,500	4,500
Grants	8,213	131,891
(Increase)/decrease in accounts receivable	2,431	5,890
Increase/(decrease) in accounts payable	<u>2,052</u>	<u>3,565</u>
Net cash provided by operating activities	<u>\$ 81,891</u>	<u>\$ 199,179</u>

See accompanying notes.

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Montgomery County Water District #1
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Organization

Montgomery County Water District #1 (the District) is a public water utility which operates in Montgomery County, Kentucky, and its sales are to residential customers and business customers. The District was organized on April 1, 1961.

Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Montgomery County Water District #1.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria, there are no other organizations included in these financial statements.

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission (PSC) pursuant to KRS 278.040.

Basis of Accounting

The accrual basis of accounting is used for financial statement reporting purposes. Revenues are recorded when earned. Expenses are recorded when a liability is incurred

Cash and Cash Equivalents

The District considers all highly liquid investments with a maturity of twelve months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable consist of customer receivables. The amounts reflected in the financial statements are net of allowance for uncollectible accounts in the amount of \$.00 for December 31, 2011 and 2010.

Depreciation

Depreciation is applied using the straight-line basis over the estimated useful lives of the assets.

Montgomery County Water District #1
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2011

NOTE 1 - CONTINUED

Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH

Deposits (cash and certificates of deposit) are carried at cost, which approximates fair value. At December 31, 2011 the carrying amount of restricted and unrestricted deposits was \$226,058 and the bank balances were \$227,475.

The debt agreement with USDA Rural Development requires the following accounts be maintained by the District:

Revenue account - All operating funds received shall be deposited in this account. Funds will be transferred to other accounts as needed. The balances as of December 31, 2011 and 2010 were \$77,093 and \$32,075, respectively.

Operations and maintenance account - Monthly transfers are made into this account as needed. The Districts operating expenses are paid from this account. The balances as of December 31, 2011 and 2010 were \$1,417 and \$21,747, respectively.

Depreciation fund - The required balance in this account as of December 31, 2002 was \$26,000. As the balance of the loan with USDA Rural Development decreases, the required balance in the Depreciation fund also decreases. Only expenditures for capital improvements or extraordinary expenses are permitted to be paid from this fund and with approval from the Rural Development. The balances as of December 31, 2011 and 2010 were \$34,503 and \$34,357, respectively.

Bond and interest sinking fund - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. This fund is used to make the semi-annual interest payments and annual principal payments on the debt agreement with Rural Development. The balances as of December 31, 2011 and 2010 were \$112,945 and \$128,695, respectively.

Montgomery County Water District #1
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2011

NOTE 3 - NOTES PAYABLE

Notes payable as of December 31, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</u>
	<u>Current</u>	<u>Noncurrent</u>
USDA Rural Development, dated February 1, 1984, principal payment due each January, interest payments due January and July, interest rate of 5%	\$ 29,000	\$ 182,000
		\$ 14,000
		\$ 197,000

	<u>2011</u>	<u>2010</u>
Beginning Balance	\$ 211,000	\$ 225,000
Payments	-0-	14,000
New Loans	<u>-0-</u>	<u>-0-</u>
Ending Balance	<u>\$ 211,000</u>	<u>\$ 211,000</u>

Five-year maturities are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	29,000	15,185	44,185
2013	16,000	9,100	25,100
2014	17,000	8,300	25,300
2015	17,000	7,025	24,025
2016	18,000	6,300	24,300
Thereafter	<u>114,000</u>	<u>19,615</u>	<u>133,615</u>
Total	<u>\$ 211,000</u>	<u>\$ 65,525</u>	<u>\$ 276,525</u>

NOTE 4 - CHANGES IN FIXED ASSETS

	<u>2011</u>	<u>2010</u>
Beginning Balance	\$ 2,584,097	\$ 2,458,365
Additions:		
Land	0	0
Water system	52,159	0
Vehicle	0	0
Office equipment	<u>17,679</u>	<u>7,060</u>
Total additions	69,838	7,060
Disposals	0	0
Construction in progress	<u>0</u>	<u>118,672</u>
Ending balance	<u>\$ 2,653,935</u>	<u>\$ 2,584,097</u>

Montgomery County Water District #1
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2011

NOTE 5 - CONCENTRATIONS

The District is economically dependent on Mt. Sterling Water and Sewer System as the sole supplier of water. Water purchased from Mt. Sterling Water and Sewer System was \$93,740 and \$94,000 for the years ended December 31, 2011 and 2010, respectively.

NOTE 6 - PENSION PLAN

All of the District's employees are covered by the County Employees Retirement System (CERS), which is part of the Kentucky Retirement System. Employees participating in CERS contribute 5% of their gross wages and the District contributed 16.93 % through June 30, 2011 and 18.96 % through December 31, 2011. Total pension plan expense to the District as of December 31, 2011 and 2010 was \$12,004 and \$9,079, respectively. A Comprehensive Annual Financial Report on the Kentucky Retirement System may be requested from the following address:

Kentucky Retirement System
Perimeter Park West
1260 Louisville Road
Frankfort, KY 40601-6124

NOTE 7 - RISK MANAGEMENT

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

NOTE 8 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 18, 2012 the date on which the financial statements were issued.