



**West Shelby Water District**  
**Financial Statements**  
**December 31, 2011 and 2010**

**West Shelby Water District**

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December 31, 2011 and 2010

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## Independent Auditor's Report

To the Board of Directors  
**West Shelby Water District**

We have audited the accompanying financial statements of the business-type activities of West Shelby Water District ("District"), as of and for the year ended December 31, 2011; which collectively comprise the District's basic financial statements 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 did not audit the financial statements of West Shelby Water District for the year ended December 31, 2010. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion is based on the report of the other auditors. The prior year report was issued on February 8, 2011 and contained an unqualified opinion.

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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit 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 opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2011, and the changes in financial position and, cash flows thereof for the year 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 19, 2012 on our consideration of the 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 audit.

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## **Independent Auditor's Report (Continued)**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The Statement of Revenues, Expenses, and Changes in Net Assets – Actual to Budget is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements, as a whole.

*Montjoy Chilton Medley LLP*

Louisville, Kentucky  
**March 19, 2012**

**West Shelby Water District  
Management's Discussion and Analysis (Unaudited)  
December 31, 2011 and 2010**

As management of the West Shelby Water District (District), we offer the readers of the District's financial statements this narrative overview and analysis of the financial performance of the District for the fiscal year ended December 31, 2011. We encourage readers to read it in conjunction with the District's financial statements and the accompanying notes.

**Financial Highlights**

- Cash and cash equivalents increased \$200,145 (12%)
- Restricted cash increased \$6,162 (2%).
- Property, plant and equipment (net) decreased \$193,082 (2%)
- Accounts payable decreased \$22,528 (66%).
- Bonds payable decreased \$29,000 (3%).
- Notes payable decreased \$25,000 (6%).
- Net assets increased \$97,818 (1%)
- Operating revenues increased \$25,314 (2%)
- Operating expenses increased \$618 (0%)
- Operating income increased \$24,696 (26%)
- Non-operating revenues (expenses) (net) decreased \$22,093 (133%)
- Interest revenue decreased \$19,689 (42%)

**Overview of the Financial Statements**

This financial report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and the accompanying notes to the financial statements. The West Shelby Water District is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the District. These statements are presented in a manner similar to those of a private business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

**West Shelby Water District  
Management's Discussion and Analysis (Unaudited) (Continued)  
December 31, 2011 and 2010**

**Overview of the Financial Statements (Continued)**

The statement of cash flows provides relevant information about the cash receipts and cash payments of the District during the fiscal year. The statement should help users assess the District's ability to generate future net cash flows, meet future obligations as they become due, and assess the District's need for future external financing, the reasons for differences in operating and related cash receipts and cash payments, and the effects on financial position of cash and non-cash investing, capital, non-capital, and financing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 15-20.

**Financial Analysis of the District**

Condensed Financial Information  
Statement of Net Assets  
as of December 31

	<u>2011</u>	Percentage Increase (Decrease)	<u>2010</u>
Current assets	\$ 2,218,584	10.7%	\$ 2,003,690
Non-current assets	<u>9,397,131</u>	-2.1%	<u>9,595,990</u>
Total assets	<u>11,615,715</u>	0.1%	<u>11,599,680</u>
Current liabilities	180,797	-12.9%	207,580
Non-current liabilities	<u>1,219,000</u>	-4.3%	<u>1,274,000</u>
Total liabilities	<u>1,399,797</u>	-5.5%	<u>1,481,580</u>
Restricted	289,069	2.2%	282,907
Unrestricted	<u>9,926,849</u>	0.9%	<u>9,835,193</u>
Total net assets	<u>\$ 10,215,918</u>	1.0%	<u>\$ 10,118,100</u>

**West Shelby Water District  
Management's Discussion and Analysis (*Unaudited*) (Continued)  
December 31, 2011 and 2010**

**Financial Analysis of the District (Continued)**

**Current assets** consist primarily of operating cash, cash equivalents, short term certificate of deposits, and accounts receivables.

**Non-current assets** consist primarily of property, plant and equipment and cash balances restricted for capital construction and debt service.

**Current liabilities** consist primarily of accounts payable, accrued payroll liabilities and the current-portion of notes payables.

**Non-current liabilities** represent the non-current portion of bond and notes payables.

**West Shelby Water District  
Management's Discussion and Analysis (Unaudited) (Continued)  
December 31, 2011 and 2010**

**Financial Analysis of the District (Continued)**

Condensed Financial Information  
Statement of Revenues, Expenses and Change in Net Assets  
For the Fiscal Year Ended December 31

	<u>2011</u>	Percentage Increase (Decrease)	<u>2010</u>
Operating revenues:			
Sale of water	\$ 1,329,449	1.2%	\$ 1,313,257
Other revenues	34,488	36.0%	25,366
Total operating revenues	<u>1,363,937</u>	1.9%	<u>1,338,623</u>
Operating expenses:			
Operating	729,218	-2.1%	745,026
General and administrative	231,181	-4.8%	242,803
Depreciation and amortization	284,726	10.9%	256,678
Total operating expenses	<u>1,245,125</u>	0.0%	<u>1,244,507</u>
Income from operations	<u>118,812</u>	26.2%	<u>94,116</u>
Non-operating revenues (expenses)			
Interest earned	27,121	-42.1%	46,810
Proceeds from equipment sales	136	-97.3%	5,078
Interest expense	<u>(65,935)</u>	-3.7%	<u>(68,473)</u>
Non-operating (expenses)	<u>(38,678)</u>	133.2%	<u>(16,585)</u>
Excess revenue over expenses	80,134	3.4%	77,531
Changes in equity contribution			
Member tap on	17,184	110.8%	8,150
Grants		-100.0%	1,025,000
Member construction contribution	500	-85.7%	3,500
Total	<u>17,684</u>	-98.3%	<u>1,036,650</u>
Change in net assets	97,818	-91.2%	1,114,181
Net assets, beginning of year	<u>10,118,100</u>	12.4%	<u>9,003,919</u>
Net assets, end of year	<u>\$ 10,215,918</u>	1.0%	<u>\$ 10,118,100</u>

**West Shelby Water District  
Management's Discussion and Analysis (Unaudited) (Continued)  
December 31, 2011 and 2010**

**Financial Analysis of the District (Continued)**

**Sale of Water** represents revenues from providing water to residential, commercial, industrial, governmental, and multi-family customers.

**Other income** represents revenues for reconnect fees, forfeited discounts (late fees), and interest earned.

**Operating expenses** primarily represent the purchasing of water, personnel costs for maintenance staff, utilities, and repairs and maintenance.

**General and administrative** expenses primarily represent personnel costs for administrative staff, employee benefits, insurance, supplies and payroll taxes.

**Depreciation and amortization** expenses are related to the allocation of the usefulness of property, plant and equipment and the debt costs over the life time.

**Non-operating revenues (expenses)** consist primarily of interest revenue, interest expense, and gain (loss) on sale of property, plant and equipment.

During 2011 and 2010, the District's investments were primarily limited to certificate of deposits.

**West Shelby Water District  
Management's Discussion and Analysis (Unaudited) (Continued)  
December 31, 2011 and 2010**

**Financial Analysis of the District (Continued)**

Condensed Financial Information

Statement of Cash Flows

For the Fiscal Year Ended December 31

	<u>2011</u>	Percentage Increase (Decrease)	<u>2010</u>
Net Cash provided by (used in):			
Operating activities	\$ 362,482	-8.0%	\$ 393,916
Capital and related financing activities	(192,399)	55.0%	(427,421)
Investing activities	<u>30,062</u>	-106.9%	<u>(434,505)</u>
Net change in cash and cash equivalents	200,145	-142.8%	(468,010)
Cash and cash equivalents, beginning of year	<u>1,673,548</u>	-21.9%	<u>2,141,558</u>
Cash and cash equivalents, end of year	<u>\$ 1,873,693</u>	12.0%	<u>\$ 1,673,548</u>

The net increase in cash and cash equivalents totaled \$200,145 at December 31, 2011, primarily due to the net income for the year.

**West Shelby Water District  
Management's Discussion and Analysis (Unaudited) (Continued)  
December 31, 2011 and 2010**

**Capital Assets Administration**

The following table summarizes the changes in net capital assets between fiscal years 2011 and 2010.

	<u>2011</u>	Percentage Increase (Decrease)	<u>2010</u>
Transmission and distribution plant	\$ 11,427,916	0.6%	\$ 11,362,465
General plant	685,342	2.7%	667,391
Accumulated depreciation	<u>(3,349,395)</u>	9.0%	<u>(3,072,911)</u>
	<u>\$ 8,763,863</u>	-2.2%	<u>\$ 8,956,945</u>

**Debt Administration**

The following table summarizes the outstanding obligations under revenue bonds payable and capital leases as December 31, 2011, and 2010.

	<u>2011</u>	Percentage Increase (Decrease)	<u>2010</u>
Bonds payable	\$ 819,000	-3.4%	\$ 848,000
Notes payable	<u>426,000</u>	-5.5%	<u>451,000</u>
	<u>\$ 1,245,000</u>	-4.2%	<u>\$ 1,299,000</u>

**Contacting The District's Financial Management**

This financial report is designed to provide a general overview of the District's finances for all of those with an interest. If you have any questions concerning the information provided in this report or need additional financial information, contact the West Shelby Water District, 7101 Shelbyville Road, Simpsonville, Kentucky 40067.

**West Shelby Water District  
Statements of Net Assets  
December 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 1,873,693	\$ 1,673,548
Certificate of Deposits - current portion	147,513	146,037
Accounts receivable	92,130	88,986
Inventory - materials and supplies	84,470	84,827
Prepaid expenses and other	<u>20,778</u>	<u>10,292</u>
Total Current Assets	2,218,584	2,003,690
Non-Current Assets		
Certificate of Deposits - long term	334,765	345,344
Restricted cash and cash equivalents	289,069	282,907
Property, plant and equipment net of accumulated depreciation	8,763,863	8,956,945
Debt costs, net of accumulated amortization	<u>9,434</u>	<u>10,794</u>
Total Non-current Assets	<u>9,397,131</u>	<u>9,595,990</u>
Total Assets	<u>\$ 11,615,715</u>	<u>\$ 11,599,680</u>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable	\$ 11,506	\$ 34,034
Accounts payable from restricted fund	47,004	47,003
Accrued interest - customers deposits	276	442
Customer deposits	82,259	86,409
Accrued taxes and payroll liabilities	13,752	14,692
Notes payable, current portion	<u>26,000</u>	<u>25,000</u>
Total Current Liabilities	180,797	207,580
Non-current Liabilities		
Bonds payable, long-term portion	819,000	848,000
Notes payable, long-term portion	<u>400,000</u>	<u>426,000</u>
Total Non-Current Liabilities	<u>1,219,000</u>	<u>1,274,000</u>
Total Liabilities	<u>1,399,797</u>	<u>1,481,580</u>
Net Assets		
Restricted for capital construction and debt payments	289,069	282,907
Unrestricted net assets	<u>9,926,849</u>	<u>9,835,193</u>
Total Net Assets	<u>10,215,918</u>	<u>10,118,100</u>
Total Liabilities and Net Assets	<u>\$ 11,615,715</u>	<u>\$ 11,599,680</u>

See accompanying notes.

**West Shelby Water District**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**December 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Revenue from sale of water		
Residential customers	\$ 712,196	\$ 710,570
Industrial customers	331,167	292,516
Commercial customers	156,146	164,658
Private fire protection	51,691	48,396
Public authorities	48,902	67,276
Multi-family dwellings	29,347	29,841
Total sale of water	<u>1,329,449</u>	<u>1,313,257</u>
Other revenue		
Forfeited discounts	18,641	11,318
Miscellaneous revenue	15,847	14,048
Total other revenues	<u>34,488</u>	<u>25,366</u>
 Total revenues	 1,363,937	 1,338,623
Operating expenses		
Water purchased	510,686	498,518
Salaries	165,433	176,064
Maintenance materials and supplies	29,594	40,893
Power-pumping equipment	18,359	21,755
Operating supplies and expenses	5,146	7,796
Total operating expenses	<u>729,218</u>	<u>745,026</u>
Administrative and general		
Salaries	44,386	46,064
Employee retirement	37,331	48,169
Employee insurance	26,419	23,622
Legal and accounting	21,533	17,721
Commissioners fees	18,000	17,600
Truck and equipment expenses	17,837	15,575
Payroll taxes	14,639	15,930
Insurance	14,528	21,255
Miscellaneous	11,471	9,513
Office supplies and revenue	10,234	13,096
Utilities	9,177	9,773
Rent	2,262	2,251
Employee uniforms	1,781	-
Travel	1,256	484
Interest on customer deposits	327	818
Uncollectible revenue	-	932
Total administrative and general	<u>231,181</u>	<u>242,803</u>

See accompanying notes.

**West Shelby Water District**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**(Continued)**  
**December 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Other operating deductions		
Depreciation	283,366	255,248
Amortization	1,360	1,430
Total other operating deductions	<u>284,726</u>	<u>256,678</u>
Total expenses	<u>1,245,125</u>	<u>1,244,507</u>
Total operating income	118,812	94,116
Non-operating Revenues (Expenses)		
Interest earned	27,121	46,810
Gain on sale	136	5,078
Interest on long-term debt	<u>(65,935)</u>	<u>(68,473)</u>
Total Non-operating Revenues (Expenses)	<u>(38,678)</u>	<u>(16,585)</u>
Excess revenue over expenses	80,134	77,531
Changes in equity contribution		
Member tap on	17,184	8,150
Grants	-	1,025,000
Member construction contribution	<u>500</u>	<u>3,500</u>
Total changes in equity contribution	<u>17,684</u>	<u>1,036,650</u>
Change in Net Assets	97,818	1,114,181
Total Net Assets, Beginning of Year	<u>10,118,100</u>	<u>9,003,919</u>
Total Net Assets, End of Year	<u>\$ 10,215,918</u>	<u>\$ 10,118,100</u>

See accompanying notes.

**West Shelby Water District  
Statements of Cash Flows  
December 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 1,356,668	\$ 1,332,079
Cash payments to suppliers for goods and services	(730,689)	(716,036)
Cash payments for employee salaries and benefits	<u>(263,497)</u>	<u>(222,127)</u>
Net Cash Provided by Operating Activities	362,482	393,916
Cash Flows from Capital and Related Financing Activities		
Grants	-	1,025,000
Acquisition and construction of capital assets	(90,284)	(1,349,607)
Gain on sale of assets	136	5,078
Principal payments on bonds and notes payable	(54,000)	(51,000)
Member construction contributions	500	3,500
Member tap fees	17,184	8,150
Interest payments on long-term debt	<u>(65,935)</u>	<u>(68,542)</u>
Net Cash Used in Capital & Related Financing Activities	(192,399)	(427,421)
Cash Flows from Investing Activities		
Interest received	27,121	46,810
Reclassified certificate of deposits as short term		(146,037)
Reclassified certificate of deposits as long term		(345,344)
Decrease (increase) in short term certificate of deposits	(1,476)	-
Decrease (increase) in long term certificate of deposits	10,579	-
Decrease (increase) in restricted cash and cash equivalents	<u>(6,162)</u>	<u>10,066</u>
Net Cash Provided by (Used in) Investing Activities	<u>30,062</u>	<u>(434,505)</u>
Net Increase (Decrease) in Cash & Cash Equivalents	200,145	(468,010)
Cash and Cash Equivalents, Beginning of Year	<u>1,673,548</u>	<u>2,141,558</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,873,693</u></u>	<u><u>\$ 1,673,548</u></u>

See accompanying notes.

**West Shelby Water District**  
**Statements of Cash Flows (Continued)**  
**December 31, 2011 and 2010**

Reconciliation of Operating Income to Net Cash

Provided by Operating Activities		
Operating income	\$ 118,812	\$ 94,116
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	284,726	256,678
Accounts receivable	(3,144)	(6,544)
Inventories	357	658
Prepaid expenses	(10,486)	671
Accounts payable	(22,528)	12,099
Accounts payable - construction	1	23,427
Accrued interest - customer deposits	(166)	54
Accrued taxes and payroll liabilities	(940)	1,460
Customer deposits	(4,150)	11,297
	<u>          </u>	<u>          </u>
Net Cash Provided by Operating Activities	<u>\$ 362,482</u>	<u>\$ 393,916</u>

See accompanying notes.

**West Shelby Water District  
Notes to Financial Statements  
December 31, 2011 and 2010**

**Note A - Nature of Organization and Operations**

The District was established by order of the Shelby County Fiscal Court on March 10, 1964. The District was established to develop and operate a complete water supply and distribution system, which services parts of Shelby County.

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

1. Basis of Presentation: The accompanying financial statements have been prepared as an enterprise fund. Enterprise funds are designed to accumulate the total cost of providing a particular service and to indicate the extent user charges are sufficient to cover these costs. Customer meters are read and billed monthly at which time the receivable is recorded and revenue is recognized. No provision has been made for doubtful accounts due to the amount determined to be uncollectible. The West Shelby Water District (District) uses the accrual basis of accounting for financial accounting and reporting purposes.
2. Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.
3. Statement of Cash Flows: For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash paid for interest was \$65,935 and \$68,473 for the years ended December 31, 2011 and December 31, 2010, respectively.
4. Inventory: Inventories are stated at the lower of cost or market based on first-in first-out method.
5. Property, Plant and Equipment: Property, plant and equipment are capitalized and recorded at cost. The District does not have a formal capitalization policy. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following is a summary of the estimated useful lives used in computing depreciation:

Buildings and improvements	5-50 years
Machinery, equipment and leasehold improvements	5-25 years
Furniture and fixtures	5-25 years

Depreciation expense for the years ended December 31, 2011 and 2010 was \$283,366 and \$255,248, respectively.

6. Unamortized Debt Costs: Debt issuance costs are deferred and amortized over the life of the bonds, utilizing the bonds outstanding balance, which approximates the effective interest method. Amortization expense was \$1,360 and \$1,430 for the years ended December 31, 2011 and 2010, respectively.

**West Shelby Water District  
Notes to Financial Statements (Continued)  
December 31, 2011 and 2010**

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

7. Customer Deposits: Interest is accrued at a rate no greater than the District receives on cash investments and at no time greater than 6% annually.
8. New Customers: New service connection fees and construction contributions are recorded as an addition to equity. The cost of installation of the new service is recorded as an addition to plant assets and is subject to depreciation.
9. Accumulated vacation and sick leave: On January 13, 1995, the Commissioners adopted a formal policy relating to vacation and sick leave. Vacation is earned at rates varying from one to ten days per year depending on the length of service. Sick leave accrues at the rate of 1/2 day for every month employed or six days per year and shall accumulate to a maximum of 20 days. No accrual is necessary as a limited number of personnel are employed.
10. Retirement System: All full time employees on a regular basis are provided retirement through the County Employees Retirement System.
11. Subsequent Events: Subsequent events for the District have been considered through the date of the Independent Auditor's Report which represents the date the financial statements were available to be issued.

**Note C - Concentration of Credit Risk**

At December 31, 2011 and 2010 the carrying amount of the District's cash and cash investments were \$2,645,040 and \$2,447,836 respectively. All cash investments and bank balances were collateralized by federal depository insurance up to \$250,000 and other securities pledged by the financial institutions.

**Note D - Construction in progress**

At December 31, 2011 and 2010, the District had \$0 and \$29,460, respectively of construction projects in progress at year end.

**Note E - Investments**

The District reports investments utilizing a fair value hierarchy that prioritizes the inputs (from the most objective to the most subjective) to the valuation techniques used to measure fair value into the three broad levels described as follows:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that an entity has the ability to access as of the measurement date, or observable inputs.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

**West Shelby Water District  
Notes to Financial Statements (Continued)  
December 31, 2011 and 2010**

**Note E – Investments (Continued)**

	Level 1	Level 2	Level 3	Total
Assets:				
December 31, 2011				
Certificate of Deposits	<u>\$ 482,278</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 482,278</u>
	<u><u>\$ 482,278</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 482,278</u></u>
Assets:				
December 31, 2010				
Certificate of Deposits	<u>\$ 491,381</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 491,381</u>
	<u><u>\$ 491,381</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 491,381</u></u>

Investments securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the values of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statement of financial position and statement of activities.

**Note F - Restricted Cash and Cash Equivalents**

	<u>2011</u>	<u>2010</u>
Depreciation fund	\$ 190,083	\$ 183,547
Construction fund	49,530	49,531
Sinking fund	<u>49,456</u>	<u>49,829</u>
	<u><u>\$ 289,069</u></u>	<u><u>\$ 282,907</u></u>

Restricted cash and cash equivalents include construction fund accounts and two debt service reserve fund (Depreciation and sinking).

The construction fund is being used for current and future construction projects. Customer contributions and unexpended bond proceeds are carried in this fund. The depreciation and sinking funds are debt reserve funds for the notes and bond payable.

**West Shelby Water District**  
**Notes to Financial Statements (Continued)**  
**December 31, 2011 and 2010**

**Note G - Property, Plant and Equipment**

Property, plant and equipment consist of the following components:

	Balance 2010	Additions	Deletions	Balance 2011
<b>Business-Type Activities</b>				
<b>Transmission and Distribution Plant</b>				
Land and land right	\$ 127,248	\$	\$	\$ 127,248
Pumping equipment	440,922			440,922
Water treatment equipment	7,548			7,548
Standpipes	2,211,058			2,211,058
Transmission and distribution mains	7,401,675	69,232		7,470,907
Services and meters	775,781	25,679		801,460
Hydrants	348,886			348,886
Other plan equipment	19,887			19,887
Construction in progress	29,460		(29,460)	-
Total	11,362,465	94,911	(29,460)	11,427,916
Less: accumulated depreciation	(2,785,318)	(247,662)		(3,032,980)
Total Transmission and Distribution Plant	8,577,147	(152,751)	(29,460)	8,394,936
<b>General Plant</b>				
Office furniture and equipment	79,751	19,428	(6,882)	92,297
Buildings	372,161	875		373,036
Transportation equipment	150,450			150,450
Tools, shop and garage equipment	58,413	4,530		62,943
Laboratory equipment	373			373
Communication equipment	6,243			6,243
Total	667,391	24,833	(6,882)	685,342
Less: accumulated depreciation	(287,593)	(35,704)	6,882	(316,415)
Total General Plant	379,798	(10,871)		368,927
Capital Assets, net	\$ 8,956,945	\$ (163,622)	\$ (29,460)	\$ 8,763,863

**Note H – Retirement Plan**

The District has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent from January 1, 2010 – June 30, 2011; 16.93 percent from July 1, 2010 – June 30, 2011; and 18.96 percent from July 1, 2011 – December 31, 2011. The District's contribution for the years ended June 30, 2011 and 2010 were \$37,331 and \$48,169, respectively.

**West Shelby Water District  
Notes to Financial Statements (Continued)  
December 31, 2011 and 2010**

**Note H -- Retirement Plan (Continued)**

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note I - Bonds Payable**

The bond payable is the amount due Rural Economic & Community Development for long term financing as follows at December 31, 2011:

Bonds dated October 18, 1978 for \$300,000 with interest at 5%	\$ 94,000
Bonds dated January 11, 2001 for \$835,000 with interest at 5%	<u>725,000</u>
Total bonds outstanding	<u>\$819,000</u>

The payments for 2012 that were due on January 1, 2012 were paid prior to December 31, with the exception of the interest on the 1978 issue. The balance at December 31, 2010 was \$848,000. During 2011, \$29,000 of principal payments were made, which leaves an outstanding balance of \$819,000 at December 31, 2011. Future maturities of bonds are as follows:

	Principal 1978 Issue	Interest 1978 Issue	Principal 2001 Issue	Interest 2001 Issue	Total
2012	\$ -	\$ 4,700	\$ -	\$ -	\$ 4,700
2013	18,000	3,800	13,000	36,250	71,050
2014	18,000	2,900	14,000	35,600	70,500
2015	18,000	2,000	15,000	34,900	69,900
2016	20,000	750	15,000	34,150	69,900
2017-2021	20,000	250	89,000	158,500	267,750
2022-2026			114,000	133,900	247,900
2027-2031			145,000	102,450	247,450
2032-2036			185,000	62,500	247,500
2037-2040			135,000	13,700	148,700
	<u>\$ 94,000</u>	<u>\$ 14,400</u>	<u>\$ 725,000</u>	<u>\$ 611,950</u>	<u>\$ 1,445,350</u>

All properties and assets, both real and personnel, and revenues are pledged to secure these loans.

**West Shelby Water District**  
**Notes to Financial Statements (Continued)**  
**December 31, 2011 and 2010**

**Note J – Notes Payable**

A loan was obtained through Kentucky Rural Water Financing Corporation on June 27, 2001 in the amount of \$626,000. This money was used to redeem the January 18, 1990 USDA-RD bonds outstanding in the amount of \$603,000. The balance at December 31, 2010 was \$451,000. During 2011, \$25,000 of principal payments were made, which leaves an outstanding balance of \$426,000 at December 31, 2011.

Future maturities are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 26,000	\$ 22,192	\$ 48,192
2013	28,000	20,802	48,802
2014	29,000	19,279	48,279
2015	32,000	17,594	49,594
2016	33,000	15,799	48,799
2017-2021	196,000	48,857	244,857
2022-2023	82,000	3,770	85,770
	<u>\$ 426,000</u>	<u>\$ 148,293</u>	<u>\$ 574,293</u>

**Note K -- Revenue from sale of water**

The following is a statistical analysis of water purchased, sold, and unbilled.

	<u>Water Purchased</u>		<u>Water Sold</u>		<u>Water Unbilled</u>
	<u>Gallons Cost/1000</u>		<u>Gallons Sold/1000</u>		
2011	279,901,600	\$ 1.837	253,163,100	\$ 5.250	26,738,500
2010	282,987,000	\$ 1.763	260,177,300	\$ 5.047	22,809,700
2009	265,008,400	\$ 1.744	243,268,300	\$ 4.754	21,740,100
2008	272,007,172	\$ 1.726	254,467,500	\$ 4.720	17,539,672
2007	260,070,600	\$ 1.710	231,070,600	\$ 4.630	29,000,000

**Note L -- Reclassifications**

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation. The reclassifications had no affect on net assets or the results of operations.

**Supplementary Information**

**West Shelby Water District**

**Statement of Revenues, Expenses and Changes in Net Assets - Actual to Budget**

**December 31, 2011**

	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
Revenue from sale of water			
Residential customers	\$ 712,196	\$ 675,000	\$ 37,196
Industrial customers	331,167	283,000	48,167
Commercial customers	156,146	159,000	(2,854)
Private fire protection	51,691	46,000	5,691
Public authorities	48,902	65,000	(16,098)
Multi-family dwellings	29,347	30,000	(653)
Total sale of water	<u>1,329,449</u>	<u>1,258,000</u>	<u>71,449</u>
Other revenue			
Forfeited discounts	18,641	14,000	4,641
Miscellaneous revenue	15,847	10,000	5,847
Total other revenues	<u>34,488</u>	<u>24,000</u>	<u>10,488</u>
 Total revenues	 1,363,937	 1,282,000	 81,937
Operating and maintenance expenses			
Water Purchased	510,686	470,000	(40,686)
Salaries	209,819	219,000	9,181
Employee retirement, insurance and uniforms	65,531	65,000	(531)
Maintenance materials, operating and office supplies	44,974	44,000	(974)
Legal and accounting	21,533	24,000	2,467
Miscellaneous and utilities	20,975	51,000	30,025
Truck, equipment and travel expenses	19,093	16,000	(3,093)
Power - pumping equipment	18,359	22,000	3,641
Commissioners expense	18,000	18,000	-
Insurance	14,528	22,000	7,472
Rent expense	2,262	-	(2,262)
Total operations and maintenance	<u>945,760</u>	<u>951,000</u>	<u>5,240</u>
Other operating deductions			
Depreciation	283,366	254,000	(29,366)
Amortization	1,360	1,500	140
Payroll taxes	14,639	12,000	(2,639)
Total other operating deductions	<u>299,365</u>	<u>267,500</u>	<u>(31,865)</u>
Total expenses	<u>1,245,125</u>	<u>1,218,500</u>	<u>(26,625)</u>
 Total operating income	 118,812	 63,500	 (55,312)

**West Shelby Water District****Statement of Revenues, Expenses and Changes in Net Assets - Actual to Budget****(Continued)****December 31, 2011**

	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
Non-operating Revenues (Expenses)			
Interest earned	27,121	36,000	(8,879)
Gain on sale	136	-	136
Interest on long-term debt	(65,935)	(70,600)	4,665
Total Non-operating Revenues (Expenses)	<u>(38,678)</u>	<u>(34,600)</u>	<u>(4,078)</u>
Excess revenue over expenses	80,134	28,900	51,234
Changes in equity contribution			
Member tap on	17,184	-	17,184
Grants	-	-	-
Member construction contribution	500	100,000	(99,500)
Total changes in equity contribution	<u>17,684</u>	<u>100,000</u>	<u>(82,316)</u>
Change in Net Assets	97,818	128,900	(31,082)
Total Net Assets, Beginning of Year	<u>10,118,100</u>	<u>10,118,100</u>	<u>-</u>
Total Net Assets, End of Year	<u>\$ 10,215,918</u>	<u>\$ 10,247,000</u>	<u>(31,082)</u>



**Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of the Financial  
Statement Performed in Accordance with Government Auditing Standards**

To the Board of Directors  
**West Shelby Water District**

We have audited the financial statements of the West Shelby Water District (District) as of and for the year ended December 31, 2011, and have issued our report thereon dated March 19, 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 the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 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 weakness, as defined above.

**Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of the Financial  
Statement Performed in Accordance with Government Auditing Standards (Continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free 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 the members of the Board of West Shelby Water District, management, other within the entity, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is unlimited.

*Mountjoy Chilton Medley LLP*

Louisville, Kentucky  
March 19, 2012