

# CHRISTIAN COUNTY WATER DISTRICT

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Water Commissioners

Ashbel Brunson  
Chairman

Steve Hunt  
Secretary

J. David Johnson  
Treasurer

Barbara Morris

Ronald Adams

June 2, 2011

Linda Faulkner  
Director of Filing  
Public Service Commission  
211 Sower Blvd.  
Frankfort, KY. 40602-0615

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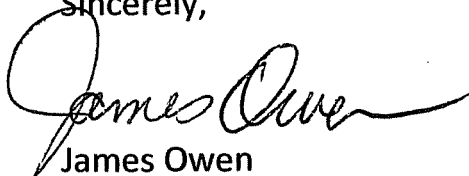
PUBLIC SERVICE  
COMMISSION

RE: Case No. 2008-00149

Enclosed, please find the 2009/2010 Income Statement and the 2009/2010 Statements of Revenues, Expenses and Net Changes, with notes, prepared by the Water District's auditors.

Should you need any additional information, please feel free to contact us.

Sincerely,



James Owen  
General Manager

**Christian County Water District  
Income Statement**

Current Year: 2010  
 Comparative Year: 2009  
 Period: December  
 Period Begin: 12/01/10  
 Period End: 12/31/10

Account	Title	Current Period	Comparative Period	% Variance	Current YTD Balance	Comparative YTD Balance	% Variance
Water Sales		\$0.00	\$191,112.19	-100	3,186,665.75	2,803,865.88	14
Other Revenues		\$0.00	\$9,928.65	-100	101,114.01	98,329.72	3
<b>Total Revenues</b>		<b>\$0.00</b>	<b>\$201,040.84</b>	<b>-100</b>	<b>3,287,779.76</b>	<b>2,902,195.60</b>	<b>13</b>
<b>Operating Expenses:</b>							
Water Purchased		\$0.00	\$13,807.84	-100	1,127,011.12	731,647.65	54
Electricity for Pumping		\$0.00	\$5,526.74	-100	65,607.24	71,580.69	-8
Depreciation		\$0.00	\$42,103.63	-100	529,227.18	457,109.76	16
Insurance		\$0.00	\$15,987.58	-100	150,606.68	141,014.14	7
Professional Services		\$0.00	\$1,165.36	-100	38,273.48	45,168.49	-15
Maintenance & Repair		\$0.00	(\$72,677.22)	-100	103,967.39	23,801.74	337
Office Supplies & Exp		\$0.00	\$9,549.53	-100	102,953.77	83,607.73	23
Operating Materials &		\$0.00	\$3,324.86	-100	29,701.16	35,300.23	-16
Payroll Taxes & Fringe		\$0.00	\$8,216.91	-100	119,125.08	108,768.56	10
Salaries		\$0.00	\$33,467.85	-100	525,683.75	500,158.26	5
Transportation Expense		\$0.00	\$4,606.36	-100	48,726.58	33,305.92	46
Rental Expense		\$0.00	\$0.00	N/A	570.50	200.00	185
<b>Operating Income</b>		<b>\$0.00</b>	<b>\$135,961.40</b>	<b>-100</b>	<b>446,325.83</b>	<b>670,532.43</b>	<b>-33</b>
<b>Non-operating Revenue (expense):</b>							
Interest Income		\$0.00	\$2,596.59	-100	27,189.46	25,869.72	5
Amortization of Bond		\$0.00	(\$4,412.77)	-100	(5,880.22)	(8,862.77)	-34
Interest Expense		\$0.00	(\$104,160.13)	-100	(587,150.08)	(412,461.28)	42
Unrealized Gain/Loss		\$0.00	(\$15,261.29)	-100	1,102.56	2,359.89	-53
Gain/Loss on Dispos		\$0.00	(\$542,182.94)	-100	(325,927.19)	(542,182.94)	-40
Relocation Income		\$0.00	\$0.00	N/A	10,125.00	11,587.96	-13
Relocation Expense		\$0.00	\$0.00	N/A	(4,725.00)	(11,587.96)	-59
<b>Income (loss) before capital grants and contr</b>		<b>\$0.00</b>	<b>(\$527,459.14)</b>	<b>-100</b>	<b>(438,939.64)</b>	<b>(264,744.95)</b>	<b>66</b>

Account	Title	Current Period	Comparative Period	% Variance	Current YTD Balance	Comparative YTD Balance	% Variance
	Revenues from Contr	\$0.00	(\$19,159.57)	-100	510,847.73	454,866.87	12
	Net Income	\$0.00	(\$546,618.71)	-100	71,908.09	190,121.92	-62

**CHRISTIAN COUNTY WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
Operating revenues:		
Water sales	\$ 3,186,666	\$ 2,803,866
Other revenues	101,114	98,330
	3,287,780	2,902,196
Operating expenses:		
Water purchased	1,127,011	731,648
Depreciation	529,227	457,110
Salaries	525,684	500,158
Maintenance and repairs	79,420	44,248
Insurance	150,607	141,014
Rental expense	571	200
Electricity for pumping	65,607	71,581
Professional services	38,273	45,168
Office supplies and expense	93,068	83,608
Operating materials and supplies	29,701	35,301
Payroll taxes and fringe benefits	119,125	108,769
Transportation expenses	48,727	33,306
	2,807,021	2,252,111
Operating income	480,759	650,085
Nonoperating revenue (expense):		
Interest and dividend income	27,189	25,870
Gain (loss) on disposal of assets	(325,926)	(542,183)
Write-up (down) of inventory	(24,548)	20,446
Interest expense	(588,618)	(412,911)
Relocation income	10,125	11,588
Relocation expense	(4,725)	(11,588)
Reimbursement	(9,886)	-
Amortization of bond issuance costs	(4,413)	(4,413)
Unrealized gain (loss) on investments	1,103	2,360
	(919,699)	(910,831)
Income (loss) before capital grants and contributions	(438,940)	(260,746)
Capital grants and contributions	510,848	454,867
Change in net assets, carried forward	\$ 71,908	\$ 194,121

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

**CHRISTIAN COUNTY WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS, continued**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Change in net assets, brought forward	\$ 71,908	\$ 194,121
Net assets, beginning of year	<u>8,537,291</u>	<u>8,343,170</u>
Net assets, end of year	<u>\$ 8,609,199</u>	<u>\$ 8,537,291</u>

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

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Compensated Absences

Full-time permanent employees and part-time employees with six months continuous service are granted vacation benefits in varying amounts to specified maximums depending on tenure with the District. A carry over of a maximum of eight vacation days is allowed. Sick leave accrues to full-time permanent employees to a specified maximum of 120 days. For employees with hire dates prior to January 1, 1987, accrued sick leave is paid in full to the 120 day maximum upon retirement or separation after twenty years of service. For employees with a hire date subsequent to January 1, 1987, upon retirement the employee may transfer accumulated sick leave up to 120 days to the employer for retirement credit only. The District shall purchase retirement service credit in an amount equal to the unused sick leave of said employee.

Revenues and Expenses

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services, producing, and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

**NOTE 2 – CASH AND INVESTMENTS**

The carrying amounts of the District's deposits with financial institutions were \$1,628,072 and \$1,635,218, and the bank balances were \$1,697,703 and \$1,655,720 as of December 31, 2010 and 2009, respectively.

Custodial Credit Risk

For deposits, custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District does not have a policy regarding custodial credit risk.

2010

The District's deposits were uncollateralized for the month of December 2010 in the amount of \$43,340. The District's deposits were entirely covered by federal depository insurance or by collateral held by the District's agent in the District's name for all other months of the year ending December 31, 2010.

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

**NOTE 2 – CASH AND INVESTMENTS, continued**

2009

The District's deposits were uncollateralized for the month of December 2009 in the amount of \$41,195. The District's deposits were entirely covered by federal depository insurance or collateral held by the District's agent in the District's name for the remaining months of the year ended December 31, 2009.

For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. KRS 66.480 permits the District to invest in U.S. Treasury obligations, U.S. Agency obligations, certain federal instruments, repurchase agreements, commercial bank certificates of deposit, savings and loan deposits, and the Commonwealth of Kentucky investment pool.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. For the purpose of implementing Governmental Accounting Standards Statement 9, the District has defined cash and cash equivalents as cash, certificates of deposit, and repurchase agreements with an original maturity when purchased of three months or less.

The District's cash and investments (unrestricted and restricted) at year-end are presented below.

	2010	2009
Cash	\$ 1,593,727	\$ 1,520,988
Investments	435,178	461,799
Petty cash	975	975
	<u>Carrying</u>	<u>Fair</u>
	<u>Amount</u>	<u>Value</u>
2010		
Mortgage-backed securities	\$ 399,343	\$ 399,343
Money market funds	1,490	1,490
Certificates of deposit	<u>34,345</u>	<u>34,345</u>
Total investments	<u>\$ 435,178</u>	<u>\$ 435,178</u>
2009		
Mortgage-backed securities	\$ 346,529	\$ 346,529
Money market funds	1,040	1,040
Certificates of deposit	<u>114,230</u>	<u>114,230</u>
Total investments	<u>\$ 461,799</u>	<u>\$ 461,799</u>

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

**NOTE 3 – PROPERTY, PLANT AND EQUIPMENT**

The water supply and distribution system is classified at December 31, 2010 as follows:

	<u>Balance 12/31/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/10</u>
Utility plant not depreciated:				
Land and land rights	\$ 102,556	\$ 15,964	\$ -	\$ 118,520
Construction work in progress	<u>87,550</u>	<u>157,076</u>	<u>(79,550)</u>	<u>165,076</u>
Total utility plant not depreciated	<u>190,106</u>	<u>173,040</u>	<u>(79,550)</u>	<u>283,596</u>
Utility plant depreciated:				
Structures and improvements	314,192	-	-	314,192
Supply mains	33,672	-	-	33,672
Pumping equipment	925,093	-	-	925,093
Water treatment equipment	13,170	-	(2,470)	10,700
Distribution reservoirs	2,948,989	85,800	-	3,034,789
Transmission mains	15,153,831	74,742	(721)	15,227,852
Services	249,617	-	-	249,617
Meters	1,260,727	238,130	(428,450)	1,070,407
Hydrants	818,734	6,284	-	825,018
Office equipment	146,912	19,754	(71,063)	95,603
Vehicles	258,879	29,191	(32,256)	255,814
Tools and miscellaneous	<u>255,998</u>	<u>138,506</u>	<u>(98,719)</u>	<u>295,785</u>
Total utility plant depreciated	22,379,814	592,407	(633,679)	22,338,542
Less: Accumulated depreciation	<u>(5,719,089)</u>	<u>(529,227)</u>	<u>301,553</u>	<u>(5,946,763)</u>
Total utility plant depreciated, net	<u>16,660,725</u>	<u>63,180</u>	<u>(332,126)</u>	<u>16,391,779</u>
Total utility plant	<u>\$16,850,831</u>	<u>\$ 236,220</u>	<u>\$ (411,676)</u>	<u>\$16,675,375</u>



**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

**NOTE 3 – PROPERTY, PLANT AND EQUIPMENT, continued**

Construction in progress amounted to \$165,076 and \$87,550 at December 31, 2010 and 2009, respectively. The December 31, 2010 and 2009 balances are represented by the following:

	2010	2009
Roadline extensions	\$ 44,057	\$ 800
Tank upgrades	-	78,751
Phase VII project	7,719	-
Office building	105,300	-
Future projects research	8,000	8,000
	\$ 165,076	\$ 87,551

The District's new office building is under construction with total expenditures of \$105,300 as of December 31, 2010. The total cost of the building is estimated at \$700,000 which includes construction and furniture and fixtures. Funding for the building is to come from State KIA funds of approximately \$60,000 and federal grant funds of approximately \$485,000 with the remainder to be paid from the District's depreciation contingency fund. Construction is expected to be completed by September 30, 2011.

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

**NOTE 4 – LONG-TERM DEBT**

1. Revenue Bonds

The District has issued bonds pledging income derived from operations to pay debt service. Revenue bonds outstanding at December 31, 2010 and 2009 are as follows:

<u>Name/Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>	
		<u>2010</u>	<u>2009</u>
Kentucky Infrastructure Authority Revenue Bonds Series 1993 (refinance original system bonds), principal due in annual installments through January 1, 2021	2.50% - 5.75%	\$ 400,000	\$ 450,000
Farmers Home Administration Waterworks Revenue Bonds of 1994 (expansion of lines), principal due in annual installments through January 1, 2034	4.50%	1,088,000	1,111,000
Waterworks Revenue Bonds Series 1998 (expansion of lines), principal due in annual installments through January 1, 2038	4.75%	1,948,000	1,979,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program Series 2004B, principal due in monthly installments through January 1, 2029	2.28% - 4.405%	1,933,000	1,999,000
Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds, Series 2005C, principal due in monthly installments through January 1, 2029	4.030% - 4.530%	2,880,000	2,971,000
Waterworks Revenue Bonds Series 2008 (expansion of lines and improvements), principal due in annual installments through January 1, 2047.	4.38%	1,850,000	1,850,000

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

**NOTE 4 – LONG-TERM DEBT, continued**

Revenue Bond debt service requirements to maturity, including \$6,767,909 of interest, are as follows

Year Ending December 31	Principal	Interest	Total
2011	\$ 292,500	\$ 438,931	\$ 731,431
2012	303,500	432,990	736,490
2013	319,000	419,577	738,577
2014	359,500	405,064	764,564
2015	350,500	389,643	740,143
2016-2020	1,718,500	1,727,424	3,445,924
2021-2025	2,063,500	1,320,918	3,384,418
2026-2030	2,323,500	813,984	3,137,484
2031-2035	1,025,500	439,692	1,465,192
2036-2040	672,500	229,340	901,840
2041-2045	389,500	122,973	512,473
2046-2050	281,000	27,373	308,373
Total	<u>\$ 10,099,000</u>	<u>\$ 6,767,909</u>	<u>\$ 16,866,909</u>

Bond covenants for the District require the maintenance of a Bond Sinking Fund. Monthly deposits are to be made to this fund for payment of interest and principal of outstanding bonds, a sum equal to one-sixth (1/6) of the next succeeding six-month interest payment to become due on the bonds, plus a sum equal to one-twelfth (1/12) of the principal of any bonds maturing on the next succeeding principal payment date. The District was in compliance with this requirement at December 31, 2010 and 2009.

**2. Other Long-term Debt**

A summary of other long-term debt as of December 31, 2010 and 2009 follows:

	Interest Rate	Amount	
		2010	2009
USDA Rural Development advance, principal due in annual installments through 2043, secured by utility revenues	4.375%	\$ 378,000	\$ 383,000

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

**NOTE 4 – LONG-TERM DEBT, continued**

Other long-term debt service requirements to maturity, including interest of \$346,728, are as follows:

Year Ending December 31	Principal	Interest	Total
2011	\$ 5,000	\$ 16,538	\$ 21,538
2012	5,500	16,319	21,819
2013	5,500	16,078	21,578
2014	6,000	15,837	21,837
2015	6,000	15,575	21,575
2016-2020	35,000	73,631	108,631
2021-2025	43,500	65,253	108,753
2026-2030	55,000	55,572	110,572
2031-2035	68,500	41,650	110,150
2036-2040	86,000	25,222	111,222
2041-2045	62,000	5,053	67,053
	<u>\$ 378,000</u>	<u>\$ 346,728</u>	<u>\$ 724,728</u>

A summary of changes in long-term debt for the year ended December 31, 2010 is listed as follows:

Bonds	Balance 12/31/09	New Issues	Debt Payments and Refunds	Balance 12/31/10
Series 1993	\$ 450,000	\$ -	\$ 50,000	\$ 400,000
Series 1994	1,111,000	-	23,000	1,088,000
Series 1998	1,979,000	-	31,000	1,948,000
Series 2004	1,999,000	-	66,000	1,933,000
Series 2005C	2,971,000	-	91,000	2,880,000
Series 2008	1,850,000	-	-	1,850,000
	<u>10,360,000</u>	<u>-</u>	<u>261,000.00</u>	<u>10,099,000.00</u>
<b>Other Long-Term Debt</b>				
Rural Development advance	383,000	-	5,000	378,000
Total debt	<u>\$ 10,743,000</u>	<u>\$ -</u>	<u>\$ 266,000</u>	10,477,000
Unamortized discounts				(57,186)
Unamortized premium				6,071
Total debt, net of unamortized discounts and premium				<u>\$ 10,425,885</u>

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

**NOTE 5 – DEFERRED CHARGES**

Legal and financial advisory fees, printing costs and other expenses associated with the issuance of Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds Series 2004B and Kentucky Rural Water Finance Corporation Public Projects Refunding Bonds Series 2005C are being amortized on the straight-line method over the term of the bonds. Amortization expense charged to non-operating expense was \$4,413 and \$4,413 for the years ending December 31, 2010 and 2009, respectively.

The discounts associated with the Series 2004B and Series 2005C issues are being amortized on the straight-line method over the term of the bonds. Amortization charged to interest expense was \$3,081 and \$3,081 for the years ending December 31, 2010 and 2009, respectively. The premium associated with the Series 2004B is being amortized on the straight-line method over the term of the bonds. Amortization of the premium included in interest income was \$819 and \$819 for the years ending December 31, 2010 and 2009.

**NOTE 6 – EMPLOYEES' RETIREMENT PLAN**

The Christian County Water District participates in the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), a cost-sharing multiple employer defined benefit plan. The CERS provides retirement and disability benefits, annual cost-of-living adjustments, medical insurance and death benefits to Plan members and beneficiaries. Under the provisions of the Kentucky Revised Statutes Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS and has the ability to establish and amend benefit provisions. The CERS issues a publicly available financial report that includes financial statements and required supplementary information. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

**Funding Policy:** CERS plan members who began participating before September 1, 2008 are required to contribute 5% of their covered salary. Members who began participating on or after September 1, 2008 are required to contribute 6% of their covered salary. The District is required to contribute to the CERS at an actuarially determined rate. The rate for CERS was 16.16% of annual covered payroll for January 1, 2010 to June 30, 2010 and 16.93% for July 1 to December 31, 2010 of annual covered payroll. The District's contributions to CERS for the years ending December 31, 2010, 2009 and 2008 were \$77,458, \$69,823 and \$68,339, respectively, equal to the required contributions for each year.

**Medical Insurance Plan**

*Plan description* – In addition to the pension benefits described above, Kentucky Revised Statute 61.702 requires CERS to provide post-retirement healthcare benefits to eligible members and dependents. The CERS medical insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the Board of Trustees of Kentucky Retirement Systems, the Kentucky Department of Employee Insurance and the General Assembly.

*Funding Policy* – The post-retirement healthcare provided by CERS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description and investment interest help with the medical expenses of the plan.

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

**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. The District carries commercial insurance for these types of risk of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 8 – GRANTS AND CONTRIBUTIONS**

Grants and contributions for the year ending December 31 were as follows:

	<u>2010</u>	<u>2009</u>
State grants	\$ 414,750	\$ 330,969
Federal grants	37,719	50,755
Tap-on fees	54,900	64,500
Contributed lines	<u>3,479</u>	<u>8,643</u>
	<u>\$ 510,848</u>	<u>\$ 454,867</u>

**NOTE 9 – ACCOUNTS RECEIVABLE**

Accounts receivable at December 31 were as follows:

	<u>2010</u>	<u>2009</u>
Customer accounts receivable	\$ 178,213	\$ 168,277
Unbilled revenues	273,294	228,379
Accounts receivable arrears	<u>196,100</u>	<u>151,951</u>
	<u>\$ 647,607</u>	<u>\$ 548,607</u>

**CHRISTIAN COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

The Christian County Water District Board of Commissioners entered into an agreement with the District's General Manager regarding payment for accumulated compensatory time. The District agreed to pay the General Manager the amount of \$36,000 (non-interest bearing) as payment in full for compensatory time earned during the General Manager's employment with the District through the date of the agreement. This pay out, to be paid in twelve annual installments of \$3,000 each, began 2007 with the final payment due 2018. The balance of this commitment at December 31, 2010 and 2009, included in the liability for compensated absences, is \$24,000 and \$27,000, respectively.

**NOTE 11 – LITIGATION**

The District has been involved in ongoing litigation as a defendant in a case regarding service territory served by the District. During the year ended December 31, 2010, a partial summary judgment was entered against the District. Under this judgment, the District, if requested, must take steps to transfer territory under appropriate circumstances. The partial summary judgment was amended in a manner which both recognized the role of the County Judge Executive in expanding or diminishing the territory of a water district and the plaintiff's obligation to provide a basis for such transfer pursuant to KRS 74.110. The management of the District intends to continue to vigorously defend this litigation at the Circuit Court level. In the event the plaintiff persists in its attempt to diminish the size of the District, and those attempts are successful, there is a potential adverse impact upon the rates structure of the District and its ability to satisfy its obligations to its creditors. Legal counsel advises that any adverse decision could result in an amount which could be material to the financial statements of the District. The monetary effect to the District cannot be estimated at this time. A settlement agreement would allow for monetary compensation for debt reduction related to any areas involved.

**NOTE 12 – LOSS ON DISPOSAL OF ASSETS**

A project which began August 2006 to replace customer read meters with electronic radio read meters is still in progress and is being performed as funds are available. During the year ended December 31, 2010, approximately 1,400 were replaced. The original meters were removed from the depreciation schedule and the new meters were added to the depreciation schedule. The original cost of the meters removed was \$428,450 with accumulated depreciation of \$98,188 resulting in a net book value of \$330,262. Sales of scrap meters during this same period amounted to \$4,546. This resulted in a loss on disposal of \$325,716.