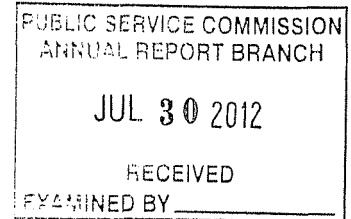


OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010



PRINCIPAL OFFICERS

Harry Storm	Chairman
Ben Everly	Vice Chairman
Mark Whitehouse	Secretary
Chuck Price	Treasurer
Doug McKenney	Commissioner
Johnnie Miller Sr.	Commissioner
Dewayne Johnson	Commissioner
Walter Beasley	General Superintendent

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

Our discussion and analysis of the Ohio County Water District financial performance provides an overview of the Company's financial activities for the year ended December 31, 2011 and 2010 and 2009. The information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

For the year ending December 31, 2011, total operating and non-operating revenues (including capital contributions) totaled \$7,365,282 and expenses amounted to \$4,581,952 creating an increase in net assets of \$2,783,330. At year end, net assets totaled \$21,578,669 of which \$16,603,713 (net of related debt) was invested in capital assets and \$1,663,180 was restricted for debt service. This left a net amount of \$3,311,776 of unrestricted assets.

For the year ending December 31, 2010, total operating and non-operating revenues (including capital contributions) totaled \$5,360,316 and expenses amounted to \$3,433,854 creating an increase in net assets of \$1,926,462. At year end, net assets totaled \$18,795,339 of which \$13,804,239 (net of related debt) was invested in capital assets and \$1,581,677 was restricted for debt service. This left a net amount of \$3,409,423 of unrestricted assets.

For the year ending December 31, 2009, total operating and non-operating revenues (including capital contributions) totaled \$4,768,843 and expenses amounted to \$3,523,523 creating an increase in net assets of \$1,245,320. At year end, net assets totaled \$16,868,877 of which \$10,703,177 (net of related debt) was invested in capital assets and \$1,675,657 was restricted for debt service. This left a net amount of \$4,490,043 of unrestricted assets.

Overview of the Financial Statements

This report consists of Management's Discussion and Analysis, 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 Ohio County Water District report information of Ohio 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 Statements of Net Assets includes all of Ohio County Water District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Ohio County Water District's creditors (liabilities). It also provides the basis of evaluation of the capital structure of Ohio County Water District and assessing the liquidity and financial flexibility of Ohio County Water District.

All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the success of Ohio County Water District's operations over the past year and can be used to determine whether Ohio 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 Statements 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.

OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

Financial Analysis of Ohio County water District

Ohio County Water District
Statement of Net Assets-Summary
December 31,

	2011	2010	2009
Assets:			
Total Current Assets	\$ 1,245,224	\$ 1,227,497	\$ 1,216,180
Total Restricted Assets	4,137,890	4,147,331	5,262,905
Net Capital Assets	31,772,190	28,986,426	21,828,265
Other Assets	<u>89,006</u>	<u>49,299</u>	<u>144,170</u>
Total Assets	\$ <u>37,244,310</u>	\$ <u>34,410,553</u>	\$ <u>28,451,520</u>
Liabilities:			
Total Current Liabilities	\$ 766,621	\$ 1,177,097	\$ 987,389
Total Long-Term Liabilities	<u>14,899,021</u>	<u>14,438,117</u>	<u>10,595,254</u>
Total Liabilities	\$ <u>15,665,642</u>	\$ <u>15,615,214</u>	\$ <u>11,582,643</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 16,603,713	\$ 13,804,239	\$ 10,703,177
Restricted for debt service	1,663,180	1,581,677	1,675,657
Unrestricted	<u>3,311,776</u>	<u>3,409,423</u>	<u>4,490,043</u>
Total Net Assets	\$ <u>21,578,669</u>	\$ <u>18,795,339</u>	\$ <u>16,868,877</u>

The largest portion (77%, 73%, and 63% per year respectively) of the Water District's net assets reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding. The Water District uses these capital assets to provide services to consumers; consequently, these assets are not available for future spending.

Restricted net assets (8%, 9%, and 10% per year respectively)) represents resources that are subject to external restrictions on how they may be used.

The balance (15%, 18%, and 27% per year respectively) of unrestricted net assets may be used to meet the Water District's ongoing obligations to consumers and creditors.

OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

Ohio County Water District
Statement of Operations-Summary
For the Year Ended December 31,

	2011	2010	2009
Total operating revenues	\$ 3,545,030	\$ 3,683,127	\$ 3,423,633
Total operating expenses	<u>3,355,317</u>	<u>3,014,877</u>	<u>2,844,466</u>
Operating Income	189,713	668,250	579,167
Total non-operating revenue (expenses)	<u>(1,164,333)</u>	<u>(313,123)</u>	<u>(547,997)</u>
Income before capital contributions	(974,620)	355,127	31,170
Capital contributed	<u>3,757,950</u>	<u>1,571,335</u>	<u>1,214,150</u>
Change in net assets	2,783,330	1,926,462	1,245,320
Beginning of year	<u>18,795,339</u>	<u>16,868,877</u>	<u>15,623,557</u>
End of year	\$ <u>21,578,669</u>	\$ <u>18,795,339</u>	\$ <u>16,868,877</u>

For the calendar year 2011, net assets increased by \$2,783,330 and consisted of operating income of \$189,713, net non-operating expenses of \$1,164,333 and capital contributions of \$3,757,950.

For the calendar year 2010, net assets increased by \$1,926,462 and consisted of operating income of \$668,250, net non-operating expenses of \$313,123 and capital contributions of \$1,571,335.

For the calendar year 2009, net assets increased by \$1,245,320 and consisted of operating income of \$579,167, net non-operating expenses of \$547,997 and capital contributions of \$1,214,150.

Capital Asset Changes

At December 31, 2011 the Water District had invested \$31,772,190 in capital assets net of accumulated depreciation. This amount represents a net increase of \$2,785,764 from the previous year. The net increase consisted of additions to capital assets of \$14,043,813 less net costs of assets sold and abandoned of \$13,192,055 and depreciation expense of \$851,758. The additions were financed with proceeds from capital contributions and proceeds of the Water District's operating revenues.

At December 31, 2010, the Water District had invested \$28,986,426 in capital assets net of accumulated depreciation. This amount represents a net increase of \$7,158,161 from the previous year. The net increase consisted of additions to capital assets of \$7,823,667 less depreciation expense of \$665,506. The additions were financed with proceeds from capital contributions and proceeds of the Water District's operating revenues.

At December 31, 2009 the Water District had invested \$21,828,265 in capital assets net of accumulated depreciation. This amount represents a net increase of \$1,252,482 from the previous year. The net increase consisted of additions to capital assets of \$2,612,163 less net costs of assets sold and abandoned of \$709,287 and depreciation expense of \$650,394. The additions were financed with proceeds from capital contributions and proceeds of the Water District's operating revenues.

OHIO COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

Debt Administration

At December 31, 2011, the Water District had \$9,460,000 revenue bonds outstanding and \$5,489,990 of loans payable outstanding. This represents an increase, of \$8,120,000 in bonds and a decrease of \$7,667,234 in loans from the prior year balances of \$1,340,000 and \$13,157,224 respectively.

At December 31, 2010, the Water District had \$1,340,000 revenue bonds outstanding and \$13,157,224 of loans payable outstanding. This represents a decrease of \$3,515,000 and an increase of \$7,269,216 from the prior year balances of \$4,855,000 and \$5,888,008 respectively.

At December 31, 2009, the Water District had \$4,855,000 revenue bonds outstanding and \$5,888,008 of loans payable outstanding. This represents a decrease of \$3,375,000 and an increase of \$3,733,937 from the prior year balances of \$8,230,000 and \$2,154,071 respectively.

Other Matters

Ohio County Water District serves approximately 6,000 residential and commercial customers in Breckenridge, McLean, Daviess, Grayson, and Ohio Counties, including the Cities of Beaver Dam and Fordsville. Until the fall of 2005, treated water was provided by the Water District's 2 million gallon per day (MGD) plant that was built in 1965 and 1 MGD from Perdue Farms, Inc. (Perdue) water treatment plant under Perdue's contract with Ohio County Fiscal Court and Economic Development Authority. In the late fall 2005, to accommodate Perdue's increasing water demand due to planned expansion of the chicken processing plant. Perdue's contract was amended to reduce the supply to the Water District by 450,000 gallons per day. In addition, under the amended contract between Perdue and Ohio County Fiscal Court and Economic Development Authority, no water will be provided the Water District by Perdue after February 2009. At that time water demand in the Water District's water service area will exceed 2.5 MGD. In addition to inadequate capacity to meet future demands, the Water District's existing water treatment plant will not meet new water quality regulatory requirements without a major upgrade.

In December 2006, the water District began the planning process of building a new water treatment plant. The plant was started August 17th, 2009 and completed June 15th, 2011. The total cost of the 4 MGD plant is \$13,543,836. In conjunction with the water plant project, the water district also refinanced two of the existing bond issues, Series I (Series 1998) and Series II (Series 2000). Total payoff of the existing bond issues equalled \$6,398,500. Funding of the project was provided with a Rural Development Grant in the amount of \$1,500,350, an Economic Development Authority Grant in the amount of \$2,500,000, a Rural Development Loan not to exceed \$9,198,500, a KIA Coal Grant (HB608) in the amount of \$550,000, a Green River Regional Industrial Development Authority cash contribution in the amount of \$450,000, two KIA Fund F loans not to exceed a cumulative total of \$5,000,000 and the Water District providing \$1,500,000. The Ohio County Fiscal Court paid \$550,000 towards the amount of the project they agreed to cover (\$3,000,000) and is servicing the remainder debt of \$2,450,000. The Rural Development Loan was structured as two separate bond issues of \$7,000,000 and \$1,200,000. Each bear a 4.125% interest rate. The KIA Fund F Loan was established at \$3,742,957 and has an interest rate of 1.00% and service fee rate of .25% and a term of (20) years.

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of Ohio County Water District's finances and to demonstrate Ohio County Water District's accountability for the funds it receives. If you have any questions about this report or need additional information, please contact the Ohio County Water District at 124 E. Washington Street, Hartford, KY 42347.



DAVID GILBERT CPA
VERONICA GILBERT CPA

GILBERT & GILBERT, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

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FAX (270) 651-5484

MEMBER
AMERICAN INSTITUTE OF CPA'S
KENTUCKY SOCIETY OF CPA'S

INDEPENDENT AUDITOR'S REPORT

Commissioners of the Ohio County Water District
Hartford, KY 42347

We have audited the accompanying balance sheets, the related statements of revenues and expenses, retained earnings, and cash flows of the Ohio County Water District as of and for the year ended December 31, 2011 and 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Ohio 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 Ohio County Water District as of December 31, 2011 and 2010 and the respective changes in financial position, and cash flows, where applicable, 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 July 6, 2012, on our consideration of the Ohio County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our 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 1 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. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ohio County Water District's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and non profit organizations, and is not a required part of the financial statements. The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 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.

Gilbert & Gilbert CPA's

July 6, 2012

BASIC FINANCIAL STATEMENTS

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
STATEMENTS OF NET ASSETS
DECEMBER 31, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 464,374	\$ 427,994
Accounts Receivable-Customers	307,047	275,107
Accounts Receivable-Other	185,217	217,367
Prepaid Expenses	28,062	18,894
Unbilled Revenue Receivable	253,486	274,162
Interest Receivable	<u>7,038</u>	<u>13,973</u>
Total Current Assets	<u>1,245,224</u>	<u>1,227,497</u>
RESTRICTED ASSETS		
Debt Service Funds		
Cash and Cash Equivalents	273,010	244,688
Construction Funds		
Cash and Cash Equivalents	348,110	932
Depreciation Fund		
Cash and Cash Equivalents	784,239	19,323
Investments	1,032,918	2,403,602
Debt Service Reserve Funds		
Cash and Cash Equivalents	0	0
Investments	1,660,835	1,456,708
Replacement Reserve Funds		
Cash and Cash Equivalents	<u>38,778</u>	<u>22,078</u>
Total Restricted Assets	<u>4,137,890</u>	<u>4,147,331</u>
PROPERTY PLANT AND EQUIPMENT AND INTANGIBLES, at cost less		
Accumulated Depreciation	<u>31,772,190</u>	<u>28,986,426</u>
OTHER ASSETS		
Unamortized Debt Discount and Expense	<u>89,006</u>	<u>49,299</u>
TOTAL ASSETS	\$ <u>37,244,310</u>	\$ <u>34,410,553</u>

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
STATEMENTS OF NET ASSETS-CONTINUED

NET ASSETS AND LIABILITIES

	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 49,332	\$ 60,553
Construction Payable	180,450	733,164
Accrued Payroll Taxes	7,365	6,273
Sales Tax Payable	1,511	1,804
Utility Tax Payable	14,189	15,024
Accrued Salaries	18,586	18,502
Accrued Interest	34,497	44,297
Current Portion of Long-Term Debt	274,946	97,500
Current Portion of Compensated Absence	6,005	6,775
Accrued Retirement	22,443	21,215
Due to Employees	30	0
Unearned Grant Income	0	35,405
Customers' Deposits	<u>157,267</u>	<u>136,586</u>
 Total Current Liabilities	 <u>766,621</u>	 <u>1,177,098</u>
LONG-TERM LIABILITIES (net of current portion)		
Interim Financing Kentucky Rural Water Fin. Corp.	0	7,826,334
Loan Payable Kentucky Infrastructure Authority	2,065,000	2,085,000
Loan Payable Kentucky Infrastructure Authority (WTP)	3,424,990	3,228,390
Revenue Bonds Payable Series A&B.	8,200,000	0
Revenue Bonds Payable Series 2003	1,175,000	1,260,000
Compensated Absences	<u>34,031</u>	<u>38,393</u>
 Total Long-Term Debt	 <u>14,899,021</u>	 <u>14,438,117</u>
 TOTAL LIABILITIES	 <u>15,665,642</u>	 <u>15,615,443</u>
 NET ASSETS		
Invested in capital assets, net of related debt	16,603,713	13,804,239
Restricted for Debt Service	1,663,180	1,581,677
Unrestricted	<u>3,311,776</u>	<u>3,409,423</u>
 TOTAL NET ASSETS	 \$ <u>21,578,669</u>	 \$ <u>18,795,339</u>

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
STATEMENTS OF REVENUES AND EXPENSES
YEAR ENDED DECEMBER 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Water Sales	\$ 3,396,828	\$ 3,549,858
Miscellaneous Service Revenue	47,465	53,020
Penalties	75,566	70,788
Other Revenues	<u>25,171</u>	<u>9,461</u>
Total Operating Revenue	3,545,030	3,683,127
OPERATING EXPENSES		
Salaries/Wages	838,505	826,365
Payroll Tax Expense	61,136	59,175
Employee Pension/Benefits	353,215	309,110
Purchased Water	117,811	298,093
Utilities	252,291	199,610
Chemicals	127,349	77,104
Materials and Supplies	220,412	146,376
Contractual Services	294,396	216,692
Rental of Building/Real Estate	551	547
Rental of Equipment	2,787	1,607
Transportation Expense	119,426	105,348
Insurance	47,379	39,768
Regulatory Commission Expense	5,606	5,420
Bad Debts	6,490	17,660
Telephone Expense	12,553	12,437
Miscellaneous	45,005	31,361
Depreciation	<u>850,405</u>	<u>668,204</u>
Total Operating Expenses	3,355,317	3,014,877
OPERATING INCOME	<u>189,713</u>	<u>668,250</u>
OTHER INCOME (EXPENSES)		
Interest Income	48,235	96,155
Gain on Sale of Equipment	4,017	1,300
Interest Expense	(374,052)	(284,363)
Amortization of Debt Discount and Expense	(4,657)	(6,595)
Non Utility Income	10,050	8,400
Non Utility Expenses	(6,285)	(6,243)
Loss on Abandoned Property	(841,641)	0
Loss on Bond Retirement	<u>0</u>	<u>(121,777)</u>
Total Other Income (Expenses)	<u>(1,164,333)</u>	<u>(313,123)</u>
INCOME BEFORE CONTRIBUTED CAPITAL	<u>\$ (974,620)</u>	<u>\$ 355,127</u>

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES (Continued)
YEARS ENDED DECEMBER 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
INCOME BEFORE CONTRIBUTED CAPITAL(Carried Forward)	\$ (974,620)	\$ 355,127
CONTRIBUTED CAPITAL		
Grant Income	3,597,966	1,353,719
Capital Contributions from Customers	30,958	35,750
Capital Contributions from Other Government	121,726	174,866
Capital Contributions from Others	<u>7,300</u>	<u>7,000</u>
Total Contributed Capital	<u>3,757,950</u>	<u>1,571,335</u>
NET INCOME	\$ <u>2,783,330</u>	\$ <u>1,926,462</u>

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
BALANCE JANUARY 1	\$ 18,795,339	\$ 16,868,877
Net Income (Loss)	<u>2,783,330</u>	<u>1,926,462</u>
BALANCE DECEMBER 31	\$ <u>21,578,669</u>	\$ <u>18,795,339</u>

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,565,916	\$ 3,516,123
Cash payments to suppliers	(1,840,980)	(835,586)
Cash payments to employees	<u>(1,255,584)</u>	<u>(1,161,051)</u>
Net cash provided by operating activities	469,352	1,519,486
Cash flows from noncapital financing activities:		
Proceeds from noncapital financing	<u>0</u>	<u>0</u>
Net proceeds from noncapital financing	0	0
Cash flows from capital and related financing activities:		
Proceeds from loan	8,574,046	7,110,701
Proceeds from equipment sales	6,000	1,300
Proceeds from capital contribution	3,757,950	1,571,334
Principal payments	(7,931,334)	(3,390,254)
Interest on long term debt, net of amount capitalized	(377,839)	(383,553)
Other interest	(6,013)	(6,014)
Bond Issue Cost	(44,364)	0
Net capital expenditure	<u>(4,479,795)</u>	<u>(7,826,365)</u>
Net cash used in capital and related financing activities	(501,349)	(2,922,851)
Cash flows from investing activities:		
Sale of Investments	1,166,557	524,228
Purchase of investments	0	0
Interest income	55,170	104,433
Other non utility income	<u>3,765</u>	<u>2,156</u>
Net cash flows investing activities	<u>1,225,492</u>	<u>630,817</u>
Net increase (decrease) in cash and cash equivalent	1,193,495	(772,548)
Cash and cash equivalents at beginning of year	<u>715,015</u>	<u>1,487,563</u>
Cash and cash equivalents at end of year.	\$ <u><u>1,908,510</u></u>	\$ <u><u>715,015</u></u>
Non cash capital and related financial activities:		
Loss on bond retirement	0	121,778
Loss on abandoned property	<u>841,641</u>	<u>0</u>
	\$ <u><u>841,641</u></u>	\$ <u><u>121,778</u></u>

The notes to the financial statements are an integral part of this statement.

OHIO COUNTY WATER DISTRICT
HARTFORD, KENTUCKY
STATEMENT OF CASH FLOWS-CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of operating income to net cash		
Provided by operating activities:		
Operating Income	\$ 189,713	\$ 668,250
Adjustments to reconcile net income to net cash		
Provided by operating activities:		
Depreciation	850,405	668,204
Change in assets and liabilities:		
(Increase) decrease in customers receivable	(31,940)	(15,405)
(Increase) decrease in other receivable	32,150	(153,035)
(Increase) decrease in prepaid expenses	(9,168)	2,110
(Increase) decrease in unbilled revenue receivable	20,676	(34,197)
Increase (decrease) in accounts payable	(12,348)	(12,920)
Increase (decrease) in construction payable	(552,714)	317,834
Increase (decrease) in accrued taxes and retirement	2,350	20,953
Increase (decrease) in accrued salaries	84	7,139
Increase (decrease) in compensated absences	(5,132)	5,507
Increase (decrease) in unearned grant income	(35,405)	35,633
Increase (decrease) in customer deposits	<u>20,681</u>	<u>9,641</u>
Net cash provided (used) by operating activities	\$ <u>469,352</u>	\$ <u>1,519,714</u>

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

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1- SIGNIFICANT ACCOUNTING POLICIES

(a) The financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred or prepaid amounts have been utilized.

(b) The preparation of basic 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 of reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) The Ohio County Water District was created April 2, 1962, under KRS Chapter 74. The governing board currently consists of seven (7) commissioners; five (5) commissioners are appointed by the Ohio County Fiscal Court and two (2) commissioners are appointed by the Daviess County Fiscal Court. The purpose of the District is to provide water to customers within its service area.

(d) Management has determined that all accounts receivable carried on the balance sheet at December 31, 2011 and 2010 are collectable and therefore no allowance for uncollectible accounts is necessary.

(e) Capital assets are defined as assets with an individual cost of more than \$2,500. Capital assets are reported at cost or the fair market value at the time of contribution to the utility. Major outlays are capitalized as projects are constructed. Interest is capitalized on fixed assets constructed with borrowed funds. The amount of interest to be capitalized is calculated by offsetting interest expense from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Operating supplies are expensed at time of purchase. Unused pipe and related materials at the end of each year to be used in future construction are recorded at cost as a fixed asset. Depreciation is computed on the straight-line method over the following useful lives:

	Years
Organization expense	40
Cost of water contracts	40
Land improvements	10-20
Pumping treatment plant and equipment	5-50
Transmission and distribution system	5-50
Other equipment	5-10

(f) The costs (issuance costs and discount) incurred in obtaining long-term financing are being amortized over the life of the debt.

(g) Consistent with rate-making treatment, rate case expense is being amortized over a 3 year period beginning with the year the new rates are implemented.

(h) Water sold but unmetered at the date of the financial statements is estimated based on subsequent billing and included in current assets.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1- SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

(i) For purposes of the statement of cash flows, Ohio County Water District considers all highly liquid investments (including restricted assets) with a maturity of three months or less to be cash equivalents.

(j) The District accrues a liability for vested vacation and personal leave pay.

(k) The District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989. Unless those pronouncements conflict or contradict GASB pronouncements: Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions, and Accounting Research Bulletins ("ARBs").

(l) When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as needed.

(m) Operating revenues are revenues generated by providing services to customers and include water sales, services revenue, penalties and other miscellaneous operating revenues. Nonoperating revenues are located in the statement of revenues and expenses after operating income (operating revenues less operating expenses). Nonoperating income includes interest income and contributed capital.

(n) Management has evaluated subsequent events through July 6, 2012 the date the financial statements were available to be issued.

NOTE 2- RESTRICTED ASSETS

(a) Debt Service Funds:

The Debt Service Funds at December 31, consisted of the following:	<u>2011</u>	<u>2010</u>
Debt Service Fund KIA	\$ 10,065	\$ 10,175
Debt Service Fund Revenue Bond 2003	58,212	56,818
Debt Service Fund Rural Development Loan	118,526	136,839
Debt Service Fund KIA	<u>86,207</u>	<u>40,856</u>
	\$ <u>273,010</u>	\$ <u>244,688</u>

The funds are required under current debt instruments. Funds are restricted for paying interest and principle of the respective long-term debt.

The Debt Service Fund KIA was invested in a savings account with an interest rate of 1.0%. at year end 2011. The investment is stated at cost which approximates market value.

At year end December 31, 2011, the Debt Service Fund Revenue Bonds was invested in savings accounts with an interest rate of .50% . At December 31, 2010, Debt Service Fund Revenue Bonds was invested in savings accounts with an interest rate of 1.0%. The investments are stated at cost, which approximates market value.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 2- RESTRICTED ASSETS (CONTINUED)

(b) Construction Funds:

The Construction Funds at December 31, consisted of the following:

	<u>2011</u>	<u>2010</u>
Cash and Cash Equivalent:		
Construction Fund Water Treatment Plant	\$ <u>348,110</u>	\$ <u>932</u>
	<u>348,110</u>	<u>932</u>

Construction Funds are restricted to paying the costs associated with each respective project.

(c) Depreciation Fund:

The Depreciation Fund was created and continued under previous Revenue Bond Ordinances. Funds are restricted for paying the cost of unusual or extraordinary maintenance, repairs, renewals or replacements and the cost of constructing additions and improvements to the system. The fund shall also be available for transfer to the debt service fund in order to avoid default in connection with any outstanding debt payable or to purchase outstanding debt in advance of maturity. At December 31, 2011, the fund consisted of a certificate of deposit totaling \$1,032,918. The investments are stated at cost, which approximates market value.

	<u>2011</u>	<u>2010</u>
Cash and Cash Equivalents	\$ 784,239	\$ 19,323
Investments	<u>1,032,918</u>	<u>2,403,602</u>
	\$ <u>1,817,157</u>	\$ <u>2,422,925</u>

The Debt Service Reserve Funds at December 31, consists of the following:

(d) Debt Service Reserve Funds:

	<u>2011</u>	<u>2010</u>
Debt Service Reserve Fund KIA	\$ 1,521,486	\$ 1,319,961
Debt Service Reserve Fund Revenue Bonds Series 2003	<u>139,349</u>	<u>136,747</u>
	\$ <u>1,660,835</u>	\$ <u>1,456,708</u>

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 2- RESTRICTED ASSETS (CONTINUED)

Debt Service Reserve Fund KIA:

The Debt Service Reserve Fund KIA was established by the Kentucky Infrastructure Authority (“Authority”) from the proceeds of the bonds issued to provide financing sources for loans to government agencies. The fund is held by the Authority for additional security in the event of any loan defaults relating to the group of loans (Fund C, series 1993F) payable to the Authority. The Authority has legal title to such funds, subject to the rights of the bondholders to claim such funds in the event the Authority fails to make timely payments on the bonds. It is the intent of the Authority to apply the fund amounts to the governmental agencies’ final loan payments.

The amount carried on the balance sheet represents the amount that is related to the Ohio County Water District Portion of the fund held by the Authority. The funds restricted in that they can only be used to apply towards the final payments on the loan from the Authority.

The funds are invested in government securities.

The investment is stated at cost, adjusted for accretion over the contractual life.

Debt Service Reserve Fund Revenue Bonds Series 2003:

The Debt Service Reserve Fund Revenue Bonds Series 2003 was established by a resolution adopted by the Commission of the Water District dated October 28, 2003. The amounts on deposit in the reserve fund shall be withdrawn and used to prevent a default in making payments of principal and interest on the bonds if the amount in the debt service fund is not sufficient to make such payments. In the event of any withdrawal, the District shall restore such deficiencies monthly into the reserve fund 1/36 of the amount required to be accumulated in the reserve funds until the total required debt service reserve shall have been restored. The required reserve balance is \$136,105.19. Any revenues in excess of the required debt service reserve shall be transferred to the debt service fund.

The Debt Service Reserve Fund Series 2003 consists of a two (2)-year certificate of deposit maturing September 14, 2010, with an interest rate of 2.15%. the CD was renewed for a twenty seven month period, maturing December 16, 2012. The interest rate is 1.89%. The investment is stated at cost, which approximates market value.

(e) Replacement Reserve Fund

Required by the new funding sources, the replacement reserve fund consist of two savings accounts.

	<u>2011</u>	<u>2010</u>
RD Replacement Fund	\$ 22,083	\$ 11,039
KIA Replacement Fund	<u>16,695</u>	<u>11,039</u>
	\$ <u>38,778</u>	\$ <u>22,078</u>

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3- CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2011 follows:

	Balance 12-31-10	Increases	Decreases	Balance 12-31-11
Capital assets, not being depreciated:				
Land and land rights	<u>206,868</u>	<u>153,891</u>	<u>0</u>	<u>360,759</u>
Capital assets being depreciated:				
Organization expense	8,245	0	0	8,245
Cost of water contracts	1,000	0	0	1,000
Land improvements	286,375	7,786,823	49,687	8,023,511
Pumping and treatment plant and equipment	4,280,385	5,379,006	2,240,561	7,418,830
Transmission and distribution system	22,354,407	474,382	0	22,828,789
Other equipment	<u>712,151</u>	<u>249,711</u>	<u>20,800</u>	<u>941,062</u>
Total Capital Assets Being Depreciated	<u>27,642,563</u>	<u>13,889,922</u>	<u>2,311,048</u>	<u>39,221,437</u>
Total Capital Assets	27,849,431	14,043,813	2,311,048	39,582,196
Less: Accumulated Depreciation				
Organization expense	8,245	0	0	8,245
Cost of water contracts	1,000	0	0	1,000
Land improvements	116,794	118,511	22,926	212,379
Pumping and treatment plant and equipment	1,830,605	198,851	1,444,383	585,073
Transmission and distribution system	6,110,642	482,661	0	6,593,303
Other equipment	<u>512,582</u>	<u>51,735</u>	<u>18,817</u>	<u>545,500</u>
Total Accumulated Depreciation	<u>8,579,868</u>	<u>851,758</u>	<u>1,486,126</u>	<u>7,945,500</u>
Construction in process	<u>9,716,863</u>	<u>135,494</u>	<u>9,716,863</u>	<u>135,494</u>
Net Capital Assets	<u>28,986,426</u>	<u>13,327,549</u>	<u>10,541,785</u>	<u>31,772,190</u>

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3- CHANGES IN CAPITAL ASSETS (CONTINUED)

A Summary of changes in capital assets for 2010 follows:

	Balance 12-31-09	Increases	Decreases	Balance 12-31-10
Capital assets, not being depreciated:				
Land and land rights	<u>203,494</u>	<u>3,374</u>	<u>0</u>	<u>206,868</u>
Capital assets being depreciated:				
Organization expense	8,245	0	0	8,245
Cost of water contracts	1,000	0	0	1,000
Land improvements	269,731	16,644	0	286,375
Pumping and treatment plant and equipment	4,259,043	21,342	0	4,280,385
Transmission and distribution system	21,697,035	657,372	0	22,354,407
Other equipment	<u>698,027</u>	<u>18,024</u>	<u>3,900</u>	<u>712,151</u>
Total Capital Assets Being Depreciated	<u>26,933,081</u>	<u>713,382</u>	<u>3,900</u>	<u>27,642,563</u>
Total Capital Assets:	27,136,575	716,756	3,900	27,849,431
Less: Accumulated Depreciation				
Organization expense	8,231	14	0	8,245
Cost of water contracts	999	1	0	1,000
Land improvements	104,770	12,024	0	116,794
Pumping and treatment plant and equipment	1,683,802	146,803	0	1,830,605
Transmission and distribution system	5,639,904	470,738	0	6,110,642
Other equipment	<u>477,859</u>	<u>38,623</u>	<u>3,900</u>	<u>512,582</u>
Total Accumulated Depreciation	<u>7,915,565</u>	<u>668,203</u>	<u>3,900</u>	<u>8,579,868</u>
Construction in process	<u>2,607,255</u>	<u>7,109,608</u>	<u>0</u>	<u>9,716,863</u>
Net Capital Assets	<u>21,828,265</u>	<u>7,158,161</u>	<u>0</u>	<u>28,986,426</u>

Construction in process at December 31, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Materials and Supplies	121,538	155,027
Water District Projects	13,956	37,217
Water Treatment Plant	0	9,125,995
Capitalized Interest	<u>0</u>	<u>398,624</u>
	<u>135,494</u>	<u>9,716,863</u>

Depreciation expense of \$851,758 is reported in the statement of revenue and expenses in two separate amounts; as depreciation expense in operating expenses of \$850,405 and \$1,353 is included in other income and expense, non utility expenses.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 4 EMPLOYEE BENEFIT PLAN

Plan Description

Substantially all full-time Ohio County Water District employees are covered by the County Employee Retirement System (CERS), a multiple employer cost sharing defined benefit pension plan providing for retirement, disability, and death benefits to plan members. CERS provides benefits based on an employee's compensation and number of years of service. Benefits are subject to reduction if the employee retires before reaching age 65 or has less than 30 years of service. Vesting begins immediately upon entry into the system and are fully vested after 60 months of service, of which 12 months must be current service. The plan also provides for disability, death and survivor benefits and medical insurance. CERS issues a publicly available financial report that includes historical trend information about progress made in accumulating sufficient assets to pay benefits when due. CERS does not make separate investments of assets and benefit obligations by individual employers. Ohio County Water District contributes less than 1% of the contributions made to CERS by all employers.

Funding Policy

Employees covered under CERS are required to contribute 5.0% of their salary through payroll deductions. Ohio County Water District is required to contribute an actuarially determined rate; the current rate is 18.96%. The contribution requirements of plan members and Ohio County Water District are established and may be amended by the Board of Trustees of the Kentucky Retirement Systems each biennium.

Annual Pension Cost

Covered payroll for the year ended December 31, 2011, 2010 and 2009 was \$785,116 , \$753,712, and \$745,119 respectively. The total payroll for the years equalled \$851,114, \$820,269, and \$807,383 respectively. The contribution requirements for the year ended December 31, 2011 was \$183,113, which consists of \$141,605 from the Ohio County Water District and \$41,508 from the employees.

Ohio County Water District current year annual pension cost was equal to the District's required and actual contribution. Participating employers are required to contribute at an actuarial determined rate. Per Kentucky Revised Statute Section 61.565 (3), normal contribution and past service contribution rates shall be determined by the Commission on the basis of an annual valuation last preceding the July 1 of a new biennium. The Commission may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Commission.

The obligation for pension benefits under CERS is solely the responsibility of the Commonwealth and not the Ohio County Water District.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the CERS's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among CERS and employers. The CERS does not make separate measurements of assets and pension benefit obligation for individual employers.

Additional information and ten-year historical trend information can be obtained from the separately issued Kentucky Retirement System Financial Report. That report may be obtained by writing Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by telephone (502) 564-4646.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 5- CONSTRUCTION PAYABLE

Construction Payable as of December 31, 2011 equalled \$180,450 which is significantly less than previous years due to the completion of the new water treatment plant.

NOTE 6- LONG TERM DEBT

The long-term debt at December 31, 2011, consisted of the following:

(a) Loan Payable Kentucky Infrastructure Authority (KIA):

In 2004 the Water District entered into a new agreement with the Authority amending the previous assistance agreement dated September 1, 1993. The new agreement resulted in debt reduction of over \$1,200,000 and provides for a completely new debt funding schedule and annual debt service requirement for the remaining debt. A gain on debt refinancing was reported in the 2004 financial statements. The interest rates include a servicing fee and approximates 5.4% per year.

A schedule of the principal due on the loan at December 31, 2011 is as follows:

2012	20,000
1/1-6/1 2013	10,000
7/1-12/1 2013	1,027,500(1)
1/1-6/1 2014	<u>1,027,500(1)</u>
	<u>\$ 2,085,000</u>
Current Portion	\$ 20,000
Long Term Portion	<u>2,065,000</u>
Total	<u>\$ 2,085,000</u>

(1) \$1,893,044 is to be provided by the Debt Service Reserve Fund KIA. (See Note 2, D). These payments will reduce the remaining annual debt requirement of the district for the above noted periods to \$136,977 each.

(b) Loan Payable Kentucky Infrastructure Authority (KIA) WTP:

In 2011 the Water District began drawing loan proceeds from KIA for the construction of the new water treatment plant. The amount of the loan is \$5,000,000, however only \$3,594,936 had been borrowed by year end. Repayment of the loan shall commence after the project is completed and will require semi annual payments on the dates established by the Schedule of Payments. The last draw was on April 16, 2012 in the amount of \$148,021. The new water plant was completed June 15, 2011. The loan will bear an interest rate of 1% and an administrative fee of .25%. The loan terms will be 20 years and will require an estimated annual debt service of approximately \$206,952.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 6- LONG-TERM DEBT (CONTINUED)

(c) Waterworks Revenue Bonds:

Series 2003:

On September 7, 2000, the Water District issued \$1,865,000 of Waterworks Revenue Bonds Series 2003. Dated November 1, 2003, to provide construction funds for Series III (2003) Construction Project for improvements to the water distribution system. The bonds are fully registered and insured as to principal and interest. Interest is payable semi-annually on February 1 and August 1 of each year commencing February 1, 2004. Principal is payable annually on August 1.

Series A&B

The Water District issued \$8,200,000 of Waterworks Revenue Bonds to provide construction funds for the new water treatment plant. The total amount of bonds issued are made up of two separate Series of bonds, Series A \$7,000,000 and Series B \$1,200,000.

Both Bonds have two initial interest only payments for the years of 2011 and 2012. Payments are due January 1st of each year for a term of 40 years. Both Bonds bare an interest rate of 4.125%. The Bonds are fully registered and insured as to the principal and interest.

A schedule of the principal due on the bonds at December 31, 2011 is as follows:

	<u>Series 2003</u>	<u>Series A</u>	<u>Series B</u>	<u>Total</u>
2012	85,000	0	0	85,000
2013	85,000	79,000	13,500	177,500
2014	90,000	82,500	14,000	186,500
2015	95,000	86,000	14,500	195,500
2016	100,000	89,500	15,500	205,000
2017-2021	550,000	505,500	87,000	1,142,500
2022-2026	255,000	618,500	106,000	979,500
2027-2031	0	758,000	130,000	888,000
2032-2036	0	928,000	159,500	1,087,500
2037-2041	0	1,134,500	195,000	1,329,500
2042-2046	0	1,390,000	238,000	1,628,000
2047-2050	<u>0</u>	<u>1,328,500</u>	<u>227,000</u>	<u>1,555,500</u>
	1,260,000	7,000,000	1,200,000	9,460,000
Less Current Portion	<u>(85,000)</u>	<u>0</u>	<u>0</u>	<u>(85,000)</u>
	<u>1,175,000</u>	<u>7,000,000</u>	<u>1,200,000</u>	<u>9,375,000</u>

Series 2003:

Optional Redemption:

The 2003 Series Bonds maturing on and after August 1, 2014, are subject to redemption, in whole or in part in any order of their maturities, at any time by the District prior to their stated maturities, on any date falling on or after August 1, 2013, (less than all Bonds of a single maturity to be selected in such manner as the Registrar may determine) at par plus accrued interest to the date of redemption.

Mandatory Redemption:

The Series 2003 Bonds are subject to mandatory redemption by the District prior to maturity. In the normal order of maturities, by lot within the respective maturities, in such manner as the Registrar may determine, at a redemption price of 100% of principal amount thereof, plus interest accrued on the redemption date on August 1, in the years and in the principal amounts as follows:

Bonds maturing on August 1, 2023: 2021, \$120,000; 2022; \$125,000; 2023 \$130,000.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 6 -LONG-TERM DEBT (CONTINUED)

All long-term (loans and bonds) are secured solely by a pledge of and payable from the gross revenues derived from the operations of the District. Each obligation ranks on a parity basis as to security and source of payment with the other obligations.

Annual Debt Service Requirements:

The annual requirements to amortize the total long-term debt as of December 31, 2011, including interest payments are as follows:

Year Ended <u>Dec 31</u>	KIA <u>Loan</u>	KIA <u>Loan-WTP</u>	Revenue <u>Bonds</u>	USDA Bonds		<u>Total</u>
				<u>Series A</u>	<u>Series B</u>	
2012	273,002	215,781	138,280	367,750	63,000	1,057,813
2013	1,220,117	215,777	135,093	367,991	62,943	2,001,921
2014	1,083,499	215,347	136,862	368,088	62,866	1,866,662
2015	0	214,913	138,443	368,041	63,267	784,664
2016	0	214,484	139,737	367,849	63,128	785,198
2017-2021	0	1,065,631	684,537	1,839,879	315,684	3,905,731
2022-2026	0	1,051,280	272,903	1,839,508	315,430	3,479,121
2027-2031	0	894,852	0	1,840,632	315,659	3,051,143
2032-2036	0	0	0	1,840,335	315,799	2,156,134
2037-2041	0	0	0	1,839,561	315,613	2,155,174
2042-2046	0	0	0	1,840,319	314,738	2,155,057
2047-2050	0	0	0	1,100,269	187,958	1,288,227
	2,576,618	4,088,065 (2)	1,645,855 (3)	13,980,222	2,396,085 (4)	24,686,845
	(1,893,044) (1)					
	<u>683,574</u>					

(1) \$1,893,044 (\$946,522 in 2013 and \$946,522 in 2014) is to be provided from funds of the Debt Service Reserve Fund KIA (See Note 2, d).

(2) Based on interest and principal payments due 6/1 and 12/1.

(3) Based on interest payments due 2/1 and 8/1 and principal payments due 8/1.

(4) Based on interest payments due 1/1 and 7/1 and principle payments due 1/1.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 6-LONG-TERM DEBT (CONTINUED)

(e) Compensated Absences totaled \$40,036. Of that amount 15% or \$6,005 has been estimated as a current liability and the balance of \$34,031 is reflected as a long term liability.

NOTE 7- CASH AND INVESTMENTS

Cash and Investments:

Under Kentucky Revised Statute 66.480 the Ohio County Water District is allowed to invest in obligations of the U.S. Treasury and U.S agencies, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national banks.

The Ohio County Water District deposits and investments at December 31, 2011 were covered by federal depository insurance or by collateral held by the custodial banks. The book balance of the Ohio County Water District's deposits was \$1,907,609 and the bank balance were \$2,125,414. This does not include petty cash of \$900.

NOTE 8-CUSTODIAL CREDIT RISKS-DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the Ohio County Water District's deposits may not be returned to it. The Ohio County Water District does not have a deposit policy for custodial credit risk. As of December 31, 2011, \$1,625,414 of the Ohio County Water District's bank balance of \$2,125,414 was exposed to custodial credit risk, detailed as follows:

Uninsured, however, collateral is held by pledging bank	\$1,625,414
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NOTE 9 - RISK MANAGEMENT

The Ohio County Water 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 Ohio County Water District also carries commercial insurance for all other risks of loss such as worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 10- LOSS ON ABANDONED PROPERTY

As a result of the completion of the new water treatment plant certain property has been removed from operations and deemed worthless. The resulting impairments of assets value is reflected on the statement of revenues and expenses, other expenses as a loss on abandoned property of \$841,641, which represents the undepreciated cost of the identified assets.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 11- MAJOR CONSTRUCTION PROJECTS

In June, 1995, a hydraulic analysis of the District was completed pursuant to an order issued by the Public Service Commission (PSC). Numerous deficiencies throughout the system were identified. As a result, the District's Commission approved a long-range plan to construct needed improvements to the water system. The total cost of the proposed construction is approximately \$10,000,000 to be done in three series.

Series I (1998) Construction Project:

On January 6, 1998, the District submitted an application to the PSC for approval of the Series I Construction Project and the approval to issue revenue bonds in the amount of \$4,000,000 to finance the construction, with an increase in water rates to repay the additional indebtedness. On August 19, 1998, the PSC approved the application. The Series I Construction Project was substantially completed in 1999.

The Series I Construction Project consisted of approximately 44 miles of distribution mains (approximately 14 miles in unserved areas of the District), two 500,000-gallon storage tanks, tie-in to the Perdue Farms, Inc. water treatment plant, pumping and water treatment equipment, an office at Perdue Farms, Inc., and radio telemetry equipment for monitoring and controlling the system. Pursuant to an agreement dated August 13, 1998, the Ohio County Fiscal Court assigned its contract rights to 1,000,000 gallons of water per day from Perdue Farms, Inc. to the Ohio County Water District.

Series II (2000) Construction Project:

On April 12, 2000, the District submitted an application to the PSC for approval of the Series II Construction Project and the approval to issue revenue bonds in the amount of \$4,035,000 to finance the construction, with an increase in water rates to repay the additional indebtedness. The project was approved by the PSC on July 14, 2000. The construction project was substantially completed in 2002.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 11- MAJOR CONSTRUCTION PROJECTS-Continued

The Series II Construction Project consists of approximately 25 miles of distribution mains, an additional 500,000-gallon storage tank, and radio telemetry to the new tank. The distribution mains will extend mains into unserved areas and is designed to reinforce the existing system and eliminate deficiencies.

Series III (2003) Construction Project:

On April 7, 2003, the District submitted an application to the PSC for approval of the Series III Construction Project and the approval to issue revenue bonds in the amount of \$1,890,000 to finance the construction, with an increase in water rates to repay the additional indebtedness. The project was approved by the PSC on May 15, 2003.

The series III Construction Project consists of approximately 34 miles of water mains in Ohio and Daviess Counties that will provide service to approximately 65 new customers and enhance the quality and reliability of service to approximately 248 customers. The project was substantially completed in 2004.

Fordsville Water Main:

On January 27, 2003, the Ohio County Water District signed a Contract for Water Service with the City of Fordsville, a municipal corporation of the Sixth Class, whereby the City agrees to purchase from the Water District, upon connection of the Water District water main line to the Fordsville Water System, the City's total water requirements to meet the demands of all of the City's water customers, and the Water District agrees to furnish and sell to Fordsville treated water necessary to satisfy the City's needs at a wholesale rate.

In order to supply the City of Fordsville, a water main, approximately 8.5 miles, was constructed to connect the City to the Water District's existing distribution system. The construction completed in 2004 was financed with a \$500,000 Community Development Block Grant to the City of Fordville for the benefit of the Ohio County Water District, a \$241,500 Coal Severance Grant and approximately \$58,500 provided by the Water District.

**OHIO COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 11- MAJOR CONSTRUCTION PROJECTS-CONTINUED

Purchase of Rockport Water System:

On May 1, 2003, the Water District entered into a contract with the City of Rockport to purchase the City's water system assets and customers, excluding, the City's existing water plant and intake structure. The System purchased consists of approximately 14 miles of water mains, a 138,000-gallon standpipe, and approximately 250 customers. In consideration for the purchase of the system, the Water District assumed the liability for full payment of the outstanding indebtedness of the City to Kentucky Municipal Corporation and the Green River Area Development District. The Water District paid the loans in 2004 totaling \$345,825.00. Additional costs related to the project, including costs to connect the Water District system to the Rockport system, were approximately \$190,000. A Coal Severance Grant of \$232,260 is being used to finance the project, with the Water District providing the remaining funds. The Water District began supplying the customers on May 14, 2004.

New Water Treatment Plant:

In December 2006, the water District began the planning process of building a new water treatment plant. The plant was started August 17th, 2009 and completed June 15th, 2011. The total cost of the 4 MGD plant is \$13,543,836. In conjunction with the water plant project, the water district also refinanced two of the existing bond issues, Series I (Series 1998) and Series II (Series 2000). Total payoff of the existing bond issues equalled \$6,398,500. Funding of the project was provided with a Rural Development Grant in the amount of \$1,500,350, an Economic Development Authority Grant in the amount of \$2,500,000, a Rural Development Loan not to exceed \$9,198,500, a KIA Coal Grant (HB608) in the amount of \$550,000, a Green River Regional Industrial Development Authority cash contribution in the amount of \$450,000, two KIA Fund F loans not to exceed a cumulative total of \$5,000,000 and the Water District providing \$1,500,000. The Ohio County Fiscal Court has paid \$550,000 towards the amount of the project they agreed to cover (\$3,000,000) and is servicing the remainder debt of \$2,450,000. The Rural Development Loan was structured as two separate bond issues of \$7,000,000 and \$1,200,000. Each bear a 4.125% interest rate. The KIA Fund F Loan was established at \$3,742,957 and has an interest rate of 1.00% and service fee rate of .25% and a term of (20) years.

Breckenridge County Project:

In December 2006, the water district accepted assignment of a \$496,000 grant from Breckenridge county Fiscal Court, the grantee accumulated cost of the the project as of December 31, 2006 equalled \$58,790.

New Administrative Building:

In March 2007, the District purchased the Flener Building for \$148,000. This building has been renovated to become the administration office.

SUPPLEMENTAL INFORMATION

OHIO COUNTY WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Pass-through Grantor/ Program Title</u>	<u>Federal CFDA#</u>	<u>Program/Award</u>	<u>Award Amount</u>	<u>Receipts FYE 12-31-11</u>	<u>Expenditures FYE 12-31-11</u>
United States Department of Agriculture Passed through Rural Development	10.760	Water and Waste Disposal Systems for Rural Communities RD Loan RD Loan RD Grant Total	 \$ 7,000,000 1,200,000 <u>1,500,350</u> \$ <u>9,700,350</u>	 \$ 7,000,000 1,200,000 <u>1,500,350</u> \$ <u>9,700,350</u>	 \$ 7,000,000 1,200,000 <u>1,500,350</u> \$ <u>9,700,350</u>
United States Department of Commerce	11.300	Investments for Public Works and Economic Dev. Facilities Total Total	 \$ <u>2,500,000</u> \$ <u>2,500,000</u> \$ <u>12,200,350</u>	 \$ <u>1,045,558</u> \$ <u>1,045,558</u> \$ <u>10,745,908</u>	 \$ <u>1,045,558</u> \$ <u>1,045,558</u> \$ <u>10,745,908</u>

Note to Schedule of Expenditures of Federal Awards

Note 1. Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is a summary of the activity of Ohio County Water District's federal award programs presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.



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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Commissioners
Ohio County Water District

We have audited the financial statements of the Ohio County Water District, as of and for the year ended December 31, 2011 and 2010, which collectively comprise the Ohio County Water District basic financial statements and have issued our report thereon dated July 6, 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 Ohio 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 the Ohio County Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ohio 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 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 the 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, as defined above. 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 Ohio 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, members of the board and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gilbert & Gilbert CPA's

Gilbert & Gilbert CPAs

July 6, 2012



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Commissioners
Ohio County Water District

Compliance

We have audited Ohio County Water District's compliance, with the types of compliance requirements described in the (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material affect on each of Ohio County Water District's major federal programs for the year ended December 31, 2011. Ohio County Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Ohio County Water District's management. Our responsibility is to express an opinion on Ohio County Water District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ohio County Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Ohio County Water District's compliance with those requirements.

In our opinion, Ohio County Water District complied, in all material respects, with the requirements referred to above that could have a direct and material affect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance


Management of Ohio County Water District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts,

and grants applicable to federal programs. In planning and performing our audit, we considered Ohio County Water District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Ohio County Water District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Commissioners, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gilbert & Gilbert CPA's


July 6, 2012

OHIO COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Ohio County Water District.
2. No significant deficiencies or instances of noncompliance were reported or identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No instances of noncompliance, or other audit findings relating to the audit of the major federal award programs were reported or identified, which are required to be reported under section .510(a) of OMB A-133.
5. The auditor's report on a compliance for the major federal awards programs for Ohio County Water District expressed an unqualified opinion on all major federal programs.
6. The programs tested as major programs are as follows:

U.S. Department of Agriculture	10.760
U.S. Department of Commerce	11.300
7. The threshold for distinguishing Types A and B programs was \$322,377.
8. Ohio Co water District was not determined to be a low risk auditee.

B. Findings-Financial Statements Audit

None

C. Findings and Questioned Costs-Major Federal Award Program Audit

None