

**JONATHAN CREEK
WATER DISTRICT
AUDIT REPORT**

December 31, 2011

PUBLIC SERVICE COMMISSION ANNUAL REPORT BRANCH
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EXAMINED BY _____

AUDIT REPORT

of the

JONATHAN CREEK WATER DISTRICT

For the fiscal year ended

DECEMBER 31, 2011

KIM HAM

CERTIFIED PUBLIC ACCOUNTANT

TAXES ♦ BOOKKEEPING ♦ AUDITING ♦ PAYROLL ♦ CONSULTING

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
JONATHAN CREEK WATER DISTRICT
Benton, Kentucky

I have audited the accompanying financial statements of the Jonathan Creek Water District, as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Jonathan Creek Water District's management. My responsibility is to express opinions on these financial statements based on my audit.

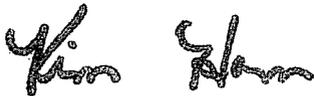
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Jonathan Creek Water District as of December 31, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 29, 2012, on my consideration of the Jonathan Creek Water District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audits of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the basic financial statements of Jonathan Creek Water District. The supplementary information on pages 18 through 20 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Kim Sloan". The signature is written in a cursive, somewhat stylized font.

March 29, 2012

JONATHAN CREEK WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011

The management of Jonathan Creek Water District (JCWD) provides readers of our financial statements this narrative that is an overview and analysis of the district's performance for the year ended December 31, 2011. It is to be read in conjunction with the financial statements which begin on page 8.

FINANCIAL HIGHLIGHTS

JCWD's net assets increased by \$145,430 as a result of this year's operations.

Operating revenues decreased by \$45,219 (4.9%).

Operating expenses, excluding depreciation, increased by \$51,155 (10.8%).

Net income before capital contributions decreased by \$90,469 (38.4%).

HOW TO USE THE ANNUAL REPORT

This annual report is divided into sections. You will find an introduction section, a financial section and a section providing notes and supplemental information that will help you to better understand the financial statements.

THE STATEMENT OF NET ASSETS

The Statement of Net Assets includes all of JCWD's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). The difference between assets and liabilities is reported as net assets. The statement of net assets is useful in evaluating the liquidity and financial position of the district.

THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets identifies the revenues generated and expenses incurred during the reporting year. This report identifies whether or not the district is covering its costs through its customer rate structure and non-recurring charges.

THE STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information relating to JCWD's cash receipts and cash expenditures during the reporting year. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. It helps the reader of the annual report to determine where the cash came from, where the cash was used and what the change in the cash balance was during the year.

JONATHAN CREEK WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2011

FINANCIAL INFORMATION

Condensed Statement of Net Assets

	<u>CY 2011</u>	<u>CY2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	\$ 286,084	\$ 338,645	\$ (52,561)	(15.5)
Restricted Assets	28,236	26,809	1,427	5.3
Capital Assets	<u>3,562,537</u>	<u>3,609,685</u>	<u>(47,148)</u>	<u>(1.3)</u>
Total Assets	<u>\$ 3,876,857</u>	<u>\$ 3,975,139</u>	<u>\$ (98,282)</u>	<u>(2.5)</u>
Current Liabilities	\$ 233,905	\$ 224,717	\$ 9,188	4.1
Long-term Liabilities	808,763	1,044,307	(235,544)	(22.6)
Deferred Credits	<u>54,961</u>	<u>72,317</u>	<u>(17,356)</u>	<u>(24.0)</u>
Total Liabilities	<u>\$ 1,097,629</u>	<u>\$ 1,341,341</u>	<u>\$ (243,712)</u>	<u>(18.2)</u>
Invested in Capital Assets net of related debt	\$ 2,508,941	\$ 2,311,708	\$ 197,233	8.5
Restricted Assets, net	16,921	17,214	(293)	(1.7)
Unrestricted Assets	<u>253,366</u>	<u>304,876</u>	<u>(51,510)</u>	<u>(16.9)</u>
Net Assets	<u>\$ 2,779,228</u>	<u>\$ 2,633,798</u>	<u>\$ 145,430</u>	<u>5.5</u>

The KIA Loan Agreement was re-negotiated during a prior year and the new agreement does not require any restriction of assets for debt service reserve. Monthly loan payments are being automatically withdrawn. A small portion of the district's assets is customer deposits and this amount is restricted to help insure collection of unpaid customer account balances.

JONATHAN CREEK WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>CY2011</u>	<u>CY2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenue	\$ 871,561	\$ 916,780	\$ (45,219)	(4.9)
Non-operating Revenue	<u>19,064</u>	<u>21,515</u>	<u>(2,451)</u>	<u>(11.4)</u>
Total Revenue	<u>\$ 890,625</u>	<u>\$ 938,295</u>	<u>\$ (47,670)</u>	<u>(5.1)</u>
Operating Expenses	\$ 683,680	\$ 629,505	\$ 54,175	8.6
Non-operating Expenses	<u>61,515</u>	<u>72,891</u>	<u>(11,376)</u>	<u>(15.6)</u>
Total Expenses	<u>\$ 745,195</u>	<u>\$ 702,396</u>	<u>\$ 42,799</u>	<u>6.1</u>
Change in Net Assets	\$ 145,430	\$ 235,899	\$ (90,469)	(38.4)
Beginning Net Assets	<u>2,633,798</u>	<u>2,397,899</u>	<u>235,899</u>	<u>9.8</u>
Ending Net Assets	<u>\$ 2,779,228</u>	<u>\$ 2,633,798</u>	<u>\$ 145,430</u>	<u>5.5</u>

Operating revenues decreased from the previous year due to a decrease in gallons sold to customers by 9.9%. Operating expenses increased from the prior year primarily due to higher expenses for maintenance, supplies, utilities and transportation costs. Although salaries and benefits increased due to hiring an additional employee, outside services decreased since the meter reading is now being done by the employees.

CAPITAL ASSETS AND LONG-TERM DEBT

JCWD's expenditures for plant, lines and other facilities were \$111,954 in CY 2011, compared to \$193,419 in CY 2010. Capital expenditures are still high due to the ongoing water project.

Debt payments were made as scheduled throughout the year on all notes.

JONATHAN CREEK WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011

BUDGETARY CONTROLS

JCWD operates its general activities in accordance with a budget adopted by its Board of Commissioners.

Statement of Revenues, Expenses, and Changes in Net Assets to Budget
For the Twelve Months Ended December 31, 2011

	Actual	Budget	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Charges for services	\$ 839,112	\$ 959,000	\$ (119,888)	(12.5)
Penalties, late charges, and other	32,449	26,000	6,449	24.8
Total Operating Revenues	<u>871,561</u>	<u>985,000</u>	<u>(113,439)</u>	<u>(11.5)</u>
Operating Expenses:				
Salaries	183,461	152,000	31,461	20.7
Employee pension and benefits	66,243	59,000	7,243	12.3
Fuel and power for pumping	69,955	62,000	7,955	12.8
Materials and supplies	75,371	135,000	(59,629)	(44.2)
Chemicals	8,780	7,000	1,780	25.4
Transportation & training	22,043	16,000	6,043	37.8
Depreciation	159,102	140,000	19,102	13.6
Insurance	23,361	21,000	2,361	11.2
Professional fees & outside services	52,609	101,000	(48,391)	(47.9)
Dues	1,072	0	1,072	N/A
Utility Regulatory Expense	1,402	1,500	(98)	(6.5)
Payroll taxes	12,483	13,000	(517)	(4.0)
Equipment rent	0	1,000	(1,000)	(100.0)
Advertising	1,500	1,000	500	50.0
Loan service expense	1,532	4,000	(2,468)	(61.7)
Bad debt expense	4,223	4,000	223	5.6
Miscellaneous	543	1,000	(457)	(45.7)
Total operating expenses	<u>683,680</u>	<u>718,500</u>	<u>(34,820)</u>	<u>(4.8)</u>
Income from operations	<u>187,881</u>	<u>266,500</u>	<u>(78,619)</u>	<u>(29.5)</u>
Non-operating revenues (expenses):				
Interest income	1,708	6,000	(4,292)	(71.5)
Interest and bond discount expense	(61,515)	(85,000)	23,485	27.6
Amortization of debt discount and expense	17,356	17,500	(144)	(0.8)
Total non-operating revenues (expenses)	<u>(42,451)</u>	<u>(61,500)</u>	<u>19,049</u>	<u>31.0</u>
Net income (loss) before contributions	<u>145,430</u>	<u>205,000</u>	<u>(59,570)</u>	<u>(29.1)</u>
Change in net assets	145,430	205,000	(59,570)	(29.1)
Net assets January 1, 2011	<u>2,633,798</u>	<u>2,633,798</u>	<u>0</u>	<u>0.0</u>
Net assets December 31, 2011	<u>\$ 2,779,228</u>	<u>\$ 2,838,798</u>	<u>\$ (59,570)</u>	<u>(2.1)</u>

JONATHAN CREEK WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011

OTHER SIGNIFICANT MATTERS

Jonathan Creek Water District has an ongoing program to replace and upsize their existing water lines. The Jonathan Creek Water District is also striving to lay water lines to the customers within the boundaries of the water district that are currently not being served. The water district has not reached a mature growth status as it is not utilizing the full capacity of the water plant. We at Jonathan Creek Water District work around the clock to provide top quality water to every tap.

Questions or comments regarding these financial reports may be directed to Matt York, Superintendent at 270-354-8474.

JONATHAN CREEK WATER DISTRICT
STATEMENT OF NET ASSETS
December 31, 2011 and 2010

ASSETS:	2011	2010
Current Assets:		
Cash and cash equivalents	\$ 202,158	\$ 224,011
Customer accounts receivable, less allowance for doubtful accounts of \$4,871	52,433	69,273
Materials & supplies inventory	29,036	42,819
Prepaid expenses	2,457	2,542
Total Current Assets	286,084	338,645
Restricted Assets:		
Cash and cash equivalents	28,236	26,809
Total Restricted Assets	28,236	26,809
Noncurrent Assets:		
Capital assets	6,781,899	6,669,945
Less: Accumulated depreciation	(3,219,362)	(3,060,260)
Total Noncurrent Assets	3,562,537	3,609,685
TOTAL ASSETS	\$ 3,876,857	\$ 3,975,139
 LIABILITIES:		
Current Liabilities (payable from current assets):		
Accounts payable	\$ 22,323	\$ 25,471
Accrued interest payable	3,995	4,687
Accrued liabilities	10,395	8,298
Current portion of long-term debt	185,877	176,666
Total Current Liabilities (payable from current assets)	222,590	215,122
Current Liabilities (payable from restricted assets):		
Customer deposits	11,315	9,595
Total Current Liabilities (payable from restricted assets)	11,315	9,595
Noncurrent Liabilities:		
Note payable, less current maturities	808,763	1,044,307
Total Noncurrent Liabilities	808,763	1,044,307
Deferred Credits:		
Gain on refinancing	54,961	72,317
TOTAL LIABILITIES	\$ 1,097,629	\$ 1,341,341
 NET ASSETS:		
Invested in capital assets, net of related debt	\$ 2,508,941	\$ 2,311,708
Restricted for:		
Customer deposits	16,921	17,214
Unrestricted		
Unreserved	253,366	304,876
TOTAL NET ASSETS	\$ 2,779,228	\$ 2,633,798

See Notes to Financial Statements

JONATHAN CREEK WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES:		
Water Sales, net	\$ 853,670	\$ 894,951
Other service revenue	17,891	21,829
Total Operating Revenues	871,561	916,780
 OPERATING EXPENSES:		
Salaries and benefits	237,987	214,883
Utilities	69,955	63,604
Maintenance and supplies	75,371	44,919
Chemicals	8,780	6,658
Transportation and training	22,043	16,868
Depreciation expense	159,102	156,082
Insurance expense	23,361	20,811
Professional fees & outside services	52,609	75,187
Utility regulatory assessment	1,402	1,407
Dues	1,072	928
Commissioners' fees	24,200	24,000
Advertising	1,500	714
Loan service fees	1,532	1,869
Miscellaneous	543	521
Bad debt expense	4,223	1,054
Total Operating Expenses	683,680	629,505
Operating Income (Loss)	187,881	287,275
 NON-OPERATING REVENUES (EXPENSES):		
Interest and dividend income	1,708	4,159
Amortization of debt discount and expense	17,356	17,356
Interest expense	(61,515)	(72,891)
Total Non-operating Revenues (Expenses)	(42,451)	(51,376)
Net income (loss) before contributions	145,430	235,899
Change in net assets	145,430	235,899
Net Assets, beginning of year	2,633,798	2,397,899
Net Assets, end of year	\$ 2,779,228	2,633,798

See Notes to Financial Statements

JONATHAN CREEK WATER DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from:		
Customers	\$ 868,179	\$ 880,622
Other service revenue	17,891	21,829
Cash paid for:		
Salaries and benefits	(236,062)	(217,607)
Utilities	(70,075)	(62,124)
Maintenance and supplies	(68,853)	(69,050)
Chemicals	(7,622)	(6,658)
Transportation expenses	(19,250)	(17,589)
Insurance	(23,276)	(20,914)
Professional Fees & outside services	(52,368)	(77,831)
Dues, Taxes and licenses	(2,474)	(2,335)
Commissioners' fees	(24,200)	(24,000)
Advertising	(1,455)	(714)
Loan service fees	(1,532)	(1,869)
Miscellaneous	(543)	(521)
Net cash provided by (used in) operating activities	378,360	401,239
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(111,954)	(189,718)
Principal paid on bonds and other long-term debt	(226,333)	(232,909)
Interest paid on bonds and other long-term debt	(62,207)	(73,599)
Net cash provided by (used in) capital and related financing activities	(400,494)	(496,226)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earnings	1,708	4,159
Net cash provided by (used in) investing activities	1,708	4,159
Net Increase (Decrease) in Cash and Cash Equivalents	(20,426)	(90,828)
Cash & Cash Equivalents - January 1, 2011	250,820	341,648
Cash & Cash Equivalents - December 31, 2011	\$ 230,394	\$ 250,820
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ 187,881	\$ 287,275
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	159,102	156,082
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	16,840	(10,966)
Decrease (increase) in materials & supplies inventory	13,783	(19,407)
Decrease (increase) in prepaid expenses	85	(103)
Increase (decrease) in accounts payable	(3,148)	(6,609)
Increase (decrease) in accrued liabilities	2,097	(4,523)
Increase (decrease) in customer deposits	1,720	(510)
Net cash provided by operating activities	\$ 378,360	\$ 401,239

See Notes to Financial Statements

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Jonathan Creek Water District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. With respect to proprietary activities, the Jonathan Creek Water District has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." The Jonathan Creek Water District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

These financial statements follow the provisions of GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and related standards. These new standards adopted effective January 1, 2006 provided for changes in terminology; recognition of contributions in the Statement of Revenues, Expenses and Changes in Net Assets; including of a management's discussion and analysis as supplementary information; and other changes. The more significant of Jonathan Creek Water District's accounting policies are described hereinafter.

A. Reporting Entity

The Jonathan Creek Water District is a Class B water district and was established on October 12, 1968 pursuant to Chapter 74 of the Kentucky Revised Statutes. The District provides potable water service to the residents of southeastern Marshall County in Kentucky. The District is governed by a Board which consists of five commissioners.

B. Basis of Accounting

The District is accounted for using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of the District are included on the statement of net assets. Total net assets are segregated into amounts invested in capital assets, net of related debt, restricted for customer deposits, and unrestricted. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's utilities are charges to the customers for 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 nonoperating revenues and expenses.

C. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Jonathan Creek Water District considers all highly liquid debt instruments purchased with original maturities of six months or less from the date of acquisition to be cash equivalents.

D. Contributed Capital and Construction Grants

Construction and acquisition of water plant, lines and other facilities are financed in part by governmental grants and contributions in aid of construction from property owners and developers. In the past, the accumulated amount of contributions in aid of construction was listed as a separate portion of capital. Under GASB 34, current year contributions will be listed as an increase in net assets after net income or loss before contributions. The equity accounts previously used for these contributions and retained earnings are now combined and uses the term "net assets".

E. Capital Assets

Capital Assets, which include plant, water lines, equipment, and other facilities, are recorded at historical cost. Capital assets are defined by the Jonathan Creek Water District as assets with an estimated useful life in excess of one year. It is the District's policy to depreciate the costs of these assets over their estimated useful lives on a straight-line basis.

Estimated useful lives on depreciable assets are as follows:

Utility plant	20-50 years
Office and other equipment	5-20 years
Vehicles	5 years

Costs incurred for capital construction and acquisition are carried in construction in progress until disposition or completion of the related projects. Costs relating to projects not pursued are expensed, while costs relating to completed projects are capitalized as plant, lines and other facilities.

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capitalized Interest

Interest capitalized on projects funded from bond proceeds is recorded as the difference between the interest costs of the borrowing less interest earned on undisbursed invested proceeds during the construction period. Interest is not capitalized on project costs that are reimbursed by contributions of capital from government, property owners and developers.

G. Debt Discount and Expense

Debt discount and expense is amortized over the life of the related debt.

H. Compensated Absences

Vacation time must be used during the calendar year earned and cannot be carried over to a subsequent year. Sick time is not payable upon termination or retirement. Because of this, there is no liability recorded for compensated absences.

NOTE 2 - DEPOSITS AND INVESTMENTS

State statutes authorize the District to invest in obligations of the United States and its agencies and instrumentalities; bond or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and municipalities; interest bearing deposit accounts in financial institutions chartered in the Commonwealth of Kentucky and insured by an agency of the United States up to the amount thus insured and in larger amounts, provided such financial institutions pledge as security obligations of the United States having such value as may be satisfactory to the District.

At December 31, 2011, the carrying amount of the District's deposits was \$230,394 and the bank balance was \$228,144. The entire bank balance was covered by federal depository insurance.

NOTE 3 - RESTRICTED CASH AND EQUIVALENTS

The District has an escrow account and a certificate of deposit established for customer deposits. The District requires a refundable deposit at the time a new customer is connected to the water system. These receipts are deposited into the escrow account until such time as the customer is disconnected from the system. If the customer is current with all water bills, the deposit is returned to the customer from the escrow account. If the customer is past due on any water bill, the deposit is first applied to the bill, with any remainder being refunded to the customer from the escrow account. The amount in the escrow account and certificate of deposit is \$16,921 over the amount in the liability account on the ledger.

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 4 - CAPITAL ASSETS

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

	Balance 12/31/10	Additions	Dispositions	Balance 12/31/11
Historical Cost				
Organization	\$ 5,702	\$ 0	\$ 0	\$ 5,702
Land and land rights	16,225	0	0	16,225
Structures & improvements	19,078	4,335	0	23,413
Wells & springs	91,457	0	0	91,457
Pumping equipment	159,883	30,851	0	190,734
Water treatment equipment	371,160	0	0	371,160
Distribution reservoirs & standpipes	693,735	0	0	693,735
Transmission & distribution mains	4,476,763	46,729	0	4,523,492
Services	55,777	4,000	0	59,777
Meters & meter installations	437,748	20,505	0	458,253
Hydrants	71,752	5,034	0	76,786
Office furniture and equipment	16,322	500	0	16,822
Transportation equipment	22,287	0	0	22,287
Tools, shop & garage equipment	5,186	0	0	5,186
Power operated equipment	59,379	0	0	59,379
Communication equipment	1,958	0	0	1,958
Miscellaneous equipment	165,533	0	0	165,533
Total	<u>\$ 6,669,945</u>	<u>\$ 111,954</u>	<u>\$ 0</u>	<u>\$ 6,781,899</u>

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2011

NOTE 4 - CAPITAL ASSETS (Continued)

Depreciation on these assets and amounts in accumulated depreciation were as follows:

	Balance 12/31/10	Additions	Dispositions	Balance 12/31/11
Accumulated depreciation:				
Organization	\$ 5,702	\$ 0	\$ 0	\$ 5,702
Land & land rights	4,813	248	0	5,061
Structures & improvements	4,743	694	0	5,437
Wells & springs	37,595	1,829	0	39,424
Pumping equipment	131,111	6,144	0	137,255
Water treatment equipment	291,709	7,582	0	299,291
Distribution reservoirs & standpipes	552,163	9,826	0	561,989
Transmission & distribution mains	1,471,659	88,390	0	1,560,049
Services	44,229	1,156	0	45,385
Meters & meter installations	240,222	31,399	0	271,621
Hydrants	50,768	4,148	0	54,916
Office furniture and equipment	14,320	872	0	15,192
Transportation equipment	22,287	0	0	22,287
Tools, shop & garage equipment	3,045	449	0	3,494
Power operated equipment	35,171	3,888	0	39,059
Communication equipment	1,958	0	0	1,958
Miscellaneous equipment	148,765	2,477	0	151,242
Total	<u>\$ 3,060,260</u>	<u>\$ 159,102</u>	<u>\$ 0</u>	<u>\$ 3,219,362</u>

NOTE 5 - LONG-TERM LIABILITIES

At year end, the District's long-term liabilities consisted of a loan from the Kentucky Infrastructure Authority (KIA) and GMAC loans. The GMAC loans are payable annually and all carry an interest rate of 5%. One is payable at \$69,349 each January 1 with a final maturity date of January 1, 2018. The second is payable at \$8,420 each September 23 with a final maturity date of September 23, 2018. The KIA loan is payable monthly at varying amounts and at interest rates varying from 3.16% to 5.29%.

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2011

NOTE 5 - LONG-TERM LIABILITIES (Continued)

The activity of long-term debt for the year was as follows:

	Balance 12/31/10	Additions	Retirements	Balance 12/31/11	Due Within One Year
GMAC loans	\$ 446,687	\$ 0	\$ 55,448	\$ 391,239	\$ 6,116
KIA loan	774,286	0	170,885	603,401	179,761
Total	<u>\$ 1,220,973</u>	<u>\$ 0</u>	<u>\$ 226,333</u>	<u>\$ 994,640</u>	<u>\$ 185,877</u>

Principal and interest requirements to retire the District's long-term obligations were as follows:

Year Ended December 31	Interest	Service Fee	Principal	Total
2012	\$ 33,516	\$ 1,189	\$ 185,877	\$ 220,582
2013	40,298	824	249,141	290,263
2014	28,245	395	261,062	289,702
2015	14,592	34	98,244	112,870
2016	10,016	0	67,830	77,846
2017-2018	9,688	0	132,486	142,174
	<u>\$ 136,355</u>	<u>\$ 2,442</u>	<u>\$ 994,640</u>	<u>\$ 1,133,437</u>

NOTE 6 - RETIREMENT PLAN

The District's employees participate in the County Employees Retirement System (CERS) which is a cost-sharing, multiple-employer defined benefit public employee retirement system administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. The CERS provides for retirement, disability and death benefits to plan members and beneficiaries. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the CERS. That report may be obtained by writing to the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124.

Plan members are required to contribute 5% of creditable compensation and the District is required to contribute at an actuarially determined rate, which was 16.93% until July, 2011, at which time the rate was increased to 18.96%.

The contribution requirements of plan members and the District are established and may be amended by the CERS Board of Trustees. The District's contributions to the CERS for the years ended December 31, 2011, 2010, and 2009 were \$37,474, \$30,806, and \$21,222 respectively, equal to the required contributions for each year.

JONATHAN CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2011

NOTE 7 - ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, net assets, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 8 - 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 contracts with KLC Insurance Services (a local government risk pool) for insurance coverage for workers compensation. Other risks are covered by the purchase of commercial insurance. KLC Insurance Services was formed for the primary purpose of managing and funding third-party liability claims against its members. As a member of KLC Insurance Services, the District is required to make annual contributions sufficient to produce the funds necessary to fund the administrative expenses and the claims and claims expenses, and any deficiencies in the cumulative reserves.

Coverage by commercial insurance consists of \$2,000,000 in general liability insurance and \$1,000,000 in public officials and automobile liability insurance. Coverage for property risk is \$4,431,985. The District also carries \$250,000 for crime and employee dishonesty, a \$50,000 permit bond, a \$150,000 encroachment bond and workers' compensation at statutory rates. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in recent years.

SUPPLEMENTARY INFORMATION

JONATHAN CREEK WATER DISTRICT
SUPPLEMENTARY INFORMATION - OPERATING REVENUES
For the Year Ended December 31, 2011

Charges for services:	
Sales to residential customers	\$ 607,817
Sales to commercial customers	231,295
Service charges, reconnect fees & miscellaneous	<u>17,891</u>
Net charges for services	857,003
Penalties and late charges	<u>14,558</u>
Total Operating Revenues	<u><u>\$ 871,561</u></u>

See independent auditor's report

JONATHAN CREEK WATER DISTRICT
SUPPLEMENTARY INFORMATION - OPERATING EXPENSES
For the Year Ended December 31, 2011

OPERATING EXPENSES:

Source of Supply and Pumping Expense:

Operations:

Materials & supplies	\$ 11,752
	11,752

Maintenance:

Material & supplies	1,145
	1,145

Water Treatment Expense:

Operations:

Salaries and wages	39,425
Employee pension & benefits	16,053
Purchased power	69,955
Chemicals	8,780
Materials and supplies	2,303
Contractual services-water testing	6,979
	143,495

Transmission and Distribution Expense:

Operations:

Salaries & wages	54,646
Employee pension & benefits	19,373
Materials & supplies	30,753
Transportation expense	22,043
	126,815

Maintenance:

Materials & supplies	6,325
Contractual services	18,696
	25,021

Customer Accounts Expense:

Salaries and wages	40,400
Employee pension & benefits	18,709
Bad debt expense, net of recoveries	4,223
	63,332

See independent auditor's report

JONATHAN CREEK WATER DISTRICT
SUPPLEMENTARY INFORMATION - OPERATING EXPENSES
For the Year Ended December 31, 2011

OPERATING EXPENSES:

Administration and General Expense:	
Salaries and wages - employees	24,790
Salaries and wages - commissioners	24,200
Employee pensions & benefits	12,108
Materials and supplies - office	23,093
Contractual services - accounting	3,000
Contractual services - other	23,934
Ky Rural Water Assoc. membership dues	1,072
Insurance expense-general liability	778
Insurance expense-worker's compensation	3,797
Insurance expense-other	18,786
Advertising	1,500
Utility Regulatory Assessment	1,402
Payroll taxes	12,483
Loan service fees	1,532
Miscellaneous	543
	<u>153,018</u>
Depreciation Expense	<u>159,102</u>
Total Operating Expenses	\$ 683,680

See independent auditor's report

**ADDITIONAL REPORT REQUIRED BY
*GOVERNMENT AUDITING STANDARDS***

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♦
MEMBER,
*Kentucky Society
of CPA's*

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

To the Board of Commissioners
JONATHAN CREEK WATER DISTRICT
Benton, Kentucky

I have audited the financial statements of the Jonathan Creek Water District, as of and for the years ended December 31, 2011 and 2010, and have issued my report thereon dated March 29, 2012. I conducted my 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audits, I considered the Jonathan Creek Water District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Jonathan Creek Water District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Jonathan Creek Water District's internal control over financial reporting.

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

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Jonathan Creek Water District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Commissioners, management, the Public Service Commission, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Kim Blum in black ink.

March 29, 2012