

GRAYSON COUNTY WATER DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

**GRAYSON COUNTY WATER DISTRICT
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FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Grayson County Water District
Leitchfield, KY 42754

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Grayson County Water District as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Grayson County Water District, as of December 31, 2014 and 2013, and the respective changes in financial position, and cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2015, on our consideration of the Grayson County Water District's internal control over financial reporting and 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* in considering Grayson County Water District's internal control over financial reporting and compliance.

Respectfully submitted,



Buckles, Travis, VanMeter & Hart, PLLC
Certified Public Accountants
Leitchfield, Kentucky
March 18, 2015

**GRAYSON COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013**

	DECEMBER 31, 2014	DECEMBER 31, 2013 As Restated
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Operation and maintenance Revenue	\$ 44,730	\$ 15,817
	467,233	217,967
Accounts receivable		
Customer accounts receivable, net of allowance for uncollectibles of \$99,315 and \$147,498	57,768	171,770
Accounts receivable – WRECC	53,591	44,039
Accounts receivable – Other	0	118,333
Unbilled revenue	130,000	128,237
Prepaid expenses	35,085	22,778
Inventory	325,901	356,879
TOTAL CURRENT ASSETS	1,114,308	1,075,820
NON-CURRENT ASSETS		
Restricted cash and cash equivalents		
Bond and note sinking funds	1,286,635	1,080,785
Depreciation fund	686,426	532,306
Special projects	160,694	115,821
Note receivable – City of Leitchfield	48,048	53,767
Capital assets		
Land and land rights	245,736	245,736
Construction in progress	28,716	1,806,455
Utility plant and lines	29,394,283	27,421,634
Utility equipment and other	741,287	713,274
Less: Accumulated depreciation	(10,299,186)	(9,491,906)
TOTAL NON-CURRENT ASSETS	22,292,639	22,477,872
TOTAL ASSETS	\$ 23,406,947	\$ 23,553,692

(CONTINUED)

	DECEMBER 31,	
	2014	2013
		<u>As Restated</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 48,046	\$ 72,800
Accounts payable - WRECC	181,777	177,115
Accrued liabilities	455	399
School and sales taxes payable	8,836	8,359
Interest payable from restricted assets	130,235	120,140
Interest payable – Customer deposits	72	172
Customer deposits	32,450	33,450
Current portion of long-term debt	546,954	523,823
TOTAL CURRENT LIABILITIES	<u>948,825</u>	<u>936,258</u>
NON-CURRENT LIABILITIES		
Bonds and loans payable	9,939,972	10,463,795
Less: Current portion of long-term debt	(546,954)	(523,823)
TOTAL NON-CURRENT LIABILITIES	<u>9,393,018</u>	<u>9,939,972</u>
TOTAL LIABILITIES	10,341,843	10,876,230
NET POSITION		
Net investment in capital assets	10,170,864	10,231,398
Restricted for debt service (nonexpendable)	1,286,635	1,080,785
Restricted for depreciation reserves (nonexpendable)	686,426	532,306
Restricted for special projects (expendable)	160,694	115,821
Unrestricted	760,485	717,152
TOTAL NET POSITION	<u>13,065,104</u>	<u>12,677,462</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 23,406,947</u>	<u>\$ 23,553,692</u>

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

**GRAYSON COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	DECEMBER 31, 2014	2013 As Restated
	<hr/>	<hr/>
OPERATING REVENUES		
METERED SALES		
Residential	\$ 2,594,919	\$ 2,519,527
Commercial	412,235	387,317
Agriculture	64,032	53,894
Resale	109,485	93,949
TOTAL METERED SALES	<hr/> 3,180,671	<hr/> 3,054,687
FORFEITED DISCOUNTS	59,359	54,615
MISCELLANEOUS SERVICE REVENUE	37,702	45,141
TOTAL OPERATING REVENUES	<hr/> 3,277,732	<hr/> 3,154,443
OPERATING EXPENSES		
PURCHASED WATER	346,508	330,994
SUPPLY AND PUMPING EXPENSE		
Purchased power	24,787	21,805
Materials and supplies	4,934	4,152
Insurance	7,945	8,005
Transportation	17,534	15,493
Miscellaneous	400	0
Contractual services	41,318	45,422
TOTAL SUPPLY AND PUMPING EXPENSE	<hr/> 96,918	<hr/> 94,877
WATER TREATMENT EXPENSE		
Purchased power	89,724	67,339
Materials and supplies	71,007	73,369
Insurance	7,945	8,656
Transportation	6,652	6,197
Miscellaneous	15,550	3,142
Contractual services	279,318	206,145
Professional services	14,312	11,375
TOTAL WATER TREATMENT EXPENSE	<hr/> 484,508	<hr/> 376,223
GENERAL DISTRIBUTION EXPENSE		
Purchased power	2,862	3,466
Materials and supplies	5,695	8,010
Insurance	7,945	7,978
Transportation	20,509	19,108
Miscellaneous	1,882	5,999
Contractual services	232,721	253,765
TOTAL GENERAL DISTRIBUTION EXPENSE	<hr/> 271,614	<hr/> 298,326
MAINTENANCE EXPENSE		
Transportation	2,274	2,119
Contractual services	138,484	152,773
Distribution	10,708	9,040
Services	5,600	7,573
TOTAL MAINTENANCE EXPENSE	<hr/> 157,066	<hr/> 171,505

(CONTINUED)

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

**GRAYSON COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	DECEMBER 31,	
	2014	2013
		As Restated
CUSTOMER ACCOUNTS EXPENSE		
Bad debt expense	\$ 2,558	\$ 22,744
Materials and supplies	2,938	3,165
Transportation	10,532	9,812
Miscellaneous	88	1,685
Contractual services	166,029	183,396
Customer records	108,197	98,026
TOTAL CUSTOMER ACCOUNTS EXPENSE	290,342	318,828
ADMINISTRATIVE AND GENERAL EXPENSE		
Materials and supplies	25,145	21,474
Insurance	9,289	9,322
Transportation	1,109	1,033
Miscellaneous	37,164	29,470
Contractual services	191,306	199,496
Professional services	28,285	14,622
TOTAL ADMINISTRATIVE AND GENERAL EXPENSE	292,298	275,417
DEPRECIATION EXPENSE	807,280	760,596
TOTAL OPERATING EXPENSES	2,746,534	2,626,766
OPERATING INCOME (LOSS)	531,198	527,677
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous income	50,141	74,688
Interest income	5,263	5,901
Line relocation revenue	19,819	172,678
Line relocation expense	(19,819)	(175,058)
Insurance proceeds	0	36,745
Damage repairs	0	(28,650)
Gain (loss) on sale of equipment	0	9,700
Interest expense	(298,196)	(330,162)
PSC taxes	(6,157)	(5,782)
TOTAL NONOPERATING REVENUES (EXPENSES)	(248,949)	(239,940)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	282,249	287,737
CAPITAL CONTRIBUTIONS		
Grant income	69,943	435,056
Contributions in aid of construction	35,450	42,678
TOTAL CAPITAL CONTRIBUTIONS	105,393	477,734
CHANGE IN NET POSITION	387,642	765,471
TOTAL NET POSITION – BEGINNING	12,677,462	11,911,991
TOTAL NET POSITION – ENDING	\$ 13,065,104	\$ 12,677,462

(CONCLUDED)

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

**GRAYSON COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	DECEMBER 31, 2014	2013 As Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,498,752	\$ 3,087,486
Payments to suppliers	(871,407)	(891,339)
Payments for contractual services	(1,069,268)	(1,009,351)
Other receipts (payments)	(6,624)	(7,326)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,551,453	1,179,470
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	0	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Grant income	69,943	435,056
Bond issuance costs	0	(32,800)
Proceeds from capital debt	0	3,415,000
Principal repayment of capital debt	(523,823)	(2,866,730)
Capital contributions	35,450	42,678
Purchases of capital assets	(222,923)	(1,515,306)
Miscellaneous income	50,141	74,688
Line relocation revenue	19,819	172,678
Line relocation expense	(19,819)	(175,058)
Insurance proceeds	0	36,745
Damage repairs	0	(28,650)
Gain (loss) on sale of equipment	0	9,700
Interest paid on capital debt	(298,196)	(330,162)
Increase (decrease) in interest payable – Customer deposits	(100)	(1)
Increase (decrease) in interest payable from restricted assets	10,095	(43,689)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(879,413)	(805,851)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	5,263	5,901
Decrease in note receivable – City of Leitchfield	5,719	5,473
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	10,982	11,374
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	683,022	384,993
BALANCES – BEGINNING OF YEAR	1,962,696	1,577,703
BALANCES – END OF YEAR	\$ 2,645,718	\$ 1,962,696
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 531,198	\$ 527,677
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	807,280	760,596
Payment of PSC taxes	(6,157)	(5,782)
Changes in assets and liabilities:		
Net (increase) decrease in accounts receivable	222,783	(74,067)
Net (increase) decrease in unbilled revenue	(1,763)	7,110
Net (increase) decrease in prepaid expenses	(12,307)	12,516
Net (increase) decrease in inventory	30,978	(78,682)
Net increase (decrease) in accounts payable	(20,092)	31,646
Net increase (decrease) in accrued liabilities	56	49
Net increase (decrease) in school and sales taxes payable	477	(893)
Net increase (decrease) in customer deposits	(1,000)	(700)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 1,551,453	\$ 1,179,470

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

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES

The Grayson County Water District is a tax-exempt division of county government organized under KRS 74.010. The District provides a municipal water system to citizens located in the geographic area of the system. The District has contracted with Warren Rural Electric Cooperative Corporation the following services: billings, collections, office rental, equipment rental, and related staff expenditures.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

1. The Reporting Entity

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Standards and Interpretations).

2. Basic Financial Statements – Proprietary Fund Financial Statements

The District's basic financial statements include only proprietary fund financial statements because the District engages only in a single business-type activity.

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are similar to those businesses in the private sector. Amounts recorded as operating revenues are those revenues generated from general water service operations. All other revenues are recorded as non-operating revenues or capital contributions. The District first applies unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

The proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013**

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Cash and Cash Equivalents

The District has defined cash and cash equivalents to include all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

5. Inventory

Inventory of materials consist of expendable supplies held for use and are stated at the lower of cost or market using the FIFO (first-in, first-out) method.

6. Use of Estimates

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

7. Capital Assets

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the estimated useful life of the asset. An estimated useful life of fifty years is used for substantially all plant assets. Estimated useful lives for other machinery and equipment ranges from five to ten years. Upon retirement, the cost of the asset, less any proceeds, is charged to accumulated depreciation.

The District capitalizes construction period interest on loans that were obtained to finance construction.

The District has an ongoing activity of assessing the feasibility of installing additional lines to new service areas. Once an extension is considered feasible, there are additional engineering studies, applications to various funding agencies, and project administrative costs. The District defers the ongoing activity and capitalizes these costs upon completion of the project. These procedures are based on the reasonable expectation that the Public Service Commission of the Commonwealth of Kentucky will allow recovery of these costs through their inclusion in future rate increases.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013**

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

8. Impairment of Long-Lived Assets

The District reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For assets held and used, if the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of the asset, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the years ended December 31, 2014 and 2013.

9. Nonexchange Transactions

The recognition of assets and revenues resulting in nonexchange transactions of the District are as follows:

- a. Voluntary nonexchange transactions – The District receives various grants from federal and state agencies. Eligibility requirements have been met at the time the funds are received; therefore, the asset/revenue is recognized when it is received.

10. Advertising Cost

The District uses advertising to promote its services to the community. Advertising cost are expensed as incurred. Advertising expenses for the years ended December 31, 2014 and 2013 were \$3,768 and \$5,791, respectively.

NOTE B – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's cash and investments was \$2,645,718 and the bank balance was \$2,655,609. Of the total bank balance, \$750,000 was covered by federal depository insurance, \$393,971 was invested in 100% federally guaranteed securities and the remaining balance of \$1,511,638 was considered uncollateralized. As of December 31, 2014, \$3,222,720 was pledged with securities held by the pledging banks' trust departments but not in the name of the District.

Kentucky Revised Statute 66.480 provides for investment of governmental funds into certain investment types including obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized.

NOTE C – RESTRICTED CASH

The sinking fund is restricted to the payment of principal and interest on long-term debt.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013**

NOTE C – RESTRICTED CASH (CONTINUED)

The depreciation fund is restricted to payment for improvements and approved repairs.

The special project fund is restricted to construction to expand service to additional customers or facilities improvement. The subscribers' payments plus interest at five percent annually must be refunded should they not be reached with water service or the project not be constructed. Interest earned on these funds is credited against the Construction in Progress account.

The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE D – CONTRIBUTIONS IN AID OF CONSTRUCTION

These revenue amounts were obtained from placement of meters at previously unsubscribed locations and from governmental grants.

NOTE E – LONG-TERM DEBT

The following bonds and loans were issued through USDA, Rural Development (RD):

<u>Original Amount</u>	<u>Funding Agency</u>	<u>Series Of</u>	<u>Interest Rate</u>	<u>Balance as of Dec. 31,</u>	
				<u>2014</u>	<u>2013</u>
\$1,350,000	RD	2005	4.125%	\$1,237,000	\$1,255,000
\$ 525,000	RD	2012	2.125%	\$ 525,000	\$ 525,000
\$ 900,000	RD	2012	2.000%	\$ 900,000	\$ 900,000

These bonds are secured by an exclusive pledge of a fixed portion of the income and revenues derived from the operation of the District's water distribution system and has principal and interest sinking fund requirements.

During 2002, the District had received approval for a Kentucky Infrastructure Authority (KIA) Project Loan not to exceed \$4,000,000. As of December 31, 2003, total draws of \$3,930,850 had been accumulated. This loan bears interest at a rate of 1.8% and is secured by the revenues of the water system. The balance outstanding on this loan as of year end was \$1,742,972. An annual deposit of \$49,000 is required to be deposited into a reserve account. The annual deposits are to be made until the balance reaches \$490,000. As of December 31, 2014 the reserve balance was \$788,618.

During 2005, the District received approval for an interim loan from Kentucky Rural Water Finance Corporation not to exceed \$1,350,000. This interim loan will convert to permanent financing through RD upon project completion. This loan bears interest at a variable rate and is secured by revenues of the water system. As of December 31, 2006, total draws of \$1,350,000 had been accumulated. The 2005 series bond was issued through RD in February 2007. Total amounts outstanding at year end were \$1,237,000.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013**

NOTE E – LONG-TERM DEBT (CONTINUED)

During 2009, the District received a loan from Kentucky Rural Water Finance Corporation in the amount of \$380,000. This loan was received as part of a 2009C series revenue bond. This loan bears interest at an increasing rate with an average of 3.36% and is secured by revenues of the water system. This loan also has principal and interest sinking fund requirements. As of December 31, 2014 the loan balance was \$240,000.

During 2012, the District received a loan from Kentucky Rural Water Finance Corporation in the amount of \$3,680,000. This loan was received as part of a 2012D series revenue bond. This loan was issued to refund the District's series 1995, 1997, and 1999 Rural Development Bonds. This loan bears interest at a variable rate ranging between 2.75% and 4% over the life of the bond and is secured by revenues of the water system. This loan also has principal and interest sinking fund requirements. As of December 31, 2014 the loan balance was \$3,455,000.

During 2012, the District received approval for an interim loan from Kentucky Rural Water Finance Corporation not to exceed \$1,425,000. This interim loan will convert to permanent financing through RD upon project completion. As of December 31, 2013 total draws of \$1,425,000 had been accumulated.

During 2013, the District received a loan from Kentucky Rural Water Finance Corporation in the amount of \$1,990,000. This loan was received as part of a 2013B series revenue bond. This loan was issued to refund the District's series 2001D and 2004B Kentucky Rural Water Loans. This loan bears interest at a variable rate ranging between 2.30% and 3.30% over the life of the bond and is secured by revenues of the water system. This loan also has principal and interest sinking fund requirements. As of December 31, 2014 the loan balance was \$1,840,000.

Current year long-term debt activity is as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Rural Development Bond, 2005	\$ 1,255,000	\$ 0	\$ 18,000	\$ 1,237,000
Rural Development Bond, 2012	1,425,000	0	0	1,425,000
Kentucky Infrastructure Authority Loan	1,943,795	0	200,823	1,742,972
Kentucky Rural Water Loan	270,000	0	30,000	240,000
Kentucky Rural Water Loan	3,580,000	0	125,000	3,455,000
Kentucky Rural Water Loan	1,990,000	0	150,000	1,840,000
	<u>\$ 10,463,795</u>	<u>\$ 0</u>	<u>\$ 523,823</u>	<u>\$ 9,939,972</u>

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013**

NOTE E – LONG-TERM DEBT (CONCLUDED)

Principal of various amounts are due at least annually in each of the years through 2052. The principal due for each of the next five years and thereafter is as follows:

Year	Amount
2015	\$ 546,954
2016	572,651
2017	588,415
2018	578,246
2019	589,148
2020-2024	2,539,058
2025-2029	1,664,000
2030-2034	1,381,000
2035-2039	447,500
2040-2044	532,500
2045-2049	312,000
2050-2052	188,500
	\$ 9,939,972

Principal and interest requirements for the next five years and thereafter are as follows:

Year	Amount
2015	\$ 828,045
2016	839,867
2017	842,569
2018	819,045
2019	815,672
2020-2024	3,453,272
2025-2029	2,268,121
2030-2034	1,726,547
2035-2039	637,676
2040-2044	642,169
2045-2049	349,944
2050-2052	197,933
	\$13,420,860

NOTE F – CONCENTRATION OF CREDIT RISK

The District extends credit to all citizens who live within the geographic location of the District and who utilize the utility system. Credit losses may be minimal and are generally within management's expectations.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013**

NOTE G – ACCOUNTS RECEIVABLE

Customer accounts receivable are shown net of an allowance for uncollectible accounts. At December 31, 2014 and 2013 total customer accounts receivable was \$210,674 and \$363,307, respectively. Allowance for uncollectible accounts was \$99,315 and \$147,498, respectively as of December 31, 2014 and 2013.

Customer accounts receivable amounts arise from monthly water usage. Based on District policy, water meters are read monthly, with billings occurring five to ten days subsequent to the reading. Once billed the customer has fourteen days to pay the amount due. If payment is made after the due date a late fee of 10% is assessed to water charges. A twenty-four hour grace period is allowed and if amounts remain unpaid, delinquent notices are sent out. Customers are given fourteen days from the date of the delinquent notice to render payment. The day following expiration of the delinquent period, collection trips are made for all bills in excess of forty dollars. If collection does not occur the meter is shut off. The customer will remain active for seven additional days, if at the expiration of the seven days payment has not been made, the account will become inactive and the customer deposit held will be applied to amounts owed. If collection is considered unlikely the balances are charged off as bad debt expense in the period in which they were deemed uncollectible.

Management's periodic evaluation of the adequacy of the allowance for uncollectible accounts is based on past loss experience, known and other risks inherent to the specific account, adverse situations that may affect the customer's ability to render payment and current economic conditions. Management considers many factors in determining whether a receivable is impaired, such as payment history and changes in employment.

Accounts receivable – Other consisted of \$36,745 insurance claim receivable, \$44,213 reimbursement receivable for line relocation expenditures, and other miscellaneous receivables of \$37,375 at December 31, 2013.

NOTE H – CAPITAL ASSETS

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Capital assets not being depreciated				
Land and land rights	\$ 245,736	\$ 0	\$ 0	\$ 245,736
Construction in progress	1,806,455	53,589	1,831,328	28,716
Total capital assets not being depreciated	2,052,191	53,589	1,831,328	274,452
Other capital assets				
Utility plant and lines	27,421,634	1,972,649	0	29,394,283
Utility equipment and other	713,274	28,013	0	741,287
Total other capital assets at historical cost	28,134,908	2,000,662	0	30,135,570
Less: Accumulated depreciation	(9,491,906)	(807,280)	0	(10,299,186)
Capital assets, net	<u>\$ 20,695,193</u>	<u>\$ 1,246,971</u>	<u>\$ 1,831,328</u>	<u>\$ 20,110,836</u>

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013**

NOTE I – RELATED PARTIES

The District contracts with Warren Rural Electric Cooperative Corporation (WRECC) for the following services: billing, collections, office rental, equipment rental, and staff related expenditures. The following related party amounts are reflected in the financial statements for December 31, 2014 and 2013.

	DECEMBER 31,	
	2014	2013
Amounts paid to WRECC for general operations	\$ 1,089,581	\$ 1,065,289
Amounts paid to WRECC for purchased power	20,337	19,372
Amounts included in accounts payable at year end	181,777	177,115
Amounts included in accounts receivable – WRECC at year end	53,591	44,039

The service agreement between WRECC and the District originated on August 16, 2004 and has a term of thirty years. Due to the variations in services rendered and actual costs at that date a minimal payment amount cannot be reasonably determined.

NOTE J – RISKS OF LOSS

The District’s risk of loss are addressed by the purchase of commercial insurance. These areas include employee dishonesty bonds, property coverage, vehicle coverage, and a public entity liability policy which includes errors and omission. Coverage is reviewed for adequacy by management and agents on an annual basis.

NOTE K – NOTE RECEIVABLE – CITY OF LEITCHFIELD

During 2006, the District sold water lines and appurtenances to the Leitchfield Utilities Commission. The balance outstanding of \$48,048 is shown as a note receivable on the statement of net position. The note bears interest at a rate of 4.5% per annum and shall be paid to the District over a period of fifteen years in annual installments of \$8,139. The note will mature in July, 2021.

NOTE L – INSURANCE CLAIM

During 2013, the District submitted an insurance claim for lightening damage to parts of their system. The total amount of insurance receivable was \$36,745 and the total cost of repairs was \$28,650. These items are classified as nonoperating revenues(expenses) on the Financial Statements.

NOTE M – SUBSEQUENT EVENTS

The District’s management has evaluated and considered the need to recognize or disclose other subsequent events through March 18, 2015, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2014, have not been evaluated by management.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2014 AND 2013**

NOTE N – PRIOR PERIOD ADJUSTMENT

Governmental Accounting Standards Board (GASB) Statement No. 65, “Items Previously Reported as Assets and Liabilities” require bond issuance costs to be recognized as an expense when incurred. GASB No. 65 must be applied retroactively requiring a prior period adjustment. The prior period adjustment affects the equity accounts as detailed below.

	<u>As Previously Reported</u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
Net Position			
Invested in capital assets, net of related debt	\$ 10,424,011	\$ (192,613)	\$ 10,231,398
Restricted for debt service	1,080,785	0	1,080,785
Restricted for special projects	115,821	0	115,821
Restricted for depreciation reserves	532,306	0	532,306
Unrestricted	717,152	0	717,152
	<u>\$ 12,870,075</u>	<u>\$ (192,613)</u>	<u>\$ 12,677,462</u>

**INDEPENDENT AUDITORS' 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***

Board of Commissioners
Grayson County Water District
Leitchfield, KY 42754

We have audited, 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, the financial statements of the business-type activities of Grayson County Water District, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Grayson County Water District's basic financial statements, and have issued our report thereon dated March 18, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Grayson County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Grayson County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Grayson County Water District's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Grayson County Water District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Buckles, Travis, VanMeter, & Hart". The signature is written in a cursive style and is positioned above the printed name of the firm.

Buckles, Travis, VanMeter & Hart, PLLC
Certified Public Accountants
Leitchfield, Kentucky
March 18, 2015

**GRAYSON COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2014**

SIGNIFICANT DEFICENCIES

Reference Number	Finding
NONE	