GRAVES COUNTY WATER DISTRICT
AUDIT REPORT
For The Year Ended
DECEMBER 31, 2012

PUBLIC SERVICE COMMISSION
ANNUAL REPORT BRANCH

MAY 01 2013

RECEIVED

EXAMINED BY_____

Table of Contents

INDEPENDENT AUDITOR'S REPORT 1

FINANCIAL STATEMENTS:

STATEMENT OF NET ASSETS- REGULATORY BASIS 3

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS- REGULATORY BASIS 4

STATEMENT OF CASH FLOWS- REGULATORY BASIS 5

NOTES TO THE FINANCIAL STATEMENTS 6

COMBINED STATEMENTS OF NET ASSETS- REGULATORY BASIS 14

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS- REGULATORY BASIS 15

COMBINED STATEMENTS OF CASH FLOWS- REGULATORY BASIS 16

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* 17

SUPPLEMENTAL INFORMATION:

COMMONWEALTH OF KENTUCKY-PUBLIC SERVICE COMMISSION ANNUAL REPORTS 19

Romaine
& Associates, PLLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Graves County Water District
Graves County, Kentucky

We have audited the accompanying financial statements of the Graves County Water District as of and for the year ended December 31, 2012, and related notes to the 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 the financial reporting provisions of the Public Service Commission. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation an fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditor's 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.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the Graves County Water District has prepared these financial statements using accounting practices prescribed or permitted by the Public Service Commission, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

P.O. BOX 488
1214 Paris Road
Mayfield, Kentucky 42066
: 270-247-8050
: 270-247-7749
: kromaine@mewsbb.net

To the Board of Commissioners
Graves County Water District
Graves County, Kentucky

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matters discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Graves County Water District as of December 31, 2012, the changes in its financial position, or its cash flows for the year then ended. Further, the District has not presented the required supplementary management's discussion and analysis that accounting principles generally accepted in the United States and regulatory agreement has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and net assets of the Graves County Water District as of December 31, 2012, the revenues it earned and expenses it incurred, and its cash flows for the year then ended on the basis of accounting described in Note 1.

Romaine & Associates, PLLC

Mayfield, Kentucky
April 30, 2013

CURRENT ASSETS		
Cash and cash equivalents	$	191,330
Customer accounts receivable		94,570
Misc. current & accrued assets		8,066
Total current assets		293,966
NONCURRENT ASSETS		
Restricted cash		32,373
CAPITAL ASSETS		
Depreciable capital assets:		
Utility plant in service, at cost		12,483,833
Less accumulated provision for depreciation computed by the straight-line method		(5,800,475)
Total capital assets		6,683,358
TOTAL NONCURRENT ASSETS		6,715,731
Total assets	$	7,009,697
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$	40,968
Customer deposits		86,234
Current portion of long-term debt		68,546
Total current liabilities		195,748
LONG-TERM LIABILITIES		
Long-term debt, less current portion		1,238,610
Total long-term liabilities		1,238,610
TOTAL LIABILITIES		1,434,358
NET ASSETS		
Invested in capital assets, net of related debt		5,376,202
Restricted for maintenance and replacement reserve		32,373
Unrestricted		166,764
Total net assets		5,575,339
TOTAL LIABILITIES AND NET ASSETS	$	7,009,697

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

OPERATING REVENUE	$	1,110,129
OPERATING EXPENSE		
Advertising		2,709
Commissioners salaries		18,000
Purchased power		194,258
Purchased water		70,750
Chemicals		43,228
Materials & supplies		54,533
Rental equipment		32,192
Contractual services		715,849
Insurance		12,083
Miscellaneous		4,476
Bad debt		9,471
Depreciation and amortization		235,584
Tax & license		3,325
Total operating expenses		1,396,458
Operating income (loss)		(286,329)
NONOPERATING REVENUES (EXPENSES)		
Interest income		1,812
Interest expense		(7,177)
Total nonoperating revenues (expenses)		(5,365)
Income before capital contributions		(291,694)
Capital contributions		401,111
Increase (Decrease) in net assets		109,417
NET ASSETS		
Beginning of year		5,465,922
End of year	$	5,575,339

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

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$	1,102,916
Cash payments to suppliers for goods and services		(1,196,362)
Customer deposits received		3,308
Net cash provided by operating activities		(90,138)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments		(68,256)
Interest paid		(7,177)
Proceeds from debt		331,087
Utility plant additions and improvements		(824,824)
Contributions in aid of construction		401,111
Net cash provided by (used for) capital and related financing activities		(168,059)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income		1,812
Net cash provided by (used for) investing activities		1,812
Net decrease in cash and cash equivalents		(256,385)
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR		480,088
CASH AND CASH EQUIVALENTS - END OF THE YEAR		223,703
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)		(286,329)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization		235,584
Changes in assets and liabilities:		
Accounts receivable		(7,213)
Prepaid insurance		(246)
Accounts payable and accrued expenses		(35,242)
Customer deposits		3,308
Net cash provided by operating activities	$	(90,138)

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

Note 1. Description of Entity & Significant Accounting Policies

The Graves County Water District is engaged in providing water and sewer supply to approximately 3,179 customers who live in the Graves County, Kentucky area. The district was created in 2008 by the merger of four water districts formerly known as Consumers, Fancy Farm, South Graves and Hardeman under Chapter 14 of the Kentucky Revised Statutes.

In evaluating how to define the Graves County Water District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

Basis of Presentation and Accounting:

As stated in Kentucky Revised Statutes (KRS) 278.012, "any water association formed for the purpose of furnishing water services to the general public pursuant to KRS Chapter 273 is deemed to be and shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission". In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. This uniform system of accounts is presented on the accrual basis in accordance with practices prescribed by the Public Service Commission. In accordance with the Public Service Commission's regulations, costs associated with hook-up fees are capitalized as meters, installations and services. This practice differs from generally accepted accounting principles under which these costs and the related fees are recorded as operating expenses and revenues. Except for this regulatory difference, the Public Service Commission prescribes the use of Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District has not adopted the provisions of FASB No. 71, *Accounting for the Effects of Certain Types of Regulations.*

The District's financial statements (including the related notes) are presented in accordance with GASB No. 34, Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments and related standards, except as noted herein.

This standard provided significant required changes in terminology; recognition of contributions in the statement of revenues, expenses and changes in net assets; inclusion of a management's discussion and analysis as supplementary information; and other changes.

The Graves County Water District is operated as a proprietary and/or enterprise fund. Proprietary Funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises -- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Note 1. Description of Entity & Significant Accounting Policies- (Continued)

Basis of Presentation and Accounting: (Continued)

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net assets regulatory basis. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted, constraints imposed by creditors/grantors/laws/or contributions; and unrestricted components, all other. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, unrestricted resources are used first.

Revenues and Expenses:

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities.

Property and Equipment:

Property and equipment purchased or constructed are stated at cost. The cost of meters, including installation, is capitalized. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Expenses for maintenance and repairs that do not increase the useful life of the asset are charged to operations as they are incurred. The District does not have a particular dollar amount threshold for capitalization purposes.

Income Taxes:

The Graves County Water District is not subject to income taxes.

Contributed Capital:

The District has adopted Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.* This statement requires governments to recognize capital contributions to proprietary funds as revenues, instead of contributed capital.

Prior to implementation of GASB No. 33, the fair market value of donated property received by the District, impact fees, tap on fees and grants which were restricted for the acquisition or construction of capital assets, were recorded as contributed capital.

Statement of Cash Flows:

For purposes of reporting cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Reclassifications:

For clarification purposes, reclassifications have been made to certain previously reported amounts.

Net Assets:

Net assets comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

Note 1. Description of Entity & Significant Accounting Policies- (Continued)

Net Assets:-(continued)

Invested in capital assets – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributed to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted – This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets- This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Note 2. Cash

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

Graves County Water District's policies regarding deposits of cash are discussed above. The table presented below is designed to disclose the level of custody credit risk assumed by the District based upon how its deposits were insured or secured with collateral at December 31, 2012. The categories of credit risk are defined as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the District (public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the Pledging financial institution, or by its trust department or agent, but not in the District's name; or collateralized with no written or approved collateral agreement.

December 31, 2012

Type of Deposits	Total Bank Balance	Custody Credit Risk Category 1	2	3
Demand Deposits-FNB	$ 125,276	$ 125,276	$ -	$ -
Time Deposits-FCB	$ 110,434	$ 110,434	$ -	$ -

Note 2. Cash –(Continued)

Custodial Credit Risk – Deposits

Custodial credit risk in the event of a depository institution failure, the entity's deposits may not be returned. The Graves County Water District does not have a depository policy for custodial credit risk. As of December 31, 2012, public funds were not exposed to custodial credit risk.

Note 3. 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.

Note 4. Grants/Loans

In the normal course of operations, the District receives grant/loan funds from various Federal and/or State agencies. The grant/loan programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting/loaning of funds. Any liability for reimbursement which may arise as the result of an audit is not believed to be material.

Note 5. Customer Accounts Receivable

The District provides an allowance for doubtful collections that is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Normal billing receivables are due 15 days after billing. Receivables past due are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. No provision for doubtful accounts has been made at December 31, 2012, as management considers all amounts fully collectible.

Note 6. Maintenance and Replacement Reserve

In accordance with both loan agreements with the Kentucky Infrastructure Authority, a maintenance and replacement reserve account is required to receive an amount equal to 10% of the amount of loan payments until the amount in such account is equal to 5% of the original principal amount of the loans. The original loan agreement with KIA in the amount of $849,154 requires a total reserve of $42,458. The original loan agreement with KIA in the amount of $596,776 requires a total reserve of $29,839. As of December 31, 2012 the required reserve amount for both loans was $32,373, of which has been restricted.

Restricted cash consists of the following:

	December 31, 2012
Maintenance and Replacement Reserve	$ 32,373
Total	$ 32,373

Note 7. Budget

The budget for the proprietary fund operation is prepared on the cash and expenditures basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the applicable expenditure is expected to be made. Budgeted appropriations lapse at year-end.

Note 8. Capital Assets

The Capital Assets were restated during the year to reflect historical cost less accumulated depreciation prior to merger versus net book value which was used when the merger of the systems occurred in 2008. There was no effect on net assets. A summary of the Graves County Water District's change in capital assets during 2012 is as follows:

Water System

Description	Beginning Balance	Additions	Deletions	Ending Balance
Organization	$ 66,736			$ 66,736
Franchises	7,921			7,921
Land & Land Rights	28,329			28,329
Structures & Improvements	1,465,041			1,465,041
Collecting & Impounding Res	54,620			54,620
Lake, River Other Intakes	88,226			88,226
Wells and Springs	314,737			314,737
Pumping Equipment	173,080	375		173,455
Water Treatment Equipment	477,111			477,111
Distribution Reservoirs	939,102			939,102
Transmission and Distribution Mains	5,251,155	106,764		5,357,919
Services	214,456			214,456
Meters	713,602	688,102		1,401,704
Hydrants	44,770	1,265		46,035
Plant and Misc Equipment	17,235			17,235
Power Generation Equipment	17,141			17,141
Power Operated Equipment	7,172	22,630		29,802
Tools, Shop & Garage Equipment	2,158			2,158
Transportation Stores Equipment	10,750			10,750
Other Tangible	4,000			4,000
Furniture and Equipment	54,729			54,729
Total at Historical Cost	9,952,071	819,136	-	10,771,207
Less: Accumulated Depreciation				
Total Accumulated Depreciation	(4,379,324)	(210,840)		(4,590,164)
Capital Assets, Net	$ 5,572,747	$ 608,296	$ -	$ 6,181,043

Note 8. Capital Assets- (Continued)

Sewer System

Description	Beginning Balance	Additions	Deletions	Ending Balance
Collection System-Gravity	$ 55,473			$ 55,473
Collection System-Force	626,832			626,832
Communication Equipment	450			450
Land & Land Rights	11,319			11,319
Other Collection Plant Facilities	41,741			41,741
Oxidation Lagoon	105,651			105,651
Plant Sewer	22,186			22,186
Pumping Equipment	31,874	5,688		37,562
Other Pumping Equipment	19,420			19,420
Receiving Wells & Pump	330,535			330,535
Services	2,104			2,104
Structures & Improvements	456,992			456,992
Tools, Shop & Garage Equipment	2,362			2,362
Total at Historical Cost	1,706,939	5,688	-	1,712,627
Less: Accumulated Depreciation				
Total Accumulated Depreciation	(1,185,567)	(24,744)		(1,210,311)
Capital Assets, Net	$ 521,372	$ (19,056)	$ -	$ 502,316

Note 9. Long Term Debt

Graves County Water District assumed a note between Fancy Farm Water District and the Kentucky Infrastructure Authority the original amount of this note was $596,776 the amount assumed was $525,271. Principal and interest payments are due semi-annually for 20 years. The note bears interest of .48%. During the year 2012, both interest and principal payments were made in accordance with the note agreement. As of December 31, 2012 the balance was $272,605.

Future principal and interest payments are as follows:

Year	Principal	Interest and Fees	Total Payment
2013	$ 19,593	$ 1,821	$ 21,414
2014	19,687	1,687	21,374
2015	19,782	1,554	21,336
2016	19,878	1,418	21,296
2017	19,987	1,310	21,297
2018-2022	80,954	4,002	84,956
2023-2026	92,724	1,383	94,107
Total	$ 272,605	$ 13,175	$ 285,780

Note 9. Long-Term Debt - (Continued)

Note payable to Kentucky Infrastructure Authority bearing interest of .40%. Principal and interest are payable semi-annually on the note. This note was assumed by the Water district on behalf of South Graves Water District in the amount of $849,154. As of December 31, 2012, the balance was $703,464.

Future principal and interest payments are as follows:

Year	Principal	Interest and Fees	Total Payment
2013	$ 48,953	$ 4,147	$ 53,100
2014	49,149	3,853	53,002
2015	49,346	3,558	52,904
2016	49,543	3,262	52,805
2017	49,741	2,964	52,705
2018-2022	251,711	10,314	262,025
2023-2026	205,021	2,770	207,791
Total	$ 703,464	$ 30,868	$ 734,332

Note payable to Kentucky Infrastructure Authority for $1,000,000 bearing interest of 2 percent for twenty years. The Note is to fund the Fancy Farm Area Interconnect and the Automated Meter Upgrades. During the year, $551,087 was drawn on the note and principal forgiven during the year was $220,000, leaving a balance as of December 31, 2012 of $331,087. This loan was to receive a principal forgiveness at the lower of (1) $220,000 or (2) 80% of the total disbursed under the note agreement. Interest payments will commence within six months of the first draw. An amortization will be designed once all loan proceeds are disbursed. An annual reserve amount of $2,500 will be required with a maximum reserve of $25,000.

Note 10. Changes in Long-Term Debt

Changes in Long- Term Debt consist of the following:

Description	Beginning Balance	Additions	Deletions	Ending Balance
N/P KIA #B05-04	$ 292,104	$ -	$ 19,499	$ 272,605
N/P KIA #B11-02		331,087		$ 331,087
N/P KIA #B07-03	752,221	-	48,757	703,464
	$ 1,044,325	$ 331,087	$ 68,256	$ 1,307,156

Note 11. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. The District carries commercial insurance for risk of loss. The District did not settle claims that exceeded the District's commercial insurance coverage in any of the past three years.

Note 12. Subsequent Event

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through April 30, 2013, the date financial statements were available to be issued. On January 1, 2013 Hickory Water District merged with the Graves County Water District.

	Water Fund	Sewer Fund	Totals
CURRENT ASSETS			
Cash and cash equivalents	$ 45,773	$ 145,557	$ 191,330
Customer accounts receivable	86,136	8,434	94,570
Prepaid Insurance	7,041	1,025	8,066
Total current assets	138,950	155,016	293,966
NONCURRENT ASSETS			
Restricted cash	32,373	-	32,373
CAPITAL ASSETS			
Depreciable capital assets:			
Utility plant in service, at cost	10,771,207	1,712,626	$ 12,483,833
Less accumulated provision for depreciation computed by the straight-line method	(4,590,164)	(1,210,311)	(5,800,475)
Total capital assets	6,181,043	502,315	6,683,358
TOTAL NONCURRENT ASSETS	6,213,416	502,315	6,715,731
TOTAL ASSETS	$ 6,352,366	$ 657,331	$ 7,009,697
CURRENT LIABILITIES			
Accounts payable and accrued expenses	$ 34,925	$ 6,043	$ 40,968
Customer deposits	86,234	-	86,234
Current portion of long-term debt	68,546	-	68,546
Total current liabilities	189,705	6,043	195,748
NONCURRENT LIABILITIES			
Long-term debt	1,238,610	-	1,238,610
Total noncurrent liabilities	1,238,610	-	1,238,610
Total liabilities	1,428,315	6,043	1,434,358
NET ASSETS			
Investments in capital assets, net of related debt	4,873,887	502,315	5,376,202
Restricted for maintenance and replacement reserve	32,373	-	32,373
Unrestricted	17,791	148,973	166,764
Total net assets	4,924,051	651,288	5,575,339
TOTAL LIABILITIES AND NET ASSETS	$ 6,352,366	$ 657,331	$ 7,009,697

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

GRAVES COUNTY WATER DISTRICT
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS-
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Water Fund	Sewer Fund	Totals
OPERATING REVENUE	$ 1,008,345	$ 101,784	$ 1,110,129
OPERATING EXPENSE			
Advertising	2,709	-	2,709
Commissioners salaries	15,787	2,213	18,000
Purchased power	184,177	10,081	194,258
Purchased water	70,750	-	70,750
Chemicals	40,141	3,087	43,228
Materials and supplies	53,651	882	54,533
Equipment rental	32,192	-	32,192
Contractual services	661,789	54,060	715,849
Insurance	10,598	1,485	12,083
Miscellaneous	4,120	356	4,476
Bad debt	9,069	402	9,471
Depreciation and amortization	210,840	24,744	235,584
Tax & license	3,096	229	3,325
Total operating expenses	1,298,919	97,539	1,396,458
Operating income (loss)	(290,574)	4,245	(286,329)
NONOPERATING REVENUES (EXPENSES)			
Interest income	1,587	225	1,812
Interest expense	(7,177)	-	(7,177)
Nonoperating revenues (expenses)	(5,590)	225	(5,365)
Income (loss) before capital contributions	(296,164)	4,470	(291,694)
Capital contributions	401,111		401,111
Increase (Decrease) in net assets	104,947	4,470	109,417
NET ASSETS			
Beginning of year	4,819,104	646,818	5,465,922
End of year	$ 4,924,051	$ 651,288	$ 5,575,339

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

GRAVES COUNTY WATER DISTRICT
COMBINED STATEMENTS OF CASH FLOWS-
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Water Fund	Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	$ 1,001,015	$ 101,901	$ 1,102,916
Cash payments to suppliers for goods and services	(1,125,984)	(70,378)	(1,196,362)
Customer deposits received	3,308	-	3,308
Net cash provided by operating activities	(121,661)	31,523	(90,138)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments	(68,256)	-	(68,256)
Interest paid	(7,177)	-	(7,177)
Proceeds from debt	331,087	-	331,087
Utility plant additions and improvements	(819,136)	(5,688)	(824,824)
Contributions in aid of construction	401,111	-	401,111
Net cash provided by (used for) capital and related financing activities	(162,371)	(5,688)	(168,059)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	1,587	225	1,812
Net cash provided by (used for) investing activities	1,587	225	1,812
Net decrease in cash and cash equivalents	(282,445)	26,060	(256,385)
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	360,591	119,497	480,088
CASH AND CASH EQUIVALENTS - END OF THE YEAR	$ 78,146	$ 145,557	$ 223,703
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	$ (290,574)	$ 4,245	$ (286,329)
Adjustments to reconcile operating income (loss) to cash provided by operating activities:			
Depreciation and amortization	210,840	24,744	235,584
Changes in assets and liabilities:			
Accounts receivable	(7,330)	117	(7,213)
Prepaid insurance	(738)	492	(246)
Accounts payable and accrued expenses	(37,167)	1,925	(35,242)
Customer deposits	3,308	-	3,308
Net cash provided by operating activities	$ (121,661)	$ 31,523	$ (90,138)

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

Romaine
& Associates, PLLC
Certified Public Accountants

INDEPENDENT AUDITOR'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
Graves County Water District
Graves County, Kentucky

We have audited the financial statements of the Graves County Water District, for the year ended December 31, 2012, and have issued our report thereon dated April 30, 2013. The Graves County Water District financial statements are prepared on a prescribed basis of accounting that demonstrates compliance with the regulatory basis of accounting prescribed by the Public Service Commission. 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 of the financial statements, we considered the District's internal control over financial reporting 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be a material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

P.O. BOX 488
1214 Paris Road
Mayfield, Kentucky 42066
:270-247-8050
:270-247-7749
:kromaine@mewsbb.net

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*
(Continued)

Purpose Of This Report

This 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.

Romaine + Associates, PLLC
April 30, 2013