

# McCREARY COUNTY WATER DISTRICT

P.O. Box 488  
Whitley City, KY 42653  
(606) 376-2540

August 27, 2015

Mr. Jeff Cline  
PSC  
P.O. Box 615  
Frankfort, KY 40602-0615

RE: McCreary County Water District  
December 31, 2014 and 2013 Annual Report  
Water & Sewer Divisions

Dear Mr. Cline:

Please find enclosed is the McCreary County Water District Independent Auditor's Report and Combined Financial Statements December 31, 2014 and 2013 for both the water and sewer divisions.

If you have any questions, please feel free to contact me at (606) 376-2540.

Sincerely,



Stephen T. Owens, Manager/Supt.  
McCreary County Water District

STO/kt

Enclosure

McCreary County Water District,  
Water and Sewer Divisions

\* \* \* \*

Independent Auditor's Report  
and Combined Financial Statements  
December 31, 2014 and 2013

**FAULKNER, KING, & WENZ, PSC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

McCreary County Water District,  
Water and Sewer Divisions

\* \* \* \*

Independent Auditor's Report  
and Combined Financial Statements  
December 31, 2014 and 2013

McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

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**McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014 AND 2013**

Our discussion and analysis of the McCreary County Water District, Water and Sewer Divisions' financial performance provides an overview of the Company's financial activities for the years ended December 31, 2014 and 2013. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

For the year ended December 31, 2014, total operating and non-operating revenues (including capital contributions) totaled \$3,888,779 and operating expenses and non-operating expenses amounted to \$5,254,086, creating a decrease in net position of \$1,365,307. At year end, net position totaled \$31,654,207 of which \$30,039,548 (net of related debt) was invested in capital assets, and \$779,722 was restricted for debt service and construction. This left a net amount of \$834,937 of unrestricted net position.

For the year ended December 31, 2013, total operating and non-operating revenues (including capital contributions) totaled \$4,682,125 and operating expenses and non-operating expenses amounted to \$5,333,792, creating a decrease in net position of \$651,667. At year end, net position totaled \$33,019,514 of which \$31,200,042 (net of related debt) was invested in capital assets, and \$715,408 was restricted for debt service and construction. This left a net amount of \$1,104,064 of unrestricted net position.

Overview of the Financial Statements

This report consists of Management's Discussion and Analysis, Financial Statements and Supplementary information. The Financial Statements include notes which explain in detail some of the information included in the Financial Statements.

Required Financial Statements

The financial statements of McCreary County Water District, Water and Sewer Divisions report information of the Company using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of utility's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to utility creditors (liabilities). It also provides the basis for evaluation of the capital structure of the utility and assessing the liquidity and financial flexibility of the utility.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of utility's operations over the past year and can be used to determine whether the utility has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014 AND 2013**

Condensed Comparative Financial Analysis:

McCreary County Water District  
Water and Sewer Divisions  
Statement of Net Position-Summary  
December 31, 2014 and 2013

Assets	2014	2013
Total Current Assets	\$ 1,254,149	\$ 1,509,608
Total Restricted Assets	779,722	715,408
Net Capital Assets	40,199,050	41,686,550
Total Assets	<u>\$ 42,232,921</u>	<u>\$ 43,911,566</u>
 Liabilities		
Total Current Liabilities	\$ 786,781	\$ 732,566
Total Non-current Liabilities	9,791,933	10,159,486
Total Liabilities	<u>\$ 10,578,714</u>	<u>\$ 10,892,052</u>
 Net Position:		
Invested in capital assets, net of related debt	\$ 30,039,548	\$ 31,200,042
Restricted for debt service and construction	779,722	715,408
Unrestricted	834,937	1,104,064
Total Net Position	<u>\$ 31,654,207</u>	<u>\$ 33,019,514</u>

The largest portion per year (94.90% and 94.49% respectively) of the utility's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding. The utility used these capital assets to provide services to citizens and consumers. Consequently, these assets are not available for future spending.

Restricted net position per year (2.46% and 2.17% respectively) represent resources that are subject to external restrictions on how they may be used.

The balance per year (2.64% and 3.34% respectively) of unrestricted net position may be used to meet the utility's ongoing obligations to citizens, consumers and creditors.

**McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014 AND 2013**

McCreary County Water District  
Water and Sewer Divisions  
Statement of Operations  
For the Years Ended December 31, 2014 and 2013

	2014	2013
Total operating revenues	\$ 3,774,939	\$ 3,848,665
Total operating expenses	4,943,036	5,007,369
Operating loss	(1,168,097)	(1,158,704)
Total non-operating revenue (expenses)	(249,406)	(279,714)
Loss before capital contributions	(1,417,503)	(1,438,418)
Capital contributions	52,196	786,751
Change in net position	(1,365,307)	(651,667)
Beginning of year	33,019,514	33,671,181
End of year	\$ 31,654,207	\$ 33,019,514

During 2014, net position decreased by \$1,365,307 and consisted of operating loss of (\$1,168,097), net non-operating revenue and expenses of (\$249,406) and capital contributions of \$52,196.

During 2013, net position decreased by \$651,667 and consisted of operating loss of (\$1,158,704), net non-operating revenues and expenses of (\$279,714) and capital contributions of \$786,751.

Capital Asset Changes

At December 31, 2014, the Utility had invested \$40,199,050 in capital assets, net of accumulated depreciation. This amount represents a net decrease of \$1,487,500 from the previous year. The net decrease consisted of additions to capital assets of \$93,394 less depreciation expense of \$1,580,894. The additions were mainly financed with proceeds of capital grants.

At December 31, 2013, the Utility had invested \$41,686,550 in capital assets, net of accumulated depreciation. This amount represents a net increase of \$540,650 from the previous year. The net increase consisted of additions to capital assets of \$997,134 less depreciation expense of \$1,537,784. The additions were mainly financed with proceeds of capital grants.

Debt Administration

At December 31, 2014, the utility had total debt equal to \$10,159,502 which consisted of \$10,101,427 of bonds outstanding, \$50,559 of notes payable, and capital leases of \$7,516. At the beginning of the year total debt equaled \$10,486,508. The decrease in debt of \$327,006 was due to scheduled principal payments.

At December 31, 2013, the utility had total debt equal to \$10,486,508, which consisted of \$10,408,442 of bonds outstanding, \$68,760 of notes payable, and capital leases of \$9,306. At the beginning of the year total debt equaled \$10,636,399. The decrease in debt was due to scheduled principal payments and debt defeasement of \$2,209,197 in excess of new debt of \$2,059,306.

McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014 AND 2013

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of McCreary County Water District, Water and Sewer Divisions' finances and to demonstrate utility's accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact the McCreary County Water District, Whitley City, Kentucky.



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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
McCreary County Water District  
Water and Sewer Divisions  
Whitley City, Kentucky 42653

**Report on the Financial Statements**

We have audited the accompanying combined financial statements of the business-type activities of McCreary County Water District, Water and Sewer Divisions 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.

**Auditor's 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 includes 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

McCreary County Water District  
Water and Sewer Divisions  
Whitley City, Kentucky 42653  
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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 combined financial statements referred to above present fairly, in all material respects, the respective financial position of McCreary County Water District, Water and Sewer Divisions as of December 31, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 1 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the combined financial statements that collectively comprise McCreary County Water District, Water and Sewer Divisions' basic financial statements. The accompanying combining statements of net position, revenues, expenses and changes in net position, and cash flows are presented for purposes of additional analysis, and are not a required part of the combined financial statements of the McCreary County Water District, Water and Sewer Divisions.

McCreary County Water District  
Water and Sewer Divisions  
Whitley City, Kentucky 42653  
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The combining statements referred to above are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2015, on our consideration of McCreary County Water District, Water and Sewer Divisions' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 McCreary County Water District's internal control over financial reporting and compliance.

***Faulkner, King & Wenz, PSC***

August 13, 2015

McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
COMBINED STATEMENTS OF NET POSITION  
DECEMBER 31, 2014 and 2013

**ASSETS**

	2014	2013
<b>Current assets:</b>		
Cash and cash equivalents	\$ 529,494	\$ 649,171
Unbilled revenues	203,296	234,908
Accounts receivable	258,045	362,554
Other receivables	38,640	3,204
Inventory	200,858	227,812
Prepaid expenses	23,816	31,959
Total current assets	1,254,149	1,509,608
<b>Non-current assets:</b>		
Restricted assets:		
Cash	447,877	385,179
Investments	331,845	330,229
Capital assets:		
Utility plant	59,322,840	56,467,514
Less accumulated depreciation	(19,123,790)	(17,542,896)
Construction in process	-	2,761,932
Total non-current assets	40,978,772	42,401,958
Total assets	\$ 42,232,921	\$ 43,911,566

**LIABILITIES**

<b>Current liabilities:</b>		
Accounts payable	\$ 140,134	\$ 127,741
Accrued interest	130,066	134,542
Taxes payable	15,068	15,476
Other accrued expenses	97,083	89,621
Customer deposits	36,861	38,164
Capital equipment lease - current	2,120	1,701
Notes payable - current	19,420	18,306
Revenue bonds - current portion	346,029	307,015
Total current liabilities	786,781	732,566
<b>Non-current liabilities:</b>		
Capital equipment lease - non current	5,396	7,605
Notes payable - long term	31,139	50,454
Revenue bonds - net current portion	9,755,398	10,101,427
Total non-current liabilities	9,791,933	10,159,486
Total liabilities	\$ 10,578,714	\$ 10,892,052

**NET POSITION**

Invested in capital assets, net		
of related debt	\$ 30,039,548	\$ 31,200,042
Restricted for debt service and construction	779,722	715,408
Unrestricted	834,937	1,104,064
Total net position	\$ 31,654,207	\$ 33,019,514

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

McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

	2014	2013
<b>Operating revenues</b>		
Residential sales	\$ 2,246,934	\$ 2,265,810
Commercial sales	324,504	324,256
Industrial sales	7,114	7,582
Governmental sales	1,087,528	1,145,281
Other sales	108,859	105,736
Total operating revenues	3,774,939	3,848,665
<b>Operating expenses</b>		
General and administrative costs	169,860	177,401
Payroll and related expenses	1,932,866	1,998,980
Repairs and maintenance	32,074	89,039
Other supplies and expenses	1,227,342	1,165,962
Bond issue costs	-	38,203
Depreciation and amortization	1,580,894	1,537,784
Total operating expenses	4,943,036	5,007,369
Operating loss	(1,168,097)	(1,158,704)
<b>Nonoperating revenues (expenses)</b>		
Interest income	8,541	8,726
Other income	53,103	37,983
Interest expense	(311,050)	(326,423)
Net nonoperating expenses	(249,406)	(279,714)
Loss before contributions	(1,417,503)	(1,438,418)
Capital grants received	52,196	786,751
Change in net position	(1,365,307)	(651,667)
Total net position beginning of year	33,019,514	33,671,181
Total net position end of year	\$ 31,654,207	\$ 33,019,514

The accompanying notes are an integral part of the financial statements

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
COMBINED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 3,875,529	\$ 3,843,029
Operating expenses:		
General and administrative	(169,860)	(177,401)
Payroll and related expenses	(1,932,866)	(1,998,980)
Repairs and maintenance	(32,074)	(89,039)
Bond issue costs	-	(38,203)
Other supplies and expenses	(1,174,101)	(1,176,370)
Net cash provided by operating activities	566,628	363,036
 <b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(93,394)	(987,828)
Principal paid on debt	(327,006)	(2,209,197)
Proceeds from debt borrowings	-	2,050,000
Interest paid on debt	(315,526)	(392,359)
Capital contributions	52,196	786,751
Net cash used in capital and related financing activities	(683,730)	(752,633)
 <b>Cash Flows from Investing Activities</b>		
Interest income from investments	8,636	10,534
Other cash receipts	53,103	37,983
Net cash provided by investing activities	61,739	48,517
 Net decrease in cash and cash equivalents	(55,363)	(341,080)
 Cash and cash equivalents, at beginning of year	1,364,579	1,705,659
 Cash and cash equivalents, at end of year	\$ 1,309,216	\$ 1,364,579
 Unrestricted cash and cash equivalents	\$ 529,494	\$ 649,171
Restricted cash and cash equivalents	779,722	715,408
 Total cash and cash equivalents, at end of year	\$ 1,309,216	\$ 1,364,579
 <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Non-cash transactions:		
Direct financing of fixed asset purchases	\$ -	\$ 9,306

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

**McCREARY COUNTY WATER DISTRICT,  
 WATER AND SEWER DIVISIONS  
 COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)  
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Operating loss	\$ (1,168,097)	\$ (1,158,704)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,580,894	1,537,784
Change in assets and liabilities:		
Decrease (increase) in receivables	100,590	(5,636)
Decrease in inventories	26,954	1,342
Decrease (increase) in prepaids	8,143	(2,470)
Increase (decrease) in accounts payable	12,393	(26,972)
(Decrease) increase in customer deposits	(1,303)	815
Increase in accrued expenses	7,054	16,877
 <b>Net cash provided by operating activities</b>	 <b>\$ 566,628</b>	 <b>\$ 363,036</b>

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 and 2013**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the McCreary County Water District, Water and Sewer Divisions (the District) conform to accounting principles generally accepted in the United States of America (GAAP). The District applies 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 Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The following is a summary of the more significant policies:

**Reporting Entity**

The District, consisting of McCreary County Water District Water Division, and McCreary County Water District Sewer Division has been consolidated for reporting purposes. The entities share the same board of commissioners, central offices and employees.

The District is a special district formed for the express purpose of providing water and sewer service within the confines of McCreary County, Kentucky and East Pine Knot Estates. McCreary County Fiscal Court appoints an independent board of commissioners to govern the district. The District operates as an independent entity in that it: is legally separate; holds corporate powers of organization; the Fiscal Court does not impose their will upon the District; and the District does not impose financial benefit or burden upon the Fiscal Court.

**Basis of Presentation**

GASB Statement of Accounting Standards No. 34, as amended by GASB 63, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34) established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable 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 position component as the unspent proceeds.
- Restricted - This component of net position consists of constraints placed on net asset use through external 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 - This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."



**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 and 2013**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The District is an individual fund and is accounted for as a business-type activity fund. It is financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges.

**Basis of Accounting**

Basis of accounting refers to when revenues and 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. The District's financial statements are prepared on the accrual basis of accounting. By utilizing this method, revenues are recognized when they are earned, and expenses are recognized as they are incurred.

Operating income reported in the financial statements includes revenues and expenses related to the continuing operation of the fund. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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

**Use of Estimates and Assumptions**

In preparing financial statements that conform with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses reflected during the reporting period. Accordingly, actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the allowance for doubtful accounts for accounts receivable.

**Compensated Absences**

Vacation - Vacation days are accrued at the following rate:

- 5 days per year for years 1-3
- 10 days per year for years 3-10
- 15 days per year for years 10-15
- 20 days per year for years 15-xx

These days are carried over if unused to a maximum of 30 days; however, all full-time employees with over three years must take ten days of vacation per year.

Sick - Employees earn one sick day for every two months of employment and may carry over a total of twelve days.

These unpaid compensated absences, if applicable, are recorded as accrued liabilities.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District considers all highly liquid investments with maturity of ninety days or less to be cash equivalents.

McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 and 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable**

Trade accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management closely monitors outstanding balances and writes off balances that are deemed to be uncollectible. The allowance for doubtful accounts of \$157,870 and \$142,470 for the years ended December 31, 2014 and 2013 has been established to reserve for those balances that the entity believes to be uncollectible.

**Inventories**

Inventories are stated at the lower of cost or market on the basis of "first-in, first-out" (FIFO) inventory method.

**Capital and operating grants**

Grants that are restricted to the purchase of capital assets are recorded as other income, per GASB 33. The District received \$52,196 and \$786,751 in grants for the years ended December 31, 2014 and 2013 respectively.

**Capital Assets**

Utility plant is stated at original cost and depreciated over its estimated useful lives using the straight-line method. Expenditures for maintenance and repairs are expensed when incurred. Renewals and betterments are capitalized. The range of useful lives used in computing depreciation is:

<u>Classification</u>	<u>Range of lives</u>
Buildings	40 years
Water systems	40 years
Machinery & equipment	5 years

Total depreciation expense was \$1,580,894 and \$1,537,784 for the years ended December 31, 2014 and 2013 respectively.

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS**

The investment policies of the District are governed by State statute. Major provisions of the District's investment policy include: depositories must be FDIC insured banking institutions; depositories must fully insure or collateralize all demand and time deposits and repurchase agreements; and securities collateralizing repurchase agreements are to be held by independent third parties.

**Bank Deposits**

The fair market value of deposits and investments was equivalent to the reported values. All deposits are checking or savings accounts. The carrying amount of the District's bank deposits was \$1,308,216 and \$1,363,579 for the years ended December 31, 2014 and 2013 respectively and the respective bank balances totaled \$1,380,196 and \$1,433,788 respectively for the years then ended. The bank balances are covered by \$619,399 of FDIC insurance. The remaining bank balances were fully collateralized. The deposits are categorized to give an indication of the level of risk assumed by the District at year end. The categories are described as follows:

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NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Category 1 - Insured

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Collateralized with securities held by the pledged financial institution in the institution's name.

Deposits at December 31, 2014, categorized by level of risk, are:

	Risk Category			Bank Balance	Book Value
	1	2	3		
Unrestricted deposits					
Operating accounts	\$ 107,720	\$ -	\$ 306,001	\$ 413,721	\$ 341,741
Depreciation funds	152,479		34,274	186,753	186,753
Restricted deposits					
Debt service funds	-	-	338,677	338,677	338,677
Depreciation funds	109,200	-	-	109,200	109,200
Investments	<u>250,000</u>	<u>-</u>	<u>81,845</u>	<u>331,845</u>	<u>331,845</u>
Total deposits	<u>\$ 619,399</u>	<u>\$ -</u>	<u>\$ 760,797</u>	<u>\$ 1,380,196</u>	<u>\$ 1,308,216</u>

Deposits at December 31, 2013, categorized by level of risk, are:

	Risk Category			Bank Balance	Book Value
	1	2	3		
Unrestricted deposits					
Operating accounts	\$ 207,606	\$ -	\$ 306,520	\$ 514,126	\$ 443,917
Depreciation funds	204,254		-	204,254	204,254
Restricted deposits					
Debt service funds	-	-	297,039	297,039	297,039
Depreciation funds	88,140	-	-	88,140	88,140
Investments	<u>250,000</u>	<u>-</u>	<u>80,229</u>	<u>330,229</u>	<u>330,229</u>
Total deposits	<u>\$ 750,000</u>	<u>\$ -</u>	<u>\$ 683,788</u>	<u>\$ 1,433,788</u>	<u>\$1,363,579</u>

The District also had \$1,000 and \$1,000 of petty cash on hand for the years ended December 31, 2014 and 2013 respectively.

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NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

**Investments**

At December 31, 2014 and 2013, the District's investments included the Federated Treasury Obligations Fund (a money market fund). The investments are categorized to give an indication of the level of risk assumed by the District at year end. The categories are described as follows:

- Category 1 - Investments that are insured, registered or for which the securities are held by the District or its agent in the District's name.
- Category 2 - Uninsured and unregistered investments for which the securities are held by the bank's trust departments or agents in the District's name.
- Category 3 - Uninsured and unregistered investments for which the securities are held by the banks, or by their trust departments or agents but not in the District's name.

Investments at December 31, 2014 categorized by level of risk, are:

	Risk Category			Book Value	Fair Value
	1	2	3		
Treasury MM Fund	<u>\$331,845</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$331,845</u>	<u>\$331,845</u>
Total investments	<u>\$331,845</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$331,845</u>	<u>\$331,845</u>

Investments at December 31, 2013, categorized by level of risk, are:

	Risk Category			Book Value	Fair Value
	1	2	3		
Treasury MM Fund	<u>\$330,229</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$330,229</u>	<u>\$330,229</u>
Total investments	<u>\$330,229</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$330,229</u>	<u>\$330,229</u>

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**NOTE 3 - RESTRICTED ASSETS**

The restricted assets in the accompanying financial statements are restricted as to use by ordinance (Note 7), external parties or by board designation. A schedule of restricted assets at December 31, 2014 and 2013 are:

A schedule of restricted assets at December 31, 2014 are:

	Cash	Investments at cost	Total
Debt service funds	\$ 338,677	\$ -	\$ 338,677
Construction funds	-	-	-
Depreciation funds	109,200	-	109,200
Treasury MM fund	<u>-</u>	<u>331,845</u>	<u>331,845</u>
Total restricted assets	<u>\$ 447,877</u>	<u>\$ 331,845</u>	<u>\$ 779,722</u>

A schedule of restricted assets at December 31, 2013 are:

	Cash	Investments at cost	Total
Debt service funds	\$ 297,039	\$ -	\$ 297,039
Construction funds	-	-	-
Depreciation funds	88,140	-	88,140
Treasury MM fund	<u>-</u>	<u>330,229</u>	<u>330,229</u>
Total restricted assets	<u>\$ 385,179</u>	<u>\$ 330,229</u>	<u>\$ 715,408</u>

**McCREARY COUNTY WATER DISTRICT  
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**NOTE 4 - CAPITAL ASSETS**

The following represents the activity for the year ended December 31, 2014:

	Balance 12/31/2013	Additions	Disposals	Transfers	Balance 12/31/2014
<b>Operating fixed assets:</b>					
Land	\$ 258,269	\$ -	\$ -	\$ -	\$ 258,269
Buildings & Improvements	17,196,078	-	-	2,699,549	19,895,627
Treatment equipment	3,249,813	-	-	-	3,249,813
Distributions	22,561,694	2,816	-	120,245	22,684,755
Services/meters	3,680,754	24,428	-	-	3,705,182
Other equipment	<u>9,520,906</u>	<u>8,288</u>	<u>-</u>	<u>-</u>	<u>9,529,194</u>
	56,467,514	35,532	-	2,819,794	59,322,840
Accumulated depreciation	<u>(17,542,896)</u>	<u>(1,580,894)</u>	<u>-</u>	<u>-</u>	<u>(19,123,790)</u>
	38,924,618	(1,545,362)	-	2,819,794	40,199,050
Construction in progress	<u>2,761,932</u>	<u>57,862</u>	<u>-</u>	<u>(2,819,794)</u>	<u>-</u>
Utility plant, net	<u>\$41,686,550</u>	<u>\$ (1,487,500)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$40,199,050</u>

The following represents the activity for the year ended December 31, 2013:

	Balance 12/31/2012	Additions	Disposals	Transfers	Balance 12/31/2013
<b>Operating fixed assets:</b>					
Land	\$ 255,769	\$ 2,500	\$ -	\$ -	\$ 258,269
Buildings & Improvements	17,061,368	23,166	-	111,544	17,196,078
Treatment equipment	3,253,190	-	-	(3,377)	3,249,813
Distributions	22,555,260	6,434	-	-	22,561,694
Services/meters	3,660,394	20,360	-	-	3,680,754
Other equipment	<u>9,511,087</u>	<u>9,819</u>	<u>-</u>	<u>-</u>	<u>9,520,906</u>
	56,297,068	62,279	-	108,167	56,467,514
Accumulated depreciation	<u>(16,005,112)</u>	<u>(1,537,784)</u>	<u>-</u>	<u>-</u>	<u>(17,542,896)</u>
	40,291,956	(1,475,505)	-	108,167	38,924,618
Construction in progress	<u>1,935,244</u>	<u>934,855</u>	<u>-</u>	<u>(108,167)</u>	<u>2,761,932</u>
Utility plant, net	<u>\$42,227,200</u>	<u>\$ (540,650)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$41,686,550</u>

McCREARY COUNTY WATER DISTRICT  
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**NOTE 5 - LONG-TERM DEBT**

Outstanding long-term debt consists of revenue bonds collateralized by the revenues of the District, and two capital leases for equipment. Revenues of the District are to be used first to pay operating and maintenance expenses and second to establish and maintain the revenue bond funds. The District is in compliance with all significant financial requirements as of December 31, 2014.

The District's bonded indebtedness and other long-term debt at December 31, 2014 and 2013, are summarized as follows:

<u>Bond issue</u>	<u>Rate</u>	<u>Original Issue</u>	<u>Principal O/S 2014</u>	<u>Principal O/S 2013</u>
<b>Water District</b>				
Ricoh Financial	12.75%	\$ 9,306	\$ 7,516	\$ 9,306
RD Series 2013 D	Variable	1,415,000	1,325,000	1,415,000
RD 2013 Series A	1.875%	635,000	635,000	635,000
RD 2005 Series A	4.125%	750,000	677,000	687,500
RD 2008 Series A	4.125%	325,000	305,000	309,300
RD 2008 Series A	4.125%	150,000	140,800	142,800
RD Series 2012 D	Variable	3,205,000	3,060,000	3,145,000
RD Series 2012 D-1	Variable	1,935,000	1,300,000	1,300,000
KIA CD2-01	1.000% *	1,510,000	872,127	943,342
<b>Sewer District</b>				
RD 2005 Series A	4.125%	290,000	261,500	265,500
RD Series 2012 D	Variable	1,595,000	1,525,000	1,565,000
N/P - Bank of McCreary Co.	6.000%	167,000	50,559	68,760
		11,986,306	10,159,502	10,486,508
Less current maturities			(367,569)	(327,022)
Total long-term debt			<u>\$ 9,791,933</u>	<u>\$10,159,486</u>

\* The original issue of the KIA CD2-01 loan is \$1,510,000. As of December 31, 2014, the District had borrowed \$1,474,999 of the original amount.

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**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

The District's bonded indebtedness and other long-term debt at December 31, 2014 is detailed as follows:

	Principal Balance 12/31/2013	Borrowings	Principal Payments	Principal Balance 12/31/2014	Current	Long-Term
<b>Water District</b>						
Ricoh Finance	\$ 9,306	\$ -	\$ 1,790	\$ 7,516	\$ 2,120	\$ 5,396
2005 Series A	687,500	-	10,500	677,000	11,000	666,000
2008 Series A	309,300	-	4,300	305,000	4,500	300,500
2008 Series A	142,800	-	2,000	140,800	2,100	138,700
2012 Series D	3,145,000	-	85,000	3,060,000	85,000	2,975,000
2012 Series D1	1,300,000	-	-	1,300,000	21,000	1,279,000
2013 Series D	635,000	-	-	635,000	11,000	624,000
2013 Series A	1,415,000	-	90,000	1,325,000	90,000	1,235,000
KIA CD2-01	943,342	-	71,215	872,127	71,929	800,198
<b>Sewer District</b>						
2005 Series A	265,500	-	4,000	261,500	4,500	257,000
2012 Series D	1,565,000	-	40,000	1,525,000	45,000	1,480,000
N/P - BOMC	68,760	-	18,201	50,559	19,420	31,139
	<u>\$10,486,508</u>	<u>\$ -</u>	<u>\$ 327,006</u>	<u>\$10,159,502</u>	<u>\$ 367,569</u>	<u>\$ 9,791,933</u>

The District's bonded indebtedness and other long-term debt at December 31, 2013 is detailed as follows:

	Principal Balance 12/31/2012	Borrowings	Principal Payments	Principal Balance 12/31/2013	Current	Long-Term
<b>Water District</b>						
Takeuchi Fin.	\$ 2,034	\$ -	\$ 2,034	\$ -	\$ -	\$ -
Forcht Bank	51,576	-	51,576	-	-	-
Ricoh Finance	-	9,306	-	9,306	1,701	7,605
2005 Series A	697,500	-	10,000	687,500	10,500	677,000
2008 Series A	313,500	-	4,200	309,300	4,300	305,000
2008 Series A	144,700	-	1,900	142,800	2,000	140,800
2012 Series D	3,205,000	-	60,000	3,145,000	85,000	3,060,000
2012 Series D1	1,799,256	-	499,256	1,300,000	-	1,300,000
2013 Series D	-	635,000	-	635,000	-	635,000
2013 Series A	-	1,415,000	-	1,415,000	90,000	1,325,000
KRWFC	1,456,000	-	1,456,000	-	-	-
KIA CD2-01	1,013,850	-	70,508	943,342	71,215	872,127
<b>Sewer District</b>						
2005 Series A	269,500	-	4,000	265,500	4,000	261,500
2012 Series D	1,595,000	-	30,000	1,565,000	40,000	1,525,000
N/P - BOMC	86,347	-	17,587	68,760	18,306	50,454
IOS Capital	2,136	-	2,136	-	-	-
	<u>\$10,636,399</u>	<u>\$ 2,059,306</u>	<u>\$ 2,209,197</u>	<u>\$10,486,508</u>	<u>\$ 327,022</u>	<u>\$10,159,486</u>



**McCREARY COUNTY WATER DISTRICT  
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**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

The long-term debt service requirements are as follows:

<u>Year</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>	
	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Sewer</u>
2015	\$ 298,649	\$ 68,920	\$ 237,431	\$ 69,880	\$ 536,080	\$ 138,800
2016	309,167	70,100	229,771	66,832	538,938	136,932
2017	316,595	60,039	222,752	64,157	539,347	124,196
2018	321,532	50,000	215,687	62,414	537,219	112,414
2019	328,849	50,000	208,169	60,749	537,018	110,749
2020-2024	1,733,629	289,500	918,000	276,457	2,651,629	565,957
2025-2029	1,398,122	341,500	691,923	220,625	2,090,045	562,125
2030-2034	1,183,500	405,500	479,215	148,347	1,662,715	553,847
2035-2039	1,086,700	367,500	282,327	63,788	1,369,027	431,288
2040-2044	701,500	134,000	119,835	11,797	821,335	145,797
2045-2049	424,200	-	46,339	-	470,539	-
2050-2052	220,000	-	6,169	-	226,169	-
	<u>\$8,322,443</u>	<u>\$1,837,059</u>	<u>\$3,657,618</u>	<u>\$1,045,046</u>	<u>\$11,980,061</u>	<u>\$2,882,105</u>

2005 Series A - McCreary County Water District Waterworks Revenue Bond, dated August 31, 2005, due in annual installments through April 1, 2045, bearing an interest rate of 4.125%.

2008 Series A - McCreary County Water District Waterworks Revenue Bond, dated April 8, 2008, due in annual installments through April 8, 2048 bearing an interest rate of 4.125%

2008 Series A - McCreary County Water District Waterworks Revenue Bond, dated April 8, 2008, due in annual installments through April 8, 2048 bearing an interest rate of 4.125%

KRWFC - McCreary County Water District Waterworks Revenue Bond, dated March 24, 2004, due in annual installments through January 1, 2030, bearing a variable interest rate. This loan was paid off in 2013 with proceeds from new bond issues at lower interest rates.

KIA CD2-01 Fund C - As of December 31, 2005 the District had drawn \$1,474,999 on a KIA loan secured by a pledge of revenues. The loan bears an interest rate of 1.00% with a life of twenty years maturing in 2025.

Forcht Bank - Installment loan dated November 10, 2009, due in monthly installments through November 10, 2014, bearing an interest rate of 3.30%. Was paid off in 2013.

2012 Series D - McCreary County Water District Waterworks Revenue Bond, dated May 30, 2012, due in annual installments through January 1, 2040 bearing a variable interest rate.

2012 Series D1 - McCreary County Water District Waterworks Revenue Bond, dated September 30, 2012, due in annual installments through April 1, 2052 bearing a variable interest rate.

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**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

2013 Series D - McCreary County Water District Waterworks Revenue Bond, dated February 27, 2013, due in annual installments through October 1, 2052 bearing a variable interest rate.

2013 Series A - McCreary County Water District Waterworks Revenue Bond, dated February 27, 2013, due in annual installments through July 1, 2030 bearing an interest rate of 1.875%.

2012 Series D - McCreary County Water District Sewer System Revenue Bond, dated May 30, 2012, due in annual installments through February 1, 2041, bearing a variable interest rate.

2005 Series A - McCreary County Water District Sewer System Revenue Bond, dated August 31, 2005, due in annual installments through January 1, 2045, bearing an interest rate of 4.125%.

Bank of McCreary County - Installment loan dated February 9, 2007, due in bi-annual installments through February 9, 2017, bearing an interest rate of 6.0%.

Takeuchi Financial - A capital lease was started on May 15, 2011 for the use of equipment purchased from Wilson Equipment Company. The lease bears an interest rate of 7.2% with a life of twenty months and ended on January 15, 2013.

IOS Capital - A capital lease was started on July 16, 2009 for the use of equipment purchased from IKON Office Solutions. The lease bears an interest rate of 7.13% with a life of four years and ended on July 16, 2013.

Ricoh Finance - A capital lease was started on December 30, 2013 for the use of equipment purchased from IKON Office Solutions. The lease bears an interest rate of 12.75% with a life of four years ending on January 30, 2018.

**NOTE 6 - NET POSITION**

GASB Statement No. 34 (as amended by GASB 63) requires the delineation of Net Position as Invested in Property, Plant and Equipment (capital investments), Restricted and Unrestricted.

The balance of capital investments represents funds that have been used to acquire pump stations, storage facilities, meter stations, etc., constructed and operated by the District, net of outstanding debt. The balance was \$30,039,548 and \$31,200,042 for the years ended December 31, 2014 and 2013 respectively.

The District has the following restricted net position that is reserved in accordance with the District's various bond ordinances (Note 7):

	<u>2014</u>	<u>2013</u>
Construction	\$ -0-	\$ -0-
Depreciation	109,200	88,140
Debt Service	338,677	297,039
Treasury MM Fund	<u>331,845</u>	<u>330,229</u>
Total Restricted	<u>\$ 779,722</u>	<u>\$ 715,408</u>

The District has a balance of \$834,937 and \$1,104,064 for unrestricted net position at December 31, 2014 and 2013 respectively.

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**NOTE 7 - COMPLIANCE WITH BOND ORDINANCES**

The District is in compliance with its bond ordinances that require the District to maintain certain reserves and restricted assets as follows:

Bond and Interest Fund - In order to fund the McCreary County Water District and Water Sewer debt, the District makes deposits into these funds to pay for current maturing principal portions and associated interest of bond issues.

Bond Sinking Funds - McCreary County Water District is required by ordinances to transfer funds into various sinking funds for future debt retirement.

Depreciation Fund - The bond resolutions authorizing the bond issues of the water and sewer system require transfers into various depreciation funds to be used for plant acquisitions, extensions and extraordinary repairs and maintenance. Transfers can cease when the fund balance reaches specified levels. The balance in the depreciation fund as of December 31, 2014 and 2013 equaled \$295,953 and \$292,394 respectively. The required balance is \$109,200 and \$88,140 respectively.

Construction Funds - The District is required to transfer funds into various funds for the use of funding future projects.

**NOTE 8 - PENSION PLAN**

The District has elected to participate in the County Employees' Retirement System (CERS) which is administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multi-employer defined benefit plan that covers substantially all regular full-time employees of county, school board, municipal and other local agencies electing to participate. Upon election to participate in the CERS, each employee has the option to participate. However, all subsequent employees must participate and the employer is required to continue participation.

The District had a total of 28 and 28 employees at December 31, 2014 and 2013 covered by the CERS who contributed 5.00%. The employer contributed 18.89% through June, 2015 and 17.67% through December, 2014 and 19.55% through June, 2014 and 18.89% through December, 2013. The District's contribution was \$176,494 and \$183,997 for the years ended December 31, 2014 and 2013 respectively while the employees contributed \$48,273 and \$47,885 for the years then ended respectively.

The amount shown below as "actuarial accrued liability" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems (PERS). The measure is independent of the actuarial funding method used to determine contributions to the System.

Vesting in a retirement benefit begins immediately upon entry into the System. The participant has a fully vested interest after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3% compounded annually through June 30, 1981, 6% thereafter through June 30, 1986 and 4% thereafter. All required contributions were paid at year end or within thirty (30) days thereafter. The percentage of the District's contribution to total employers' contribution in the CERS for the year is not known.

The CERS total actuarial accrued liability was \$13,061,000,000 and the net assets available for the benefits were \$8,084,800,000 as of June 30, 2014, which is the latest information available. Also see Note 11.

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**NOTE 9 - 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. In addition to its general liability insurance, the District also carries commercial insurance for all other risks of loss such as workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three calendar years.

**NOTE 10 - FAIR VALUE MEASUREMENTS**

FASB Statement No. 157, *Fair Value Measurements*, as codified by Accounting Standards Codification (ASC) 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The District uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the District measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 or 3 inputs were used by the District.

*Level 1 Fair Value Measurements*

The fair value of the Federated Treasury Obligations Fund (a money market fund) is based on quoted net asset values of the investments held by the District at year-end.

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value:

Assets at Fair Value as of December 31, 2014

	Level 1	Level 2	Level 3	Total
Treasury MM fund	<u>\$331,845</u>	-	-	<u>\$331,845</u>
Total assets at fair value	<u>\$331,845</u>	-	-	<u>\$331,845</u>

Assets at Fair Value as of December 31, 2013

	Level 1	Level 2	Level 3	Total
Treasury MM fund	<u>\$330,229</u>	-	-	<u>\$330,229</u>
Total assets at fair value	<u>\$330,229</u>	-	-	<u>\$330,229</u>

**NOTE 11 - SUBSEQUENT EVENTS**

Subsequent events were evaluated through August 13, 2015, which is the date the financial statements were available to be issued.

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**NOTE 11 - SUBSEQUENT EVENTS (CONTINUED)**

In June 2012 the GASB approved a pair of related Statements that reflect substantial changes to the accounting and financial reporting of state and local government employers and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, *Accounting and Financial Reporting for Pensions*, addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision - usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments.

Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

Statement No. 68 will take effect for pension plan employers in fiscal years beginning after June 15, 2014 (that is, for years ended June 30, 2015 or later). The District is currently evaluating the effects of this statement on its financial statements. This accounting change will first affect the McCreary County Water District for the fiscal year ending December 31, 2015.

**Supplemental Information**

**MCCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
COMBINING STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

	McCreary County			Total
	Water	Sewer	Eliminations	
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 496,632	\$ 32,862	\$	\$ 529,494
Unbilled revenues	156,400	46,896		203,296
Accounts receivable, net	199,032	59,013		258,045
Other receivables	32,231	6,409		38,640
Due from associated division	628,762	-	(628,762)	-
Inventory	156,703	44,155		200,858
Prepaid expenses	23,816	-		23,816
Total current assets	<u>1,693,576</u>	<u>189,335</u>	<u>(628,762)</u>	<u>1,254,149</u>
<b>Non-current assets:</b>				
Restricted cash and cash equivalents	425,447	22,430		447,877
Investments	331,845	-		331,845
<b>Capital assets:</b>				
Utility plant	40,829,312	18,493,528		59,322,840
Less accumulated depreciation	(13,708,147)	(5,415,643)		(19,123,790)
Construction in process	-	-		-
Total non-current assets	<u>27,878,457</u>	<u>13,100,315</u>		<u>40,978,772</u>
Total assets	<u>\$ 29,572,033</u>	<u>\$ 13,289,650</u>	<u>\$ (628,762)</u>	<u>\$ 42,232,921</u>
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Accounts payable	\$ 95,586	\$ 44,548	\$	\$ 140,134
Accrued interest	95,426	34,640		130,066
Due to associated division	-	628,762	(628,762)	-
Taxes payable	13,756	1,312		15,068
Other accrued expenses	89,396	7,687		97,083
Customer deposits	36,861	-		36,861
Capital equipment lease - current	2,120	-		2,120
Notes payable - current	-	19,420		19,420
Revenue bonds - current portion	296,529	49,500		346,029
Total current liabilities	<u>629,674</u>	<u>785,869</u>	<u>(628,762)</u>	<u>786,781</u>
<b>Non-current liabilities:</b>				
Capital equipment lease - net current	5,396	-		5,396
Notes payable - long term	-	31,139		31,139
Revenue bonds - net current portion	8,018,398	1,737,000		9,755,398
Total non-current liabilities	<u>8,023,794</u>	<u>1,768,139</u>		<u>9,791,933</u>
Total liabilities	<u>\$ 8,653,468</u>	<u>\$ 2,554,008</u>	<u>\$ (628,762)</u>	<u>\$ 10,578,714</u>
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	\$ 18,798,722	\$ 11,240,826	\$	\$ 30,039,548
Restricted for debt service and construction	757,292	22,430		779,722
Unrestricted	1,362,551	(527,614)		834,937
Total net position	<u>\$ 20,918,565</u>	<u>\$ 10,735,642</u>	<u>\$ -</u>	<u>\$ 31,654,207</u>

See Independent Auditor's Report.

**McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	McCreary County		Total
	Water	Sewer	
<b>Operating revenues</b>			
Residential sales	\$ 2,003,217	\$ 243,717	\$ 2,246,934
Commercial sales	205,837	118,667	324,504
Industrial sales	3,900	3,214	7,114
Governmental sales	693,168	394,360	1,087,528
Other sales and fees	66,561	42,298	108,859
Total operating revenues	<u>2,972,683</u>	<u>802,256</u>	<u>3,774,939</u>
<b>Operating expenses</b>			
General and administrative costs	159,130	10,730	169,860
Payroll and contractual services	1,635,248	297,618	1,932,866
Repairs and maintenance	-	32,074	32,074
Other supplies and expenses	819,525	407,817	1,227,342
Depreciation	1,016,190	564,704	1,580,894
Total operating expenses	<u>3,630,093</u>	<u>1,312,943</u>	<u>4,943,036</u>
Operating (loss)	<u>(657,410)</u>	<u>(510,687)</u>	<u>(1,168,097)</u>
<b>Nonoperating revenues (expenses)</b>			
Interest income	8,406	135	8,541
Other income	53,103	-	53,103
Interest expense	(240,490)	(70,560)	(311,050)
Total nonoperating revenues	<u>(178,981)</u>	<u>(70,425)</u>	<u>(249,406)</u>
Loss before contributions	<u>(836,391)</u>	<u>(581,112)</u>	<u>(1,417,503)</u>
Capital grants received	<u>52,196</u>	<u>-</u>	<u>52,196</u>
Change in net position	<u>(784,195)</u>	<u>(581,112)</u>	<u>(1,365,307)</u>
Total net position on December 31, 2013	<u>21,702,760</u>	<u>11,316,754</u>	<u>33,019,514</u>
Total net position on December 31, 2014	<u>\$ 20,918,565</u>	<u>\$ 10,735,642</u>	<u>\$ 31,654,207</u>

See Independent Auditor's Report



MCCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
COMBINING STATEMENT OF CASH FLOWS  
DECEMBER 31, 2014

	Water	Sewer	Total
<b>Cash Flows from Operating Activities</b>			
Cash received from customers	\$ 2,978,753	\$ 896,776	\$ 3,875,529
Operating expenses:			
General and administrative	(159,130)	(10,730)	(169,860)
Payroll and related expenses	(1,635,248)	(297,618)	(1,932,866)
Repairs and maintenance	-	(32,074)	(32,074)
Other supplies and expenses	(777,043)	(397,058)	(1,174,101)
Net cash provided by operating activities	<u>407,332</u>	<u>159,296</u>	<u>566,628</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition and construction of capital assets	(87,466)	(5,928)	(93,394)
Principal paid on debt	(264,805)	(62,201)	(327,006)
Proceeds from debt borrowings	-	-	-
Interest paid on debt	(244,966)	(70,560)	(315,526)
Capital contributions	52,196	-	52,196
Net cash used in capital and related financing activities	<u>(545,041)</u>	<u>(138,689)</u>	<u>(683,730)</u>
<b>Cash Flows from Investing Activities</b>			
Interest income from investments	8,501	135	8,636
Other cash receipts	53,103	-	53,103
Net cash provided by investing activities	<u>61,604</u>	<u>135</u>	<u>61,739</u>
Net (decrease) increase in cash and cash equivalents	(76,105)	20,742	(55,363)
Cash and cash equivalents, at beginning of year	<u>1,330,029</u>	<u>34,550</u>	<u>1,364,579</u>
Cash and cash equivalents, at end of year	<u>\$ 1,253,924</u>	<u>\$ 55,292</u>	<u>\$ 1,309,216</u>
Unrestricted cash and cash equivalents	\$ 496,632	\$ 32,862	\$ 529,494
Restricted cash and cash equivalents	<u>757,292</u>	<u>22,430</u>	<u>779,722</u>
Total cash and cash equivalents, at end of year	<u>\$ 1,253,924</u>	<u>\$ 55,292</u>	<u>\$ 1,309,216</u>

See Independent Auditor's Report.

McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)  
DECEMBER 31, 2014

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>			
Operating loss	\$ (657,410)	\$ (510,687)	\$ (1,168,097)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization	1,016,190	564,704	1,580,894
Change in assets and liabilities:			
Decrease in receivables	95,153	5,437	100,590
Decrease (increase) in inventories	36,391	(9,437)	26,954
Decrease in prepaids	8,143	-	8,143
(Decrease) increase in accounts payable	(9,996)	22,389	12,393
Decrease in customer deposits	(1,303)	-	(1,303)
Increase (decrease) in accrued expenses	9,247	(2,193)	7,054
<b>Net cash provided by operating activities</b>	<u>\$ 496,415</u>	<u>\$ 70,213</u>	<u>\$ 566,628</u>

See Independent Auditor's Report.

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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

Board of Commissioners  
McCreary County Water District  
Water and Sewer Divisions  
Whitley City, Kentucky 42653

We have audited, in accordance with the 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 combined financial statements of the business-type activities of the McCreary County Water District, Water and Sewer Divisions (the District), as of and for the year ended December 31, 2014, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated August 13, 2015.

**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 (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 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 consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Commissioners  
McCreary County Water District  
Water and Sewer Divisions  
Whitley City, Kentucky 42653  
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### **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*.

### **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.

***Faulkner, King & Wenz, PSC***

August 13, 2015