



Case No. 2015-00296

# Graves County Water District

P.O. Box 329  
Mayfield, KY 42066

August 20, 2015

Mr. Jeff Dureon, Director  
Kentucky Public Service Commission

RECEIVED  
AUG 25 2015  
PUBLIC SERVICE  
COMMISSION

The Graves County Water District has been notified by The Sedalia Water District that they are dissolving and the Board members have resigned and notified the Graves County Judge Executive. This situation has come about after the certified operator Eric Young resigned from his position of operator, meter reader, maintenance and billing clerk. As a result, The Graves County Board was contacted by the Sedalia Board and asked to take over all ownership and operations. In order to provide the Sedalia community with properly treated drinking water the Graves County Board agreed to take over the system. We have been running it like the other systems since Jan. 1<sup>st</sup>, 2015. The Graves County Board has done this in order to solve the problem.

Enclosed you will find 10 copies of our latest financial statement, the Graves County Fiscal Court boundary for the Sedalia Water District, and a resolution from the Graves County Fiscal Court approving the acquisition. I have also included a map of the Graves County System and including the Sedalia System. I would also like to request a waiver and /or deviation of any other requirement for information not included in the paper work submitted within.

Again, The Graves County Water District has all treatment, maintenance, billing, meter reading, etc. for the system. We have already added Sedalia to our GIS system and have GPS coordinates on all meters and valves. We have also had engineering estimates done to provide an alternate and possible primary feed from an inner connect with the Consumers area of the Graves County System. This would provide redundancy for the Sedalia community and Graves County Elementary School located there.

Should you require additional information or have any questions, please do not hesitate to contact me at (270) 247-4661.

Yours very truly,

A handwritten signature in blue ink that reads "Kevin Leonard". The signature is written in a cursive style with a large initial "K".

Kevin Leonard  
Water & Wastewater Manager  
Mayfield Electric & Water Systems

COMMONWEALTH OF KENTUCKY  
GRAVES COUNTY  
MAYFIELD, KENTUCKY 42066

JESSE PERRY, COUNTY JUDGE EXECUTIVE

RECEIVED

AUG 25 2015

PUBLIC SERVICE  
COMMISSION

270-247-3626

**RESOLUTION**  
**OF**  
**Graves County Fiscal Court**

*Graves County Fiscal Court has no objection to a lawful merger pursuant to KRS Chapter 74, between Sedalia Water District and Graves County Water District.*

March 23, 2015

Date

  
\_\_\_\_\_  
Jesse Perry, Graves County Judge/Executive

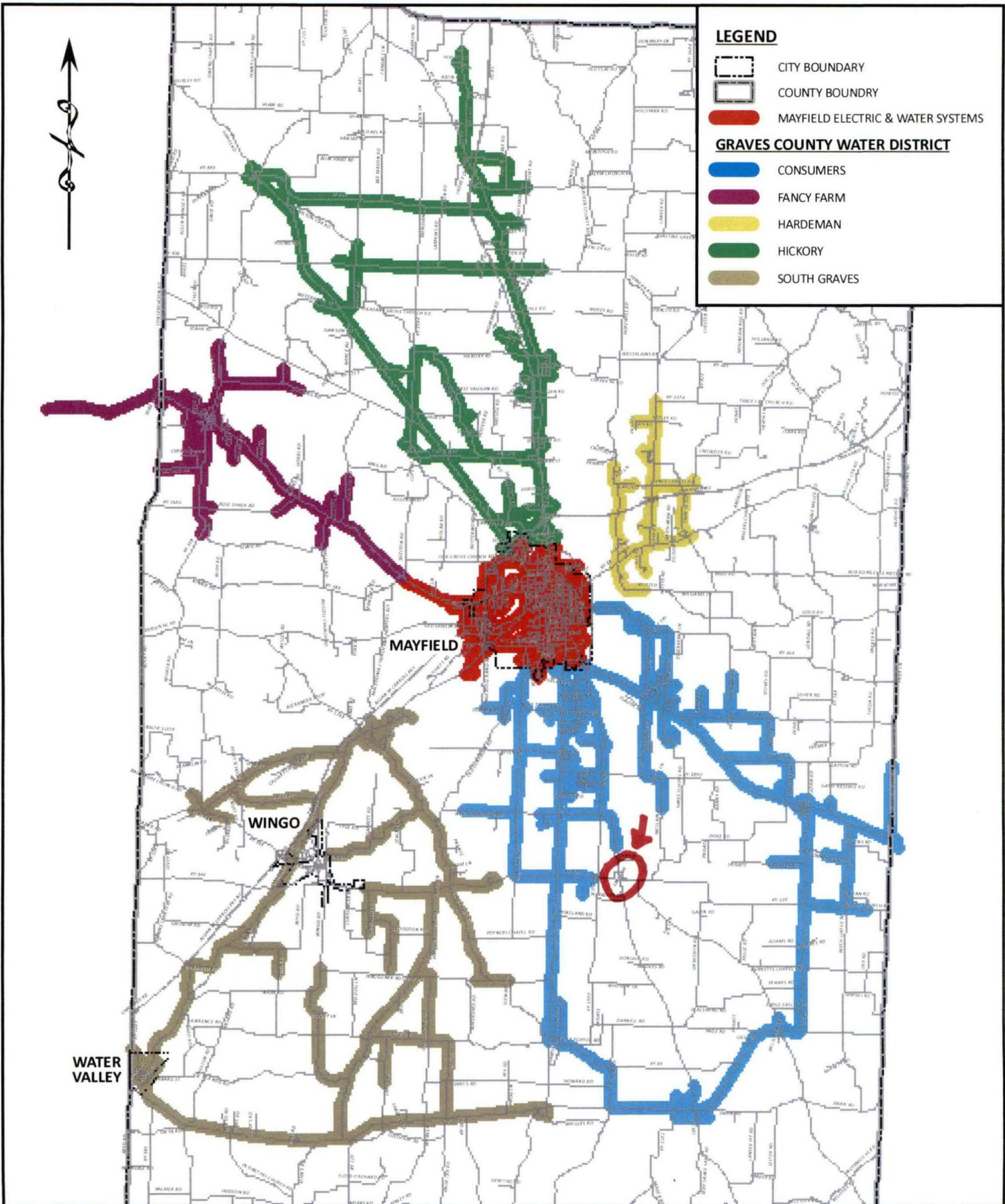
Attest:



Barry M. Kennemore

Graves County Clerk





**Florence & Hutcheson**

CONSULTING ENGINEERS

2550 IRVIN COBB DRIVE  
PADUCAH, KY 42003  
(270) 444-9691

F&H JOB NO.:

DATE:

DEC '10

OWNER:

GRAVES COUNTY WATER DISTRICT

SCALE:

0 0.8125 1.625 3.25



Miles

PROJECT:

WATER METERING IMPROVEMENTS

DRAWING:

SERVICE AREAS



# Legend

## Water District Boundaries

- Consumers
- South Graves
- Fancy Farm
- Hardeman
- Sedalia
- Hickory
- Symsonia

## Cities

- Mayfield
- Wingo

## Transportation Network

- Multi-Lane Limited Access
- U.S. Route
- State Route
- City and County Roads
- Water Projects - Line

## Waterline

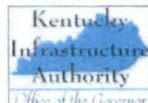
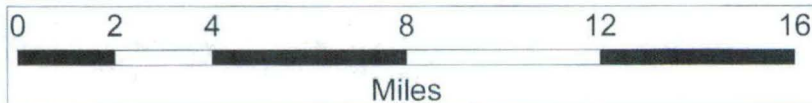
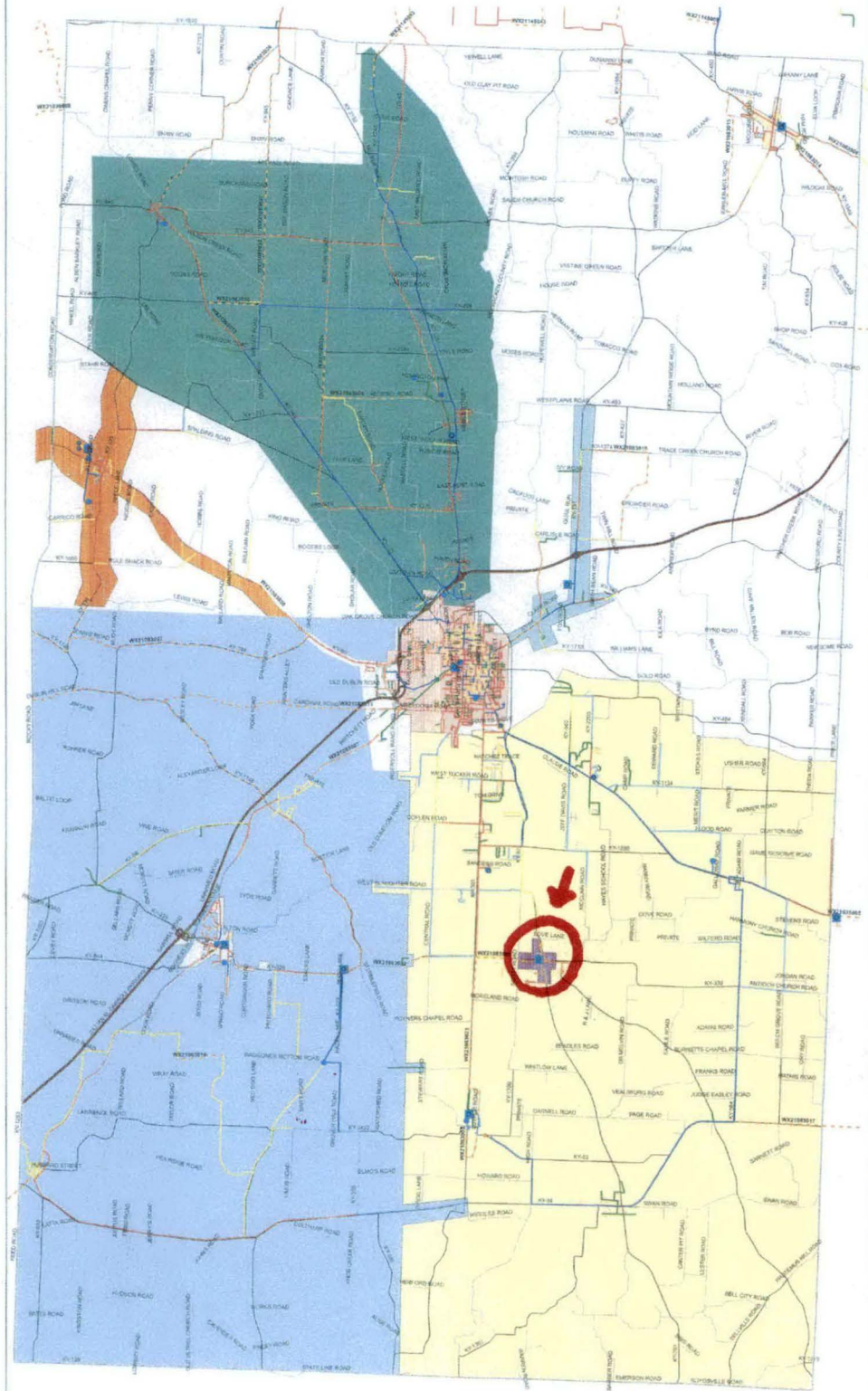
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- 16
- 18
- 20
- 24
- 30
- 36

- Water Project - Point
- WTP
- Purchase Source
- Non Community Point
- Surface Source
- Pump Station
- Public Well Source
- Water Tank
- Meter
- Water Pump

# Graves County Water Districts and Municipal Utilities



FEB 7 '62



RECEIVED  
GRAVES COUNTY COURT  
CLERK'S OFFICE  
MAYFIELD, KENTUCKY

*C.A.*

PETITION

GRAVES COUNTY COURT

*O.K. to release  
Security Release*

RECEIVED

AUG 25 2015

PUBLIC SERVICE  
COMMISSION

Come the Petitioners, the more than seventy-five undersigned, resident freeholders of the following described real estate, to-wit:

A certain tract or parcel of land in Graves County, Kentucky, described as beginning at a point in the center of Kentucky Highway 381 one-half mile South of the center of the intersection of Kentucky Highway 97 and said Highway 381 in Sedalia, Kentucky; thence west to a point 1000 feet from the center of Kentucky Highway 381; thence north a distance of 1640 feet to a point 1000 feet south of the center of Kentucky Highway 324 and 1000 feet west of the center of Kentucky Highway 381; thence west a distance of approximately 1640 feet to the center of the Scott Road, said point being 1000 feet south of the center of Kentucky Highway 324; thence north 2000 feet to a point in the center of the Berl McCall Road; thence east a distance of 1640 feet to a point 1000 feet west of the center of Kentucky Highway 97 and 1000 feet north of Kentucky Highway 324; thence north approximately 1640 feet to a point 1000 feet west of Kentucky Highway 97; thence east 2000 feet to a point in the center of the Jenkins Chapel Road; thence south approximately 1640 feet to a point 1000 feet north of Kentucky Highway 97; thence east approximately 1640 feet to a point 1000 feet north of Kentucky Highway 97; thence south 2000 feet to a point in the center of Kentucky Highway 97; thence west approximately 1640 feet to a point 1000 feet east of Kentucky Highway 381 and 1000 feet south of Kentucky Highway 97; thence south approximately 1640 feet to a point 1000 feet east of Kentucky Highway 381; thence west 1000 feet to the point of beginning.

The undersigned Petitioners say that at the present time the only water available for use by said Residents is that which may be pumped from wells or cisterns or carried from springs which is inadequate for the use of residents and farming operation; that, consequently, the public's convenience, comfort, and health, as well as safety because of the lack of adequate fire protection, are in grave danger and subject to extreme hazards; that it is extremely urgent and necessary to create said Water District in order to correct the aforesaid undesirable conditions.

Wherefore, the undersigned Petitioners move this Court to establish a Water District, consisting of the described property and furthermore the Court to appoint a Board of Commissioners for the purpose of furnishing a water supply to the residents of said District.

The undersigned Petitioners do further move the Court, in the order establishing the proposed Water District, specifically prohibit the financing of the Water supply system by levying assessments against the property owners abutting said proposed water supply system.

The District is to be named the Sedalia Water District.



Page 106-A Received  
7-13-1962

STATE OF KENTUCKY  
GRAVES COUNTY COURT

RE: CREATION OF THE SEDALIA WATER DISTRICT

COURT ORDER

It appearing to the Court upon hearing on this date, March 28, 1962, in the above styled matter that a petition in writing has been made to this Court for establishment and creation of a Water District to include the premises more fully described hereinafter, said petition being signed by more than seventy-five (75) resident free holders thereof; and it appearing that notice of the filing of said petition <sup>was</sup> given by publication in three (3) issues in a newspaper of general circulation in Graves County, Kentucky, for more than thirty (30) days prior to this hearing; and it appearing that no objection to the creation of the proposed Water District has been made to this Court; and it further appearing that the establishment of the Water District is necessary to the public health, convenience, fire protection and comfort to the residents of the proposed Water District;

NOW, THEREFORE, it is ordered and adjudged that the establishment of the proposed Water District is necessary for the public health, convenience, fire protection and comfort of the residents of the proposed District, and it is further ordered that a Water District, known as the Sedalia Water District be, and is hereby created and established consisting of the following property:

A certain tract or parcel of land in Graves County, Kentucky, described as beginning at a point in the center of Kentucky Highway 381 one-half mile South of the center of the intersection of Kentucky Highway 97 and said Highway 381 in Sedalia, Kentucky; thence west to a point 1000 feet from the center of Kentucky Highway 381; thence north a distance of 1640 feet to a point 1000 feet south of the center of Kentucky Highway

324 and 1000 feet west of the center of Kentucky Highway 381; thence west a distance of approximately 1640 feet to the center of the Scott Road, said point being 1000 feet south of the center of Kentucky Highway 324; thence north 2000 feet to a point in the center of the Berl McCall Road; thence east a distance of 1640 feet to a point 1000 feet west of the center of Kentucky Highway 97 and 1000 feet north of Kentucky Highway 324; thence north approximately 1640 feet to a point 1000 feet west of Kentucky Highway 97; thence east 2000 feet to a point in the center of the Jenkins Chapel Road; thence south approximately 1640 feet to a point 1000 feet north of Kentucky Highway 97; thence east approximately 1640 feet to a point 1000 feet north of Kentucky Highway 97; thence south 2000 feet to a point in the center of Kentucky Highway 97; thence west approximately 1640 feet to a point 1000 feet east of Kentucky Highway 381 and 1000 feet south of Kentucky Highway 97; thence south approximately 1640 feet to a point 1000 feet east of Kentucky Highway 381; thence west 1000 feet to the point of beginning.

This the 28th day of March, 1962.

  
Judge, Graves County Court

It is further ordered that the following named parties be and they are hereby appointed as Water Commissioners for the said Sedalia Water District, and their terms of office shall run consecutively as follows, viz;

Nelson Boyd	2 years
Will J Denham	3 years
T P Ray	4 years

Then came the aforesaid Commissioners and executed covenants to the Commonwealth of Kentucky in the penal sums of One thousand Dollars each, which was examined and approved by the court and ordered to record and is in words and figures as follows, viz;

GRAVES COUNTY COURT

IN THE MATTER OF ANNEXING CERTAIN  
TERRITORY TO THE SEDALIA WATER  
DISTRICT

COURT ORDER

It appearing to the Court that a hearing held on this date March 24, 1966, at 9:00 o'clock A.M., CST, in the Courthouse at Mayfield, Kentucky, that a Petition for annexing certain territory to the Sedalia Water District was filed by the Board of Water Commissioners of said District on February 18, 1966, which petition specifically and correctly described the territory sought to be annexed pursuant to Kentucky Revised Statutes 74.110.

It further appearing, by sworn Proof of Publication filed by the Mayfield Messenger, a newspaper of general circulation in Graves County, Kentucky, that notice of said petition and the hearing on this matter was given as provided by Kentucky Revised Statutes 74.110 (2) by publication in one issue of the Mayfield Messenger, which publication was made on February 21, 1966; and further notice was given pursuant to Kentucky Revised Statutes 424.130 (d), by publishing the notice of the filing of said petition and the date of the hearing on this matter in one issue of the Mayfield Messenger on March 14, 1966; the Court ~~is~~ having previously ordered this matter set for hearing on March 24, 1966 at 9:00 A.M., CST and the Court finds that it has been exactly 30 days since the publication of said first notice in said newspaper and ~~not~~ less than seven days nor more than twenty-one



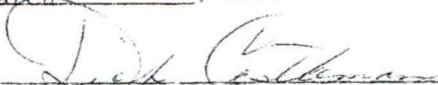
days since the second publication of said Notice of this hearing; and no objections, exceptions or protests of any kind have been filed or received by this Court.

The Court further finds that it is reasonably necessary that the hereinafter described territory be annexed to the Sedalia Water District and that the Sedalia Water District be enlarged to include the hereinafter described territory in order to enable the residents in said hereinafter described territory to have the advantage of water facilities and fire protection and the Court now finds that it is feasible at this time for the Sedalia Water District to furnish water service and fire protection for the residents of the territory hereinafter described and further finds that it would be to the best interest of said residents and necessary for the public health, convenience, fire protection and ~~convenience~~ comfort of said residents, that said territory hereinafter described be annexed to the Sedalia Water District.

IT IS THEREFORE ORDERED AND ADJUDGED that the following described territory be annexed and become a part of the Sedalia Water District. The property hereby annexed is described as follows:

A certain tract or parcel of land in Graves County, Kentucky, described as beginning at a point one-half mile South and 1,000 feet, more or less, East of the centerline of the intersection of Kentucky Highway 97, and Kentucky Highway 381 in Sedalia, Kentucky; thence in a Northerly direction parallel with Kentucky Highway 381 approximately 1640 feet, more or less, to a point, said point being 1,000 feet, more or less East of Kentucky Highway 381, and 1,000 feet, more or less, South of Kentucky Highway 97, 1640 feet, more or less, to a point in the center of the North and South portion of Kentucky Highway 97; thence South 1640 feet, more or less, to a point 1640 feet, more or less, East of the point of beginning; thence West 1640 feet, more or less, to the point of beginning.

This the 24th day of March, 1966.

  
\_\_\_\_\_  
Judge, Graves County Court

GRAVES COUNTY COURT

ORDER SETTING CASE FOR HEARING AS TO ANNEXATION OF  
ADJACENT TERRITORY TO THE SEDALIA WATER DISTRICT  
AND ORDERING PUBLICATION OF NOTICE OF FILING OF  
PETITION AND NOTICE OF TIME OF HEARING.

WHEREAS, there has heretofore been filed in the Graves County Court, a petition by the Board of Water Commissioners of Sedalia Water District, petitioning this Court to annex the territory described in said petition, to said water District, pursuant to Kentucky Revised Statutes 74.110, and

WHEREAS, it is provided in Kentucky Revised Statutes 74.110 (2) that notice of the filing of such Petition shall be given and that within 30 days after such Notice, any resident of the Water District or of the territory proposed to be annexed to the Sedalia Water District, may file objections and exceptions, and

WHEREAS, it is further provided in Kentucky Revised Statutes 74.110(2) that the County Court shall set the matter for hearing, and

WHEREAS, it is desired that a date be set for hearing on said petition and that provision be made for publishing the Notice of the filing of said Petition in the newspaper published in Graves County, Kentucky, having the largest bona fide circulation therein, meeting the requirements of Kentucky Revised Statutes Chapter 424, and complying with Kentucky Revised Statutes 74.110(2) and Kentucky Revised Statutes 424.130(d), and

WHEREAS, it is desired that said Notice furnish the date on which this Court will consider the Petition and any objections and exceptions in connection therewith,

NOW THEREFORE, it is hereby ordered that this case be set for a hearing on the question of annexation of said territory to the

Sedalia Water District and any related questions as set out in said Petition, on the 24 day of March, 1966, at 9 A M., CST.

It is further ordered that the Notice of the filing of said Petition and of the time of such hearing be published twice in the MAYFIELD MESSENGER, which is the newspaper published in Graves County meeting the requirements of Kentucky Revised Statutes 424.110-120 for publication of official actions of said Water District, the first publication to be made on February 11, 1966, which date is exactly thirty days prior to said hearing date, and the second publication to be made on March 14, 1966, which date is not less than seven nor more than twenty-one days prior to such hearing date, said Notice to be in substantially the following form:

NOTICE OF FILING OF PETITION FOR ANNEXATION OF  
CERTAIN TERRITORY TO THE SEDALIA WATER DISTRICT,  
AND NOTICE OF TIME OF HEARING ON SAME.

Notice is hereby given by the Sedalia Water District that a petition was filed by the Board of Water Commissioners of the Sedalia Water District in the Graves County Court on February 10, 1966, petitioning this Court to annex certain territory described in said petition to the Sedalia Water District and in this Notice from said Water District, said Petition states that the purpose of same is to furnish water facilities and fire protections to the hereinafter described territory. A hearing will be had on said Petition and on the question of the annexation of said territory to the Sedalia Water District and on any related questions on the 24 day of March, 1966 at 9 A M., CST, in the Graves County Court, in the Courthouse at Mayfield, Kentucky.

The following constitutes a description of the territory sought to be annexed to the Sedalia Water District as described in the petition filed by the Sedalia Water District:

A certain tract or parcel of land in Graves County, Kentucky, described as beginning at a point one-half mile South and 1,000 feet, more or less, East of the centerline of the intersection of Kentucky Highway 97, and Kentucky Highway 381 in Sedalia, Kentucky; thence in a Northerly direction parallel with Kentucky Highway 381 approximately 1640 feet, more or less,



to a point, said point being 1,000 feet, more or less East of Kentucky Highway 381, and 1,000 feet, more or less South of Kentucky Highway 97, <sup>thence east</sup> 1640 feet, more or less, to a point in the center of the North and South portion of Kentucky Highway 97; thence South 1640 feet, more or less, to a point 1640 feet, more or less, East of the point of beginning; thence West 1640 feet, more or less, to the point of beginning.

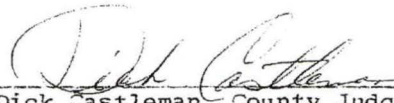
Any resident of the Sedalia Water District or of the territory proposed to be annexed and included in said District, may file objections and exceptions to said Petition, or to any part thereof, and be heard at the time of the hearing set out above.

This Notice is given pursuant to an Order of the Graves County Court entered on this 18<sup>th</sup> day of February 1966.

(signed) DICK CASTLEMAN  
County Judge  
Graves County, Kentucky

When the aforesaid Notice is published, the Clerk of this Court shall obtain and proserve at least three copies of each edition of said newspaper in which said Notice is published.

Dated this 18<sup>th</sup> day of February, 1966.

  
Dick Castleman, County Judge  
Graves County, Kentucky

Filed 2-18-66  
R. B. Hue Clerk  
By P. Byars, D. C.

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# GRAVES COUNTY WATER DISTRICT

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## AUDIT REPORT

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For The Year Ended  
December 31, 2013

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**Romaine**  
& Associates, PLLC  
Certified Public Accountants

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# GRAVES COUNTY WATER DISTRICT

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## AUDIT REPORT

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For The Year Ended  
December 31, 2013

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## Table of Contents

<b>INDEPENDENT AUDITOR'S REPORT .....</b>	<b>1</b>
<b>FINANCIAL STATEMENTS:</b>	
STATEMENT OF NET POSITION.....	3
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION.....	4
STATEMENT OF CASH FLOWS .....	5
NOTES TO THE FINANCIAL STATEMENTS.....	6
COMBINED STATEMENTS OF NET POSITION .....	15
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION .....	16
COMBINED STATEMENTS OF CASH FLOWS.....	17
<b>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 .....</b>	<b>18</b>



## **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, 2013, and the related notes to the financial statements, which collectively comprise the Graves County Water 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 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 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 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 opinion.

### **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.

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, 2013, 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, 2013, 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.

**Other Matters**

*Required Supplementary Information*

The Graves County Water District has not presented Management's Discussion and Analysis (MD&A) that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements.

**Disclaimer of Opinion on Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Graves County Water District's basic financial statements. In accordance with the *Government Auditing Standards*, we have also issued our report dated March 28, 2014 on our consideration of the Graves County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Romaine & Associates, PLLC*

Mayfield, Kentucky  
March 28, 2014



**GRAVES COUNTY WATER DISTRICT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2013**

<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 284,351
Customer accounts receivable	141,703
Prepaid expenses	5,200
Misc. current & accrued assets	12,686
<b>Total current assets</b>	443,940
 <b>NONCURRENT ASSETS</b>	
Restricted cash	82,098
 <b>CAPITAL ASSETS</b>	
Depreciable capital assets:	
Utility plant in service, at cost	18,191,557
Less accumulated provision for depreciation computed by the straight-line method	(8,834,975)
<b>Total capital assets</b>	9,356,582
<b>TOTAL NONCURRENT ASSETS</b>	9,438,680
 <b>Total assets</b>	<b>\$ 9,882,620</b>
 <b>CURRENT LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 94,314
Customer deposits	106,934
Land Condemnation Escrow	5,478
Current portion of long-term debt	876,220
<b>Total current liabilities</b>	1,082,946
 <b>LONG-TERM LIABILITIES</b>	
Long-term debt, less current portion	1,031,424
<b>Total long-term liabilities</b>	1,031,424
<b>TOTAL LIABILITIES</b>	2,114,370
 <b>NET POSITION</b>	
Invested in capital assets, net of related debt	7,242,212
Restricted for maintenance and replacement reserve	82,098
Unrestricted	443,940
<b>Total net position</b>	7,768,250
 <b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 9,882,620</b>

**GRAVES COUNTY WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<b>OPERATING REVENUE</b>	<b>\$</b>	<u>1,627,552</u>
<b>OPERATING EXPENSE</b>		
Advertising		2,390
Commissioners salaries		24,900
Purchased power		117,278
Purchased water		201,610
Chemicals		85,011
Materials & supplies		77,437
Rental equipment		43,483
Contractual services		856,402
Insurance		23,219
Miscellaneous		7,183
Bad debt		20,040
Depreciation and amortization		338,255
Tax & license		5,469
<b>Total operating expenses</b>		<u>1,802,677</u>
<b>Operating income (loss)</b>		(175,125)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income		2,963
Interest expense		(22,451)
<b>Total nonoperating revenues (expenses)</b>		<u>(19,488)</u>
<b>Income before capital contributions</b>		(194,613)
Capital contributions		77,369
<b>Increase (Decrease) in net assets</b>		<u>(117,244)</u>
<b>NET POSITION</b>		
Beginning of year (Restated)		<u>7,885,494</u>
End of year	<b>\$</b>	<u>7,768,250</u>

**GRAVES COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from customers	\$ 1,618,245
Cash payments to suppliers for goods and services	(1,436,902)
Customer deposits received	6,110
<b>Net cash provided by operating activities</b>	<b>187,453</b>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Principal payments	(95,766)
Interest paid	(22,110)
Interest paid on customer deposits	(341)
Proceeds from debt	448,586
Utility plant additions and improvements	(627,904)
Contributions in aid of construction	72,169
<b>Net cash provided by (used for) capital and related financing activities</b>	<b>(225,366)</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest income	2,963
<b>Net cash provided by (used for) investing activities</b>	<b>2,963</b>

**Net decrease in cash and cash equivalents** (34,950)

**CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR (Restated)**

401,399

**CASH AND CASH EQUIVALENTS - END OF THE YEAR**

366,449

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating income (loss)	(175,125)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation and amortization	338,255
Changes in assets and liabilities:	
Accounts receivable	(9,307)
Prepaid insurance	1,694
Accounts payable and accrued expenses	25,826
Customer deposits	6,110
<b>Net cash provided by operating activities</b>	<b>\$ 187,453</b>



**GRAVES COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2013**

**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. Effective January 1, 2013, the Hickory Water District was merged with the Graves County Water District.

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.

**GRAVES COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2013**

**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 Position:**

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:



**GRAVES COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013**

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

*Net Position:-(continued)*

*Invested in capital assets* – This component of net position 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 position component as the unspent proceeds.

*Restricted* – This component of net position 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 position-* This component of net position consists of net position 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, 2013. 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, 2013**

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Custody Credit Risk Category</u>		
		<u>1</u>	<u>2</u>	<u>3</u>
Demand Deposits-FNB	\$ 271,780	\$ 271,780	\$ -	\$ -
Time Deposits-FNB	\$ 94,669	\$ 94,669	\$ -	\$ -



**GRAVES COUNTY WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2013**

**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, 2013, 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, 2013, 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. The original loan agreement with KIA in the amount of \$528,000 requires a total reserve of \$26,400. As of December 31, 2013 the required reserve amount for all loans was \$82,098, of which has been restricted.

Restricted cash consists of the following:

	<u>December 31, 2013</u>
Maintenance and Replacement Reserve	\$ 82,098
<b>Total</b>	<u>\$ 82,098</u>

**GRAVES COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2013**

**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**

A summary of the Graves County Water District's change in capital assets during 2013 is as follows:

<u>Water System</u>	Graves County Water District Beginning Balance	Hickory Water District Beginning Balance	Additions	Deletions	Ending Balance
Organization	\$ 66,736	\$ -			\$ 66,736
Franchises	7,921				7,921
Land & Land Rights	28,329	21,417			49,746
Structures & Improvements	1,465,041	114,960			1,580,001
Collecting & Impounding Res	54,620				54,620
Lake, River Other Intakes	88,226				88,226
Wells and Springs	314,737	202,510	14,522		531,769
Pumping Equipment	173,455	32,573	11,734		217,762
Water Treatment Equipment	477,111	43,906			521,017
Distribution Reservoirs	939,102	1,402,797			2,341,899
Transmission and Distribution Mains	5,357,919	2,579,810	72,169		8,009,898
Services	214,456	98,210			312,666
Meters	1,401,704	466,718	519,324		2,387,746
Hydrants	46,035	74,190	5,719		125,944
Plant and Misc Equipment	17,235	26,034			43,269
Power Generation Equipment	17,141				17,141
Power Operated Equipment	29,802				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	16,695			71,424
<b>Total at Historical Cost</b>	<b>10,771,207</b>	<b>5,079,820</b>	<b>623,468</b>	<b>-</b>	<b>16,474,495</b>
Less: Accumulated Depreciation					
<b>Total Accumulated Depreciation</b>	<b>(4,590,164)</b>	<b>(2,696,245)</b>	<b>(314,608)</b>		<b>(7,601,017)</b>
<b>Capital Assets, Net</b>	<b>\$ 6,181,043</b>	<b>\$ 2,383,575</b>	<b>\$ 308,860</b>	<b>\$ -</b>	<b>\$ 8,873,478</b>

**GRAVES COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013**

**Note 8. Capital Assets- (Continued)**

<u>Sewer System</u>	<u>Graves County Water District Beginning Balance</u>	<u>Hickory Water District Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
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	37,561	-	4,436		41,997
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
<b>Total at Historical Cost</b>	<u>1,712,626</u>	<u>-</u>	<u>4,436</u>	<u>-</u>	<u>1,717,062</u>
Less: Accumulated Depreciation					
<b>Total Accumulated Depreciation</b>	<u>(1,210,311)</u>	<u>-</u>	<u>(23,647)</u>		<u>(1,233,958)</u>
<b>Capital Assets, Net</b>	<u>\$ 502,315</u>	<u>\$ -</u>	<u>\$ (19,211)</u>	<u>\$ -</u>	<u>\$ 483,104</u>

**Note 9. Long Term Debt**

**KIA B05-04**

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 2013, both interest and principal payments were made in accordance with the note agreement. As of December 31, 2013 the balance was \$253,010.

Future principal and interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total Payment</u>
2014	\$ 19,687	\$ 1,687	\$ 21,374
2015	19,782	1,553	21,335
2016	19,877	1,418	21,295
2017	19,973	1,283	21,256
2018	20,069	1,147	21,216
2019-2023	101,800	3,672	105,472
2024-2026	51,822	529	52,351
<b>Total</b>	<u>\$ 253,010</u>	<u>\$ 11,289</u>	<u>\$ 264,299</u>



**GRAVES COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2013**

**Note 9. Long-Term Debt - (Continued)**

KIA B07-03

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, 2013, the balance was \$654,512.

Future principal and interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total Payment</u>
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	49,941	2,666	52,607
2019-2023	252,719	8,805	261,524
2024-2026	154,073	1,620	155,693
Total	<u>\$ 654,512</u>	<u>\$ 26,728</u>	<u>\$ 681,240</u>

KIA B96-04

Note payable to Kentucky Infrastructure Authority bearing interest of 1.80%. Principal and interest are payable semi-annually on the note. This note was assumed by the Water district on behalf of Hickory Water District in the amount of \$528,000. As of December 31, 2013, the balance was \$220,450.

Future principal and interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total Payment</u>
2014	\$ 27,710	\$ 4,271	\$ 31,981
2015	28,211	3,714	31,925
2016	28,721	3,148	31,869
2017	29,240	2,571	31,811
2018	29,769	1,983	31,752
2019-2021	76,799	2,318	79,117
Total	<u>\$ 220,450</u>	<u>\$ 18,005</u>	<u>\$ 238,455</u>



**GRAVES COUNTY WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2013**

**Note 9. Long-Term Debt - (Continued)**

**KIA B11-02**

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. The prior year advances totaled \$331,087. During the year, \$448,586 was drawn on the note, leaving a balance as of December 31, 2013 of \$779,673. 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	Payable Within One Year
N/P KIA #B05-04	\$ 272,605	\$ -	\$ 19,595	\$ 253,010	19,688
N/P KIA #B07-03	703,464	-	48,953	654,511	49,149
N/P KIA #B96-04	247,668	-	27,218	220,450	27,710
N/P KIA #B11-02	331,087	448,586		779,673	779,673
	<u>\$ 1,554,824</u>	<u>\$ 448,586</u>	<u>\$ 95,766</u>	<u>\$ 1,907,644</u>	<u>\$ 876,220</u>

**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 March 28, 2014, the date financial statements were available to be issued.

**Note 13. Prior Year Adjustments**

The Beginning of the Year – Net Position reflects a prior period adjustment in the amount of \$724 in the Statement of Revenue, Expenses, and Change in Net Position – Regulatory Basis. The Cash and Cash Equivalents – Beginning of the Year reflects a prior period adjustment in the amount of \$724 in the Statement of Cash Flows – Regulatory Basis. These adjustments are also reflected in the Combined Statements. The \$724 was a cancelled check for the prior year.

**GRAVES COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2013**

**Note 14. Merger of Hickory Water District**

On January 1, 2013, the Hickory Water District was merged into the Graves County Water District. The assets and liabilities of the Hickory Water District were merged into the Graves County Water District in the following manner:

Statement	December 31, 2012		January 1, 2013
	Hickory Water District	Graves County Water District	Graves County Water District
<b><u>Statement of Revenue, Expenses, and Changes in Net Position</u></b>			
<b>NET POSITION</b>			
Beginning of year (Restated)	\$ 4,924,775	\$ 2,309,431	\$ 7,234,206
<b><u>Combined Statement of Cash Flows</u></b>			
Cash and Cash Equivalents - Beginning of the Year (Restated)	\$ 201,043	\$ 54,799	\$ 255,842

**GRAVES COUNTY WATER DISTRICT  
COMBINED STATEMENTS OF NET POSITION  
DECEMBER 31, 2013**

	Water Fund	Sewer Fund	Totals
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 101,932	\$ 182,419	\$ 284,351
Customer accounts receivable	132,943	8,760	141,703
Grant receivable	5,200		5,200
Prepaid Insurance	11,417	1,269	12,686
<b>Total current assets</b>	<u>251,492</u>	<u>192,448</u>	<u>443,940</u>
<b>NONCURRENT ASSETS</b>			
Restricted cash	82,098	-	82,098
<b>CAPITAL ASSETS</b>			
Depreciable capital assets:			
Utility plant in service, at cost	16,474,495	1,717,062	\$ 18,191,557
Less accumulated provision for depreciation computed by the straight-line method	<u>(7,601,017)</u>	<u>(1,233,958)</u>	<u>(8,834,975)</u>
<b>Total capital assets</b>	<u>8,873,478</u>	<u>483,104</u>	<u>9,356,582</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>8,955,576</u>	<u>483,104</u>	<u>9,438,680</u>
<b>TOTAL ASSETS</b>	<u>\$ 9,207,068</u>	<u>\$ 675,552</u>	<u>\$ 9,882,620</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 90,968	\$ 3,346	\$ 94,314
Customer deposits	106,934	-	106,934
Land Condemnation Escrow	5,478	-	5,478
Current portion of long-term debt	876,220	-	876,220
<b>Total current liabilities</b>	<u>1,079,600</u>	<u>3,346</u>	<u>1,082,946</u>
<b>NONCURRENT LIABILITIES</b>			
Long-term debt	1,031,424	-	1,031,424
Total noncurrent liabilities	<u>1,031,424</u>	<u>-</u>	<u>1,031,424</u>
<b>Total liabilities</b>	<u>2,111,024</u>	<u>3,346</u>	<u>2,114,370</u>
<b>NET POSITION</b>			
Investments in capital assets, net of related debt	6,762,454	479,758	7,242,212
Restricted for maintenance and replacement reserve	82,098	-	82,098
Unrestricted	251,492	192,448	443,940
<b>Total net position</b>	<u>7,096,044</u>	<u>672,206</u>	<u>7,768,250</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 9,207,068</u>	<u>\$ 675,552</u>	<u>\$ 9,882,620</u>



**GRAVES COUNTY WATER DISTRICT  
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Water Fund	Sewer Fund	Totals
<b>OPERATING REVENUE</b>	<u>\$ 1,523,505</u>	<u>\$ 104,047</u>	<u>\$ 1,627,552</u>
<b>OPERATING EXPENSE</b>			
Advertising	2,341	49	2,390
Commissioners salaries	22,650	2,250	24,900
Purchased power	107,997	9,281	117,278
Purchased water	201,610	-	201,610
Chemicals	80,793	4,218	85,011
Materials and supplies	76,553	884	77,437
Equipment rental	43,483	-	43,483
Contractual services	817,234	39,168	856,402
Insurance	20,997	2,222	23,219
Miscellaneous	6,066	1,117	7,183
Bad debt	20,040	-	20,040
Depreciation and amortization	314,608	23,647	338,255
Tax & license	5,171	298	5,469
<b>Total operating expenses</b>	<u>1,719,543</u>	<u>83,134</u>	<u>1,802,677</u>
<b>Operating income (loss)</b>	<u>(196,038)</u>	<u>20,913</u>	<u>(175,125)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	2,958	5	2,963
Interest expense	(22,451)	-	(22,451)
<b>Nonoperating revenues (expenses)</b>	<u>(19,493)</u>	<u>5</u>	<u>(19,488)</u>
<b>Income (loss) before capital contributions</b>	<u>(215,531)</u>	<u>20,918</u>	<u>(194,613)</u>
Capital contributions	77,369		77,369
<b>Increase (Decrease) in net assets</b>	<u>(138,162)</u>	<u>20,918</u>	<u>(117,244)</u>
<b>NET POSITION</b>			
Beginning of year (Restated)	<u>7,234,206</u>	<u>651,288</u>	<u>7,885,494</u>
End of year	<u>\$ 7,096,044</u>	<u>\$ 672,206</u>	<u>\$ 7,768,250</u>

**GRAVES COUNTY WATER DISTRICT  
COMBINED STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Totals</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 1,514,524	\$ 103,721	\$ 1,618,245
Cash payments to suppliers for goods and services	(1,374,474)	(62,428)	(1,436,902)
Customer deposits received	6,110	-	6,110
<b>Net cash provided by operating activities</b>	<u>146,160</u>	<u>41,293</u>	<u>187,453</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal payments	(95,766)	-	(95,766)
Interest paid	(22,110)	-	(22,110)
Interest paid on customer deposits	(341)	-	(341)
Proceeds from debt	448,586	-	448,586
Utility plant additions and improvements	(623,468)	(4,436)	(627,904)
Contributions in aid of construction	72,169	-	72,169
<b>Net cash provided by (used for) capital and related financing activities</b>	<u>(220,930)</u>	<u>(4,436)</u>	<u>(225,366)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	2,958	5	2,963
<b>Net cash provided by (used for) investing activities</b>	<u>2,958</u>	<u>5</u>	<u>2,963</u>
<b>Net decrease in cash and cash equivalents</b>	(71,812)	36,862	(34,950)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR (Restated)</b>			
	<u>255,842</u>	<u>145,557</u>	<u>401,399</u>
<b>CASH AND CASH EQUIVALENTS - END OF THE YEAR</b>			
	<u>\$ 184,030</u>	<u>\$ 182,419</u>	<u>\$ 366,449</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ (196,038)	\$ 20,913	\$ (175,125)
Adjustments to reconcile operating income (loss) to cash provided by operating activities:			
Depreciation and amortization	314,608	23,647	338,255
Changes in assets and liabilities:			
Accounts receivable	(8,981)	(326)	(9,307)
Prepaid insurance	1,938	(244)	1,694
Accounts payable and accrued expenses	28,523	(2,697)	25,826
Customer deposits	6,110	-	6,110
<b>Net cash provided by operating activities</b>	<u>\$ 146,160</u>	<u>\$ 41,293</u>	<u>\$ 187,453</u>

**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, 2013, and have issued our report thereon dated March 28, 2014. 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 Graves County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Graves County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Graves County Water District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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



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*  
March 28, 2014

# GRAVES COUNTY WATER DISTRICT

APA (02/13)

Date: March 28, 2014

Romaine & Associates, PLLC  
1214 Paris Road  
Mayfield, KY 42066

This representation letter is provided in connection with your audit of the financial statements of the Graves County Water District as of and for the year ended June 30, 2013 for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the receipts, disbursements and changes in cash balances and cash equivalents of the Graves County Water District in conformity with the regulatory basis which is a special purpose framework other than U.S. generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatements of accounting information that, in light of surrounding circumstances, makes it probably that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audit.

## **Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated December 16, 2013, for the preparation and fair presentation of the financial statement and related notes in accordance with the regulatory basis of accounting established by the laws of Kentucky, which is a special purpose framework other than U.S. generally accepted accounting principles. We have prepared and provided to the auditor the financial statement which is in the prescribed format as required by the Public Service Commission. We understand that the auditor will assist with the drafting of note disclosures based on information we provide, including schedules and source documents.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. We acknowledge our responsibility for all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.

**Graves County Water District Representation Letter**  
(Continued)

5. Related-party transactions and relationships have been appropriately accounted for and disclosed in the financial statements.
6. All events subsequent to the date of the financial statements that would require adjustment or disclosure have been adjusted or disclosed.
7. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole, a list of the uncorrected misstatements is attached to the representation letter.
8. The effects of all known actual or possible litigation and claims have been accounted for and properly disclosed.
9. We are responsible for reviewing and understanding the nature of any standard, adjusting or correcting adjustments or other changes affecting the financial statements that the auditor may propose and the impact the entries will have on the financial statements.

**Information Provided**

We have provided you with:

- a. Access to all information, of which we are aware that is relevant to the preparation and presentation of the financial statements, such as financial records, documentation and other matters;
- b. Minutes of the Graves County Water District or summaries of actions of recent meetings for which minutes have not yet been prepared.
- c. Additional information that you have requested from us for the purpose for the audit; and
- d. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have no knowledge or any fraud or suspected fraud that affects the entity and involves:

- Management;
- Employees who have significant roles in internal control; or
- Others when the fraud could have a material effect on the financial statements.

We have no knowledge or any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, regulators or others.



March 28, 2014

Page 3

**Graves County Water District Representation Letter**  
(Continued)

We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of amounts in the financial statements.

We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws, regulations grants and contracts whose effects should be considered when preparing the financial statements. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.

We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware.

We have disclosed to you any guarantees, whether written or oral, under which the Graves County Water District is contingently liable.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the date of the financial statements and through the date of this letter that would require adjustment to or disclosure in the financial statements.

Graves County Water District: \_\_\_\_\_

Date: \_\_\_\_\_

Graves County Water District Bookkeeper: \_\_\_\_\_

Date: \_\_\_\_\_

**GRAVES COUNTY WATER DISTRICT  
EXIT CONFERENCE  
DECEMBER 31, 2013**

Date: March 28, 2014

Auditors Present: Krista Romaine, AIC  
Terry Romaine

Officials:  
Water District: \_\_\_\_\_

Bookkeeper: \_\_\_\_\_

We appreciate the courtesy extended to our audit staff. During the course of our audit, we have developed the following comments and recommendations for your review. You are not required to respond to the comments and recommendations. If you do not return written responses to the auditors, the audit report will read, "The official did not respond." However, we recommend that you provide written responses. Please understand that your responses will be printed verbatim in the audit report. You have up to ten (10) working days to respond to the comments and recommendations. Please return any written responses to the auditors by April 11, 2014.

1. Subsequent Events

Does the Water District have any knowledge of any events occurring subsequent to the fiscal year 2013 through the present day, which may have a material effect on the financial statements?

Initials \_\_\_\_\_ Response or Additional Information: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

2. ADDITIONAL COMMENTS/QUESTIONS: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**GRAVES COUNTY WATER DISTRICT  
EXIT CONFERENCE  
DECEMBER 31, 2013**

It is vital to respond to comments and recommendations with due thought and consideration. When agreeing with the comment and recommendation made, outlining corrective steps, which have been or will be instituted demonstrates the intent on your part to remedy the problem with definitive action. By clearly delineating why purported comments are incorrect or why suggested solutions are inappropriate, you may head off potential problems, even going so far as convincing the auditor to exclude the comment from the final report when he or she is incorrect. In any event, the clearer you draft your response so that someone outside of local government, or even state government, can understand it the better case you will present for your argument.

Note: If any actions occur after this exit conference date, which affect any audit findings, it is the responsibility of the official to provide that information to Romaine & Associates, PLLC. Please mail documentation to the following address:

Romaine & Associates, PLLC  
1214 Paris Road  
PO Box 488  
Mayfield, KY 42066  
Attention: *Krista Romaine*

If you have any questions or concerns regarding this audit, please feel free to contact Krista Romaine, Audit Manager at 1-270-247-8050

As Graves County Water representative, I acknowledge receiving a copy of the exit conference and the attachments as listed above.

Water District Representative: \_\_\_\_\_ Date: \_\_\_\_\_

Treasurer: \_\_\_\_\_ Date: \_\_\_\_\_

Auditor: \_\_\_\_\_ Date: \_\_\_\_\_

Auditor: \_\_\_\_\_ Date: \_\_\_\_\_

SOI: Referenced Workpapers