

# McCREARY COUNTY WATER DISTRICT

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

June 2, 2011

RECEIVED

JUN 03 2011

PUBLIC SERVICE  
COMMISSION

Linda Faulkner  
Filings Director  
PSC  
P.O. Box 615  
Frankfort, KY. 40602-0615

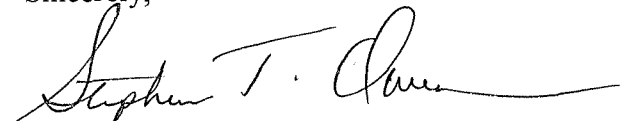
RE: PSC Case No. 2008-00137  
PSC Case No. 2008-00138

Dear Ms. Faulkner:

Please find enclosed "as built" drawings and a certified statement from the engineer that the construction has been satisfactorily completed in accordance with the plans and specifications for the above referenced case numbers. Also included are the most current District's Independent Auditor's Report and Combined Financial Statements December 31, 2009 and 2008.

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

Enclosures



Waterfront Plaza  
Suite 710  
325 West Main Street  
Louisville, KY 40202  
Phone: 502-583-7020  
Fax: 502-583-7026

**Office Locations**

Madison, WI  
Joliet, IL  
Louisville, KY  
Lexington, KY  
Mobile, AL  
Columbus, IN  
Columbus, OH  
Indianapolis, IN  
Milwaukee, WI  
Cincinnati, OH  
Phoenix, AZ

[www.strand.com](http://www.strand.com)

September 14, 2010

Stephen T. Owens, Manager  
McCreary County Water District  
P.O. Box 488  
Whitley City, Kentucky 42653

**Re: McCreary County Water District  
Cumberland Falls State Park & Riverwoods Environmental Center Water  
Main Extensions Project  
Contract 3 - 2007  
Certification**

RECEIVED

JUN 03 2011

PUBLIC SERVICE  
COMMISSION

Dear Mr. Owens:

We hereby state to the best of our knowledge and belief that the referenced projects have been completed in accordance with the plans and specifications.

Sincerely,

Strand Associates, Inc.

A handwritten signature in black ink, appearing to read 'Mark C. Askin', is written over the typed name.

Mark C. Askin, P.E.

cc: Tom Partin, Rural Development  
File



Waterfront Plaza  
Suite 710  
325 West Main Street  
Louisville, KY 40202  
Phone: 502-583-7020  
Fax: 502-583-7026

**Office Locations**

Madison, WI  
Joliet, IL  
Louisville, KY  
Lexington, KY  
Mobile, AL  
Columbus, IN  
Columbus, OH  
Indianapolis, IN  
Milwaukee, WI  
Cincinnati, OH  
Phoenix, AZ

[www.strand.com](http://www.strand.com)

December 7, 2009

Stephen T. Owens, Manager  
McCreary County Water District  
P.O. Box 488  
Whitley City, Kentucky 42653

**Re: McCreary County Water District  
New Liberty Water Main Extensions and Storage Tank Projects  
Contracts 2 & 2A - 2007  
Certification**

Dear Mr. Owens:

We hereby state to the best of our knowledge and belief that the referenced projects have been completed in accordance with the plans and specifications.

Sincerely,

STRAND ASSOCIATES, INC.<sup>®</sup>

A handwritten signature in black ink, appearing to read 'Mark C. Askin', is written over the typed name.

Mark C. Askin, P.E.

cc: Tom Partin, Rural Development  
File

McCreary County Water District,  
Water and Sewer Divisions

\* \* \* \*

Independent Auditor's Report  
and Combined Financial Statements  
December 31, 2009 and 2008

McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008

<u>Table of Contents</u>	<u>Page</u>
Management's Discussion and Analysis	1-4
Independent Auditor's Report	5-6
Basic Financial Statements:	
Combined Statement of Net Assets	7
Combined Statement of Revenues, Expenses, and Changes in Net Assets	8
Combined Statement of Cash Flows	9-10
Notes to Basic Financial Statements	11-23
Supplemental Information:	
Combining Statement of Net Assets	24
Combining Statement of Revenues, Expenses, and Changes in Net Assets	25
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	26

**McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2009 AND 2008**

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, 2009 and 2008. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

For the year ended December 31, 2009, total operating and non-operating revenues (including capital contributions) totaled \$5,109,696 and operating expenses and nonoperating expenses amounted to \$4,353,778, creating an increase in net assets of \$755,918. At year end, net assets totaled \$31,393,170 of which \$29,204,062 (net of related debt) was invested in capital assets, and \$969,979 was restricted for debt service and construction. This left a net amount of \$1,219,129 of unrestricted assets.

For the year ended December 31, 2008, total operating and non-operating revenues (including capital contributions) totaled \$5,788,761 and operating expenses and non-operating expenses amounted to \$3,988,057, creating an increase in net assets of \$1,800,704. At year end, net assets totaled \$30,637,252 of which \$28,775,757 (net of related debt) was invested in capital assets, and \$774,656 was restricted for debt service and construction. This left a net amount of \$1,086,839 of unrestricted assets.

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 Assets 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 utility.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. 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, 2009 AND 2008

Condensed Comparative Financial Analysis:

McCreary County Water District  
Water and Sewer Divisions  
Statement of Net Assets-Summary  
December 31, 2009 and 2008

Assets	<u>2009</u>	<u>2008</u>
Total Current Assets	\$ 1,795,086	\$ 1,589,324
Total Restricted Assets	969,979	774,656
Net Capital Assets	38,756,517	38,444,186
Other Non-Current Assets	64,774	67,972
Total Assets	<u>\$ 41,586,356</u>	<u>\$ 40,876,138</u>
 Liabilities		
Total Current Liabilities	\$ 922,665	\$ 853,750
Total Non-current Liabilities	9,270,521	9,385,136
Total Liabilities	<u>\$ 10,193,186</u>	<u>\$ 10,238,886</u>
 Net Assets:		
Invested in capital assets, net of related debt	\$ 29,204,062	\$ 28,775,757
Restricted for debt service and construction	969,979	774,656
Unrestricted	<u>1,219,129</u>	<u>1,086,839</u>
Total Net Assets	<u>\$ 31,393,170</u>	<u>\$ 30,637,252</u>

The largest portion per year (93.03% and 93.92% respectively) of the utility's net assets 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 assets per year (3.09% and 2.53% respectively) represent resources that are subject to external restrictions on how they may be used.

The balance per year (3.88% and 3.55% respectively) of unrestricted net assets 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, 2009 AND 2008**

McCreary County Water District  
Water and Sewer Divisions  
Statement of Operations  
For the Year Ended December 31, 2009 and 2008

	2009	2008
Total operating revenues	\$ 3,658,020	\$ 3,348,894
Total operating expenses	<u>3,985,605</u>	<u>3,625,868</u>
Operating loss	(327,585)	( 276,974)
Total non-operating revenue (expenses)	<u>(185,299)</u>	<u>(222,129)</u>
Income before capital contributions	(512,884)	(499,103)
Capital contributions	<u>1,268,802</u>	<u>2,299,807</u>
Change in net assets	755,918	1,800,704
Beginning of year	<u>30,637,252</u>	<u>28,836,548</u>
End of year	<u>\$ 31,393,170</u>	<u>\$ 30,637,252</u>

During 2009, net assets increased by \$755,918 and consisted of operating loss of (\$327,585), net non-operating revenue and expenses of (\$185,299) and capital contributions of \$1,268,802.

During 2008, net assets increased by \$1,800,704 and consisted of operating loss of (\$276,974), net non-operating revenues and expenses of (\$222,129) and capital contributions of \$2,299,807.

Capital Asset Changes

At December 31, 2009, the Utility had invested \$38,756,517 in capital assets, net of accumulated depreciation. This amount represents a net increase of \$312,331 from the previous year. The net increase consisted of additions to capital assets of \$1,548,007 less depreciation expense of \$1,235,676. The additions were financed with proceeds of capital grants.

At December 31, 2008, the Utility had invested \$38,444,186 in capital assets, net of accumulated depreciation. This amount represents a net increase of \$1,719,474 from the previous year. The net increase consisted of additions to capital assets of \$2,903,750 less depreciation expense of \$1,184,276. The additions were mainly financed with proceeds of capital grants.

Debt Administration

At December 31, 2009, the utility had total debt equal to \$9,552,455 which consisted of \$9,274,202 of bonds outstanding, \$258,483 of notes payable, and capital leases of \$19,770. At the beginning of the year total debt equaled \$9,668,429. The decrease in debt was from new borrowing of \$139,556 net of scheduled principal payments on preexisting debt of \$255,530.

At December 31, 2008, the utility had total debt equal to \$9,668,429, which consisted of \$9,499,952 of bonds outstanding, \$145,657 of note payables, and capital leases of \$22,820. At the beginning of the year total debt equaled \$9,477,334. The increase in debt was from new borrowing of \$475,000 net of scheduled principal payments on preexisting debt of \$283,905.



McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2009 AND 2008

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.

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

HARVEY K. FAULKNER, CPA  
JOSEPH C. KING, CPA  
JOHN M. WENZ, CPA

P.O. BOX 285  
117 WEST HIGH STREET  
MT. STERLING, KY 40353  
(859) 498-1836 FAX (859) 498-2116

EUGENE C. WEATHERS, III, CPA  
KAREN S. TRENT, CPA  
LANA J. McCANN, CPA  
ERICA M. SNOWDEN, CPA

Independent Auditor's Report

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

We have audited the accompanying combined financial statements of the McCreary County Water District, Water and Sewer Divisions as of and for the years ended December 31, 2009 and 2008, as listed in the table of contents. These combined financial statements are the responsibility of the McCreary County Water District, Water and Sewer Divisions' management. Our responsibility is to express an opinion on these combined 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2009 and 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2010, 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 the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements that are collectively comprised of McCreary County Water District, Water and Sewer Divisions' basic financial statements as a whole. The accompanying combining statements of net assets and revenues, expenses and changes in net assets 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. The combining financial statements are the responsibility of management and were derived from and relate directly the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The accompanying schedule of the financial information listed as supplemental information in the table of contents has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

*Faulkner, King & Wenz, PSC*

September 20, 2010

McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
COMBINED STATEMENTS OF NET ASSETS  
DECEMBER 31, 2009 and 2008

**ASSETS**

	2009	2008
<b>Current assets:</b>		
Cash and cash equivalents	\$ 580,933	\$ 576,598
Unbilled revenues	217,811	235,730
Accounts receivable	492,973	394,393
Other receivables	282,415	184,780
Inventory	186,230	163,708
Prepaid expenses	34,724	34,115
Total current assets	1,795,086	1,589,324
<b>Non-current assets:</b>		
Restricted assets:		
Cash	864,150	638,286
Investments	105,829	136,370
Capital assets:		
Utility plant	46,541,579	45,526,651
Less accumulated depreciation	(11,662,452)	(10,484,238)
Construction in process	3,877,390	3,401,773
Bond issue costs, net	64,774	67,972
Total non-current assets	39,791,270	39,286,814
Total assets	\$ 41,586,356	\$ 40,876,138

**LIABILITIES**

<b>Current liabilities:</b>		
Accounts payable	\$ 406,957	\$ 333,686
Accrued interest	125,036	86,027
Taxes payable	16,677	22,222
Other accrued expenses	67,592	110,185
Customer deposits	24,469	18,337
Capital equipment lease - current	12,032	13,421
Notes payable - current	38,473	13,622
Revenue bonds - current portion	231,429	256,250
Total current liabilities	922,665	853,750
<b>Non-current liabilities:</b>		
Capital equipment lease - non current	7,738	9,399
Notes payable - long term	220,010	132,035
Revenue bonds - net current portion	9,042,773	9,243,702
Total non-current liabilities	9,270,521	9,385,136
Total liabilities	\$ 10,193,186	\$ 10,238,886

**NET ASSETS**

Invested in capital assets, net of related debt	\$ 29,204,062	\$ 28,775,757
Restricted for debt service and construction	969,979	774,656
Unrestricted	1,219,129	1,086,839
Total net assets	\$ 31,393,170	\$ 30,637,252

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 ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008

	2009	2008
<b>Operating revenues</b>		
Residential sales	\$ 2,055,876	\$ 2,024,747
Commercial sales	266,718	291,792
Industrial sales	21,649	6,641
Governmental sales	1,228,925	990,388
Other sales	84,852	35,326
Total operating revenues	3,658,020	3,348,894
 <b>Operating expenses</b>		
General and administrative costs	150,739	141,010
Payroll and related expenses	1,498,470	1,365,081
Repairs and maintenance	95,118	76,856
Other supplies and expenses	1,002,403	855,446
Depreciation and amortization	1,238,875	1,187,475
Total operating expenses	3,985,605	3,625,868
 Operating loss	(327,585)	(276,974)
 <b>Nonoperating revenues (expenses)</b>		
Interest income	40,218	35,278
Other income	142,656	104,177
Gain on sale of fixed assets	-	605
Interest expense	(368,173)	(362,189)
Other expense	-	-
Net nonoperating revenues (expenses)	(185,299)	(222,129)
 Loss before contributions	(512,884)	(499,103)
 Capital grants received	1,268,802	2,299,807
 Change in net assets	755,918	1,800,704
 Total net assets		
beginning of year	30,637,252	28,836,548
 Total net assets		
end of year	\$ 31,393,170	\$ 30,637,252

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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (327,585)	\$ (276,974)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,238,875	1,187,475
Change in assets and liabilities:		
(Increase) in receivables	(178,532)	(217,921)
Decrease (increase) in inventories	(22,522)	8,371
Decrease (increase) in prepaids	(609)	5,852
Increase in accounts payable	73,271	81,204
(Decrease) increase in customer deposits	6,132	(3,113)
Increase(decrease) in accrued expenses	<u>(48,138)</u>	<u>67,906</u>
Net cash provided by operating activities	<u>\$ 740,892</u>	<u>\$ 852,800</u>

**McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 and 2008**

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

The financial statements of the McCreary County Water District, Water and Sewer Divisions (the District) are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The existing hierarchy provides that accounting guidance should first be sought in statements of the Governmental Accounting Standards Board (GASB). If the GASB has not issued a standard applicable to a situation, then pronouncements of the Financial Accounting Standards Board (FASB) and Accounting Principles Board (APB) issued on or before November 30, 1989 are presumed to apply. 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, *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 assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows. It requires the classification of net assets 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 assets 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 assets component as the unspent proceeds.
- Restricted - This component of net assets 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 assets 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 FINANCIAL STATEMENTS  
DECEMBER 31, 2009 and 2008

**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 nonoperating 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 0-3  
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; however, all employees must take five 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.

**Reclassifications**

Certain reclassifications have been made to the 2008 Statement of Net Assets and certain related notes to correspond to the current year's format. Total net assets for 2008 are unchanged due to these reclassifications.

MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 and 2008

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

**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.

**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 \$50,000 and \$30,000 for the years ended December 31, 2009 and 2008 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 \$1,268,802 and \$2,299,807 in grants for the years ended December 31, 2009 and 2008 respectively.

**Unamortized Debt Discount, Issuance Expense, and Deferred Amount from Refunding**

Original issue discounts, debt issuance expenses, and deferred amounts from the advance refunding of outstanding revenue certificates are appropriately deferred and amortized over the remaining terms of the applicable debt issues (or life of the old debt, whichever is shorter, for deferred amounts from the advance refunding) using the bonds outstanding method, which approximated the interest method. The amortization expense was \$3,199 and \$3,199 for the years ended December 31, 2009 and 2008 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 \$1,235,676 and \$1,184,276 for the years ended December 31, 2009 and 2008 respectively.

**Date of Management's Review**

Subsequent events were evaluated through September 20, 2010, which is the date the financial statements were available to be issued.

**MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 and 2008**

**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 \$1,444,083 and \$1,213,884 for the years ended December 31, 2009 and 2008 respectively and the respective bank balances totaled \$1,500,479 and \$1,330,795 respectively for the years then ended. The bank balances are covered by \$484,005 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:

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, 2009, categorized by level of risk, are:

	Risk Category			Bank Balance	Book Value
	1	2	3		
Unrestricted deposits					
Operating accounts	\$ 94,819	\$ -	\$ 541,510	\$ 636,329	\$ 579,933
Restricted deposits					
Debt service funds	-	-	474,964	474,964	474,964
Construction funds	-	-	-	-	-
Depreciation funds	<u>389,186</u>	<u>-</u>	<u>-</u>	<u>389,186</u>	<u>389,186</u>
Total deposits	<u>\$ 484,005</u>	<u>\$ -</u>	<u>\$ 1,016,474</u>	<u>\$ 1,500,479</u>	<u>\$1,444,083</u>

Deposits at December 31, 2008, categorized by level of risk, are:

	Risk Category			Bank Balance	Book Value
	1	2	3		
Unrestricted deposits					
Operating accounts	\$ 159,824	\$ -	\$ 459,910	\$ 619,734	\$ 575,598
Restricted deposits					
Debt service funds	-	-	370,885	370,885	298,110
Construction funds	-	-	-	-	-
Depreciation funds	<u>340,176</u>	<u>-</u>	<u>-</u>	<u>340,176</u>	<u>340,176</u>
Total deposits	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 830,795</u>	<u>\$ 1,330,795</u>	<u>\$1,213,884</u>

MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 and 2008

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)**

The District also had \$1,000 and \$1,000 of petty cash on hand for the years ended December 31, 2009 and 2008 respectively.

**Investments**

At December 31, 2009 and 2008, 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, 2009 categorized by level of risk, are:

	Risk Category			Book Value	Fair Value
	1	2	3		
Treasury MM Fund	<u>\$105,829</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$105,829</u>	<u>\$105,829</u>
Total investments	<u>\$105,829</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$105,829</u>	<u>\$105,829</u>

Investments at December 31, 2008, categorized by level of risk, are:

	Risk Category			Book Value	Fair Value
	1	2	3		
Treasury MM Fund	<u>\$136,370</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$136,370</u>	<u>\$136,370</u>
Total investments	<u>\$136,370</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$136,370</u>	<u>\$136,370</u>

MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 and 2008

**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, 2009 and 2008 are:

**A schedule of restricted assets at December 31, 2009 are:**

	Cash	Investments at cost	Total
Debt service funds	\$ 474,964	\$ -	\$ 474,964
Construction funds	-	-	-
Depreciation funds	389,186	-	389,186
Treasury MM fund	<u>-</u>	<u>105,829</u>	<u>105,829</u>
Total restricted assets	<u>\$ 864,150</u>	<u>\$ 105,829</u>	<u>\$ 969,979</u>

**A schedule of restricted assets at December 31, 2008 are:**

	Cash	Investments at cost	Total
Debt service funds	\$ 298,110	\$ -	\$ 298,110
Construction funds	-	-	-
Depreciation funds	340,176	-	340,176
Treasury MM fund	<u>-</u>	<u>136,370</u>	<u>136,370</u>
Total restricted assets	<u>\$ 638,286</u>	<u>\$ 136,370</u>	<u>\$ 774,656</u>

McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 and 2008

**NOTE 4 - CAPITAL ASSETS**

The following represents the activity for the year ended December 31, 2009:

	Balance 12/31/2008	Additions	Disposals	Transfers	Balance 12/31/2009
Operating fixed assets:					
Land	\$ 121,598	\$ 26,201	\$ -	\$ -	\$ 147,799
Building	17,021,176	-	-	-	17,021,176
Treatment equipment	3,249,813	-	-	-	3,249,813
Distributions	14,728,497	5,196	-	-	14,733,693
Services/meters	2,616,815	27,937	-	-	2,644,752
Other equipment	<u>7,788,752</u>	<u>192,556</u>	<u>(57,462)</u>	<u>820,500</u>	<u>8,744,346</u>
	45,526,651	251,890	(57,462)	820,500	46,541,579
Accumulated depreciation	<u>(10,484,238)</u>	<u>(1,235,676)</u>	<u>57,462</u>	<u>-</u>	<u>(11,662,452)</u>
	35,042,413	(983,786)	(-)	820,500	34,879,127
Construction in progress	<u>3,401,773</u>	<u>1,296,117</u>	<u>-</u>	<u>(820,500)</u>	<u>3,877,390</u>
Utility plant, net	<u>\$38,444,186</u>	<u>\$ 312,331</u>	<u>\$ (-)</u>	<u>\$ (-)</u>	<u>\$38,756,517</u>

The following represents the activity for the year ended December 31, 2008:

	Balance 12/31/2007	Additions	Disposals	Transfers	Balance 12/31/2008
Operating fixed assets:					
Land	\$ 121,598	\$ -	\$ -	\$ -	\$ 121,598
Building	17,021,176	-	-	-	17,021,176
Treatment equipment	3,249,813	-	-	-	3,249,813
Distributions	14,692,952	35,545	-	-	14,728,497
Services/meters	2,575,640	41,175	-	-	2,616,815
Other equipment	<u>5,800,625</u>	<u>155,626</u>	<u>(38,365)</u>	<u>1,870,866</u>	<u>7,788,752</u>
	43,461,804	232,346	(38,365)	1,870,866	45,526,651
Accumulated depreciation	<u>(9,338,192)</u>	<u>(1,184,276)</u>	<u>38,230</u>	<u>-</u>	<u>(10,484,238)</u>
	34,123,612	(951,930)	(135)	1,870,866	35,042,413
Construction in progress	<u>2,601,100</u>	<u>2,671,539</u>	<u>-</u>	<u>(1,870,866)</u>	<u>3,401,773</u>
Utility plant, net	<u>\$36,724,712</u>	<u>\$1,719,609</u>	<u>\$ (135)</u>	<u>\$ -</u>	<u>\$38,444,186</u>

MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 and 2008

**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, 2009.

The District's bonded indebtedness and other long-term debt at December 31, 2009 and 2008, are summarized as follows:

<u>Bond issue</u>	<u>Rate</u>	<u>Original Issue</u>	<u>Principal O/S 2009</u>	<u>Principal O/S 2008</u>
<b>Water District</b>				
GE Capital	5.930%	\$ 51,215	\$ 9,399	\$ 22,820
Forcht Bank	2.30%	128,075	126,104	-0-
RD 1993 Series A	4.500%	794,000	650,000	664,000
RD 1997 Series A	4.500%	390,000	333,000	339,500
RD 2001 Series A	4.500%	2,500,000	2,292,000	2,326,000
RD 2005 Series A	4.125%	750,000	725,500	734,000
RD 2008 Series A	4.125%	325,000	325,000	325,000
RD 2008 Series A	4.125%	150,000	150,000	150,000
KIA CD2-01	1.000%	1,510,000*	1,221,202	1,288,952
KRWFC	Variable	2,050,000	1,660,000	1,755,000
<b>Sewer District</b>				
RD 1997 Series A	4.500%	972,000	847,000	847,000
RD 2002 Series A	4.500%	850,000	790,000	790,000
RD 2005 Series A	4.125%	290,000	280,500	280,500
N/P - Bank of McCreary Co.	6.000%	167,000	132,379	145,657
IOS Capital	7.13%	<u>11,482</u>	<u>10,371</u>	<u>-0-</u>
		10,938,772	9,552,455	9,668,429
Less current maturities			<u>(281,934)</u>	<u>(283,293)</u>
Total long-term debt			<u>\$ 9,270,521</u>	<u>\$ 9,385,136</u>

\* The original issue of the KIA CD2-01 loan is \$1,510,000. As of December 31, 2009, the District had borrowed \$1,474,999 of the original amount.

**MCCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 and 2008**

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

The District's bonded indebtedness and other long-term debt at December 31, 2009 is detailed as follows:

	Principal Balance 12/31/2008		Borrowings	Principal Payments	Principal Balance 12/31/2009		Current	Long-Term
<b>Water District</b>								
GE Capital	\$ 22,820	\$ -	\$ -	\$ 13,421	\$ 9,399	\$ 9,399	\$ -	
Forcht Bank	-	128,075	-	1,971	126,104	15,000	111,104	
1993 Series A	664,000	-	-	14,000	650,000	24,022	625,978	
1997 Series A	339,500	-	-	6,500	333,000	6,500	326,500	
2001 Series A	2,326,000	-	-	34,000	2,292,000	35,000	2,257,000	
2005 Series A	734,000	-	-	8,500	725,500	9,000	716,500	
2008 Series A	325,000	-	-	-	325,000	-	325,000	
2008 Series A	150,000	-	-	-	150,000	-	150,000	
KRWFC	1,755,000	-	-	95,000	1,660,000	66,000	1,594,000	
KIA CD2-01	1,288,952	-	-	67,750	1,221,202	68,429	1,152,773	
<b>Sewer District</b>								
1997 Series A	847,000	-	-	-	847,000	16,000	831,000	
2002 Series A	790,000	-	-	-	790,000	12,000	778,000	
2005 Series A	280,500	-	-	-	280,500	3,500	277,000	
N/P - BOMC	145,657	-	-	13,278	132,379	14,451	117,928	
IOS Capital	-	11,481	-	1,110	10,371	2,633	7,738	
	<u>\$9,668,429</u>	<u>\$ 139,556</u>	<u>\$ -</u>	<u>\$ 255,530</u>	<u>\$ 9,552,455</u>	<u>\$281,934</u>	<u>\$9,270,521</u>	

The District's bonded indebtedness and other long-term debt at December 31, 2008 is detailed as follows:

	Principal Balance 12/31/2007		Borrowings	Principal Payments	Principal Balance 12/31/2008		Current	Long-Term
<b>Water District</b>								
GE Capital	\$ 35,471	\$ -	\$ -	\$ 12,651	\$ 22,820	\$ 13,421	\$ 9,399	
1993 Series A	677,000	-	-	13,000	664,000	14,000	650,000	
1997 Series A	345,500	-	-	6,000	339,500	6,500	333,000	
2001 Series A	2,358,000	-	-	32,000	2,326,000	34,000	2,292,000	
2005 Series A	742,000	-	-	8,000	734,000	8,500	725,500	
2008 Series A	-	325,000	-	-	325,000	-	325,000	
2008 Series A	-	150,000	-	-	150,000	-	150,000	
KRWFC	1,851,000	-	-	96,000	1,755,000	95,000	1,660,000	
KIA CD2-01	1,356,030	-	-	67,078	1,288,952	67,750	1,221,202	
<b>Sewer District</b>								
1997 Series A	862,000	-	-	15,000	847,000	15,000	832,000	
2002 Series A	801,000	-	-	11,000	790,000	12,000	778,000	
2005 Series A	284,000	-	-	3,500	280,500	3,500	277,000	
N/P - BOMC	158,818	-	-	13,161	145,657	13,622	132,035	
N/P - BOMC	6,515	-	-	6,515	-	-	-	
	<u>\$9,477,334</u>	<u>\$ 475,000</u>	<u>\$ -</u>	<u>\$ 283,905</u>	<u>\$ 9,668,429</u>	<u>\$283,293</u>	<u>\$9,385,136</u>	



McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 and 2008

**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>
2010	\$ 239,254	\$ 45,951	\$ 276,964	\$ 92,850	\$ 516,218	\$ 138,801
2011	242,973	47,831	269,935	90,552	512,908	138,383
2012	247,935	50,250	262,874	88,171	510,809	138,421
2013	255,574	53,255	255,413	85,636	510,987	138,891
2014	259,313	55,306	247,668	82,966	506,981	138,272
2015-2019	1,284,922	263,286	1,120,402	374,608	2,405,324	637,894
2020-2024	1,490,629	266,500	889,385	316,373	2,380,014	582,873
2025-2029	1,178,475	331,500	625,110	250,786	1,803,585	582,286
2030-2034	956,500	412,500	393,841	169,156	1,350,341	581,656
2035-2039	845,700	396,500	201,191	70,629	1,046,891	467,129
2040-2044	411,500	127,000	53,248	11,499	464,748	138,499
2045-2048	<u>89,801</u>	<u>-</u>	<u>9,420</u>	<u>-</u>	<u>99,221</u>	<u>-</u>
	<u>\$7,502,576</u>	<u>\$2,049,879</u>	<u>\$4,605,451</u>	<u>\$1,633,226</u>	<u>\$12,108,027</u>	<u>\$3,683,105</u>

1993 Series A - McCreary County Water District Waterworks Revenue Bond, dated June 21, 1995, due in annual installments through April 1, 2033 bearing an interest rate of 4.50%.

1997 Series A - McCreary County Water District Waterworks Revenue Bond, dated February 13, 1998, due in annual installments through April 1, 2040, bearing an interest rate of 4.50%.

2001 Series A - McCreary County Water District Waterworks Revenue Bond, dated February 6, 2002, due in annual installments through April 1, 2040, bearing an interest rate of 4.50%.

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.

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.

**McCREARY COUNTY WATER DISTRICT**  
**WATER AND SEWER DIVISIONS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 and 2008**

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

Forcht Bank - Installment loan dated November 10, 2009, due in monthly installments through November 10, 2014, bearing an interest rate of 2.30%.

1997 Series A - McCreary County Water District Sewer System Revenue Bond, dated January 14, 1998, due in annual installments through January 1, 2037, bearing an interest rate of 4.50%.

2002 Series A - McCreary County Water District Sewer System Revenue Bond, dated September 6, 2002, due in annual installments through January 1, 2041, bearing an interest rate of 4.50%.

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%.

GE Capital - A capital lease was started on August 18, 2006 for the use of equipment purchased from Vermeer Southern Ohio Inc. The lease bears an interest rate of 5.93% with a life of four years ending on August 18, 2010.

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 ending on July 16, 2013.

**NOTE 6 - NET ASSETS**

GASB Statement No. 34 requires the delineation of Net Assets 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 \$29,204,062 and \$28,775,757 for the years ended December 31, 2009 and 2008 respectively.

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

	<u>2009</u>	<u>2008</u>
Construction	\$ -0-	\$ -0-
Depreciation	389,186	340,176
Debt Service	474,964	298,110
Treasury MM Fund	<u>105,829</u>	<u>136,370</u>
Total Restricted	<u>\$ 969,979</u>	<u>\$ 774,656</u>

The District has a balance of \$1,219,129 and \$1,086,839 for unrestricted net assets at December 31, 2009 and 2008 respectively.

McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 and 2008

**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, 2009 and 2008 equaled \$389,186 and \$340,176 respectively. The required balance is \$331,620 and \$341,220 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 23 and 21 employees at December 31, 2009 and 2008 covered by the CERS who contributed 5.00%. The employer contributed 13.5% through June, and 16.16% through December of 2009 and 16.17% through June, and 13.5% through December in 2008. The District's contribution was \$124,138 and \$110,000 for the years ended December 31, 2009 and 2008 respectively while the employees contributed \$42,308 and \$37,063 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.

McCREARY COUNTY WATER DISTRICT  
WATER AND SEWER DIVISIONS  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 and 2008

**NOTE 8 - PENSION PLAN (CONTINUED)**

The CERS total actuarial accrued liability was \$10,491,358,000 and the net assets available for the benefits were \$7,402,278,000 as of June 30, 2009, which is the latest information available.

**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**

SFAS No. 157, *Fair Value Measurements*, 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, 2009				
	Level 1	Level 2	Level 3	Total
Treasury MM fund	<u>\$105,829</u>	-	-	<u>\$105,829</u>
Total assets at fair value	<u>\$105,829</u>	-	-	<u>\$105,829</u>

Assets at Fair Value as of December 31, 2008				
	Level 1	Level 2	Level 3	Total
Treasury MM fund	<u>\$136,370</u>	-	-	<u>\$136,370</u>
Total assets at fair value	<u>\$136,370</u>	-	-	<u>\$136,370</u>

**Supplemental Information**

McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
COMBINING STATEMENT OF NET ASSETS  
DECEMBER 31, 2009

	McCreary County		Eliminations	Total
	Water	Sewer		
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 538,927	\$ 42,006	\$	\$ 580,933
Unbilled revenues	167,758	50,053		217,811
Accounts receivable, net	412,637	80,336		492,973
Other receivables	278,584	3,831		282,415
Due from associated division	99,792	-	(99,792)	-
Inventory	154,179	32,051		186,230
Prepaid expenses	34,724	-		34,724
Total current assets	<u>1,686,601</u>	<u>208,277</u>	<u>(99,792)</u>	<u>1,795,086</u>
<b>Non-current assets:</b>				
Restricted cash and cash equivalents	565,833	298,317		864,150
Investments	105,829	-		105,829
<b>Capital assets:</b>				
Utility plant	29,412,098	17,129,481		46,541,579
Less accumulated depreciation	(8,910,933)	(2,751,519)		(11,662,452)
Construction in process	3,877,390	-		3,877,390
Bond issue costs, net	64,774	-		64,774
Total non-current assets	<u>25,114,991</u>	<u>14,676,279</u>		<u>39,791,270</u>
Total assets	<u>\$ 26,801,592</u>	<u>\$ 14,884,556</u>	<u>\$ (99,792)</u>	<u>\$ 41,586,356</u>
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Accounts payable	\$ 390,146	\$ 16,811	\$	\$ 406,957
Accrued interest	79,250	45,786		125,036
Due to associated division	-	99,792	(99,792)	-
Taxes payable	13,198	3,479		16,677
Other accrued expenses	62,500	5,092		67,592
Customer deposits	24,469	-		24,469
Capital equipment lease - current	12,032	-		12,032
Notes payable - current	24,022	14,451		38,473
Revenue bonds - current portion	199,929	31,500		231,429
Total current liabilities	<u>805,546</u>	<u>216,911</u>	<u>(99,792)</u>	<u>922,665</u>
<b>Non-current liabilities:</b>				
Capital equipment lease - net current	7,738	-		7,738
Notes payable - long term	102,082	117,928		220,010
Revenue bonds - net current portion	7,156,773	1,886,000		9,042,773
Total non-current liabilities	<u>7,266,593</u>	<u>2,003,928</u>		<u>9,270,521</u>
Total liabilities	<u>\$ 8,072,139</u>	<u>\$ 2,220,839</u>	<u>\$ (99,792)</u>	<u>\$ 10,193,186</u>
<b>NET ASSETS</b>				
Invested in capital assets, net				
of related debt	\$ 16,875,979	\$ 12,328,083	\$	\$ 29,204,062
Restricted for debt service and construction	671,662	298,317		969,979
Unrestricted	1,181,812	37,317		1,219,129
Total net assets	<u>\$ 18,729,453</u>	<u>\$ 12,663,717</u>	<u>\$ -</u>	<u>\$ 31,393,170</u>

McCREARY COUNTY WATER DISTRICT,  
WATER AND SEWER DIVISIONS  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2009

	McCreary County		Total
	Water	Sewer	
<b>Operating revenues</b>			
Residential sales	\$ 1,870,770	\$ 185,106	\$ 2,055,876
Commercial sales	169,065	97,653	266,718
Industrial sales	18,578	3,071	21,649
Governmental sales	751,987	476,938	1,228,925
Other sales and fees	78,009	6,843	84,852
Total operating revenues	<u>2,888,409</u>	<u>769,611</u>	<u>3,658,020</u>
<b>Operating expenses</b>			
General and administrative costs	138,855	11,884	150,739
Payroll and contractual services	1,281,529	216,941	1,498,470
Repairs and maintenance	-	95,118	95,118
Other supplies and expenses	769,269	233,134	1,002,403
Depreciation and amortization	766,732	472,143	1,238,875
Total operating expenses	<u>2,956,385</u>	<u>1,029,220</u>	<u>3,985,605</u>
Operating income (loss)	<u>(67,976)</u>	<u>(259,609)</u>	<u>(327,585)</u>
<b>Nonoperating revenues (expenses)</b>			
Interest income	29,271	10,947	40,218
Other income	142,656	-	142,656
Gain on sale of fixed assets	-	-	-
Interest expense	(274,024)	(94,149)	(368,173)
Other expense	-	-	-
Total nonoperating revenues	<u>(102,097)</u>	<u>(83,202)</u>	<u>(185,299)</u>
Loss before contributions	(170,073)	(342,811)	(512,884)
Capital grants received	<u>1,146,473</u>	<u>122,329</u>	<u>1,268,802</u>
Change in net assets	976,400	(220,482)	755,918
Total net assets on December 31, 2008	<u>17,753,053</u>	<u>12,884,199</u>	<u>30,637,252</u>
Total net assets on December 31, 2009	<u>\$ 18,729,453</u>	<u>\$ 12,663,717</u>	<u>\$ 31,393,170</u>

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

**HARVEY K. FAULKNER, CPA**  
**JOSEPH C. KING, CPA**  
**JOHN M. WENZ, CPA**

**P.O. BOX 285**  
**117 WEST HIGH STREET**  
**MT. STERLING, KY 40353**  
**(859) 498-1836 FAX (859) 498-2116**

**EUGENE C. WEATHERS, III, CPA**  
**KAREN S. TRENT, CPA**  
**LANA J. McCANN, CPA**  
**ERICA M. SNOWDEN, CPA**

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 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, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 20, 2010. 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, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A *material weakness* is a deficiency, or 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

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

*Faulkner, King & Wenz, PSC*

September 20, 2010



CASE NO: 2008-00137 & 00138

CONTAINS  
LARGE OR OVERSIZED  
MAP(S)

RECEIVED ON:

RECEIVED

JUN 03 2011

PUBLIC SERVICE  
COMMISSION