

**GRAYSON COUNTY WATER DISTRICT**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

**GRAYSON COUNTY WATER DISTRICT  
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FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

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## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Grayson County Water District  
Leitchfield, KY 42754

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Grayson County Water District as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Grayson County Water District, as of December 31, 2015 and 2014, and the respective changes in financial position, and cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

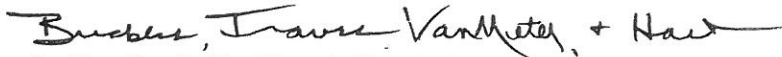
### *Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2016, on our consideration of the Grayson County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Grayson County Water District's internal control over financial reporting and compliance.

Respectfully submitted,



Buckles, Travis, VanMeter & Hart, PLLC  
Certified Public Accountants  
Leitchfield, Kentucky  
March 11, 2016

|  | <b>DECEMBER 31,</b>  |                      |
|--|----------------------|----------------------|
|  | <b>2015</b>          | <b>2014</b>          |
| <b>LIABILITIES</b>                                   |                      |                      |
| <b>CURRENT LIABILITIES</b>                           |                      |                      |
| Accounts payable                                     | \$ 46,308            | \$ 48,046            |
| Accounts payable-WRECC                               | 94,890               | 181,777              |
| Accrued liabilities                                  | 666                  | 455                  |
| School and sales taxes payable                       | 9,245                | 8,836                |
| Interest payable from restricted assets              | 123,517              | 130,235              |
| Interest payable-Customer deposits                   | 36                   | 72                   |
| Customer deposits                                    | 32,850               | 32,450               |
| Current portion of long-term debt                    | 573,151              | 546,954              |
| <b>TOTAL CURRENT LIABILITIES</b>                     | <b>880,663</b>       | <b>948,825</b>       |
| <b>NON-CURRENT LIABILITIES</b>                       |                      |                      |
| Bonds and loans payable                              | 9,377,018            | 9,939,972            |
| Less: Current portion of long-term debt              | (573,151)            | (546,954)            |
| <b>TOTAL NON-CURRENT LIABILITIES</b>                 | <b>8,803,867</b>     | <b>9,393,018</b>     |
| <b>TOTAL LIABILITIES</b>                             | <b>9,684,530</b>     | <b>10,341,843</b>    |
| <b>NET POSITION</b>                                  |                      |                      |
| Net investment in capital assets                     | 10,286,593           | 10,170,864           |
| Restricted for debt service (nonexpendable)          | 1,433,763            | 1,286,635            |
| Restricted for depreciation reserves (nonexpendable) | 843,569              | 686,426              |
| Restricted for special projects (expendable)         | 0                    | 160,694              |
| Unrestricted   | 633,626              | 760,485              |
| <b>TOTAL NET POSITION</b>                            | <b>13,197,551</b>    | <b>13,065,104</b>    |
| <b>TOTAL LIABILITIES AND NET POSITION</b>            | <b>\$ 22,882,081</b> | <b>\$ 23,406,947</b> |

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

**GRAYSON COUNTY WATER DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

|   | DECEMBER 31, |              |
|---|--------------|--------------|
|   | 2015         | 2014         |
| <b>OPERATING REVENUES</b>                 |              |              |
| <b>METERED SALES</b>                      |              |              |
| Residential                               | \$ 2,545,563 | \$ 2,594,919 |
| Commercial                                | 417,093      | 412,235      |
| Agriculture                               | 64,623       | 64,032       |
| Resale                                    | 102,454      | 109,485      |
| <b>TOTAL METERED SALES</b>                | 3,129,733    | 3,180,671    |
| <b>FORFEITED DISCOUNTS</b>                | 53,310       | 59,359       |
| <b>MISCELLANEOUS SERVICE REVENUE</b>      | 28,443       | 37,702       |
| <b>TOTAL OPERATING REVENUES</b>           | 3,211,486    | 3,277,732    |
| <b>OPERATING EXPENSES</b>                 |              |              |
| <b>PURCHASED WATER</b>                    | 365,621      | 346,508      |
| <b>SUPPLY AND PUMPING EXPENSE</b>         |              |              |
| Purchased power                           | 25,203       | 24,787       |
| Materials and supplies                    | 4,332        | 4,934        |
| Insurance                                 | 8,087        | 7,945        |
| Transportation                            | 12,775       | 17,534       |
| Miscellaneous                             | 993          | 400          |
| Contractual services                      | 42,833       | 41,318       |
| <b>TOTAL SUPPLY AND PUMPING EXPENSE</b>   | 94,223       | 96,918       |
| <b>WATER TREATMENT EXPENSE</b>            |              |              |
| Purchased power                           | 91,326       | 89,724       |
| Materials and supplies                    | 148,096      | 71,007       |
| Insurance                                 | 8,087        | 7,945        |
| Transportation                            | 4,684        | 6,652        |
| Miscellaneous                             | 3,042        | 15,550       |
| Contractual services                      | 298,539      | 279,318      |
| Professional services                     | 13,723       | 14,312       |
| <b>TOTAL WATER TREATMENT EXPENSE</b>      | 567,497      | 484,508      |
| <b>GENERAL DISTRIBUTION EXPENSE</b>       |              |              |
| Purchased power                           | 2,413        | 2,862        |
| Materials and supplies                    | 3,791        | 5,695        |
| Insurance                                 | 8,087        | 7,945        |
| Transportation                            | 14,905       | 20,509       |
| Miscellaneous                             | 3,847        | 1,882        |
| Contractual services                      | 238,027      | 232,721      |
| <b>TOTAL GENERAL DISTRIBUTION EXPENSE</b> | 271,070      | 271,614      |
| <b>MAINTENANCE EXPENSE</b>                |              |              |
| Transportation                            | 1,703        | 2,274        |
| Contractual services                      | 142,777      | 138,484      |
| Distribution                              | 3,830        | 10,708       |
| Services                                  | 6,412        | 5,600        |
| <b>TOTAL MAINTENANCE EXPENSE</b>          | 154,722      | 157,066      |

(CONTINUED)

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

**GRAYSON COUNTY WATER DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET POSITION (CONCLUDED)  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

|   | DECEMBER 31,         |                      |
|---|----------------------|----------------------|
|   | 2015                 | 2014                 |
| <b>CUSTOMER ACCOUNTS EXPENSE</b>                  |                      |                      |
| Bad debt expense                                  | \$ 19,491            | \$ 2,558             |
| Materials and supplies                            | 35,027               | 2,938                |
| Transportation                                    | 7,665                | 10,532               |
| Miscellaneous                                     | 200                  | 88                   |
| Contractual services                              | 171,332              | 166,029              |
| Customer records                                  | 63,237               | 108,197              |
| <b>TOTAL CUSTOMER ACCOUNTS EXPENSE</b>            | <u>296,952</u>       | <u>290,342</u>       |
| <b>ADMINISTRATIVE AND GENERAL EXPENSE</b>         |                      |                      |
| Materials and supplies                            | 32,166               | 25,145               |
| Insurance   | 8,087                | 9,289                |
| Transportation                                    | 852                  | 1,109                |
| Miscellaneous                                     | 49,943               | 37,164               |
| Contractual services                              | 188,064              | 191,306              |
| Professional services                             | 13,202               | 28,285               |
| <b>TOTAL ADMINISTRATIVE AND GENERAL EXPENSE</b>   | <u>292,314</u>       | <u>292,298</u>       |
| <b>DEPRECIATION EXPENSE</b>                       | <u>826,167</u>       | <u>807,280</u>       |
| <b>TOTAL OPERATING EXPENSES</b>                   | <u>2,868,566</u>     | <u>2,746,534</u>     |
| <b>OPERATING INCOME (LOSS)</b>                    | <u>342,920</u>       | <u>531,198</u>       |
| <b>NONOPERATING REVENUES (EXPENSES)</b>           |                      |                      |
| Miscellaneous income                              | 27,248               | 50,141               |
| Interest income                                   | 3,990                | 5,263                |
| Line relocation revenue                           | 0                    | 19,819               |
| Line relocation expense                           | 0                    | (19,819)             |
| Gain (loss) on sale of equipment                  | 0                    | 0                    |
| Interest expense                                  | (272,155)            | (298,196)            |
| PSC taxes   | (6,231)              | (6,157)              |
| <b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>     | <u>(247,148)</u>     | <u>(248,949)</u>     |
| <b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b> | 95,772               | 282,249              |
| <b>CAPITAL CONTRIBUTIONS</b>                      |                      |                      |
| Grant income                                      | 0                    | 69,943               |
| Contributions in aid of construction              | 36,675               | 35,450               |
| <b>TOTAL CAPITAL CONTRIBUTIONS</b>                | <u>36,675</u>        | <u>105,393</u>       |
| <b>CHANGE IN NET POSITION</b>                     | 132,447              | 387,642              |
| <b>TOTAL NET POSITION-BEGINNING</b>               | 13,065,104           | 12,677,462           |
| <b>TOTAL NET POSITION-ENDING</b>                  | <u>\$ 13,197,551</u> | <u>\$ 13,065,104</u> |

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

**GRAYSON COUNTY WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

|   | DECEMBER 31,        |                     |
|---|---------------------|---------------------|
|   | 2015                | 2014                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                     |                     |
| Receipts from customers   | \$ 3,223,000        | \$ 3,498,752        |
| Payments to suppliers   | (972,854)           | (871,407)           |
| Payments for contractual services   | (1,170,197)         | (1,069,268)         |
| Other receipts (payments)   | (5,211)             | (6,624)             |
| <b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>   | <u>1,074,738</u>    | <u>1,551,453</u>    |
| <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>   | 0                   | 0                   |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>   |                     |                     |
| Grant income  | 0                   | 69,943              |
| Bond issuance costs   | 0                   | 0                   |
| Proceeds from capital debt  | 0                   | 0                   |
| Principal repayment of capital debt   | (562,954)           | (523,823)           |
| Capital contributions   | 36,675              | 35,450              |
| Purchases of capital assets   | (378,942)           | (222,923)           |
| Miscellaneous income  | 27,248              | 50,141              |
| Line relocation revenue   | 0                   | 19,819              |
| Line relocation expense   | 0                   | (19,819)            |
| Insurance proceeds  | 0                   | 0                   |
| Damage repairs  | 0                   | 0                   |
| Gain (loss) on sale of equipment  | 0                   | 0                   |
| Interest paid on capital debt   | (272,155)           | (298,196)           |
| Increase (decrease) in interest payable-Customer deposits   | (36)                | (100)               |
| Increase (decrease) in interest payable from restricted assets  | (6,718)             | 10,095              |
| <b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>                               | <u>(1,156,882)</u>  | <u>(879,413)</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                     |                     |
| Interest income   | 3,990               | 5,263               |
| Decrease in note receivable-City of Leitchfield   | 5,977               | 5,719               |
| <b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>   | <u>9,967</u>        | <u>10,982</u>       |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>   | (72,177)            | 683,022             |
| <b>BALANCES-BEGINNING OF YEAR</b>   | 2,645,718           | 1,962,696           |
| <b>BALANCES-END OF YEAR</b>   | <u>\$ 2,573,541</u> | <u>\$ 2,645,718</u> |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>      |                     |                     |
| Operating income (loss)   | \$ 342,920          | \$ 531,198          |
| Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities: |                     |                     |
| Depreciation expense  | 826,167             | 807,280             |
| Payment of PSC taxes  | (6,231)             | (6,157)             |
| Changes in assets and liabilities:  |                     |                     |
| Net (increase) decrease in accounts receivable  | 9,570               | 222,783             |
| Net (increase) decrease in unbilled revenue   | 1,944               | (1,763)             |
| Net (increase) decrease in prepaid expenses   | 1,364               | (12,307)            |
| Net (increase) decrease in inventory  | (13,391)            | 30,978              |
| Net increase (decrease) in accounts payable   | (88,625)            | (20,092)            |
| Net increase (decrease) in accrued liabilities  | 211                 | 56                  |
| Net increase (decrease) in school and sales taxes payable   | 409                 | 477                 |
| Net increase (decrease) in customer deposits  | 400                 | (1,000)             |
| <b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>   | <u>\$ 1,074,738</u> | <u>\$ 1,551,453</u> |

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



**GRAYSON COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**1. The Reporting Entity**

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

**2. Basic Financial Statements – Proprietary Fund Financial Statements**

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

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

**3. Basis of Accounting**

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

**Accrual**

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

**GRAYSON COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014**

**NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4. Cash and Cash Equivalents**

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

**5. Inventory**

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

**6. Use of Estimates**

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

**7. Capital Assets**

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

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

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

**GRAYSON COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014**

**NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)**

**8. Impairment of Long-Lived Assets**

The District reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For assets held and used, if the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of the asset, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the years ended December 31, 2015 and 2014.

**9. Nonexchange Transactions**

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

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

**10. Advertising Cost**

The District uses advertising to promote its services to the community. Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2015 and 2014 were \$1,671 and \$3,768, respectively.

**NOTE B – CASH AND CASH EQUIVALENTS**

At year-end, the carrying amount of the District's cash and investments was \$2,573,541 and the bank balance was \$2,688,010. Of the total bank balance, \$750,000 was covered by federal depository insurance, \$394,342 was invested in 100% federally guaranteed securities and the remaining balance of \$1,543,668 was considered uncollateralized. As of December 31, 2015, \$3,352,715 was pledged with securities held by the pledging banks' trust departments but not in the name of the District.

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

**NOTE C – RESTRICTED CASH**

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

**GRAYSON COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014**

**NOTE C – RESTRICTED CASH (CONCLUDED)**

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

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

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

**NOTE D – CONTRIBUTIONS IN AID OF CONSTRUCTION**

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

**NOTE E – LONG-TERM DEBT**

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

| <u>Original<br/>Amount</u> | <u>Funding Agency</u> | <u>Series<br/>Of</u> | <u>Interest<br/>Rate</u> | <u>Balance as of Dec. 31,</u> |             |
|----------------------------|-----------------------|----------------------|--------------------------|-------------------------------|-------------|
|                            |                       |                      |                          | <u>2015</u>                   | <u>2014</u> |
| \$1,350,000                | RD                    | 2005                 | 4.125%                   | \$1,218,000                   | \$1,237,000 |
| \$ 525,000                 | RD                    | 2013A                | 2.125%                   | \$ 516,500                    | \$ 525,000  |
| \$ 900,000                 | RD                    | 2013B                | 2.000%                   | \$ 884,000                    | \$ 900,000  |

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

During 2002, the District had received approval for a Kentucky Infrastructure Authority (KIA) Project Loan not to exceed \$4,000,000. As of December 31, 2003, total draws of \$3,930,850 had been accumulated. This loan bears interest at a rate of 1.8% and is secured by the revenues of the water system. The balance outstanding on this loan as of year end was \$1,538,518. An annual deposit of \$49,000 is required to be deposited into a reserve account. The annual deposits are to be made until the balance reaches \$490,000. As of December 31, 2015 the reserve balance was \$935,396.

During 2005, the District received approval for an interim loan from Kentucky Rural Water Finance Corporation not to exceed \$1,350,000. This interim loan will convert to permanent financing through RD upon project completion. This loan bears interest at a variable rate and is secured by revenues of the water system. As of December 31, 2006, total draws of \$1,350,000 had been accumulated. The 2005 series bond was issued through RD in February 2007. Total amounts outstanding at year end were \$1,218,000.

**GRAYSON COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2015 AND 2014**

**NOTE E – LONG-TERM DEBT (CONTINUED)**

During 2009, the District received a loan from Kentucky Rural Water Finance Corporation in the amount of \$380,000. This loan was received as part of a 2009C series revenue bond. This loan bears interest at an increasing rate with an average of 3.36% and is secured by revenues of the water system. This loan also has principal and interest sinking fund requirements. As of December 31, 2015 the loan balance was \$210,000.

During 2012, the District received a loan from Kentucky Rural Water Finance Corporation in the amount of \$3,680,000. This loan was received as part of a 2012D series revenue bond. This loan was issued to refund the District's series 1995, 1997, and 1999 Rural Development Bonds. This loan bears interest at a variable rate ranging between 2.75% and 4% over the life of the bond and is secured by revenues of the water system. This loan also has principal and interest sinking fund requirements. As of December 31, 2015 the loan balance was \$3,320,000.

During 2012, the District received approval for an interim loan from Kentucky Rural Water Finance Corporation not to exceed \$1,425,000. This interim loan was converted to permanent financing through RD upon project completion. As of December 31, 2013 total draws of \$1,425,000 had been accumulated. The 2013A and 2013B series bonds were issued through RD. Total outstanding amounts at year end were \$1,400,500.

During 2013, the District received a loan from Kentucky Rural Water Finance Corporation in the amount of \$1,990,000. This loan was received as part of a 2013B series revenue bond. This loan was issued to refund the District's series 2001D and 2004B Kentucky Rural Water Loans. This loan bears interest at a variable rate ranging between 2.30% and 3.30% over the life of the bond and is secured by revenues of the water system. This loan also has principal and interest sinking fund requirements. As of December 31, 2015 the loan balance was \$1,690,000.

Current year long-term debt activity is as follows:

| <b>Description</b>                     | <b>Beginning<br/>Balance</b> | <b>Increases</b> | <b>Decreases</b>  | <b>Ending<br/>Balance</b> |
|--|------------------------------|------------------|-------------------|---------------------------|
| Rural Development Bond, 2005           | \$ 1,237,000                 | \$ 0             | \$ 19,000         | \$ 1,218,000              |
| Rural Development Bond, 2013A & B      | 1,425,000                    | 0                | 24,500            | 1,400,500                 |
| Kentucky Infrastructure Authority Loan | 1,742,972                    | 0                | 204,454           | 1,538,518                 |
| Kentucky Rural Water Loan              | 240,000                      | 0                | 30,000            | 210,000                   |
| Kentucky Rural Water Loan              | 3,455,000                    | 0                | 135,000           | 3,320,000                 |
| Kentucky Rural Water Loan              | 1,840,000                    | 0                | 150,000           | 1,690,000                 |
|  | <u>\$ 9,939,972</u>          | <u>\$ 0</u>      | <u>\$ 562,954</u> | <u>\$ 9,377,018</u>       |

**GRAYSON COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2015 AND 2014**

**NOTE E – LONG-TERM DEBT (CONCLUDED)**

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

| <u>Year</u> | <u>Amount</u>       |
|-------------|---------------------|
| 2016        | \$ 573,151          |
| 2017        | 588,415             |
| 2018        | 578,746             |
| 2019        | 589,648             |
| 2020        | 599,618             |
| 2021-2025   | 2,321,440           |
| 2026-2030   | 1,566,000           |
| 2031-2035   | 1,187,000           |
| 2036-2040   | 465,000             |
| 2041-2045   | 553,500             |
| 2046-2050   | 249,500             |
| 2051-2052   | 105,000             |
|             | <u>\$ 9,377,018</u> |

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

| <u>Year</u> | <u>Amount</u>       |
|-------------|---------------------|
| 2016        | \$ 837,854          |
| 2017        | 840,073             |
| 2018        | 817,078             |
| 2019        | 813,718             |
| 2020        | 809,231             |
| 2021-2025   | 3,156,280           |
| 2026-2030   | 2,104,425           |
| 2031-2035   | 1,476,039           |
| 2036-2040   | 630,724             |
| 2041-2045   | 636,560             |
| 2046-2050   | 273,254             |
| 2051-2052   | 107,131             |
|             | <u>\$12,502,367</u> |

**NOTE F – CONCENTRATION OF CREDIT RISK**

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

**GRAYSON COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2015 AND 2014**

**NOTE G – ACCOUNTS RECEIVABLE**

Customer accounts receivable are shown net of an allowance for uncollectible accounts. At December 31, 2015 and 2014 total customer accounts receivable was \$220,966 and \$210,674, respectively. Allowance for uncollectible accounts was \$119,177 and \$99,315, respectively as of December 31, 2015 and 2014.

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

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

**NOTE H – CAPITAL ASSETS**

|   | <u>Beginning</u>     | <u>Increases</u>    | <u>Decreases</u>  | <u>Ending</u>        |
|---|----------------------|---------------------|-------------------|----------------------|
| Capital assets not being depreciated          |                      |                     |                   |                      |
| Land and land rights                          | \$ 245,736           | \$ 10,000           | \$ 0              | \$ 255,736           |
| Construction in progress                      | 28,716               | 168,029             | 177,629           | 19,116               |
| Total capital assets not being depreciated    | 274,452              | 178,029             | 177,629           | 274,852              |
| Other capital assets                          |                      |                     |                   |                      |
| Utility plant and lines                       | 29,394,283           | 336,814             | 0                 | 29,731,097           |
| Utility equipment and other                   | 741,287              | 41,728              | 0                 | 783,015              |
| Total other capital assets at historical cost | 30,135,570           | 378,542             | 0                 | 30,514,112           |
| Less: Accumulated depreciation                | (10,299,186)         | (826,167)           | 0                 | (11,125,353)         |
| Capital assets, net                           | <u>\$ 20,110,836</u> | <u>\$ (269,596)</u> | <u>\$ 177,629</u> | <u>\$ 19,663,611</u> |



**GRAYSON COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2015 AND 2014**

**NOTE I – RELATED PARTIES**

The District contracts with Warren Rural Electric Cooperative Corporation (WRECC) for the following services: billing, collections, office rental, equipment rental, and staff related expenditures. The following related party amounts are reflected in the financial statements for December 31, 2015 and 2014.

|   | <b>DECEMBER 31,<br/>2015</b> | <b>2014</b>  |
|---|------------------------------|--------------|
| Amounts paid to WRECC for general operations              | \$ 1,148,943                 | \$ 1,089,581 |
| Amounts paid to WRECC for purchased power                 | 19,688                       | 20,337       |
| Amounts included in accounts payable at year end          | 94,890                       | 181,777      |
| Amounts included in accounts receivable-WRECC at year end | 44,542                       | 53,591       |

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

**NOTE J – RISKS OF LOSS**

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

**NOTE K – NOTE RECEIVABLE – CITY OF LEITCHFIELD**

During 2006, the District sold water lines and appurtenances to the Leitchfield Utilities Commission. The balance outstanding of \$42,071 is shown as a note receivable on the statement of net position. The note bears interest at a rate of 4.5% per annum and shall be paid to the District over a period of fifteen years in annual installments of \$8,139. The note will mature in July, 2021.

**NOTE L – SUBSEQUENT EVENTS**

The District's management has evaluated and considered the need to recognize or disclose other subsequent events through March 11, 2016, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2015, have not been evaluated by management.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners  
Grayson County Water District  
Leitchfield, KY 42754

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Grayson County Water District, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Grayson County Water District's basic financial statements, and have issued our report thereon dated March 11, 2016.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Grayson County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement

amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **Purpose of this Report**

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

Respectfully submitted,



Buckles, Travis, VanMeter & Hart, PLLC  
Certified Public Accountants  
Leitchfield, Kentucky  
March 11, 2016

**GRAYSON COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**SIGNIFICANT DEFICENCIES**

| <b>Reference<br/>Number</b> | <b>Finding</b> |
|-----------------------------|----------------|
| NONE                        |                |