

***DRAFT***

**GRAYSON COUNTY WATER DISTRICT  
BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2018 AND 2017**

**GRAYSON COUNTY WATER DISTRICT  
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FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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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, 2018 and 2017, 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, 2018 and 2017, 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Grayson County Water District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to the prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2019, 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 solely 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 effectiveness of the Grayson County Water District's 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,  
**DRAFT**  
Buckles, Travis & Hart, PLLC  
Certified Public Accountants  
Leitchfield, Kentucky  
March 26, 2019

*Hart*

**GRAYSON COUNTY WATER DISTRICT  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2018 AND 2017**

	<b>DECEMBER 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents		
Operation and maintenance	\$ 25,785	\$ 116,725
Revenue	54,965	61,159
Construction	65,807	1,000
Accounts receivable		
Customer accounts receivable, net of allowance for uncollectibles of \$162,397 and \$146,805	260,197	265,106
Accounts receivable-WRECC	0	1,144
Unbilled revenue	142,654	195,033
Prepaid expenses	50,661	56,010
Inventory	346,332	307,582
<b>TOTAL CURRENT ASSETS</b>	<b>946,401</b>	<b>1,003,759</b>
<b>NON-CURRENT ASSETS</b>		
Restricted cash and cash equivalents		
Bond and note sinking funds	1,492,644	1,461,467
Depreciation fund	1,093,459	927,837
Note receivable-City of Leitchfield	22,479	29,299
Capital assets		
Land and land rights	335,736	255,736
Construction in progress	31,064	1,074,860
Utility plant and lines	31,278,446	29,655,029
Utility equipment and other	929,216	858,594
Less: Accumulated depreciation	(13,557,156)	(12,699,333)
<b>TOTAL NON-CURRENT ASSETS</b>	<b>21,625,888</b>	<b>21,563,489</b>
<b>TOTAL ASSETS</b>	<b>\$ 22,572,289</b>	<b>\$ 22,567,248</b>

(CONTINUED)

	<b>DECEMBER 31,</b>	
	<u>2018</u>	<u>2017</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 81,488	\$ 52,297
Accounts payable-WRECC	0	3,350
Accrued liabilities	114,872	106,261
School and sales taxes payable	9,916	9,211
Interest payable from restricted assets	116,983	113,990
Interest payable-Customer deposits	43	114
Customer deposits	36,750	34,100
Current portion of long-term debt	600,648	1,007,126
<b>TOTAL CURRENT LIABILITIES</b>	<u>960,700</u>	<u>1,326,449</u>
<b>NON-CURRENT LIABILITIES</b>		
Bonds and loans payable	8,348,706	8,643,832
Less: Current portion of long-term debt	<u>(600,648)</u>	<u>(1,007,126)</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u>7,748,058</u>	<u>7,636,706</u>
<b>TOTAL LIABILITIES</b>	<u>8,708,758</u>	<u>8,963,155</u>
<b>NET POSITION</b>		
Net investment in capital assets	10,668,600	10,501,054
Restricted for debt service (nonexpendable)	1,492,644	1,461,467
Restricted for depreciation reserves (nonexpendable)	1,093,459	927,837
Unrestricted	608,828	713,735
<b>TOTAL NET POSITION</b>	<u>13,863,531</u>	<u>13,604,093</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 22,572,289</u>	<u>\$ 22,567,248</u>

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, 2018 AND 2017**

	<b>DECEMBER 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>OPERATING REVENUES</b>		
<b>METERED SALES</b>		
Residential	\$ 2,716,347	\$ 2,781,437
Commercial	475,799	496,675
Agriculture	74,406	70,092
Resale	125,522	97,065
<b>TOTAL METERED SALES</b>	3,392,074	3,445,269
<b>FORFEITED DISCOUNTS</b>	53,741	57,605
<b>MISCELLANEOUS SERVICE REVENUE</b>	35,592	45,250
<b>TOTAL OPERATING REVENUES</b>	3,481,407	3,548,124
<b>OPERATING EXPENSES</b>		
<b>PURCHASED WATER</b>	403,656	395,268
<b>SUPPLY AND PUMPING EXPENSE</b>		
Purchased power	23,932	24,176
Materials and supplies	5,819	5,152
Insurance	14,903	15,156
Transportation	9,654	13,273
Miscellaneous	46	110
Payroll and contractual services	59,960	66,623
<b>TOTAL SUPPLY AND PUMPING EXPENSE</b>	114,314	124,490
<b>WATER TREATMENT EXPENSE</b>		
Purchased power	115,090	105,396
Materials and supplies	110,137	136,816
Insurance	14,859	15,156
Transportation	5,792	4,867
Miscellaneous	3,566	4,270
Payroll and contractual services	292,401	286,025
Professional services	23,686	15,834
<b>TOTAL WATER TREATMENT EXPENSE</b>	565,531	568,364
<b>GENERAL DISTRIBUTION EXPENSE</b>		
Purchased power	1,542	2,371
Legal and consultants	4,500	0
Materials and supplies	11,418	6,967
Insurance	14,859	15,156
Transportation	11,585	17,812
Miscellaneous	5,365	6,265
Payroll and contractual services	186,656	211,446
<b>TOTAL GENERAL DISTRIBUTION EXPENSE</b>	235,925	260,017
<b>MAINTENANCE EXPENSE</b>		
Transportation	5,054	2,022
Payroll and contractual services	144,241	126,824
Distribution	3,831	4,212
Services	14,339	10,976
<b>TOTAL MAINTENANCE EXPENSE</b>	167,465	144,034

(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, 2018 AND 2017**

	<b>DECEMBER 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>CUSTOMER ACCOUNTS EXPENSE</b>		
Bad debt expense	\$ 15,697	\$ 18,156
Materials and supplies	46,243	38,121
Transportation	9,654	5,384
Miscellaneous	6,581	862
Payroll and contractual services	363,623	317,278
Customer records	73,940	62,427
<b>TOTAL CUSTOMER ACCOUNTS EXPENSE</b>	<b>515,738</b>	<b>442,228</b>
<b>ADMINISTRATIVE AND GENERAL EXPENSE</b>		
Materials and supplies	57,165	37,454
Insurance	28,853	27,557
Transportation	1,931	885
Miscellaneous	71,404	128,478
Payroll and contractual services	256,028	201,409
Professional services	70,096	51,400
<b>TOTAL ADMINISTRATIVE AND GENERAL EXPENSE</b>	<b>485,477</b>	<b>447,183</b>
<b>DEPRECIATION EXPENSE</b>	<b>857,823</b>	<b>837,434</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>3,345,929</b>	<b>3,219,018</b>
<b>OPERATING INCOME (LOSS)</b>	<b>135,478</b>	<b>329,106</b>
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
Grant revenue	238,000	0
Rent income	62,434	59,360
Miscellaneous income	0	9,518
Interest income	23,868	3,439
Insurance proceeds	0	8,762
Gain (loss) on sale of equipment	1,002	28,972
Interest expense	(248,589)	(247,423)
PSC taxes	(7,096)	(6,680)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>69,619</b>	<b>(144,052)</b>
 <b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	<b>205,097</b>	<b>185,054</b>
 <b>CAPITAL CONTRIBUTIONS</b>		
Contributions in aid of construction	54,341	51,263
<b>TOTAL CAPITAL CONTRIBUTIONS</b>	<b>54,341</b>	<b>51,263</b>
<b>CHANGE IN NET POSITION</b>	<b>259,438</b>	<b>236,317</b>
<b>TOTAL NET POSITION-BEGINNING</b>	<b>13,604,093</b>	<b>13,367,776</b>
<b>TOTAL NET POSITION-ENDING</b>	<b>\$ 13,863,531</b>	<b>\$ 13,604,093</b>

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, 2018 AND 2017**

	<b>DECEMBER 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 3,539,839	\$ 3,451,393
Payments to suppliers	(1,218,598)	(1,171,804)
Payments for payroll and contractual services	(1,268,457)	(1,306,922)
Other receipts (payments)	(3,741)	(6,903)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>1,049,043</b>	<b>965,764</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	<b>0</b>	<b>0</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Grant income	238,000	0
Bond issuance costs	712,000	0
Proceeds from capital debt	194,955	428,380
Principal repayment of capital debt	(1,202,081)	(588,415)
Capital contributions	54,341	51,263
Purchases of capital assets	(730,243)	(1,305,857)
Rent income	62,434	59,360
Miscellaneous income	0	9,518
Insurance proceeds	0	8,762
Proceeds on sale of equipment	1,002	348,000
Interest paid on capital debt	(248,589)	(247,423)
Increase (decrease) in interest payable-Customer deposits	(71)	30
Increase (decrease) in interest payable from restricted assets	2,993	(4,235)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(915,259)</b>	<b>(1,240,617)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	23,868	3,439
Decrease in note receivable-City of Leitchfield	6,820	6,527
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>30,688</b>	<b>9,966</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>164,472</b>	<b>(264,887)</b>
<b>BALANCES-BEGINNING OF YEAR</b>	<b>2,568,188</b>	<b>2,833,075</b>
<b>BALANCES-END OF YEAR</b>	<b>\$ 2,732,660</b>	<b>\$ 2,568,188</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 135,478	\$ 329,106
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	857,823	837,434
Payment of PSC taxes	(7,096)	(6,680)
Changes in assets and liabilities:		
Net (increase) decrease in accounts receivable	6,053	(36,908)
Net (increase) decrease in unbilled revenue	52,379	(59,823)
Net (increase) decrease in prepaid expenses	5,349	(1,570)
Net (increase) decrease in inventory	(38,750)	1,745
Net increase (decrease) in accounts payable	25,841	(202,915)
Net increase (decrease) in accrued liabilities	8,611	105,598
Net increase (decrease) in school and sales taxes payable	705	(473)
Net increase (decrease) in customer deposits	2,650	250
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 1,049,043</b>	<b>\$ 965,764</b>

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

**GRAYSON COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**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 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. Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows.

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, 2018 AND 2017**

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

**3. Basis of Accounting (Concluded)**

GASB No. 34 requires the classification of net position into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- *Net Investment in Capital Assets* – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* – This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* – The component of net position consists of net assets that do not meet the definition of “restricted” or “net investment in capital assets”.

**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.

**GRAYSON COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018 AND 2017**

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

**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.

**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, 2018 and 2017.

**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, 2018 and 2017 were \$1,095 and \$3,785, respectively.

**GRAYSON COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018 AND 2017**

**NOTE B – CASH AND CASH EQUIVALENTS**

At year-end, the carrying amount of the District's cash and investments was \$2,732,660 and the bank balance was \$2,784,868. Of the total bank balance, \$750,000 was covered by federal depository insurance, \$384,472 was invested in 100% federally guaranteed securities and the remaining balance of \$1,650,396 was considered uncollateralized. As of December 31, 2018, \$1,770,036 was pledged with securities held by the pledging banks' trust departments but not in the name of the District. \$512,962 was considered uninsured, subsequent to year end amounts were pledged to cover the uninsured balances.

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.

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

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 Amount</u>	<u>Funding Agency</u>	<u>Series Of</u>	<u>Interest Rate</u>	<u>Balance as of Dec. 31,</u>	
				<u>2018</u>	<u>2017</u>
\$1,350,000	RD	2005	4.125%	\$1,155,000	\$1,177,000
\$ 525,000	RD	2013A	2.125%	\$ 490,000	\$ 499,000
\$ 900,000	RD	2013B	2.000%	\$ 834,000	\$ 851,000
\$ 712,000	RD	2017	2.500%	\$ 712,000	\$ 0

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.

**GRAYSON COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018 AND 2017**

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

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 \$902,706. 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, 2018 the reserve balance was \$981,328.

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 \$1,155,000.

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, 2018 the loan balance was \$110,000.

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, 2018 the loan balance was \$2,900,000.

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 \$1,324,000.

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, 2018 the loan balance was \$1,245,000.

During 2017, the District received approval for an interim loan from Kentucky Rural Water Finance Corporation. This interim loan was converted to permanent financing through RD upon project completion. As of December 31, 2018 the 2017 series bond was issued through RD. Total outstanding amounts at year end were \$712,000.

**GRAYSON COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018 AND 2017**

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

Current year long-term debt activity is as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Rural Development Bond, 2005	\$ 1,177,000	\$ 0	\$ 22,000	\$ 1,155,000
Rural Development Bond, 2013A & B	1,350,000	0	26,000	1,324,000
Rural Development Bond, 2017	0	712,000	0	712,000
Kentucky Infrastructure Authority Loan	1,118,452	0	215,746	902,706
Kentucky Rural Water Loan	145,000	0	35,000	110,000
Kentucky Rural Water Loan	3,045,000	0	145,000	2,900,000
Kentucky Rural Water Loan	1,380,000	0	135,000	1,245,000
Kentucky Rural Water Loan	428,380	194,955	623,335	0
	<u>\$ 8,643,832</u>	<u>\$ 906,955</u>	<u>\$ 1,202,081</u>	<u>\$ 8,348,706</u>

Principal of various amounts are due at least annually in each of the years through 2058. The principal due for each of the next five years and thereafter is as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 600,648
2020	611,118
2021	632,162
2022	598,278
2023	373,500
2024-2028	1,836,000
2029-2033	1,524,500
2034-2038	638,000
2039-2043	611,500
2044-2048	486,500
2049-2053	329,000
2054-2058	107,500
	<u>\$ 8,348,706</u>

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

<u>Year</u>	<u>Amount</u>
2019	\$ 842,381
2020	838,112
2021	843,982
2022	793,898
2023	555,122
2024-2028	2,563,301
2029-2033	1,979,183
2034-2038	894,072
2039-2043	777,615
2044-2048	561,475
2049-2053	358,716
2054-2058	112,912
	<u>\$ 11,120,769</u>

**GRAYSON COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018 AND 2017**

**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.

**NOTE G – ACCOUNTS RECEIVABLE**

Customer accounts receivable are shown net of an allowance for uncollectible accounts. At December 31, 2018 and 2017 total customer accounts receivable was \$422,594 and \$413,055, respectively. Allowance for uncollectible accounts was \$162,397 and \$146,805, respectively as of December 31, 2018 and 2017.

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	\$ 255,736	\$ 80,000	\$ 0	\$ 335,736
Construction in progress	1,074,860	493,050	(1,536,846)	31,064
Total capital assets not being depreciated	1,330,596	573,050	(1,536,846)	366,800
Other capital assets				
Utility plant and lines	29,655,029	1,623,417	0	31,278,446
Utility equipment and other	858,594	70,622	0	929,216
Total other capital assets at historical cost	30,513,623	1,694,039	0	32,207,662
Less: Accumulated depreciation	(12,699,333)	(857,823)	0	(13,557,156)
Capital assets, net	<u>\$ 19,144,886</u>	<u>\$ 1,409,266</u>	<u>\$(1,536,846)</u>	<u>\$ 19,017,306</u>



**GRAYSON COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2018 AND 2017**

**NOTE I – RELATED PARTIES**

The District had previously contracted with WRECC for various services. However, the contract was formally ended as of January 1, 2017.

The service agreement between WRECC and the District originated on August 16, 2004 and had 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. As of January 1, 2017 the formal separation occurred between GCWD and WRECC. As of December 31, 2017 WRECC performs no services for GCWD.

**NOTE J – RISKS OF LOSS**

The District's risks 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 \$22,479 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 – RETIREMENT PLAN**

As of January 1, 2017, the District has provided a deferred compensation plan for eligible employees. The plan is administered by the Kentucky Public Employees' Deferred Compensation Authority in association with Nationwide Retirement Solutions. The two-tier plan provides a 5% District contribution regardless of employee participation beginning with an employee's second year of employment. District contributions to the plan were \$88,470 and \$73,258 for 2018 and 2017, respectively.

**NOTE M – SUBSEQUENT EVENTS**

The District's management has evaluated and considered the need to recognize or disclose other subsequent events through March 26, 2019, 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, 2018, have not been evaluated by management

**GRAYSON COUNTY WATER DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

<i>Federal Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Federal Expenditures(\$)</i>
<b><i>Other Programs</i></b>		
United States Department of Agriculture		
Water and Waste Disposal Systems for Rural Communities		
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 950,000
Total Water and Waste Disposal Systems for Rural Communities		950,000
<i>Total United States Department of Agriculture</i>		950,000
<b><i>Total Other Programs</i></b>		950,000
<b><i>Total Expenditures of Federal Awards</i></b>		<b>\$ 950,000</b>

The accompanying notes are an integral part of this schedule.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. The District has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**NOTE B – MAJOR PROGRAM**

The major program is identified by an asterisk (\*).

# Buckles, Travis & Hart, PLLC

Certified Public Accountants

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## 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, 2018, 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 26, 2019.

### 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.

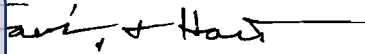
### **Compliance and Other Matters**

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,

  
**DRAFT**  
Buckles, Travis & Hart, PLLC  
Certified Public Accountants  
Leitchfield, Kentucky  
March 26, 2019

# Buckles, Travis & Hart, PLLC

Certified Public Accountants

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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Commissioners  
Grayson County Water District  
Leitchfield, KY 42754

### Report on Compliance for Each Major Federal Program

We have audited Grayson County Water District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Grayson County Water District's major federal programs for the year ended December 31, 2018. Grayson County Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Grayson County Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Grayson County Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Grayson County Water District's compliance.

## Opinion on Each Major Federal Program

In our opinion, Grayson County Water District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

## Report on Internal Control over Compliance

Management of Grayson County Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Grayson County Water District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Grayson County Water District's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

  
**DRAFT**  
Buckles, Travis & Hart, PLLC  
Certified Public Accountants  
Leitchfield, Kentucky  
March 26, 2019

**GRAYSON COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**A. SUMMARY OF AUDIT RESULTS**

Financial Statements

1. The auditors' report expresses an unmodified opinion on the financial statements of Grayson County Water District.
2. No significant deficiencies or material weaknesses were reported in the independent auditors' report on internal control over financial reporting.
3. No instances of noncompliance material to the financial statements of Grayson County Water District were disclosed during the audit.

Federal Awards

4. No significant deficiencies or material weaknesses relating to the audit of the major federal award programs are reported in the independent auditors' report on internal control over compliance for major federal awards programs.
5. The auditors' report on compliance for major federal award programs for Grayson County Water District expresses an unmodified opinion.
6. The audit disclosed no findings required to be reported by 2 CFR 200.516(a).
7. The programs tested as major programs include:
  - a. US Department of Agriculture  
Water and Waste Disposal Systems for Rural Communities:  
CFDA 10.760 – Unmodified
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Grayson County Water District was determined to be a high-risk auditee.

**GRAYSON COUNTY WATER DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

<u>Reference Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
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The audit did not disclose any audit findings.