

GRAYSON COUNTY WATER DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2019 AND 2018

**GRAYSON COUNTY WATER DISTRICT
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FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

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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, 2019 and 2018, 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, 2019 and 2018, 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 26, 2020, 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,

Buckles, Travis & Hart, PLLC

Buckles, Travis & Hart, PLLC
Certified Public Accountants
Leitchfield, Kentucky
March 26, 2020

**GRAYSON COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018**

	DECEMBER 31,	
	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Operation and maintenance	\$ 38,845	\$ 25,784
Revenue	30,537	54,964
Construction	1,000	65,807
Accounts receivable		
Customer accounts receivable, net of allowance for uncollectibles of \$182,265 and \$162,397	261,697	260,197
Unbilled revenue	142,385	142,654
Prepaid expenses	57,365	50,664
Inventory	294,385	346,332
Current portion of notes receivable	7,448	7,127
TOTAL CURRENT ASSETS	833,662	953,529
NONCURRENT ASSETS		
Restricted cash and cash equivalents		
Bond and note sinking funds	1,342,310	1,492,644
Depreciation fund	1,199,250	1,093,459
Note receivable - City of Leitchfield	7,904	15,352
Capital assets		
Land and land rights	328,743	335,736
Construction in progress	160,819	31,064
Utility plant and lines	31,615,968	31,278,446
Utility equipment and other	951,369	929,215
Less: Accumulated depreciation	(14,401,231)	(13,557,156)
TOTAL NONCURRENT ASSETS	21,205,132	21,618,760
TOTAL ASSETS	\$ 22,038,794	\$ 22,572,289

(CONTINUED)

	DECEMBER 31,	
	2019	2018
	<hr/>	<hr/>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 57,639	\$ 81,487
Accrued liabilities	121,031	114,872
School and sales taxes payable	10,507	9,915
Interest payable from restricted assets	108,504	116,983
Interest payable - Customer deposits	180	43
Customer deposits	39,870	36,750
Current portion of long-term debt	617,118	600,648
TOTAL CURRENT LIABILITIES	<hr/> 954,849	<hr/> 960,698
 NONCURRENT LIABILITIES		
Bonds and loans payable	7,686,058	8,348,706
Less: Current portion of long-term debt	(617,118)	(600,648)
Bond premium, net of amortization of \$1,883 and \$0	88,480	0
TOTAL NONCURRENT LIABILITIES	<hr/> 7,157,420	<hr/> 7,748,058
TOTAL LIABILITIES	<hr/> 8,112,269	<hr/> 8,708,756
 NET POSITION		
Net investment in capital assets	10,969,610	10,668,599
Restricted for		
Debt service	1,342,310	1,492,644
Depreciation reserves	1,199,250	1,093,459
Unrestricted	415,355	608,831
TOTAL NET POSITION	<hr/> 13,926,525	<hr/> 13,863,533
TOTAL LIABILITIES AND NET POSITION	<hr/> <hr/> \$ 22,038,794	<hr/> <hr/> \$ 22,572,289

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, 2019 AND 2018

	DECEMBER 31,	
	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
METERED SALES		
Residential	\$ 2,713,370	\$ 2,716,347
Commercial	484,933	475,799
Agriculture	80,580	74,406
Resale	127,683	125,522
TOTAL METERED SALES	<u>3,406,566</u>	<u>3,392,074</u>
FORFEITED DISCOUNTS	49,010	53,741
MISCELLANEOUS SERVICE REVENUE	58,676	35,592
TOTAL OPERATING REVENUES	<u>3,514,252</u>	<u>3,481,407</u>
 OPERATING EXPENSES		
PURCHASED WATER	412,336	403,656
SUPPLY AND PUMPING EXPENSE		
Purchased power	11,906	23,932
Materials and supplies	7,812	5,819
Insurance	13,468	14,903
Transportation	7,006	9,654
Miscellaneous	764	46
Payroll and contractual services	101,331	59,960
TOTAL SUPPLY AND PUMPING EXPENSE	<u>142,287</u>	<u>114,314</u>
WATER TREATMENT EXPENSE		
Purchased power	109,575	115,090
Materials and supplies	110,686	110,138
Insurance	13,468	14,860
Transportation	4,204	5,792
Miscellaneous	4,506	3,565
Payroll and contractual services	286,173	292,401
Professional services	11,958	23,686
TOTAL WATER TREATMENT EXPENSE	<u>540,570</u>	<u>565,532</u>
GENERAL DISTRIBUTION EXPENSE		
Purchased power	1,137	1,541
Legal and consultants	0	4,500
Materials and supplies	9,720	11,418
Insurance	13,468	14,860
Transportation	11,203	11,585
Miscellaneous	16,058	5,365
Payroll and contractual services	169,861	186,656
TOTAL GENERAL DISTRIBUTION EXPENSE	<u>221,447</u>	<u>235,925</u>
MAINTENANCE EXPENSE		
Transportation	2,792	5,054
Payroll and contractual services	137,259	144,240
Distributions	9,652	3,831
Services	10,839	14,340
TOTAL MAINTENANCE EXPENSE	<u>160,542</u>	<u>167,465</u>

(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, 2019 AND 2018

	DECEMBER 31,	
	2019	2018
CUSTOMER ACCOUNTS EXPENSE		
Bad debt expense	\$ 19,951	\$ 15,697
Materials and supplies	39,553	46,243
Transportation	10,893	9,654
Miscellaneous	12,570	6,581
Payroll and contractual services	384,172	363,624
Customer records	92,949	73,940
TOTAL CUSTOMER ACCOUNTS EXPENSE	560,088	515,739
ADMINISTRATIVE AND GENERAL EXPENSE		
Materials and supplies	34,086	57,165
Insurance	37,751	28,854
Transportation	1,426	1,931
Miscellaneous	54,478	71,398
Payroll and contractual services	272,361	256,028
Professional services	73,912	70,097
TOTAL ADMINISTRATIVE AND GENERAL EXPENSE	474,014	485,473
DEPRECIATION EXPENSE	844,075	857,823
TOTAL OPERATING EXPENSES	3,355,359	3,345,927
OPERATING INCOME (LOSS)	158,893	135,480
NON-OPERATING REVENUES (EXPENSES)		
Grant income	0	238,000
Rent income	66,435	62,434
Miscellaneous income	0	0
Interest income	32,567	23,867
Bond issuance costs	(34,724)	0
Insurance proceeds	0	0
Gain (loss) on sale of equipment	0	1,002
Interest expense	(236,497)	(248,589)
PSC taxes	(6,810)	(7,096)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(179,029)	69,618
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(20,136)	205,098
CAPITAL CONTRIBUTIONS		
Contributions in aid of construction	83,128	54,342
TOTAL CAPITAL CONTRIBUTIONS	83,128	54,342
CHANGE IN NET POSITION	62,992	259,440
TOTAL NET POSITION - BEGINNING	13,863,533	13,604,093
TOTAL NET POSITION - ENDING	\$ 13,926,525	\$ 13,863,533

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, 2019 AND 2018**

	DECEMBER 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,513,021	\$ 3,539,839
Payments to suppliers	(1,114,881)	(1,218,599)
Payments for payroll and contractual services	(1,368,846)	(1,268,458)
Other receipts (payments)	(3,098)	(3,742)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,026,196	1,049,040
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	0	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Grant income	0	238,000
Bond proceeds	1,070,000	712,000
Bond issuance cost	(34,724)	0
Bond premium	90,363	0
Proceeds from capital debt	0	194,955
Principal repayments of capital debt	(1,732,648)	(1,202,081)
Capital contributions	83,128	54,342
Purchase of capital assets	(489,431)	(730,243)
Rent income	66,435	62,434
Miscellaneous income	0	0
Insurance proceeds	0	0
Proceeds on sale of capital assets	6,993	1,002
Interest paid on capital debt	(238,380)	(248,589)
Increase (decrease) in interest payable-Customer deposits	137	(71)
Increase (decrease) in interest payable from restricted assets	(8,479)	2,993
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,186,606)	(915,258)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	32,567	23,867
Decrease in note receivable-City of Leitchfield	7,127	6,820
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	39,694	30,687
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(120,716)	164,469
CASH AND CASH EQUIVALENTS - JANUARY 1, 2019	2,732,658	2,568,189
CASH AND CASH EQUIVALENTS - DECEMBER 31, 2019	\$ 2,611,942	\$ 2,732,658
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 158,893	\$ 135,480
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities		
Depreciation expense	844,075	857,823
Payment of PSC taxes	(6,810)	(7,096)
Changes in assets and liabilities		
Net (increase) decrease in accounts receivable	(1,500)	6,053
Net (increase) decrease in unbilled revenue	269	52,379
Net (increase) decrease in prepaid expenses	(6,701)	5,346
Net (increase) decrease in inventory	51,947	(38,750)
Net increase (decrease) in accounts payable	(23,848)	25,840
Net increase (decrease) in accrued liabilities	6,159	8,611
Net increase (decrease) in school and sales taxes payable	592	704
Net increase (decrease) in customer deposits	3,120	2,650
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 1,026,196	\$ 1,049,040

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

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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, 2019 AND 2018

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, 2019 AND 2018**

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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, 2019 and 2018.

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, 2019 and 2018 were \$796 and \$1,095, respectively.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019 AND 2018**

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

11. Bond Premium, Discounts and Issuance Costs

Bond premiums and discounts for proprietary funds are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bond premium/discounts are presented as an addition/reduction of the face amount of bonds payable. Bond issuance costs are expensed in the period incurred.

NOTE B – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's cash and investments was \$2,611,942 and the bank balance was \$2,698,633. Of the total bank balance, \$750,000 was covered by federal depository insurance, \$430,386 was invested in 100% federally guaranteed securities and the remaining balance of \$1,518,247 was considered uncollateralized. As of December 31, 2019, \$3,302,381 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.

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.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019 AND 2018**

NOTE E – LONG-TERM DEBT

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

Original Amount	Funding Agency	Series Of	Interest Rate	Balance as of Dec. 31,	
				2019	2018
\$1,350,000	RD	2005	4.125%	\$ 0	\$1,155,000
\$ 525,000	RD	2013A	2.125%	\$ 480,500	\$ 490,000
\$ 900,000	RD	2013B	2.000%	\$ 816,500	\$ 834,000
\$ 712,000	RD	2017	2.500%	\$ 701,000	\$ 712,000

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 \$683,058. 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. In the event of default, a court appointed receiver shall administer the system on behalf of the District with the power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal and interest of the outstanding bonds. As of December 31, 2019 the reserve balance was \$831,816.

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 converted 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 \$0. During the 2019 year this bond was refunded.

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. In the event of default, a court appointed receiver shall administer the system on behalf of the District with the power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal and interest of the outstanding bonds. As of December 31, 2019 the loan balance was \$75,000.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019 AND 2018**

NOTE E – LONG-TERM DEBT (CONTINUED)

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. In the event of default, a court appointed receiver shall administer the system on behalf of the District with the power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal and interest of the outstanding bonds. As of December 31, 2019 the loan balance was \$2,750,000.

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, with \$525,000 of 2013A series bonds bearing interest at 2.125% and \$900,000 of 2013B series bonds bearing interest at 2.000%. This debt is secured by revenues of the water system. In the event of default, a court appointed receiver shall administer the system on behalf of the District with the power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal and interest of the outstanding bonds. The 2013A and 2013B series bonds were issued through RD. Total outstanding amounts at year end were \$1,297,000.

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. In the event of default, a court appointed receiver shall administer the system on behalf of the District with the power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal and interest of the outstanding bonds. As of December 31, 2019 the loan balance was \$1,110,000.

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. This loan bears interest at 2.5% and is secured by revenues of the water system. As of December 31, 2019 the 2017 series bond had total draws of \$712,000 issued through RD. In the event of default, a court appointed receiver shall administer the system on behalf of the District with the power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal and interest of the outstanding bonds. This loan also has principal and interest sinking fund requirements. Total outstanding amounts at year end were \$701,000.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019 AND 2018**

NOTE E – LONG-TERM DEBT (CONCLUDED)

During 2019, the District received a loan from Kentucky Rural Water Finance Corporation in the amount of \$1,070,000. This loan was received as part of a 2019B series revenue bond. This loan was issued to refund the District’s series 2005 Rural Development Bond. This loan bears interest at a variable rate ranging between 3.2% and 5.2% over the life of the bond and is secured by revenues of the water system. In the event of default, a court appointed receiver shall administer the system on behalf of the District with the power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal and interest of the outstanding bonds. As of December 31, 2019 the loan balance was \$1,070,000.

The district does not have any unused lines of credit. None of the debt is considered to be direct borrowings nor direct placements of debt.

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	\$ 1,155,000	\$ 0	\$ 1,155,000	\$ 0
Rural Development Bond, 2013A & B	1,324,000	0	27,000	1,297,000
Rural Development Bond, 2017	712,000	0	11,000	701,000
Kentucky Infrastructure Authority Loan	902,706	0	219,648	683,058
Kentucky Rural Water Loan	110,000	0	35,000	75,000
Kentucky Rural Water Loan	2,900,000	0	150,000	2,750,000
Kentucky Rural Water Loan	1,245,000	0	135,000	1,110,000
Kentucky Rural Water Loan	0	1,070,000	0	1,070,000
	<u>\$ 8,348,706</u>	<u>\$ 1,070,000</u>	<u>\$ 1,732,648</u>	<u>\$ 7,686,058</u>

Principal of various amounts are due at least annually in each of the years through 2057. The principal due for each of the next five years and thereafter is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 617,118	\$ 222,802	\$ 839,920
2021	642,162	207,810	849,972
2022	607,278	190,842	798,120
2023	386,500	176,117	562,617
2024	397,000	163,770	560,770
2025-2029	1,816,000	621,140	2,437,140
2030-2034	1,557,500	333,681	1,891,181
2035-2039	628,500	164,877	793,377
2040-2044	317,500	98,180	415,680
2045-2049	354,000	61,494	415,494
2050-2054	281,000	22,915	303,915
2055-2057	81,500	3,056	84,556
	<u>\$ 7,686,058</u>	<u>\$ 2,266,684</u>	<u>\$ 9,952,742</u>

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019 AND 2018**

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, 2019 and 2018 total customer accounts receivable was \$443,962 and \$422,594, respectively. Allowance for uncollectible accounts was \$182,265 and \$162,397, respectively as of December 31, 2019 and 2018.

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	\$ 335,736	\$ 0	\$ (6,993)	\$ 328,743
Construction in progress	31,064	129,755	0	160,819
Total capital assets not being depreciated	366,800	129,755	(6,993)	489,562
Other capital assets				
Utility plant and lines	31,278,446	337,522	0	31,615,968
Utility equipment and other	929,216	22,153	0	951,369
Total other capital assets at historical cost	32,207,662	359,675	0	32,567,336
Less: Accumulated depreciation	<u>(13,557,156)</u>	<u>(844,075)</u>	<u>0</u>	<u>(14,401,231)</u>
Capital assets, net	<u>\$ 19,017,306</u>	<u>\$ (354,645)</u>	<u>\$ (6,993)</u>	<u>\$ 18,655,668</u>

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019 AND 2018**

NOTE I – RELATED PARTIES

There were no known transactions with related parties for the years ended December 31, 2019 and 2018.

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 \$15,352 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 \$92,633 and \$88,470 for 2019 and 2018, 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, 2020, 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, 2019, have not been evaluated by management.

NOTE N – NEW ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Pronouncements: During fiscal year 2019, the District adopted the following accounting pronouncements:

- GASB Statement No. 83, Certain Asset Retirement Obligations, issued November 2016.
- GASB Statement No. 84, Fiduciary Activities, issued January 2017.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2019 AND 2018**

NOTE N – NEW ACCOUNTING PRONOUNCEMENTS (CONCLUDED)

- GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, issued March 2018.

- GASB Statement No. 90, Majority Equity Interests- an amendment of GASB Statements No. 14 and No. 61, issued August 2018.

Adoption of these standards did not have a significant impact on the District's financial position or results of operations.

NOTE O – LITIGATION

The District is a party in a civil suit litigation matter. Legal representation has represented that as of the date of these financial statements any range of potential loss cannot be determined. However, any defense costs and potential settlement or judgment would be covered by the District's insurance carrier.

Buckles, Travis & Hart, PLLC

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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, 2019, 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, 2020.

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 & Hart, PLLC

Buckles, Travis & Hart, PLLC
Certified Public Accountants
Leitchfield, Kentucky
March 26, 2020