

GRAYSON COUNTY WATER DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2020 AND 2019

**GRAYSON COUNTY WATER DISTRICT
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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, 2020 and 2019, 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, 2020 and 2019, 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 prepare the basic financial statements or to 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 basic 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 22, 2021, 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 22, 2021

**GRAYSON COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019**

	DECEMBER 31,	
	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Operation and maintenance	\$ 9,236	\$ 38,845
Revenue	176,862	30,537
Construction	2,000	1,000
Accounts receivable		
Customer accounts receivable, net of allowance for uncollectibles of \$199,594 and \$182,265	270,902	261,697
Unbilled revenue	148,941	142,385
Prepaid expenses	53,457	57,365
Inventory	207,640	294,385
Current portion of notes receivable	7,904	7,448
TOTAL CURRENT ASSETS	876,942	833,662
NONCURRENT ASSETS		
Restricted cash and cash equivalents		
Bond and note sinking funds	1,327,690	1,342,310
Depreciation fund	1,253,450	1,199,250
Note receivable - City of Leitchfield	0	7,904
Capital assets		
Land and land rights	328,743	328,743
Construction in progress	1,208,171	160,819
Utility plant and lines	32,044,828	31,615,968
Utility equipment and other	1,001,633	951,369
Less: Accumulated depreciation	(15,260,332)	(14,401,231)
TOTAL NONCURRENT ASSETS	21,904,183	21,205,132
TOTAL ASSETS	\$ 22,781,125	\$ 22,038,794

(CONTINUED)

	DECEMBER 31,	
	2020	2019
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 193,812	\$ 57,639
Accrued liabilities	140,068	121,031
School and sales taxes payable	11,925	10,507
Interest payable from restricted assets	104,753	108,504
Interest payable - Customer deposits	148	180
Customer deposits	38,650	39,870
Current portion of long-term debt	656,162	617,118
TOTAL CURRENT LIABILITIES	<u>1,145,518</u>	<u>954,849</u>
NONCURRENT LIABILITIES		
Bonds and loans payable	7,863,939	7,686,058
Less: Current portion of long-term debt	(656,162)	(617,118)
Bond premium, net of amortization of \$6,401 and \$1,883	83,962	88,480
TOTAL NONCURRENT LIABILITIES	<u>7,291,739</u>	<u>7,157,420</u>
TOTAL LIABILITIES	<u>8,437,257</u>	<u>8,112,269</u>
NET POSITION		
Net investment in capital assets	11,459,104	10,969,610
Restricted for		
Debt service	1,327,690	1,342,310
Depreciation reserves	1,253,450	1,199,250
Unrestricted	303,624	415,355
TOTAL NET POSITION	<u>14,343,868</u>	<u>13,926,525</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 22,781,125</u>	<u>\$ 22,038,794</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, 2020 AND 2019

	DECEMBER 31,	
	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
METERED SALES		
Residential	\$ 2,803,779	\$ 2,713,370
Commercial	467,355	484,933
Agriculture	76,597	80,580
Resale	130,716	127,683
TOTAL METERED SALES	<u>3,478,447</u>	<u>3,406,566</u>
FORFEITED DISCOUNTS	8,778	49,010
MISCELLANEOUS SERVICE REVENUE	57,490	58,676
TOTAL OPERATING REVENUES	<u>3,544,715</u>	<u>3,514,252</u>
 OPERATING EXPENSES		
PURCHASED WATER	408,726	412,336
SUPPLY AND PUMPING EXPENSE		
Purchased power	28,143	11,906
Materials and supplies	8,690	7,812
Insurance	12,356	13,468
Transportation	4,986	7,006
Miscellaneous	958	764
Payroll and contractual services	175,653	101,331
TOTAL SUPPLY AND PUMPING EXPENSE	<u>230,786</u>	<u>142,287</u>
WATER TREATMENT EXPENSE		
Purchased power	101,602	109,575
Materials and supplies	129,332	110,686
Insurance	12,356	13,468
Transportation	2,938	4,204
Miscellaneous	850	4,506
Payroll and contractual services	337,343	286,173
Professional services	16,461	11,958
TOTAL WATER TREATMENT EXPENSE	<u>600,882</u>	<u>540,570</u>
GENERAL DISTRIBUTION EXPENSE		
Purchased power	1,121	1,137
Legal and consultants	0	0
Materials and supplies	11,076	9,720
Insurance	12,901	13,468
Transportation	11,251	11,203
Miscellaneous	13,627	16,058
Payroll and contractual services	165,811	169,861
TOTAL GENERAL DISTRIBUTION EXPENSE	<u>215,787</u>	<u>221,447</u>
MAINTENANCE EXPENSE		
Transportation	4,382	2,792
Payroll and contractual services	175,904	137,259
Distributions	12,651	9,652
Services	19,590	10,839
TOTAL MAINTENANCE EXPENSE	<u>212,527</u>	<u>160,542</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, 2020 AND 2019

	DECEMBER 31,	
	2020	2019
CUSTOMER ACCOUNTS EXPENSE		
Bad debt expense	\$ 16,568	\$ 19,951
Materials and supplies	45,321	39,553
Transportation	15,783	10,893
Miscellaneous	4,984	12,570
Payroll and contractual services	348,639	384,172
Customer records	93,223	92,949
TOTAL CUSTOMER ACCOUNTS EXPENSE	524,518	560,088
ADMINISTRATIVE AND GENERAL EXPENSE		
Materials and supplies	48,862	34,086
Insurance	41,621	37,751
Transportation	997	1,426
Miscellaneous	48,437	54,478
Payroll and contractual services	246,366	272,361
Professional services	56,147	73,912
TOTAL ADMINISTRATIVE AND GENERAL EXPENSE	442,430	474,014
DEPRECIATION EXPENSE	859,101	844,075
TOTAL OPERATING EXPENSES	3,494,757	3,355,359
OPERATING INCOME (LOSS)	49,958	158,893
NON-OPERATING REVENUES (EXPENSES)		
Grant income	0	0
Rent income	66,267	66,435
Miscellaneous income	0	0
Interest income	25,565	32,567
Bond issuance costs	0	(34,724)
PPP loan forgiveness	212,800	0
Insurance proceeds	0	0
Gain (loss) on sale of equipment	0	0
Interest expense	(213,859)	(236,497)
PSC taxes	(7,029)	(6,810)
TOTAL NON-OPERATING REVENUES (EXPENSES)	83,744	(179,029)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	133,702	(20,136)
CAPITAL CONTRIBUTIONS		
Contributions in aid of construction	283,641	83,128
TOTAL CAPITAL CONTRIBUTIONS	283,641	83,128
CHANGE IN NET POSITION	417,343	62,992
TOTAL NET POSITION - BEGINNING	13,926,525	13,863,533
TOTAL NET POSITION - ENDING	\$ 14,343,868	\$ 13,926,525

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, 2020 AND 2019**

	DECEMBER 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,528,954	\$ 3,513,021
Payments to suppliers	(1,095,287)	(1,114,881)
Payments for payroll and contractual services	(1,294,506)	(1,368,846)
Other receipts (payments)	(6,831)	(3,098)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,132,330	1,026,196
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	0	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Grant income	0	0
Bond proceeds	795,000	1,070,000
Bond issuance cost	0	(34,724)
Bond premium	0	90,363
Proceeds from capital debt	212,800	0
Principal repayments of capital debt	(617,119)	(1,732,648)
Capital contributions	283,641	83,128
Purchase of capital assets	(1,526,476)	(489,431)
Rent income	66,267	66,435
Miscellaneous income	0	0
Insurance proceeds	0	0
Proceeds on sale of capital assets	0	6,993
Interest paid on capital debt	(218,377)	(238,380)
Increase (decrease) in interest payable-Customer deposits	(32)	137
Increase (decrease) in interest payable from restricted assets	(3,751)	(8,479)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,008,047)	(1,186,606)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	25,565	32,567
Decrease in note receivable-City of Leitchfield	7,448	7,127
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	33,013	39,694
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	157,296	(120,716)
CASH AND CASH EQUIVALENTS - JANUARY 1, 2020	2,611,942	2,732,658
CASH AND CASH EQUIVALENTS - DECEMBER 31, 2020	\$ 2,769,238	\$ 2,611,942
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 49,958	\$ 158,893
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities		
Depreciation expense	859,101	844,075
Payment of PSC taxes	(7,029)	(6,810)
Changes in assets and liabilities		
Net (increase) decrease in accounts receivable	(9,205)	(1,500)
Net (increase) decrease in unbilled revenue	(6,556)	269
Net (increase) decrease in prepaid expenses	3,908	(6,701)
Net (increase) decrease in inventory	86,745	51,947
Net increase (decrease) in accounts payable	136,173	(23,848)
Net increase (decrease) in accrued liabilities	19,037	6,159
Net increase (decrease) in school and sales taxes payable	1,418	592
Net increase (decrease) in customer deposits	(1,220)	3,120
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 1,132,330	\$ 1,026,196

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

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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, 2020 AND 2019**

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, 2020 AND 2019**

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, 2020 and 2019.

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, 2020 and 2019 were \$720 and \$796, respectively.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019**

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 \$2,769,238 and the bank balance was \$2,952,267. Of the total bank balance, \$750,000 was covered by federal depository insurance, \$441,810 was invested in 100% federally guaranteed securities and the remaining balance of \$1,760,457 was considered uncollateralized. As of December 31, 2020, \$3,732,263 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, 2020 AND 2019**

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,	
				2020	2019
\$1,350,000	RD	2005	4.125%	\$ 0	\$ 0
\$ 525,000	RD	2013A	2.125%	\$ 471,000	\$ 480,500
\$ 900,000	RD	2013B	2.000%	\$ 799,000	\$ 816,500
\$ 712,000	RD	2017	2.500%	\$ 689,500	\$ 701,000
\$ 539,000	RD	2020A	1.750%	\$ 539,000	\$ 0
\$ 256,000	RD	2020B	1.750%	\$ 256,000	\$ 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.

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 \$459,439. 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, 2020 the reserve balance was \$789,704.

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, 2020 the loan balance was \$40,000.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019**

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, 2020 the loan balance was \$2,600,000.

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 \$1,270,000.

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, 2020 the loan balance was \$970,000.

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, 2020 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 \$689,500.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019**

NOTE E – LONG-TERM DEBT (CONTINUED)

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, 2020 the loan balance was \$1,040,000.

During 2020, the District provided interim financing for a project. This interim loan was converted to permanent financing through RD. As of December 31, 2020, total draws of \$795,000 had been accumulated, with \$539,000 of 2020A series bonds bearing interest at 1.750% and \$256,000 of 2020B series bonds bearing interest at 1.750%. 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 2020A and 2020B series bonds were issued through RD. Total outstanding amounts at year end were \$795,000

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, 2013A & B	\$ 1,297,000	\$ 0	\$ 27,000	\$ 1,270,000
Rural Development Bond, 2017	701,000	0	11,500	689,500
Rural Development Bond, 2020A & B	0	795,000	0	795,000
Kentucky Infrastructure Authority Loan	683,058	0	223,619	459,439
Kentucky Rural Water Loan	75,000	0	35,000	40,000
Kentucky Rural Water Loan	2,750,000	0	150,000	2,600,000
Kentucky Rural Water Loan	1,110,000	0	140,000	970,000
Kentucky Rural Water Loan	1,070,000	0	30,000	1,040,000
	<u>\$ 7,686,058</u>	<u>\$ 795,000</u>	<u>\$ 617,119</u>	<u>\$ 7,863,939</u>

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019**

NOTE E – LONG-TERM DEBT (CONCLUDED)

Principal of various amounts are due at least annually in each of the years through 2060. 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>
2021	\$ 656,162	\$ 216,130	\$ 872,292
2022	621,277	204,387	825,664
2023	401,000	189,413	590,413
2024	411,500	176,812	588,312
2025	423,500	163,471	586,971
2026-2030	1,799,000	618,963	2,417,963
2031-2035	1,449,500	337,397	1,786,897
2036-2040	662,500	192,470	854,970
2041-2045	427,000	127,514	554,514
2046-2050	473,500	80,659	554,159
2051-2055	353,500	33,914	387,414
2056-2060	185,500	7,131	192,631
	<u>\$ 7,863,939</u>	<u>\$ 2,348,261</u>	<u>\$10,212,200</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.

NOTE G – ACCOUNTS RECEIVABLE

Customer accounts receivable are shown net of an allowance for uncollectible accounts. At December 31, 2020 and 2019 total customer accounts receivable was \$470,496 and \$443,962, respectively. Allowance for uncollectible accounts was \$199,594 and \$182,265 respectively as of December 31, 2020 and 2019.

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.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019**

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	\$ 328,743	\$ 0	\$ 0	\$ 328,743
Construction in progress	160,819	1,239,908	(192,556)	1,208,171
Total capital assets not being depreciated	489,562	1,239,908	(192,556)	1,536,914
Other capital assets				
Utility plant and lines	31,615,968	428,860	0	32,044,828
Utility equipment and other	951,369	50,264	0	1,001,633
Total other capital assets at historical cost	32,567,337	479,124	0	33,046,461
Less: Accumulated depreciation	(14,401,231)	(859,101)	0	(15,260,332)
Capital assets, net	<u>\$ 18,655,668</u>	<u>\$ 859,931</u>	<u>\$ (192,556)</u>	<u>\$ 19,323,043</u>

NOTE I – RELATED PARTIES

During 2020 the District paid Woosley’s Upholestry \$450. The entity is owned by an employee of the District. There were no known transactions with related parties for the year ended December 31, 2019.

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 \$7,904 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 \$101,634 and \$92,633 for 2020 and 2019, respectively.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2020 AND 2019**

NOTE M – SUBSEQUENT EVENTS

The District’s management has evaluated and considered the need to recognize or disclose other subsequent events through March 22, 2021, 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, 2020, have not been evaluated by management.

Subsequent to year end the District will begin Phase II construction which will be funded with a 1.5% loan from Rural Development. The District has also been in discussions with City of Caneyville considering acquiring the water system.

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.
- 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.

NOTE P – PPP LOAN FORGIVENESS

The District received a loan from The Cecilian Bank in the amount of \$212,800 under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan is subject to a note dated April 30, 2020. The District applied for and was notified on December 9, 2020 that \$212,800 in eligible expenditures for payroll and other expenses described in the CARES Act has been forgiven. Loan forgiveness is reflected in non-operating revenues in the accompanying Statements of Revenues, Expenses and Changes in Fund Net Position.

**GRAYSON COUNTY WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

<i>Federal Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Federal Expenditures(\$)</i>
<i>Other Programs</i>		
United States Department of Agriculture		
Water and Waste Disposal Systems for Rural Communities		
Water and Waste Disposal Systems for Rural Communities	*10.760	\$ 844,235
Total Water and Waste Disposal Systems for Rural Communities		844,235
<i>Total United States Department of Agriculture</i>		844,235
<i>Total Other Programs</i>		844,235
<i>Total Expenditures of Federal Awards</i>		\$ 844,235

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, 2020, 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 22, 2021.

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) as a basis for designing 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 22, 2021

Buckles, Travis & Hart, PLLC

Certified Public Accountants

DENNIS R. BUCKLES,
CRA
BRAD K. TRAVIS,
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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, 2020. 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, 2020.

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,

Buckles, Travis & Hart, PLLC

Buckles, Travis & Hart, PLLC
Certified Public Accountants
Leitchfield, Kentucky
March 22, 2021

**GRAYSON COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

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, 2020**

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