

GRAYSON COUNTY WATER DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2021 AND 2020

**GRAYSON COUNTY WATER DISTRICT
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Buckles, Travis & Hart, PLLC

Certified Public Accountants

DENNIS R. BUCKLES,
CRA
BRAD K. TRAVIS,
CPA/PES
ROBIN G. HART, CPA

www.graysoncpas.com

211 West White Oak Street
Post Office Box 4069
Leitchfield, KY 42755-4069
Phone 270-259-5604
Fax 270-259-5603

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Grayson County Water District
Leitchfield, KY 42754

Report on the Audit of the Financial Statements

Opinions

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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2021 and 2020, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 21, 2022, 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 21, 2022

**GRAYSON COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2021 AND 2020**

	DECEMBER 31,	
	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Operation and maintenance	\$ 80,101	\$ 9,236
Revenue	162,372	176,862
Construction	1,974	2,000
Accounts receivable		
Customer accounts receivable, net of allowance for uncollectibles of \$216,504 and \$199,594	312,096	270,902
Unbilled revenue	153,860	148,941
Prepaid expenses	54,454	53,457
Inventory	329,857	207,640
Current portion of notes receivable	7,904	7,904
TOTAL CURRENT ASSETS	1,102,618	876,942
NONCURRENT ASSETS		
Restricted cash and cash equivalents		
Bond and note sinking funds	619,392	1,327,690
Depreciation fund	788,123	1,253,450
Note receivable - City of Leitchfield	0	0
Capital assets		
Land and land rights	431,941	328,743
Construction in progress	945,109	1,208,171
Utility plant and lines	33,559,341	32,044,828
Utility equipment and other	1,001,633	1,001,633
Less: Accumulated depreciation	(16,130,148)	(15,260,332)
TOTAL NONCURRENT ASSETS	21,215,391	21,904,183
TOTAL ASSETS	\$ 22,318,009	\$ 22,781,125

(CONTINUED)

	DECEMBER 31,	
	2021	2020
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 101,109	\$ 193,812
Accrued liabilities	151,110	140,068
School and sales taxes payable	10,359	11,925
Interest payable from restricted assets	57,901	104,753
Interest payable - Customer deposits	144	148
Customer deposits	40,190	38,650
Current portion of long-term debt	441,777	656,162
TOTAL CURRENT LIABILITIES	<u>802,590</u>	<u>1,145,518</u>
NONCURRENT LIABILITIES		
Bonds and loans payable	6,778,277	7,863,939
Less: Current portion of long-term debt	(441,777)	(656,162)
Bond premium, net of amortization of \$16,555 and \$6,401	389,445	83,962
TOTAL NONCURRENT LIABILITIES	<u>6,725,945</u>	<u>7,291,739</u>
TOTAL LIABILITIES	7,528,535	8,437,257
NET POSITION		
Net investment in capital assets	13,029,599	11,459,104
Restricted for		
Debt service	619,392	1,327,690
Depreciation reserves	788,123	1,253,450
Unrestricted	352,360	303,624
TOTAL NET POSITION	<u>14,789,474</u>	<u>14,343,868</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 22,318,009</u>	<u>\$ 22,781,125</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, 2021 AND 2020

	DECEMBER 31,	
	2021	2020
OPERATING REVENUES		
METERED SALES		
Residential	\$ 3,021,892	\$ 2,803,779
Commercial	474,878	467,355
Agriculture	79,461	76,597
Resale	140,974	130,716
TOTAL METERED SALES	3,717,205	3,478,447
FORFEITED DISCOUNTS	18,125	8,778
MISCELLANEOUS SERVICE REVENUE	61,878	57,490
TOTAL OPERATING REVENUES	3,797,208	3,544,715
 OPERATING EXPENSES		
PURCHASED WATER	389,776	408,726
SUPPLY AND PUMPING EXPENSE		
Purchased power	33,469	28,143
Materials and supplies	14,285	8,690
Insurance	13,496	12,356
Transportation	5,929	4,986
Miscellaneous	0	958
Payroll and contractual services	147,586	175,653
TOTAL SUPPLY AND PUMPING EXPENSE	214,765	230,786
WATER TREATMENT EXPENSE		
Purchased power	110,587	101,602
Materials and supplies	149,185	129,332
Insurance	13,496	12,356
Transportation	556	2,938
Miscellaneous	4,284	850
Payroll and contractual services	365,036	337,343
Professional services	19,581	16,461
TOTAL WATER TREATMENT EXPENSE	662,725	600,882
GENERAL DISTRIBUTION EXPENSE		
Purchased power	1,243	1,121
Legal and consultants	0	0
Materials and supplies	13,240	11,076
Insurance	19,176	12,901
Transportation	13,379	11,251
Miscellaneous	9,267	13,627
Payroll and contractual services	192,095	165,811
TOTAL GENERAL DISTRIBUTION EXPENSE	248,400	215,787
MAINTENANCE EXPENSE		
Transportation	5,210	4,382
Payroll and contractual services	165,046	175,904
Distributions	9,751	12,651
Services	17,382	19,590
TOTAL MAINTENANCE EXPENSE	197,389	212,527

(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, 2021 AND 2020

	DECEMBER 31,	
	2021	2020
CUSTOMER ACCOUNTS EXPENSE		
Bad debt expense	\$ 17,410	\$ 16,568
Materials and supplies	56,841	45,321
Transportation	18,768	15,783
Miscellaneous	6,704	4,984
Payroll and contractual services	390,457	348,639
Customer records	79,207	93,223
TOTAL CUSTOMER ACCOUNTS EXPENSE	569,387	524,518
ADMINISTRATIVE AND GENERAL EXPENSE		
Materials and supplies	35,398	48,862
Insurance	19,515	41,621
Transportation	1,185	997
Miscellaneous	65,232	48,437
Payroll and contractual services	298,075	246,366
Professional services	79,120	56,147
TOTAL ADMINISTRATIVE AND GENERAL EXPENSE	498,525	442,430
DEPRECIATION EXPENSE	869,816	859,101
TOTAL OPERATING EXPENSES	3,650,783	3,494,757
OPERATING INCOME (LOSS)	146,425	49,958
NON-OPERATING REVENUES (EXPENSES)		
Grant income	322,825	0
Rent income	70,565	66,267
Miscellaneous income	0	0
Interest income	8,142	25,565
Bond issuance costs	(69,996)	0
PPP loan forgiveness	0	212,800
Insurance proceeds	0	0
Gain (loss) on sale of equipment	1,900	0
Interest expense	(204,626)	(213,859)
PSC taxes	(7,089)	(7,029)
TOTAL NON-OPERATING REVENUES (EXPENSES)	121,721	83,744
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	268,146	133,702
CAPITAL CONTRIBUTIONS		
Contributions in aid of construction	177,460	283,641
TOTAL CAPITAL CONTRIBUTIONS	177,460	283,641
CHANGE IN NET POSITION	445,606	417,343
TOTAL NET POSITION - BEGINNING	14,343,868	13,926,525
TOTAL NET POSITION - ENDING	\$ 14,789,474	\$ 14,343,868

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, 2021 AND 2020**

	DECEMBER 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,751,095	\$ 3,528,954
Payments to suppliers	(1,345,886)	(1,095,287)
Payments for payroll and contractual services	(1,639,956)	(1,294,506)
Other receipts (payments)	(7,115)	(6,831)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	758,138	1,132,330
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	0	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Grant income	322,825	0
Bond proceeds	2,070,000	795,000
Bond issuance cost	(69,996)	0
Bond premium	315,637	0
Proceeds from capital debt	0	212,800
Principal repayments of capital debt	(3,155,662)	(617,119)
Capital contributions	177,460	283,641
Purchase of capital assets	(1,354,649)	(1,526,476)
Rent income	70,565	66,267
Miscellaneous income	0	0
Insurance proceeds	0	0
Proceeds on sale of capital assets	1,900	0
Interest paid on capital debt	(214,780)	(218,377)
Increase (decrease) in interest payable-Customer deposits	(4)	(32)
Increase (decrease) in interest payable from restricted assets	(46,852)	(3,751)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,883,556)	(1,008,047)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	8,142	25,565
Decrease in note receivable-City of Leitchfield	0	7,448
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	8,142	33,013
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,117,276)	157,296
CASH AND CASH EQUIVALENTS - JANUARY 1, 2021	2,769,238	2,611,942
CASH AND CASH EQUIVALENTS - DECEMBER 31, 2021	\$ 1,651,962	\$ 2,769,238
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 146,425	\$ 49,958
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities		
Depreciation expense	869,816	859,101
Payment of PSC taxes	(7,089)	(7,029)
Changes in assets and liabilities		
Net (increase) decrease in accounts receivable	(41,194)	(9,205)
Net (increase) decrease in unbilled revenue	(4,919)	(6,556)
Net (increase) decrease in prepaid expenses	(997)	3,908
Net (increase) decrease in inventory	(122,217)	86,745
Net increase (decrease) in accounts payable	(92,703)	136,173
Net increase (decrease) in accrued liabilities	11,042	19,037
Net increase (decrease) in school and sales taxes payable	(1,566)	1,418
Net increase (decrease) in customer deposits	1,540	(1,220)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 758,138	\$ 1,132,330

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

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

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, 2021 AND 2020**

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, 2021 AND 2020**

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 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, 2021 and 2020.

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, 2021 and 2020 were \$160 and \$720, respectively.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021 AND 2020**

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 \$1,651,962 and the bank balance was \$1,974,433. Of the total bank balance, \$500,000 was covered by federal depository insurance, \$254,247 was invested in 100% federally guaranteed securities and the remaining balance of \$1,220,186 was considered uncollateralized. As of December 31, 2021, \$4,353,848 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, 2021 AND 2020**

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,	
				2021	2020
\$ 525,000	RD	2013A	2.125%	\$ 451,000	\$ 471,000
\$ 900,000	RD	2013B	2.000%	\$ 762,500	\$ 799,000
\$ 712,000	RD	2017	2.500%	\$ 666,000	\$ 689,500
\$ 539,000	RD	2020A	1.750%	\$ 520,000	\$ 539,000
\$ 256,000	RD	2020B	1.750%	\$ 247,000	\$ 256,000

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 \$231,777. 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, 2021 the reserve balance was \$345,570.

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. The final payment was made as of December 31, 2021 and the loan balance was \$0.

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, 2021 the loan balance was \$0. The loan was refunded during the year.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021 AND 2020**

NOTE E – LONG-TERM DEBT (CONTINUED)

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 \$1,213,500.

During 2013, the District received a loan from Kentucky Rural Water Finance Corporation in the amount of \$1,990,000. This loan was received as part of a 2013B series revenue bond. This loan was issued to refund the District's series 2001D and 2004B Kentucky Rural Water Loans. This loan bears interest at a variable rate ranging between 2.30% and 3.30% over the life of the bond and is secured by revenues of the water system. This loan also has principal and interest sinking fund requirements. 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, 2021 the loan balance was \$825,000.

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, 2018, 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 \$666,000.

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, 2021 the loan balance was \$1,005,000.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021 AND 2020**

NOTE E – LONG-TERM DEBT (CONTINUED)

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 \$767,000

During 2021, the District received a loan from Kentucky Rural Water Finance Corporation in the amount of \$2,070,000. This loan was received as part of a 2021D series revenue bond. This loan was issued to refund the District's series 2012D revenue bond. This loan bears interest at a variable rate ranging between 2.2% 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, 2021 the loan balance was \$2,070,000.

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, 2013A & B	\$ 1,270,000	\$ 0	\$ 56,500	\$ 1,213,500
Rural Development Bond, 2017	689,500	0	23,500	666,000
Rural Development Bond, 2020A & B	795,000	0	28,000	767,000
Kentucky Infrastructure Authority Loan	459,439	0	227,662	231,777
Kentucky Rural Water Loan	40,000	0	40,000	0
Kentucky Rural Water Loan	2,600,000	0	2,600,000	0
Kentucky Rural Water Loan	970,000	0	145,000	825,000
Kentucky Rural Water Loan	1,040,000	0	35,000	1,005,000
Kentucky Rural Water Loan	0	2,070,000	0	2,070,000
	<u>\$ 7,863,939</u>	<u>\$ 2,070,000</u>	<u>\$ 3,155,662</u>	<u>\$ 6,778,277</u>

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2021 AND 2020**

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>
2022	\$ 441,777	\$ 163,296	\$ 605,073
2023	376,000	199,039	575,039
2024	386,500	184,435	570,935
2025	398,500	169,293	567,793
2026	399,500	153,663	553,163
2027-2031	1,625,500	552,495	2,177,995
2032-2036	1,186,500	292,115	1,478,615
2037-2041	606,500	175,467	781,967
2042-2046	435,500	118,534	554,034
2047-2051	484,000	70,676	554,676
2052-2056	305,500	26,944	332,444
2057-2060	132,500	4,043	136,543
	<u>\$ 6,778,277</u>	<u>\$ 2,110,000</u>	<u>\$ 8,888,277</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, 2021 and 2020 total customer accounts receivable was \$528,600 and \$470,496, respectively. Allowance for uncollectible accounts was \$216,504 and \$199,594 respectively as of December 31, 2021 and 2020.

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, 2021 AND 2020**

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	\$ 103,198	\$ 0	\$ 431,941
Construction in progress	1,208,171	1,045,662	(1,308,724)	945,109
Total capital assets not being depreciated	1,536,914	1,148,860	(1,308,724)	1,377,050
Other capital assets				
Utility plant and lines	32,044,828	1,514,513	0	33,559,341
Utility equipment and other	1,001,633	0	0	1,001,633
Total other capital assets at historical cost	33,046,461	1,514,513	0	34,560,974
Less: Accumulated depreciation	(15,260,332)	(869,816)	0	(16,130,148)
Capital assets, net	<u>\$ 19,323,043</u>	<u>\$ 1,793,557</u>	<u>\$(1,308,724)</u>	<u>\$ 19,807,876</u>

NOTE I – RELATED PARTIES

During 2021 and 2020 the District paid Woosley’s Upholstery \$500 and \$450, respectively. The entity is owned by an employee of the District. During 2021 the District paid Future Designs, Inc. \$174. The entity is owned by a board member of the District.

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 matured in July 2021; the final payment was received February 2022.

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 \$107,907 and \$101,634 for 2021 and 2020, respectively.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2021 AND 2020**

NOTE M – SUBSEQUENT EVENTS

The District's management has evaluated and considered the need to recognize or disclose other subsequent events through March 21, 2022, 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, 2021, have not been evaluated by management.

The Grayson County Water District has an agreement to take ownership of the Caneyville water system as soon as Caneyville has completed their current construction project on their system. The District entered into an operating agreement with the City of Caneyville to run their water system in April of 2021. The District filed a formal intent to purchase at that time. Caneyville has a current rural development funded project in process, the District cannot officially take ownership of Caneyville's system until that project is completed. The expectation is that the District will have ownership of the Caneyville water system in the fall of 2022.

Buckles, Travis & Hart, PLLC

Certified Public Accountants

DENNIS R. BUCKLES,
CRA
BRAD K. TRAVIS,
CRA/DFC
ROBIN G. HART, CPA

www.graysoncpas.com

211 West White Oak Street
Post Office Box 4069
Leitchfield, KY 42755-4069
Phone 270-259-5604
Fax 270-259-5603

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, 2021, 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 21, 2022.

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 21, 2022