

GRAYSON COUNTY WATER DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2023

DRAFT

**GRAYSON COUNTY WATER DISTRICT
TABLE OF CONTENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	PAGE
INDEPENDENT AUDITORS' REPORT.....	1-2
PROPRIETARY FUND FINANCIAL STATEMENTS	
Statement of Net Position.....	3
Statement of Revenues, Expenses and Changes in Fund Net Position	4-5
Statement of Cash Flows.....	6
NOTES TO THE FINANCIAL STATEMENTS.....	7-15
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 <i>GOVERNMENT AUDITING STANDARDS</i>	16-17

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Grayson County Water District
Leitchfield, KY 42754

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the Grayson County Water District as of and for the year ended December 31, 2023, 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, 2023, and the respective changes in financial position, and cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 auditors' report that includes our opinion.

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.

Prior-Year Comparative Information

We have previously audited Grayson County Water District's financial statements, and we expressed unmodified opinions on the respective financial statements in our report dated March 16, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2024, 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 20, 2024

**GRAYSON COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2023**

	DECEMBER 31, 2023	DECEMBER 31, 2022 SUMMARY
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Operation and maintenance	\$ 61,648	\$ 71,556
Revenue	1,862,888	147,841
Construction	1,974	1,974
Accounts receivable		
Customer accounts receivable, net of allowance for uncollectibles of \$264,287 and \$234,674	273,086	343,261
Grants receivable	187,839	0
Other accounts receivable	0	27,823
Unbilled revenue	180,917	168,334
Prepaid expenses	65,346	57,365
Inventory	334,353	266,488
TOTAL CURRENT ASSETS	2,968,051	1,084,642
NONCURRENT ASSETS		
Restricted cash and cash equivalents		
Bond and note sinking funds	479,615	543,794
Depreciation fund	1,092,002	1,051,961
Capital assets		
Land and land rights	431,941	431,941
Construction in progress	8,993,980	1,455,598
Utility plant and lines	35,204,970	34,725,881
Utility equipment and other	1,189,317	1,096,733
Less: Accumulated depreciation	(17,961,680)	(17,029,767)
TOTAL NONCURRENT ASSETS	29,430,145	22,276,141
TOTAL ASSETS	\$ 32,398,196	\$ 23,360,783

(CONTINUED)

	<u>DECEMBER 31, 2023</u>	<u>DECEMBER 31, 2022</u> <u>SUMMARY</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 115,847	\$ 145,849
Accrued liabilities	161,088	151,297
School and sales taxes payable	12,216	12,844
Interest payable from restricted assets	97,716	103,777
Interest payable - Customer deposits	229	172
Customer deposits	70,870	69,230
Current portion of long-term debt	497,569	386,000
TOTAL CURRENT LIABILITIES	<u>955,535</u>	<u>869,169</u>
NONCURRENT LIABILITIES		
Bonds and loans payable	14,487,765	6,904,500
Less: Current portion of long-term debt	(497,569)	(386,000)
Bond premium, net of amortization of \$70,682 and \$43,619	335,318	362,381
TOTAL NONCURRENT LIABILITIES	<u>14,325,514</u>	<u>6,880,881</u>
TOTAL LIABILITIES	15,281,049	7,750,050
NET POSITION		
Net investment in capital assets	13,370,763	13,775,886
Restricted for		
Debt service	479,615	543,794
Depreciation reserves	1,092,002	1,051,961
Unrestricted	2,174,767	239,092
TOTAL NET POSITION	<u>17,117,147</u>	<u>15,610,733</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 32,398,196</u>	<u>\$ 23,360,783</u>

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

GRAYSON COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023

	FOR THE YEAR ENDED DECEMBER 31, 2023	DECEMBER 31, 2022 SUMMARY
OPERATING REVENUES		
METERED SALES		
Residential	\$ 3,626,455	\$ 3,268,370
Commercial	691,150	572,459
Agriculture	113,614	85,241
Resale	328	96,502
TOTAL METERED SALES	4,431,547	4,022,572
FORFEITED DISCOUNTS	59,343	49,374
MISCELLANEOUS SERVICE REVENUE	21,736	21,639
TOTAL OPERATING REVENUES	4,512,626	4,093,585
 OPERATING EXPENSES		
PURCHASED WATER	556,007	388,415
SUPPLY AND PUMPING EXPENSE		
Purchased power	52,194	41,601
Materials and supplies	12,142	8,458
Insurance	16,274	15,238
Transportation	5,909	8,505
Miscellaneous	0	0
Payroll and contractual services	168,315	151,421
TOTAL SUPPLY AND PUMPING EXPENSE	254,834	225,223
WATER TREATMENT EXPENSE		
Purchased power	127,157	134,719
Materials and supplies	283,987	226,706
Insurance	15,069	15,238
Transportation	2,069	2,835
Miscellaneous	4,145	4,588
Payroll and contractual services	439,156	454,860
Professional services	21,539	23,571
TOTAL WATER TREATMENT EXPENSE	893,122	862,517
GENERAL DISTRIBUTION EXPENSE		
Purchased power	3,281	1,587
Legal and consultants	0	3,200
Materials and supplies	16,402	9,729
Insurance	15,069	19,306
Transportation	24,319	20,340
Miscellaneous	11,613	13,470
Payroll and contractual services	227,669	254,818
TOTAL GENERAL DISTRIBUTION EXPENSE	298,353	322,450
MAINTENANCE EXPENSE		
Transportation	7,676	8,966
Payroll and contractual services	173,622	178,465
Distributions	5,728	7,655
Services	3,922	12,440
TOTAL MAINTENANCE EXPENSE	190,948	207,526

(CONTINUED)

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

GRAYSON COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION (CONCLUDED)
FOR THE YEAR ENDED DECEMBER 31, 2023

	FOR THE YEAR ENDED DECEMBER 31, 2023	DECEMBER 31, 2022 SUMMARY
CUSTOMER ACCOUNTS EXPENSE		
Bad debt expense	\$ 29,708	\$ 18,222
Materials and supplies	62,099	59,053
Transportation	28,236	26,379
Miscellaneous	16,735	13,201
Payroll and contractual services	437,355	420,075
Customer records	110,556	81,077
TOTAL CUSTOMER ACCOUNTS EXPENSE	684,689	618,007
ADMINISTRATIVE AND GENERAL EXPENSE		
Materials and supplies	52,220	37,520
Insurance	30,564	18,710
Transportation	5,909	8,505
Miscellaneous	56,672	67,844
Payroll and contractual services	275,980	309,824
Professional services	68,439	100,552
TOTAL ADMINISTRATIVE AND GENERAL EXPENSE	489,784	542,955
DEPRECIATION EXPENSE	931,913	899,619
TOTAL OPERATING EXPENSES	4,299,650	4,066,712
OPERATING INCOME (LOSS)	212,976	26,873
NON-OPERATING REVENUES (EXPENSES)		
Grant income	982,644	150,000
Rent income	68,363	48,990
Miscellaneous income	64,026	5,209
Interest income	886	1,519
Bond issuance costs	0	0
Gain (loss) on sale of equipment	4,850	7,100
Interest expense	(176,922)	(179,923)
PSC taxes	(5,330)	(5,669)
TOTAL NON-OPERATING REVENUES (EXPENSES)	938,517	27,226
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	1,151,493	54,099
CAPITAL CONTRIBUTIONS		
Contributions in aid of construction	354,921	767,160
TOTAL CAPITAL CONTRIBUTIONS	354,921	767,160
CHANGE IN NET POSITION	1,506,414	821,259
TOTAL NET POSITION - BEGINNING	15,610,733	14,789,474
TOTAL NET POSITION - ENDING	\$ 17,117,147	\$ 15,610,733

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

**GRAYSON COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	FOR THE YEAR ENDED DECEMBER 31, 2023	DECEMBER 31, 2022 SUMMARY
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 4,570,218	\$ 4,047,946
Payments to suppliers	(1,721,486)	(1,337,172)
Payments for payroll and contractual services	(1,742,308)	(1,724,536)
Other receipts (payments)	23,505	(1,967)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,129,929	984,271
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	0	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Grant income	794,805	150,000
Bond proceeds	0	568,000
Proceeds from capital debt	7,969,265	0
Principal repayments of capital debt	(386,000)	(441,777)
Capital contributions	354,921	767,160
Purchase of capital assets	(8,110,055)	(1,772,129)
Rent income	68,363	48,990
Miscellaneous income	64,026	5,209
Proceeds on sale of capital assets	4,850	7,100
Interest paid on capital debt	(203,985)	(206,987)
Increase (decrease) in interest payable-Customer deposits	57	28
Increase (decrease) in interest payable from restricted assets	(6,061)	45,876
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	550,186	(828,530)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	886	1,519
Decrease in note receivable-City of Leitchfield	0	7,904
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	886	9,423
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,681,001	165,164
CASH AND CASH EQUIVALENTS - JANUARY 1, 2023	1,817,126	1,651,962
CASH AND CASH EQUIVALENTS - DECEMBER 31, 2023	\$ 3,498,127	\$ 1,817,126
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 212,976	\$ 26,873
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities		
Depreciation expense	931,913	899,619
Payment of PSC taxes	(5,330)	(5,669)
Changes in assets and liabilities		
Net (increase) decrease in accounts receivable	70,175	(31,165)
Net (increase) decrease in other accounts receivable	27,823	(27,823)
Net (increase) decrease in unbilled revenue	(12,583)	(14,474)
Net (increase) decrease in prepaid expenses	(7,981)	(2,911)
Net (increase) decrease in inventory	(67,865)	63,369
Net increase (decrease) in accounts payable	(30,002)	44,740
Net increase (decrease) in accrued liabilities	9,791	187
Net increase (decrease) in school and sales taxes payable	(628)	2,485
Net increase (decrease) in customer deposits	1,640	29,040
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 1,129,929	\$ 984,271

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

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES

The Grayson County Water District (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, 2023**

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, 2023**

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 year ended December 31, 2023.

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 year ended December 31, 2023 were \$1,008.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023**

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 \$3,498,127 and the bank balance was \$3,529,160. Of the total bank balance, \$500,000 was covered by federal depository insurance, \$334,553 was invested in 100% federally guaranteed securities and the remaining balance of \$2,694,607 was considered uncollateralized. As of December 31, 2023, \$6,302,749 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, 2023**

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,	
				2023	2022
\$ 525,000	RD	2013A	2.125%	\$ 440,500	\$ 451,000
\$ 900,000	RD	2013B	2.000%	\$ 743,500	\$ 762,500
\$ 712,000	RD	2017	2.500%	\$ 654,000	\$ 666,000
\$ 539,000	RD	2020A	1.750%	\$ 510,000	\$ 520,000
\$ 256,000	RD	2020B	1.750%	\$ 242,500	\$ 247,000
\$ 568,000	RD	2021	1.500%	\$ 558,000	\$ 568,000

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 2022, the District had received approval for a Kentucky Infrastructure Authority (KIA) Project Loan not to exceed \$7,231,000. As of December 31, 2023, total draws of \$6,193,528 had been accumulated. This loan bears interest at .25% and is secured by the revenues of the water system. The year-end balance was \$6,193,528. An annual deposit of \$18,100 is to be deposited in a reserve account beginning December 2024. The annual deposits are to be made until the balance reaches \$362,000. 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, 2023 the reserve balance was \$46,543.

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 \$1,184,000.

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, 2023 the loan balance was \$545,000.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023**

NOTE E – LONG-TERM DEBT (CONTINUED)

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 \$654,000.

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, 2023 the loan balance was \$930,000.

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 \$752,500 .

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, 2023 the loan balance was \$1,895,000.

During 2023, the District received approval for an interim loan from Kentucky Rural Water Finance Corporation up to the amount of \$5,619,000. The loan will be converted to permanent financing through RD upon project completion. As of December 31, 2023, total draws of \$1,775,737 have been accumulated. The interim loan matures in August 2025.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023**

NOTE E – LONG-TERM DEBT (CONCLUDED)

During 2021, the District provided interim financing for a project. This interim loan was converted to permanent financing through RD. As of December 31, 2022, total draws of \$568,000 had been accumulated as a 2021 series bond bearing interest at 1.500%. 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 2021 series bond was issued through RD. Total outstanding amount at year end was \$558,000.

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	\$ 1,213,500	\$ 0	\$ 29,500	\$ 1,184,000
Rural Development Bond, 2017	666,000	0	12,000	654,000
Rural Development Bond, 2020A & B	767,000	0	14,500	752,500
Rural Development Bond, 2021	568,000	0	10,000	558,000
Kentucky Infrastructure Authority Loan	0	6,193,528	0	6,193,528
Kentucky Rural Water Loan	685,000	0	140,000	545,000
Kentucky Rural Water Loan	970,000	0	40,000	930,000
Kentucky Rural Water Loan	2,035,000	0	140,000	1,895,000
Kentucky Rural Water Loan	0	1,775,737	0	1,775,737
	<u>\$ 6,904,500</u>	<u>\$7,969,265</u>	<u>\$ 386,000</u>	<u>\$14,487,765</u>

Principal of various amounts are due at least annually in each of the years through 2062. 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>
2024	\$ 497,569	\$ 200,434	\$ 698,003
2025	2,385,750	192,544	2,578,294
2026	611,515	176,249	787,764
2027	613,518	159,635	773,153
2028	499,522	144,274	643,796
2029-2033	2,690,717	528,854	3,219,571
2034-2038	1,896,511	310,588	2,207,099
2039-2043	1,595,465	207,955	1,803,420
2044-2048	1,584,582	142,163	1,726,745
2049-2053	1,595,363	74,417	1,669,780
2054-2058	391,253	24,012	415,265
2059-2062	126,000	2,706	128,706
	<u>\$ 14,487,765</u>	<u>\$ 2,163,831</u>	<u>\$ 16,651,596</u>

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023**

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, 2023 total customer accounts receivable was \$537,373. Allowance for uncollectible accounts was \$264,287 as of December 31, 2023.

Customer accounts receivable amounts arise from monthly water usage. Based on District policy, water meters are read monthly, with billings occurring five to ten days subsequent to the reading. Once billed the customer has fourteen days to pay the amount due. If payment is made after the due date a late fee of 10% is assessed to water charges. A twenty-four-hour grace period is allowed and if amounts remain unpaid, delinquent notices are sent out. Customers are given fourteen days from the date of the delinquent notice to render payment. The day following expiration of the delinquent period, collection trips are made for all bills in excess of forty dollars. If collection does not occur the meter is shut off. The customer will remain active for seven additional days, if at the expiration of the seven days payment has not been made, the account will become inactive, and the customer deposit held will be applied to amounts owed. If collection is considered unlikely the balances are charged off as bad debt expense in the period in which they were deemed uncollectible. Management’s periodic evaluation of the adequacy of the allowance for uncollectible accounts is based on past loss experience, known and other risks inherent to the specific account, adverse situations that may affect the customer’s ability to render payment and current economic conditions. Management considers many factors in determining whether a receivable is impaired, such as payment history and changes in employment.

NOTE H – CAPITAL ASSETS

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Capital assets not being depreciated				
Land and land rights	\$ 431,941	\$ 0	\$ 0	\$ 431,941
Construction in progress	1,455,598	7,803,972	(265,590)	8,993,980
Total capital assets not being depreciated	1,887,539	7,803,972	(265,590)	9,425,921
Other capital assets				
Utility plant and lines	34,725,881	479,089	0	35,204,970
Utility equipment and other	1,096,733	92,584	0	1,189,317
Total other capital assets at historical cost	35,822,614	571,673	0	36,394,287
Less: Accumulated depreciation	(17,029,767)	(931,913)	0	(17,961,680)
Capital assets, net	<u>\$20,680,386</u>	<u>\$7,443,732</u>	<u>\$(265,590)</u>	<u>\$ 27,858,528</u>

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2023**

NOTE I – RELATED PARTIES

During 2023 the District paid Future Designs, Inc. \$264. 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 – RETIREMENT PLAN

As of January 1, 2017, the District has provided a deferred compensation plan for eligible employees. The plan is administered by the Kentucky Public Employees' Deferred Compensation Authority in association with Nationwide Retirement Solutions. The two-tier plan provides a 5% District contribution regardless of employee participation beginning with an employee's second year of employment. District contributions to the plan were \$92,727 for 2023.

NOTE L – SUBSEQUENT EVENTS

The District's management has evaluated and considered the need to recognize or disclose other subsequent events through March 20, 2024, 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, 2023, 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. As 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 District took beneficial ownership of the Caneyville water system during 2022, but the acquisition is not complete. The debt has not been assumed as of December 31, 2023, and the District will not be considered full owner until this occurs in fiscal year 2024 or 2025.

Buckles, Travis & Hart, PLLC

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

Board of Commissioners
Grayson County Water District
Leitchfield, KY 42754

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Grayson County Water District, as of and for the year ended December 31, 2023, 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 20, 2024.

Report on 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 opinion 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 or significant deficiencies may exist that have not been identified.

Report on 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 20, 2024