

GRANT COUNTY SANITARY SEWER DISTRICT

FINANCIAL STATEMENTS

For the Years Ending December 31, 2019 and 2018

**GRANT COUNTY
SANITARY SEWER DISTRICT
FINANCIAL STATEMENTS**

For the Years Ending December 31, 2019 and 2018

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GRANT COUNTY
SANITARY SEWER DISTRICT
BOARD OF COMMISSIONERS
December 31, 2019 and 2018

Charles Givin, Chair

Robert Worthington, Jr., Vice Chair

Rodger Bingham, Treasurer

Dan Northcutt, Secretary

Leo Saylor

Of Counsel

Thomas R. Nienaber, Esq.

Administration

William L. Catlett, General Manager



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

INDEPENDENT AUDITOR'S REPORT

**To the Board of Commissioners
Grant County Sanitary Sewer District**

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Grant County Sanitary Sewer District (District), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 auditor's 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 Grant County Sanitary Sewer District, as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-9 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Grant County Sanitary Sewer District's basic financial statements. The schedules of operations, maintenance and administrative expenses, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of operations, maintenance and administrative expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2020, on our consideration of the Grant County Sanitary Sewer 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 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 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 the Grant County Sanitary Sewer District's internal control over financial reporting and compliance.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
May 19, 2020

GRANT COUNTY SANITARY SEWER DISTRICT

**1 Farrell Drive
Crittenden, Kentucky 41030**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2019. The information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent year by \$5,921,958 (net position). This was a decrease of \$9,476 in comparison to an increase of \$67,855 in the prior year. The District experienced a drop in operating revenue along with an increase in operating expenses. This was the primary reason for the decrease in the net position.
- At the end of the current year, unrestricted net position was \$667,910.

USING THIS ANNUAL REPORT

The financial statements presented herein include all the activities of the District accounted for within a single proprietary (enterprise) reporting entity. The financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows, notes to the financial statements and a supplemental schedule. These statements show the condition of the District's finances and the sources of income and the funds expended.

Basis of Accounting

The District's financial statements are prepared using the accrual basis of accounting.

The Statements of Net Position and Revenues, Expenses and Changes in Net Position

In the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position, we report the District's activities.

- The District charges rates for sewer usage based on the water consumption of its customers to cover all or most of the cost of certain services the District provides.

SUMMARY OF NET POSITION

Table 1 provides a summary of the District's net position at December 31, 2019 and 2018.

Table 1
Net Position

	2019	2018
Current assets	\$ 691,094	\$ 759,285
Restricted assets	89,707	105,401
Noncurrent assets	6,496,448	6,566,243
Total assets	<u>7,277,249</u>	<u>7,430,929</u>
Current liabilities	43,489	32,791
Liabilities payable from restricted assets	227,684	226,690
Long term liabilities	1,084,118	1,240,014
Total liabilities	<u>1,355,291</u>	<u>1,499,495</u>
Net position:		
Invested in capital assets, net of related debt	5,233,503	5,157,855
Restricted	20,545	16,589
Unrestricted	667,910	756,990
Total net position	<u>\$ 5,921,958</u>	<u>\$ 5,931,434</u>

The District's net position for 2019 decreased \$9,476. See the information under Financial Highlights above for an explanation as to why this decrease occurred during 2019 rather than the increases the District had experienced in the previous years.

The largest portion of the District's net position (88.4%) reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt.

Restricted net position represents resources that are subject to external restrictions on how they are to be expended.

The unrestricted net position may be used to meet the District's ongoing obligations to customers and creditors.

SUMMARY OF CHANGES IN NET POSITION

Operating Revenues

Operating revenues decreased \$10,478 or 1.4%. This was primarily due to a decrease in water consumption between years which is the basis for the calculation of sewer revenues and is unpredictable.

Operation and Maintenance Expense

Operation and maintenance expense increased \$59,795 or 13.5% during 2019. Two major categories of expense increased. The cost of repairs to the system more than doubled during 2019 due to increased repair costs at the pump stations and to manholes. There was also a 20.42% increase in the management fee. This was due to an increase in the monthly management fee charged by Bullock Pen Water District as a result of the renegotiation of the management fee contract in September of 2018.

Gain on Disposition of Assets

There was no gain on asset in 2019 in comparison to a gain of \$15,842 in 2018.

Interest on Long-Term Debt and Customer Deposits

Interest expense decreased \$4,311 or 9.9% during 2019. This is due to the decline in principal balance as the loans are paid off.

The following schedule compares the revenues and expenses for the current year and the previous year.

Table 2
Changes in Net Position

	2019	2018
Operating revenues:		
Sewer sales	\$ 694,188	\$ 701,183
Forfeited discounts	9,629	10,187
Miscellaneous services revenues	13,860	16,785
Total operating revenues	<u>717,677</u>	<u>728,155</u>
Operating expenses:		
Operation and maintenance expense	504,330	444,535
Depreciation and amortization	202,500	201,674
Total operating expenses	<u>706,830</u>	<u>646,209</u>
Net operating income	<u>10,847</u>	<u>81,946</u>
Non-operating income(expenses)		
Investment income	2,912	1,871
Gain on disposition of capital assets	-	15,842
Interest on long-term debt and customer deposits	(39,091)	(43,415)
Net non-operating expenses	<u>(36,179)</u>	<u>(25,702)</u>
Net (loss) income before capital contributions	<u>(25,332)</u>	<u>56,244</u>
Capital contributions	<u>15,856</u>	<u>11,611</u>
Change in net position	(9,476)	67,855
Net position – January 1	<u>5,931,434</u>	<u>5,863,579</u>
Net position – December 31	<u><u>\$ 5,921,958</u></u>	<u><u>\$ 5,931,434</u></u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2019, the District had \$6,473,819 invested in capital assets including land, buildings, sewer systems, equipment, and vehicles, as reflected in the following schedule. This represents a net decrease (additions less retirements and depreciation) of \$75,534.

Table 3 Summarizes the District's capital assets at the end of 2019 as compared to 2018.

Table 3
Capital Assets at Year End

	2019	2018
Land	\$ 25,000	\$ 25,000
Construction in progress	37,207	30,326
Equipment	51,132	51,132
Transportation equipment	42,529	42,529
Collection system & lift stations	7,309,974	7,248,960
Collection plant & equipment	1,568,076	1,509,005
Subtotal	9,033,918	8,906,952
Accumulated depreciation	(2,560,099)	(2,357,599)
Total capital assets	<u>\$ 6,473,819</u>	<u>\$ 6,549,353</u>

Outstanding Debt

Table 4 illustrates the District's outstanding debt at the end of 2019 compared to 2018.

Table 4
Outstanding Debt at Year End

	2019	2018
Notes Payable	\$ 895,721	\$ 944,655
Capital Lease	344,284	446,843
Total	<u>\$ 1,240,005</u>	<u>\$ 1,391,498</u>

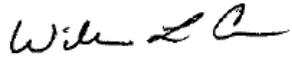
At year-end, the District had \$1,240,005 in outstanding notes and capital leases compared to \$1,391,498 last year. This is a decrease of \$151,493. This decrease is the result of the District making all the scheduled principal and interest payments on their outstanding debt during 2019.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2020 shows an increase in net position of approximately \$383,000 as opposed to a decrease of \$9,476 during 2019. Operating income is expected to increase by approximately \$77,200 or 10.76% due to a rate increase which was budgeted to go into effect with the July 2020 billing. Operating expenses are expected to decrease primarily due to an anticipated reduction in the cost of repairs at the pump stations in comparison to the amount spent during 2019. The primary reason for the expected increase in net position, is an anticipated increase in capital contributions. During 2020, the District anticipates that one or more mobile home parks will tap into the District, resulting in the donation of their sewer lines valued at \$214,800 and eligibility for debt reduction of \$95,000 on a \$100,000 loan related to the cost of the mobile home park tap in. Actual results could vary substantially since increases and decreases in usage is directly associated with water consumption which is unpredictable, and the possibility that the anticipated tap in by mobile home parks does not occur.

FINANCIAL CONTACT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administrative Office at Farrell Drive, Crittenden, Kentucky 41030.

A handwritten signature in black ink, appearing to read "William Catlett".

William Catlett, General Manager
Grant County Sanitary Sewer District

GRANT COUNTY SANITARY SEWER DISTRICT STATEMENTS OF NET POSITION December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 411,577	\$ 502,798
Certificate of deposit	132,333	130,057
Accounts receivable		
Customers, net of allowance	137,149	116,291
Others	3,034	2,088
Prepays	6,773	7,600
Accrued interest income	228	451
Total current assets	<u>691,094</u>	<u>759,285</u>
Restricted assets		
Replacement reserve	23,400	19,750
Customer deposits	66,307	85,651
Total restricted assets	<u>89,707</u>	<u>105,401</u>
Noncurrent assets		
Deferred rate case expense	22,629	16,890
Total noncurrent assets	<u>22,629</u>	<u>16,890</u>
Capital assets		
Construction in progress	37,207	30,326
Land, building, transmission system, equipment, and vehicles	8,996,711	8,876,626
Less: accumulated depreciation	<u>(2,560,099)</u>	<u>(2,357,599)</u>
Total capital assets, net of depreciation	<u>6,473,819</u>	<u>6,549,353</u>
Total assets	<u>7,277,249</u>	<u>7,430,929</u>

The accompanying notes are an integral part of the financial statements.

(Continued on Page 11)

GRANT COUNTY SANITARY SEWER DISTRICT STATEMENTS OF NET POSITION (continued from page 10) December 31, 2019 and 2018
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	<u>2019</u>	<u>2018</u>
Liabilities		
Current liabilities		
Accounts payable - trade	42,020	31,758
Accrued liabilities	1,469	1,033
Total current liabilities	<u>43,489</u>	<u>32,791</u>
Current liabilities payable from restricted assets		
Note payable - current portion	50,413	48,934
Capital lease - current portion	105,474	102,550
Customer deposits	62,156	65,156
Accrued interest payable	2,855	3,161
Trash collection	6,786	6,889
Total current liabilities payable from restricted assets	<u>227,684</u>	<u>226,690</u>
Long-term obligations		
Note payable - KIA	845,308	895,721
Capital lease	238,810	344,293
Total long-term obligations	<u>1,084,118</u>	<u>1,240,014</u>
Total liabilities	<u>1,355,291</u>	<u>1,499,495</u>
Net position		
Invested in capital assets, net of related debt	5,233,503	5,157,855
Restricted	20,545	16,589
Unrestricted	667,910	756,990
Total net position	<u>\$ 5,921,958</u>	<u>\$ 5,931,434</u>

The accompanying notes are an integral part of the financial statements.

GRANT COUNTY SANITARY SEWER DISTRICT STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ending December 31, 2019 and 2018
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	2019	2018
Operating revenues		
User fee revenue	\$ 703,817	\$ 711,370
Other service revenues	13,860	16,785
Total operating revenues	<u>717,677</u>	<u>728,155</u>
Operating expenses		
Operations and maintenance expense	504,330	444,535
Depreciation	202,500	201,674
Total operating expenses	<u>706,830</u>	<u>646,209</u>
Operating income	<u>10,847</u>	<u>81,946</u>
Non-operating income (expense)		
Investment income	2,912	1,871
Interest on long-term obligations	(39,025)	(43,336)
Interest on customer deposits	(66)	(79)
Gain (loss) on disposal of capital assets	-	15,842
Net non-operating expense	<u>(36,179)</u>	<u>(25,702)</u>
Net (loss) income	<u>(25,332)</u>	<u>56,244</u>
Capital contributions	<u>15,856</u>	<u>11,611</u>
Change in net position	<u>(9,476)</u>	<u>67,855</u>
Net position, January 1	<u>5,931,434</u>	<u>5,863,579</u>
Net position, December 31	<u><u>\$ 5,921,958</u></u>	<u><u>\$ 5,931,434</u></u>

The accompanying notes are an integral part of the financial statements.

GRANT COUNTY SANITARY SEWER DISTRICT STATEMENTS OF CASH FLOWS For the Years Ending December 31, 2019 and 2018
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	2019	2018
Cash flows from operating activities		
Received from customers	\$ 690,134	\$ 734,131
Paid to suppliers for goods and services	(487,441)	(437,840)
Paid to or on behalf of employees for services	(5,364)	(6,211)
Net change in cash from operating activities	<u>197,329</u>	<u>290,080</u>
Cash flows from investing activities		
Acquisition and construction of capital assets	(126,966)	(108,855)
(Purchase) use of investments	(2,276)	29,134
Interest on investments	3,135	1,973
Net change in cash from investing activities	<u>(126,107)</u>	<u>(77,748)</u>
Cash flows from capital and related financing activities		
Principal paid on long term debt	(151,492)	(147,189)
Cash received from disposal of capital assets	-	20,367
Interest paid on long term debt	(39,398)	(43,713)
Contributed capital received	15,856	11,611
Increase in restricted cash	15,694	72,857
Decrease in customer deposits	(3,000)	(2,010)
Decrease in other restricted liabilities	(103)	(30)
Net change in cash from capital and related financing activities	<u>(162,443)</u>	<u>(88,107)</u>
Change in cash and cash equivalents	(91,221)	124,225
Beginning cash and cash equivalents	<u>502,798</u>	<u>378,573</u>
Ending cash and cash equivalents	<u>\$ 411,577</u>	<u>\$ 502,798</u>
Reconciliation of operating income to net cash provided by (used for) operating activities		
Operating income	\$ 10,847	\$ 81,946
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	202,500	201,674
Change in operating assets and liabilities		
(Increase) decrease in receivables	(27,543)	5,976
Decrease (increase) in prepaid assets	827	(3,090)
Increase in accounts payable	10,262	3,885
Increase (decrease) in other accrued liabilities	436	(311)
Net cash provided by operating activities	<u>\$ 197,329</u>	<u>\$ 290,080</u>
Supplemental information		
Interest expensed	<u>\$ 39,091</u>	<u>\$ 43,415</u>

The accompanying notes are an integral part of the financial statements.

GRANT COUNTY SANITARY SEWER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2019 and 2018
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NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

The Grant County Sanitary Sewer District (District) is a sanitary sewer utility that was established by the Grant County Fiscal Court on October 2, 2002. It was organized and operates under the provisions of the Kentucky Revised Statutes, Chapters 67 and 74. The District owns and operates sewer collection and treatment facilities that provide sanitary sewer service to residential, commercial, and industrial customers in Grant County, Kentucky. In 2003, the District appointed Commissioners and began negotiations to acquire the necessary assets from the City of Crittenden to begin operations as a sewer utility. On April 23, 2004, the District acquired the cash and infrastructure assets from the City of Crittenden Sewer Department in exchange for assuming the related bond debt and associated unamortized premiums and issue costs.

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission (“PSC”) pursuant to KRS 278.040.

Basis of Accounting

Grant County Sanitary Sewer District’s financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) Opinions of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into “invested in capital assets, net of related liabilities”; “restricted”; and “unrestricted” components.

Cash Equivalents

For purposes of the statements of net position and statements of cash flows, the District considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Budgets

In accordance with Kentucky Revised Statute 65A, the District is required to upload a balanced budget to the Kentucky Department of Local Government website by January 15. The budget includes proposed expenditures and the means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year-end.

GRANT COUNTY SANITARY SEWER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2019 and 2018
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Inventories

Inventories are stated at the lower of cost or market. Cost is determined under the First-In, First-Out (FIFO) method. Market is determined on the basis of estimated realizable market values. The District has no measurable inventory to report at December 31, 2019 and 2018.

Distribution System, Building, and Equipment

Property, plant, collection lines and equipment are recorded at cost and depreciated over their estimated useful lives using the straight line method. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the "Non-Operating Income (Expense)" portion of results of operations.

Construction in Progress

Capitalized costs incurred on projects which are not in use or ready for use at year end are held as "Construction in Progress." When the related asset is ready for use, related costs are transferred to the related asset account.

Capital Contributions

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District's income statement. These contributions represent customer tap-in fees and other contributions to recover the costs of extensions of the collection system. The District also includes estimated cost figures for those lines contributed by outside contractors.

During 2019 and 2018 these contributions consisted of the following:

Source	2019	2018
Tap in fees paid by new customers	\$ 15,856	\$ 11,611
Totals	<u>\$ 15,856</u>	<u>\$ 11,611</u>

Income Tax Status

The District is exempt from federal and state income taxes since it is a governmental entity. Accordingly, the financial statements include no provision for income taxes.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-Operating Revenues

Revenues have been classified as operating and non-operating. Operating revenues are those revenues that are directly generated from the sale of sewer service to customers. Non-operating revenues are those revenues that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, the sale of fixed assets and interest income.

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits consist of checking accounts and are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the statements of net position as “Cash and Cash Equivalents,” “Certificate of Deposits,” and “Restricted Assets”. At December 31, 2019 and 2018, the balances were \$633,617 and \$738,256, respectively. The District has amounts on deposit with one bank in excess of FDIC insured amounts. The bank has pledged collateral to cover excess amounts.

Investments are reported at fair value which is determined using the selected basis. Short term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair market value.

The District’s investments are categorized into three levels to give an indication of the level of risk assumed by the District at December 31, 2019. The levels are described as follows:

Level 1 – Insured and registered, with securities held by the entity or its agent in the entity’s name;

Level 2 – Uninsured and unregistered, with securities held by the counterparty’s trust department or agent in the entity’s name;

Level 3 – Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity’s name.

	Level 1	Level 2	Level 3	Fair Value/ Carrying Cost	Cost
Operation & maintenance	\$ 543,910	\$ -	\$ -	\$ 543,910	\$ 543,910
Replacement reserve	23,400	-	-	23,400	23,400
Customer deposits	66,307	-	-	66,307	66,307
Total	<u>\$ 633,617</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 633,617</u>	<u>\$ 633,617</u>

NOTE 3 – RESTRICTED NET POSITION

Net position is comprised of the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net position. Invested in capital assets, net of related debt consists of all capital assets net of accumulated depreciation and reduced by outstanding debt, that is attributable to the acquisition, construction and improvement of those assets. Restricted net position consists of assets, net of related liabilities, for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other assets, net of related liabilities, not included in the above categories.

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018

Included in restricted net position at December 31,

	2019	2018
Replacement reserve	\$ 23,400	\$ 19,750
Accrued interest on long term debt	(2,855)	(3,161)
Total Restricted Net Position	<u>\$ 20,545</u>	<u>\$ 16,589</u>

NOTE 4 – UTILITY PLANT IN SERVICE

All property, plant and equipment including infrastructure assets are recorded at cost and depreciated over their estimated useful lives, using the straight-line method as detailed in Note 1. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss included in the results of operations. Repair and maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred. Effective January 1, 2016, the Commissioners of Grant County Sanitary Sewer District decided that the useful life of their transmission and distribution mains should be 75 years rather than the 50-year life that the District had been using. Therefore, depreciation on transmission and distribution mains has been calculated using a 75-year life beginning fiscal year 2016.

Estimated useful lives, in years, for depreciable assets are as follows:

Structures and improvements	15-40 years
Machinery and equipment	3-25 years
Sewer lines	75 years
Pump stations	3-40 years

The capital asset balances at December 31, 2019 and 2018 are as follows:

Asset Type	Balance at December 31, 2018	Additions	Retirements	Balance at December 31, 2019
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Construction in progress	30,326	6,881	-	37,207
Equipment	278,555	59,071	-	337,626
Mains	4,974,673	-	-	4,974,673
Pump stations	2,274,287	61,014	-	2,335,301
Structures and improvements	1,281,582	-	-	1,281,582
Transportation equipment	42,529	-	-	42,529
Subtotal	8,906,952	126,966	-	9,033,918
Accumulated depreciation	(2,357,599)	(202,500)		(2,560,099)
Capital assets, net	<u>\$ 6,549,353</u>	<u>\$ (75,534)</u>	<u>\$ -</u>	<u>\$ 6,473,819</u>

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 5 – LONG TERM DEBT

Lease Payable – BB&T Bank

On February 8, 2013, the District entered into a lease finance agreement with BB&T Bank in the amount of \$990,742, which served to relinquish the District's obligations on its September 25, 2002 Series 2001D bond debt through the Kentucky Rural Water Finance Corporation. The interest rate is fixed at 2.80%. Principal and interest payments are due on the eighth day of each month beginning March 8, 2013 and ending February 8, 2023.

The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2020	2.800%	\$ 105,474	\$ 8,440	\$ 113,914
2021	2.800%	108,533	5,381	113,914
2022	2.800%	111,655	2,259	113,914
2023	2.800%	18,622	363	18,985
Totals		<u>\$ 344,284</u>	<u>\$ 16,443</u>	<u>\$ 360,727</u>

Note Payable – Kentucky Infrastructure Authority

The District entered into an agreement with the Kentucky Infrastructure Authority for additional funding for its Phase I Line Extension Project. The agreement is dated October 1, 2009. The funding comes from the Federally Assisted Wastewater Revolving Loan Fund, from which the District began drawing its funds in May 2010. The interest rate on this debt is 3.00%, and the maturity date is December 1, 2031.

The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2020	3.00%	\$ 9,833	\$ 4,119	\$ 13,952
2021	3.00%	10,130	3,822	13,952
2022	3.00%	10,436	3,516	13,952
2023	3.00%	10,752	3,200	13,952
2024	3.00%	11,077	2,875	13,952
2025-2029	3.00%	60,613	9,144	69,757
2030-2031	3.00%	26,888	1,016	27,904
Totals		<u>\$ 139,729</u>	<u>\$ 27,692</u>	<u>\$ 167,421</u>

Note Payable – Kentucky Infrastructure Authority

On January 6, 2014 the District entered into an agreement with the Kentucky Infrastructure Authority to fund the construction of a sewer lift station and the extension of the current sewer main and appurtenances. Construction draws on this loan totaled \$882,042 during 2014. The final loan draw of \$59,676 was received in January 2015. The interest rate on this debt is 3.00%, and matures on December 1, 2034. Principal and interest payments are due on June 1 and December 1.

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018

The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2020	3.00%	\$ 40,580	\$ 22,378	\$ 62,958
2021	3.00%	41,807	21,151	62,958
2022	3.00%	43,070	19,888	62,958
2023	3.00%	44,372	18,586	62,958
2024	3.00%	45,713	17,245	62,958
2025-2029	3.00%	250,146	64,643	314,789
2030-2034	3.00%	290,304	24,484	314,788
Totals		<u>\$ 755,992</u>	<u>\$ 188,375</u>	<u>\$ 944,367</u>

NOTE 6 – RELATED PARTY TRANSACTIONS

The Grant County Sanitary Sewer District is operated by the staff of the Bullock Pen Water District. The Sewer District pays a management fee to the Bullock Pen Water District for these services. This fee was \$160,052 and \$132,912 in 2019 and 2018, respectively. The Chairman of the Board of Commissioners and one other commissioner of the District serve on the boards of both the Grant County Sanitary Sewer District and the Bullock Pen Water District.

NOTE 7 – ECONOMIC DEPENDENCY/CREDIT RISK

Grant County Sanitary Sewer District is a government agency operating with one office in Crittenden, Kentucky. It grants credit to customers who are primarily local residents and businesses. The District receives all of its operating revenues from customers in Grant County, Kentucky.

NOTE 8 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 83 – *Certain Asset Retirement Obligations* – Periods beginning after 6/15/2019

Statement No. 88 – *Certain Disclosures Related to Debt* – Periods beginning after 6/15/2019

NOTE 9 – FUTURE ACCOUNTING STANDARDS

Statement No. 84 – *Fiduciary Activities* – Periods beginning after 12/15/2019

Statement No. 87 – *Leases* – Periods beginning after 6/15/2021

Statement No. 89 – *Accounting for Interest Cost in Construction* – Periods beginning after 12/15/2020

Statement No. 90 – *Majority Equity Interests* – Periods beginning after 12/15/2019

Statement No. 91 – *Conduit Debt Obligations* – Periods beginning after 12/15/2021

Statement No. 92 – *Omnibus 2020* – Periods beginning after 6/15/2021

Statement No. 93 – *Replacement of Interbank Offered Rates* – Periods beginning after 6/15/2021

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated events through May 19, 2020, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2019 through May 19, 2020.

GRANT COUNTY SANITARY SEWER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ending December 31, 2019 and 2018
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	<u>2019</u>	<u>2018</u>
Operations, maintenance and administrative expenses		
Salaries and wages - commissioners	\$ 5,800	\$ 5,900
Advertising	8	52
Bad debt expense	8,350	10,223
Chemicals	6,614	15,205
Contractual services - accounting	27,364	33,246
Contractual services - engineering	5,840	6,615
Contractual services - legal	6,656	7,350
Contractual services - management	160,052	132,912
Contractual services - sample analysis	20,987	15,606
Contractual services - other	92,354	76,623
Insurance - general liability	6,120	5,836
Insurance - vehicle	3,175	2,706
Insurance - property	3,726	5,616
Insurance - other	647	273
Materials and supplies	62,552	30,875
Miscellaneous	25	25
Payroll taxes	444	451
Purchased power	88,249	87,188
Rental of equipment	1,006	1,410
Transportation	2,937	5,002
Utility regulatory assessment	1,424	1,421
Total operations, maintenance and administrative expenses	<u><u>\$ 504,330</u></u>	<u><u>\$ 444,535</u></u>



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Licensed in Kentucky & Ohio

**INDEPENDENT AUDITOR'S 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**

**To the Board of Commissioners
Grant County Sanitary Sewer District**

We have audited, in accordance with the 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 Grant County Sanitary Sewer District as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Grant County Sanitary Sewer District's basic financial statements, and have issued our report thereon dated May 19, 2020.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered Grant County Sanitary Sewer District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Grant County Sanitary Sewer District's internal control. Accordingly, we do not express an opinion on the effectiveness of Grant County Sanitary Sewer 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Grant County Sanitary Sewer District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. Noncompliance 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 audits, 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*.



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

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.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.

Erlanger, Kentucky

May 19, 2020