

GRANT COUNTY SANITARY SEWER DISTRICT

FINANCIAL STATEMENTS

For the Years Ending December 31, 2020 and 2019

**GRANT COUNTY
SANITARY SEWER DISTRICT
FINANCIAL STATEMENTS**

For the Years Ending December 31, 2020 and 2019

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GRANT COUNTY
SANITARY SEWER DISTRICT
BOARD OF COMMISSIONERS
December 31, 2020 and 2019

Charles Givin, Chair

Robert Worthington, Jr., Vice Chair

Rodger Bingham, Treasurer

Dan Northcutt, Secretary

Leo Saylor

Of Counsel

Thomas R. Nienaber, Esq.

Administration

Brian Simpson, General Manager

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, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2021, 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 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 Grant County Sanitary Sewer 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 the Grant County Sanitary Sewer District's internal control over financial reporting and compliance.

Chamberlin Owen & Co., Inc.

Chamberlin Owen & Co., Inc.
Certified Public Accountants
Erlanger, Kentucky
May 14, 2021

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, 2020. 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 \$6,007,312 (net position). This was an increase of \$85,354 in comparison to a decrease of \$9,476 in the prior year. The District experienced an increase in operating revenue along with an increase in operating expenses. This was the primary reason for the increase in the net position.
- At the end of the current year, unrestricted net position was \$774,633.

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, 2020 and 2019.

**Table 1
Net Position**

	<u>2020</u>	<u>2019</u>
Current assets	\$ 767,635	\$ 691,094
Restricted assets	115,521	89,707
Noncurrent assets	6,308,120	6,496,448
Total assets	<u>7,191,276</u>	<u>7,277,249</u>
Current liabilities	39,575	43,489
Liabilities payable from restricted assets	220,749	227,684
Long term liabilities	923,640	1,084,118
Total liabilities	<u>1,183,964</u>	<u>1,355,291</u>
Net position:		
Invested in capital assets, net of related debt	5,208,170	5,233,503
Restricted	24,509	20,545
Unrestricted	774,633	667,910
Total net position	<u>\$ 6,007,312</u>	<u>\$ 5,921,958</u>

The District's net position for 2020 increased \$85,354. See the information under Financial Highlights above for an explanation as to why this increase occurred during 2020 rather than the increases the District had experienced in the previous years.

The largest portion of the District's net position (86.7%) 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 increased \$99,249 or 13.8%. This was primarily due to the rate increase that went into effect with the July 2020 billing.

Operation and Maintenance Expense

Operation and maintenance expense increased \$2,374 or .0047% during 2020. Two major categories of expense changed. The cost of repairs to the system decreased during 2020 due to increased repair costs at the pump stations and to manholes in the prior year. There was also an increase of \$16,669 in the chemicals expense.

Gain on Disposition of Assets

There was no gain on sale of assets in 2020.

Interest on Long-Term Debt and Customer Deposits

Interest expense decreased \$4,415 or 11.3% during 2020. 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

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Sewer sales	\$ 802,520	\$ 694,188
Forfeited discounts	1,513	9,629
Miscellaneous services revenues	12,893	13,860
Total operating revenues	<u>816,926</u>	<u>717,677</u>
Operating expenses:		
Operation and maintenance expense	506,704	504,330
Depreciation and amortization	206,891	202,500
Total operating expenses	<u>713,595</u>	<u>706,830</u>
Net operating income	<u>103,331</u>	<u>10,847</u>
Non-operating income(expenses)		
Investment income	2,699	2,912
Interest on long-term debt and customer deposits	(34,676)	(39,091)
Net non-operating expenses	<u>(31,977)</u>	<u>(36,179)</u>
Net (loss) income before capital contributions	71,354	(25,332)
Capital contributions	<u>14,000</u>	<u>15,856</u>
Change in net position	85,354	(9,476)
Net position – January 1	<u>5,921,958</u>	<u>5,931,434</u>
Net position – December 31	<u>\$ 6,007,312</u>	<u>\$ 5,921,958</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2020, the District had \$6,292,280 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 \$181,539.

Table 3 Summarizes the District's capital assets at the end of 2020 as compared to 2019.

**Table 3
Capital Assets at Year End**

	2020	2019
Land	\$ 25,000	\$ 25,000
Construction in progress	47,035	37,207
Equipment	51,132	51,132
Transportation equipment	42,529	42,529
Collection system & lift stations	7,309,974	7,309,974
Collection plant & equipment	1,581,337	1,568,076
Subtotal	9,057,007	9,033,918
Accumulated depreciation	(2,764,727)	(2,560,099)
Total capital assets	<u>\$ 6,292,280</u>	<u>\$ 6,473,819</u>

Outstanding Debt

Table 4 illustrates the District's outstanding debt at the end of 2020 compared to 2019.

**Table 4
Outstanding Debt at Year End**

	2020	2019
Notes Payable	\$ 845,308	\$ 895,721
Capital Lease	238,802	344,284
Total	<u>\$ 1,084,110</u>	<u>\$ 1,240,005</u>

At year-end, the District had \$1,084,110 in outstanding notes and capital leases compared to \$1,240,005 last year. This is a decrease of \$155,895. This decrease is the result of the District making all the scheduled principal and interest payments on their outstanding debt during 2020.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2021 shows an increase in net position of approximately \$37,137 as opposed to an increase of \$85,354 during 2020. Operating income is expected to increase by approximately \$1,903 or .24% due to a one-time billing adjustment requested by the PSC at the time of the rate increase in July 2020. The PSC felt that some customers were misclassified and made the district send out a special billing to get these customers properly classified and charged or refunded. This netted the District \$20,992 in additional income in 2020. Operating expenses are expected to increase primarily due to an increase in the depreciation expense that will be expensed in 2021. During 2021, 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.

Brian Simpson

Brian Simpson, Superintendent
Grant County Sanitary Sewer District

GRANT COUNTY SANITARY SEWER DISTRICT STATEMENTS OF NET POSITION December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 368,438	\$ 411,577
Certificate of deposit	133,943	132,333
Accounts receivable		
Customers, net of allowance	243,600	137,149
Others	9,721	3,034
Prepays	6,855	6,773
Accrued interest income	552	228
Unamortized rate case expense	4,526	-
Total current assets	<u>767,635</u>	<u>691,094</u>
Restricted assets		
Replacement reserve	27,050	23,400
Customer deposits	88,471	66,307
Total restricted assets	<u>115,521</u>	<u>89,707</u>
Noncurrent assets		
Deferred rate case expense	15,840	22,629
Total noncurrent assets	<u>15,840</u>	<u>22,629</u>
Capital assets		
Construction in progress	47,035	37,207
Land, building, transmission system, equipment, and vehicles	9,009,972	8,996,711
Less: accumulated depreciation	(2,764,727)	(2,560,099)
Total capital assets, net of depreciation	<u>6,292,280</u>	<u>6,473,819</u>
Total assets	<u>7,191,276</u>	<u>7,277,249</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, 2020 and 2019
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	<u>2020</u>	<u>2019</u>
Liabilities		
Current liabilities		
Accounts payable - trade	38,229	42,020
Accrued liabilities	1,346	1,469
Total current liabilities	<u>39,575</u>	<u>43,489</u>
Current liabilities payable from restricted assets		
Note payable - current portion	51,937	50,413
Capital lease - current portion	108,533	105,474
Customer deposits	50,499	62,156
Accrued interest payable	2,541	2,855
Trash collection	7,239	6,786
Total current liabilities payable from restricted assets	<u>220,749</u>	<u>227,684</u>
Long-term obligations		
Note payable - KIA	793,371	845,308
Capital lease	130,269	238,810
Total long-term obligations	<u>923,640</u>	<u>1,084,118</u>
Total liabilities	<u>1,183,964</u>	<u>1,355,291</u>
Net position		
Invested in capital assets, net of related debt	5,208,170	5,233,503
Restricted	24,509	20,545
Unrestricted	774,633	667,910
Total net position	<u>\$ 6,007,312</u>	<u>\$ 5,921,958</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, 2020 and 2019
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	<u>2020</u>	<u>2019</u>
Operating revenues		
User fee revenue	\$ 804,033	\$ 703,817
Other service revenues	12,893	13,860
Total operating revenues	<u>816,926</u>	<u>717,677</u>
Operating expenses		
Operations and maintenance expense	506,704	504,330
Depreciation & amortization	206,891	202,500
Total operating expenses	<u>713,595</u>	<u>706,830</u>
Operating income	<u>103,331</u>	<u>10,847</u>
Non-operating income (expense)		
Investment income	2,699	2,912
Interest on long-term obligations	(34,614)	(39,025)
Interest on customer deposits	(62)	(66)
Net non-operating expense	<u>(31,977)</u>	<u>(36,179)</u>
Net income (loss)	71,354	(25,332)
Capital contributions	<u>14,000</u>	<u>15,856</u>
Change in net position	85,354	(9,476)
Net position, January 1	<u>5,921,958</u>	<u>5,931,434</u>
Net position, December 31	<u>\$ 6,007,312</u>	<u>\$ 5,921,958</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, 2020 and 2019
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	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Received from customers	\$ 706,051	\$ 690,134
Paid to suppliers for goods and services	(506,940)	(487,441)
Paid to or on behalf of employees for services	(6,023)	(5,364)
Net change in cash from operating activities	<u>193,088</u>	<u>197,329</u>
Cash flows from investing activities		
Acquisition and construction of capital assets	(23,089)	(126,966)
Purchase of investments	(1,610)	(2,276)
Interest on investments	2,375	3,135
Net change in cash from investing activities	<u>(22,324)</u>	<u>(126,107)</u>
Cash flows from capital and related financing activities		
Principal paid on long term debt	(155,895)	(151,492)
Interest paid on long term debt	(34,990)	(39,398)
Contributed capital received	14,000	15,856
(Decrease) increase in restricted cash	(25,814)	15,694
Decrease in customer deposits	(11,657)	(3,000)
Increase (decrease) in other restricted liabilities	453	(103)
Net change in cash from capital and related financing activities	<u>(213,903)</u>	<u>(162,443)</u>
Change in cash and cash equivalents	(43,139)	(91,221)
Beginning cash and cash equivalents	<u>411,577</u>	<u>502,798</u>
Ending cash and cash equivalents	<u>\$ 368,438</u>	<u>\$ 411,577</u>
Reconciliation of operating income to net cash provided by (used for) operating activities		
Operating income	\$ 103,331	\$ 10,847
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	204,628	202,500
Change in operating assets and liabilities		
Increase in receivables	(110,875)	(27,543)
(Increase) decrease in prepaid assets	(82)	827
(Decrease) increase in accounts payable	(3,791)	10,262
(Decrease) increase in other accrued liabilities	(123)	436
Net cash provided by operating activities	<u>\$ 193,088</u>	<u>\$ 197,329</u>
Supplemental information		
Interest expensed	<u>\$ 34,676</u>	<u>\$ 39,091</u>

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

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2019

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, 2020 and 2019

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, 2020 and 2019.

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 2020 and 2019 these contributions consisted of the following:

<u>Source</u>	<u>2020</u>	<u>2019</u>
Tap in fees paid by new customers	\$ 14,000	\$ 15,856
Totals	<u>\$ 14,000</u>	<u>\$ 15,856</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, 2020 and 2019

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, 2020 and 2019, the balances were \$617,902 and \$633,617, 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, 2020. 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	\$ 502,381	\$ -	\$ -	\$ 502,381	\$ 502,381
Replacement reserve	27,050	-	-	27,050	27,050
Customer deposits	88,471	-	-	88,471	88,471
Total	<u>\$ 617,902</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 617,902</u>	<u>\$ 617,902</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, 2020 and 2019

Included in restricted net position at December 31,

	2020	2019
Replacement reserve	\$ 27,050	\$ 23,400
Accrued interest on long term debt	(2,541)	(2,855)
Total Restricted Net Position	<u>\$ 24,509</u>	<u>\$ 20,545</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, 2020 and 2019 are as follows:

Asset Type	Balance at December 31, 2019	Additions	Retirements	Balance at December 31, 2020
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Construction in progress	37,207	9,828	-	47,035
Equipment	337,626	13,261	-	350,887
Mains	4,974,673	-	-	4,974,673
Pump stations	2,335,301	-	-	2,335,301
Structures and improvements	1,281,582	-	-	1,281,582
Transportation equipment	42,529	-	-	42,529
Subtotal	<u>9,033,918</u>	<u>23,089</u>	<u>-</u>	<u>9,057,007</u>
Accumulated depreciation	<u>(2,560,099)</u>	<u>(204,628)</u>	<u>-</u>	<u>(2,764,727)</u>
Capital assets, net	<u>\$ 6,473,819</u>	<u>\$ (181,539)</u>	<u>\$ -</u>	<u>\$ 6,292,280</u>

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2019

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
2021	2.800%	\$ 108,533	\$ 5,381	\$ 113,914
2022	2.800%	111,655	2,259	113,914
2023	2.800%	18,614	371	18,985
Totals		<u>\$ 238,802</u>	<u>\$ 8,011</u>	<u>\$ 246,813</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
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	3.00%	11,412	2,540	13,952
2026-2030	3.00%	62,445	7,311	69,756
2031	3.00%	13,644	309	13,953
Totals		<u>\$ 129,896</u>	<u>\$ 23,573</u>	<u>\$ 153,469</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, 2020 and 2019
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The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
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	3.00%	47,095	15,863	62,958
2026-2030	3.00%	257,706	57,083	314,789
2031-2034	3.00%	235,649	16,181	251,830
Totals		<u>\$ 715,412</u>	<u>\$ 165,997</u>	<u>\$ 881,409</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 \$159,654 and \$160,052 in 2020 and 2019, 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 – FY 2020*

Statement No. 88 – *Certain Disclosures Related to Debt – FY 2020*

Statement No. 95 – *Postponement of Effective Dates of Authoritative Guidance – FY 2020*

NOTE 9 – FUTURE ACCOUNTING STANDARDS

Statement No. 84 – *Fiduciary Activities – FY 2021*

Statement No. 87 – *Leases – FY 2022*

Statement No. 89 – *Accounting for Interest Cost in Construction Projects – FY 2021*

Statement No. 90 – *Majority Equity Interests – FY 2021*

Statement No. 91 – *Conduit Debt Obligations – FY 2023*

Statement No. 92 – *Omnibus 2020 – FY 2022*

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2019

Statement No. 93 – *Replacement of Interbank Offered Rates* – FY 2022

Statement No. 94 – *Public-Private and Public-Public Partnerships* – FY 2022

Statement No. 96 – *Subscription-Based Information Technology Arrangements* – FY 2022

Statement No. 97 – *Component Unit Criteria for IRS Section 457 Deferred Comp. Plans* – FY 2022

NOTE 10 – COVID-19 GLOBAL PANDEMIC

On January 30, 2020, the World Health Organization announced a global health emergency, later classified as a global pandemic, as a result of the COVID-19 outbreak. The outbreak and response have impacted financial and economic markets across the World and within the United States of America. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the District's financial condition, liquidity, and future results of operations. The District's Management and Board continue to actively monitor the impact of the global pandemic on its financial condition, liquidity, operations, suppliers, and industry

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated events through May 14, 2021, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2020 through May 14, 2021.

GRANT COUNTY SANITARY SEWER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ending December 31, 2020 and 2019
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	<u>2020</u>	<u>2019</u>
Operations, maintenance and administrative expenses		
Salaries and wages - commissioners	\$ 5,900	\$ 5,800
Advertising	9	8
Bad debt expense	7,952	8,350
Chemicals	23,283	6,614
Contractual services - accounting	31,675	27,364
Contractual services - engineering	5,167	5,840
Contractual services - legal	10,309	6,656
Contractual services - management	159,654	160,052
Contractual services - sample analysis	20,926	20,987
Insurance - general liability	6,826	6,120
Insurance - vehicle	3,773	3,175
Insurance - property	4,272	3,726
Insurance - other	761	647
Materials and supplies	138,464	154,906
Miscellaneous	167	25
Payroll taxes	451	444
Purchased power	79,313	88,249
Rental of equipment	1,274	1,006
Transportation	5,092	2,937
Utility regulatory assessment	1,436	1,424
Total operations, maintenance and administrative expenses	<u>\$ 506,704</u>	<u>\$ 504,330</u>

**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, 2020 and 2019, 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 14, 2021.

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) 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 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 financial statements. 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*.

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.

Chamberlin Owen & Co., Inc.

Chamberlin Owen & Co., Inc.

Certified Public Accountants

Erlanger, Kentucky

May 14, 2021