

GRANT COUNTY SANITARY SEWER DISTRICT

FINANCIAL STATEMENTS

For the Years Ending December 31, 2022 and 2021

**GRANT COUNTY
SANITARY SEWER DISTRICT
FINANCIAL STATEMENTS**

For the Years Ending December 31, 2022 and 2021

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GRANT COUNTY
SANITARY SEWER DISTRICT
BOARD OF COMMISSIONERS
December 31, 2022 and 2021

Charles Givin, Chair

Robert Worthington, Jr., Vice Chair

Rodger Bingham, Treasurer

Greg Powell, Secretary

Mike Duley

Of Counsel

Thomas R. Nienaber, Esq.

Administration

Paul Harp, Superintendent

Independent Auditor's Report

**To the Board of Commissioners
Grant County Sanitary Sewer District
Crittenden, Kentucky**

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the Grant County Sanitary Sewer District (District), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Grant County Sanitary Sewer 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 Grant County Sanitary Sewer District as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with accounting standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Grant County Sanitary Sewer District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 Grant County Sanitary Sewer 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance

and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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, we:

- Exercise professional judgment 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 Grant County Sanitary Sewer 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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Grant County Sanitary Sewer 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

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 the 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Grant County Sanitary Sewer District's basic financial statements. The accompanying Schedules of Operations, Maintenance, and Administrative Expenses are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. The accompanying Schedules of Operations, Maintenance, and Administrative Expenses are 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 25, 2023, 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 the 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 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 25, 2023

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, 2022. 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 \$6,067,896 (net position). This was a decrease of \$1,915 in comparison to an increase of \$62,499 in the prior year. The District experienced a decrease in operating revenue and 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 \$710,780.

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, 2022, 2021 and 2020.

Table 1
Net Position

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Current assets	\$ 712,613	\$ 843,182	\$ 767,635
Restricted assets	121,501	103,444	115,521
Noncurrent assets	<u>6,090,649</u>	<u>6,148,429</u>	<u>6,308,120</u>
Total assets	<u>6,924,763</u>	<u>7,095,055</u>	<u>7,191,276</u>
Current liabilities	42,604	44,068	39,575
Liabilities payable from restricted assets	129,523	222,706	220,749
Long term liabilities	<u>684,740</u>	<u>758,470</u>	<u>923,640</u>
Total liabilities	<u>856,867</u>	<u>1,025,244</u>	<u>1,183,964</u>
Net position:			
Invested in capital assets, net of related debt	5,325,399	5,213,483	5,208,170
Restricted	31,717	28,484	24,509
Unrestricted	<u>710,780</u>	<u>827,844</u>	<u>774,633</u>
Total net position	<u>\$6,067,896</u>	<u>\$6,069,811</u>	<u>\$6,007,312</u>

The District's net position for 2022 decreased \$1,915. See the information under Financial Highlights (page 5) for an explanation as to why this decrease occurred during 2022 rather than the increases the District had experienced in the previous years.

The largest portion of the District's net position (87.8%) 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 \$9,526 or 1.18%. Water usage decreased slightly even though there was an overall increase in the number of bills that were sent out.

Operation and Maintenance Expense

Operation and maintenance expenses increased \$41,898 or 8.0% during 2022. Two major categories of expense changed. The cost of purchased power increased \$9,690 or 12.2% during 2022. There was also an increase in the management fees of \$7,520 or 4.06% which was due to staffing costs that increased during 2022.

Gain on Disposition of Assets

The District recognized a Gain on the sale of assets of \$2,554 in 2022.

Interest on Long-Term Debt and Customer Deposits

Interest expense decreased \$4,712 or 15.7% during 2022. 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>2022</u>	<u>2021</u>	<u>2020</u>
Operating revenues:			
Sewer sales	\$ 779,011	\$ 783,076	\$ 802,520
Forfeited discounts	2,317	8,323	1,513
Miscellaneous services revenues	15,292	14,747	12,893
Total operating revenues	<u>796,620</u>	<u>806,146</u>	<u>816,926</u>
Operating expenses:			
Operation and maintenance expense	566,234	524,336	506,704
Depreciation and amortization	215,626	208,881	206,891
Total operating expenses	<u>781,860</u>	<u>733,217</u>	<u>713,595</u>
Net operating income	<u>14,760</u>	<u>72,929</u>	<u>103,331</u>
Non-operating income(expenses)			
Investment income	1,125	1,636	2,699
Gain on sale of capital assets	2,554	-	-
Interest on long-term debt and customer deposits	(25,354)	(30,066)	(34,676)
Net non-operating expenses	<u>(21,675)</u>	<u>(28,430)</u>	<u>(31,977)</u>
Net income before capital contributions	(6,915)	44,499	71,354
Capital contributions	<u>5,000</u>	<u>18,000</u>	<u>14,000</u>
Change in net position	(1,915)	62,499	85,354
Net position – January 1	<u>6,069,811</u>	<u>6,007,312</u>	<u>5,921,958</u>
Net position – December 31	<u><u>\$ 6,067,896</u></u>	<u><u>\$ 6,069,811</u></u>	<u><u>\$ 6,007,312</u></u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2022, the District had \$6,083,860 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 \$53,254.

Table 3 summarizes the District's capital assets at the end of 2022 as compared to 2021 and 2020.

**Table 3
Capital Assets at Year End**

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Land	\$ 25,000	\$ 25,000	\$ 25,000
Construction in progress	143,660	92,660	47,035
Equipment	370,826	350,887	350,887
Transportation equipment	85,047	46,093	42,529
Collection system & lift stations	7,338,011	7,309,974	7,309,974
Collection plant & equipment	1,281,582	1,281,582	1,281,582
Subtotal	<u>9,244,126</u>	<u>9,106,196</u>	<u>9,057,007</u>
Accumulated depreciation	<u>(3,160,266)</u>	<u>(2,969,082)</u>	<u>(2,764,727)</u>
Total capital assets	<u>\$ 6,083,860</u>	<u>\$ 6,137,114</u>	<u>\$ 6,292,280</u>

Outstanding Debt

Table 4 illustrates the District's outstanding debt at the end of 2022 compared to 2021 and 2020.

**Table 4
Outstanding Debt at Year End**

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Notes Payable	\$ 739,864	\$ 793,371	\$ 845,308
Capital Lease	18,597	130,260	238,802
Total	<u>\$ 758,461</u>	<u>\$ 923,631</u>	<u>\$ 1,084,110</u>

At year-end, the District had \$758,461 in outstanding notes and capital leases compared to \$923,631 last year. This is a decrease of \$165,170. This decrease is the result of the District making all the scheduled principal and interest payments on their outstanding debt during 2022.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2023 shows a decrease in net position of approximately \$78,555 as opposed to a decrease of \$1,915 during 2022. Operating income is expected to decrease by approximately \$75,573 due to an overall increase in expenses. The District is experiencing an increase from all types of vendors due to inflation and the ongoing supply chain issues that started during the pandemic.

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.

Paul Harp

Paul Harp, Superintendent
Grant County Sanitary Sewer District

GRANT COUNTY SANITARY SEWER DISTRICT STATEMENTS OF NET POSITION December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 449,974	\$ 563,709
Accounts receivable		
Customers, net of allowance	244,028	264,299
Others	2,109	2,204
Prepays	11,976	8,444
Unamortized rate case expense	4,526	4,526
Total current assets	<u>712,613</u>	<u>843,182</u>
Restricted assets		
Replacement reserve	33,600	30,700
Customer deposits	87,901	72,744
Total restricted assets	<u>121,501</u>	<u>103,444</u>
Noncurrent assets		
Deferred rate case expense	6,789	11,315
Total noncurrent assets	<u>6,789</u>	<u>11,315</u>
Capital assets		
Construction in progress	143,660	92,660
Land, building, transmission system, equipment, and vehicles	9,100,466	9,013,536
Less: accumulated depreciation	<u>(3,160,266)</u>	<u>(2,969,082)</u>
Total capital assets, net of depreciation	<u>6,083,860</u>	<u>6,137,114</u>
Total assets	<u>6,924,763</u>	<u>7,095,055</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, 2022 and 2021
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	<u>2022</u>	<u>2021</u>
Liabilities		
Current liabilities		
Accounts payable - trade	41,266	42,726
Accrued liabilities	1,338	1,342
Total current liabilities	<u>42,604</u>	<u>44,068</u>
Current liabilities payable from restricted assets		
Note payable - current portion	55,124	53,506
Capital lease - current portion	18,597	111,655
Customer deposits	42,922	44,370
Accrued interest payable	1,883	2,216
Trash collection	10,997	10,959
Total current liabilities payable from restricted assets	<u>129,523</u>	<u>222,706</u>
Long-term obligations		
Note payable - KIA	684,740	739,864
Capital lease	-	18,606
Total long-term obligations	<u>684,740</u>	<u>758,470</u>
Total liabilities	<u>856,867</u>	<u>1,025,244</u>
Net position		
Invested in capital assets, net of related debt	5,325,399	5,213,483
Restricted	31,717	28,484
Unrestricted	710,780	827,844
Total net position	<u>\$ 6,067,896</u>	<u>\$ 6,069,811</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, 2022 and 2021
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	<u>2022</u>	<u>2021</u>
Operating revenues		
User fee revenue	\$ 781,328	\$ 791,399
Other service revenues	15,292	14,747
Total operating revenues	<u>796,620</u>	<u>806,146</u>
Operating expenses		
Operations and maintenance expense	566,234	524,336
Depreciation & amortization	215,626	208,881
Total operating expenses	<u>781,860</u>	<u>733,217</u>
Operating income	<u>14,760</u>	<u>72,929</u>
Non-operating income (expense)		
Investment income	1,125	1,636
Gain on disposal	2,554	-
Interest on long-term obligations	(25,320)	(30,021)
Interest on customer deposits	(34)	(45)
Net non-operating expense	<u>(21,675)</u>	<u>(28,430)</u>
Net income (loss)	(6,915)	44,499
Capital contributions	<u>5,000</u>	<u>18,000</u>
Change in net position	(1,915)	62,499
Net position, January 1	<u>6,069,811</u>	<u>6,007,312</u>
Net position, December 31	<u>\$ 6,067,896</u>	<u>\$ 6,069,811</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, 2022 and 2021
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	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Received from customers	\$ 821,512	\$ 797,489
Paid to suppliers for goods and services	(569,852)	(520,054)
Paid to or on behalf of employees for services	(5,904)	(5,904)
Net change in cash from operating activities	<u>245,756</u>	<u>271,531</u>
Cash flows from investing activities		
Acquisition and construction of capital assets	(157,846)	(49,189)
Gain on sale of capital assets	2,554	-
Purchase of investments	-	133,943
Interest on investments	1,125	2,188
Net change in cash from investing activities	<u>(154,167)</u>	<u>86,942</u>
Cash flows from capital and related financing activities		
Principal paid on long term debt	(165,170)	(160,479)
Interest paid on long term debt	(25,688)	(30,391)
Contributed capital received	5,000	18,000
Increase (decrease) in restricted cash	(18,056)	12,077
Decrease in customer deposits	(1,448)	(6,129)
Increase in other restricted liabilities	38	3,720
Net change in cash from capital and related financing activities	<u>(205,324)</u>	<u>(163,202)</u>
Change in cash and cash equivalents	(113,735)	195,271
Beginning cash and cash equivalents	563,709	368,438
Ending cash and cash equivalents	<u>\$ 449,974</u>	<u>\$ 563,709</u>
Reconciliation of operating income to net cash provided by (used for) operating activities		
Operating income	\$ 14,760	\$ 72,929
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	211,100	204,355
Change in operating assets and liabilities		
Increase (decrease) in receivables	24,892	(8,657)
Increase in prepaid assets	(3,532)	(1,589)
Increase (decrease) in accounts payable	(1,460)	4,497
Decrease in other accrued liabilities	(4)	(4)
Net cash provided by operating activities	<u>\$ 245,756</u>	<u>\$ 271,531</u>
Supplemental information		
Interest expensed	<u>\$ 25,354</u>	<u>\$ 30,066</u>

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

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

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, 2022 and 2021

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, 2022 and 2021.

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 2022 and 2021 these contributions consisted of the following:

<u>Source</u>	<u>2022</u>	<u>2021</u>
Tap in fees paid by new customers	\$ 5,000	\$ 18,000
Totals	<u>\$ 5,000</u>	<u>\$ 18,000</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, 2022 and 2021

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, 2022 and 2021, the balances were \$571,475 and \$667,153, 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, 2022. 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	\$ 449,974	\$ -	\$ -	\$ 449,974	\$ 449,974
Replacement reserve	33,600	-	-	33,600	33,600
Customer deposits	87,901	-	-	87,901	87,901
Total	<u>\$ 571,475</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 571,475</u>	<u>\$ 571,475</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, 2022 and 2021

Included in restricted net position at December 31,

	2022	2021
Replacement reserve	\$ 33,600	\$ 30,700
Accrued interest on long term debt	(1,883)	(2,216)
Total Restricted Net Position	<u>\$ 31,717</u>	<u>\$ 28,484</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, 2022 and 2021 are as follows:

Asset Type	Balance at December 31, 2021	Additions	Retirements	Balance at December 31, 2022
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Construction in progress	92,660	51,000	-	143,660
Equipment	350,887	19,940	-	370,827
Mains	4,974,673	-	-	4,974,673
Pump stations	2,335,301	28,036	-	2,363,337
Structures and improvements	1,281,582	-	-	1,281,582
Transportation equipment	46,093	58,870	(19,916)	85,047
Subtotal	9,106,196	157,846	(19,916)	9,244,126
Accumulated depreciation	(2,969,082)	(211,100)	19,916	(3,160,266)
Capital assets, net	<u>\$ 6,137,114</u>	<u>\$ (53,254)</u>	<u>\$ -</u>	<u>\$ 6,083,860</u>

GRANT COUNTY SANITARY SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

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:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2023	2.800%	\$ 18,597	\$ 388	\$ 18,985
Totals		\$ 18,597	\$ 388	\$ 18,985

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:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
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	3.00%	11,756	2,196	13,952
2027	3.00%	12,112	1,840	13,952
2028-2031	3.00%	52,220	3,585	55,805
Totals		\$ 109,329	\$ 16,236	\$ 125,565

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, 2022 and 2021

The remaining debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
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	3.00%	48,518	14,440	62,958
2027	3.00%	49,985	12,973	62,958
2028-2032	3.00%	273,519	41,270	314,789
2033-2034	3.00%	121,333	4,581	125,914
Totals		<u>\$ 630,535</u>	<u>\$ 124,958</u>	<u>\$ 755,493</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 \$192,550 and \$185,030 in 2022 and 2021, 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. 87 – Leases – FY 2022

Statement No. 92 – Omnibus 2020 – FY 2022

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 9 – FUTURE ACCOUNTING STANDARDS

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

Statement No. 99 – *Omnibus 2022* – FY 2023

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated events through May 25, 2023, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2022 through May 25, 2023.

GRANT COUNTY SANITARY SEWER DISTRICT SCHEDULES OF OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES For the Years Ending December 31, 2022 and 2021
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	<u>2022</u>	<u>2021</u>
Operations, maintenance and administrative expenses		
Salaries and wages - commissioners	\$ 5,900	\$ 5,900
Advertising	278	440
Bad debt expense	10,652	12,582
Chemicals	23,772	18,863
Contractual services - accounting	32,245	28,822
Contractual services - engineering	16,830	6,165
Contractual services - legal	14,186	10,531
Contractual services - management	192,550	185,030
Contractual services - sample analysis	22,426	22,311
Insurance - general liability	6,789	7,625
Insurance - vehicle	3,817	3,475
Insurance - property	3,950	3,571
Insurance - other	(475)	767
Materials and supplies	129,742	129,766
Payroll taxes	451	451
Purchased power	89,202	79,512
Rental of equipment	242	364
Transportation	12,473	6,527
Utility regulatory assessment	1,204	1,634
Total operations, maintenance and administrative expenses	<u>\$ 566,234</u>	<u>\$ 524,336</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
Crittenden, Kentucky**

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, 2022 and 2021, 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 25, 2023.

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. We did not identify any deficiencies in internal control that we consider significant deficiencies.

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 25, 2023