
GRAVES COUNTY WATER DISTRICT

AUDIT REPORT

For the Year Ended
December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Graves County Water District
Mayfield, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Graves County Water District, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Graves County Water 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 the financial reporting provisions of the Public Service Commission. Management is also responsible 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the Graves County Water District has prepared these financial statements using accounting practices prescribed or permitted by the Public Service Commission, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matters discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the

To the Board of Commissioners
Graves County Water District
Mayfield, Kentucky

Adverse Opinion on U.S. Generally Accepted Accounting Principles-Continued

financial position of the Graves County Water District as of December 31, 2019, the changes in its financial position, or its cash flows for the year then ended. Further, the District has not presented the required supplementary management's discussion and analysis that accounting principles generally accepted in the United States and regulatory agreement has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and net assets of the Graves County Water District as of December 31, 2019, the revenues it earned and expenses it incurred, and its cash flows for the year then ended on the basis of accounting described in Note 1.

Other Matters

Required Supplementary Information

The Graves County Water District has not presented Management's Discussion and Analysis (MD&A) that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Graves County Water District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements 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 combining fund financial statements 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 the *Government Auditing Standards*, we have also issued our report dated March 25, 2020 on our consideration of the Graves County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and 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 the 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 Graves County Water District, Mayfield, Kentucky internal control over financial reporting and compliance.

Romaine & Associates, PLLC

Mayfield, Kentucky
March 25, 2020

GRAVES COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2019

CURRENT ASSETS	
Cash and cash equivalents	\$ 39,944
Customer accounts receivable	201,509
Prepaid Insurance	8,218
Total current assets	249,671
 NONCURRENT ASSETS	
Restricted cash	193,894
 CAPITAL ASSETS	
Depreciable capital assets:	
Utility plant in service, at cost	19,172,599
Less accumulated provision for depreciation computed by the straight-line method	(11,222,905)
Total capital assets	7,949,694
TOTAL NONCURRENT ASSETS	8,143,588
Total assets	\$ 8,393,259
 CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 108,623
Customer deposits	159,174
Land condemnation escrow	5,478
Current portion of long-term debt	322,906
Total current liabilities	596,181
 LONG-TERM LIABILITIES	
Long-term debt, less current portion	1,040,223
Total long-term liabilities	1,040,223
TOTAL LIABILITIES	1,636,404
 NET POSITION	
Invested in capital assets, net of related debt	5,952,530
Restricted for maintenance and replacement reserve	193,894
Unrestricted	610,431
Total net position	6,756,855
TOTAL LIABILITIES AND NET POSITION	\$ 8,393,259

**GRAVES COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019**

OPERATING REVENUE

Charge for services	\$	1,848,072
Other income		27,996
Total operating income		1,876,068

OPERATING EXPENSE

Advertising		3,673
Commissioners salaries		25,200
Purchased power		110,904
Purchased water		321,680
Chemicals		81,779
Materials & supplies		98,395
Rental equipment		36,225
Contractual services		1,000,042
Insurance		21,886
Miscellaneous		24,982
Bad debt		8,403
Depreciation and amortization		353,331
Tax & license		6,298
Total operating expenses		2,092,798

Operating income (loss) (216,730)

NONOPERATING REVENUES (EXPENSES)

Interest income		1,092
Interest expense		(24,572)
Grant proceeds		108,546
Nonutility income		500
Nonutility expense		(4,124)
Total nonoperating revenues (expenses)		81,442

Net Income (135,288)

NET POSITION

Beginning of year		6,892,143
End of year	\$	6,756,855

**GRAVES COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$	1,815,788
Cash payments to suppliers for goods and services		(1,721,661)
Customer deposits received		6,004
Net cash provided by operating activities		100,131

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal payments		(145,281)
Interest paid		(22,736)
Interest paid on customer deposits		(1,836)
Proceeds from debt		140,000
Utility plant additions and improvements		(150,789)
Net cash provided by (used for) capital and related financing activities		(72,096)

CASH FLOWS FROM INVESTING ACTIVITIES

Other nonutility expense		(3,624)
Interest income		1,092
Net cash provided by (used for) investing activities		(2,532)

Net decrease in cash and cash equivalents		25,503
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CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR

208,335

CASH AND CASH EQUIVALENTS - END OF THE YEAR

233,838

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income (loss)		(216,730)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization		353,333
Changes in assets and liabilities:		
Accounts receivable		(60,280)
Prepaid insurance		6,505
Accounts payable and accrued expenses		11,299
Customer deposits		6,004
Net cash provided by operating activities	\$	100,131

Supplemental Information

Interest Paid	\$	24,572
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GRAVES COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

Note 1. Description of Entity & Significant Accounting Policies

The Graves County Water District is engaged in providing water and sewer supply to approximately 3,179 customers who live in the Graves County, Kentucky area. The district was created in 2008 by the merger of four water districts formerly known as Consumers, Fancy Farm, South Graves and Hardeman under Chapter 14 of the Kentucky Revised Statutes. Effective January 1, 2013, the Hickory Water District was merged with the Graves County Water District. Effective May 1, 2016 Sedalia Water District was merged with the Graves County Water District.

In evaluating how to define the Graves County Water District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

Basis of Presentation and Accounting:

As stated in Kentucky Revised Statutes (KRS) 278.012, "any water association formed for the purpose of furnishing water services to the general public pursuant to KRS Chapter 273 is deemed to be and shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission". In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. This uniform system of accounts is presented on the accrual basis in accordance with practices prescribed by the Public Service Commission. In accordance with the Public Service Commission's regulations, costs associated with hook-up fees are capitalized as meters, installations and services. This practice differs from generally accepted accounting principles under which these costs and the related fees are recorded as operating expenses and revenues. Except for this regulatory difference, the Public Service Commission prescribes the use of Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. . The system has adopted and now follows GASB 62, which codified certain GASB pronouncements.

The District's has adopted GASB Statement No. 34, Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments and related standards, except as noted herein. The management of the System, as noted in the Auditor's Report, has elected to omit the Management's Discussion and Analysis.

This standard provided significant required changes in terminology; recognition of contributions in the statement of revenues, expenses and changes in net assets; inclusion of a management's discussion and analysis as supplementary information; and other changes.

The Graves County Water District is operated as a proprietary and/or enterprise fund. Proprietary Funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, 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.

GRAVES COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019

Note 1. Description of Entity & Significant Accounting Policies- (Continued)

Basis of Presentation and Accounting: (Continued)

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 statements of net assets regulatory basis. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted, constraints imposed by creditors/grantors/laws/or contributions; and unrestricted components, all other. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, unrestricted resources are used first.

Revenues and Expenses:

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities.

Property and Equipment:

Property and equipment purchased or constructed are stated at cost. The cost of meters, including installation, is capitalized. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Expenses for maintenance and repairs that do not increase the useful life of the asset are charged to operations as they are incurred. The District does not have a particular dollar amount threshold for capitalization purposes.

Income Taxes:

The Graves County Water District is not subject to income taxes.

Contributed Capital:

The District has adopted Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement requires governments to recognize capital contributions to proprietary funds as revenues, instead of contributed capital.

Prior to implementation of GASB No. 33, the fair market value of donated property received by the District, impact fees, tap on fees and grants which were restricted for the acquisition or construction of capital assets, were recorded as contributed capital.

Statement of Cash Flows:

For purposes of reporting cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Reclassifications:

For clarification purposes, reclassifications have been made to certain previously reported amounts.

Net Position:

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

GRAVES COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019

Note 1. Description of Entity & Significant Accounting Policies- (Continued)

Net Position:-(continued)

Invested in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributed to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position- This component of net position consists of net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Deferred Outflows and Inflows of Resources:

Pursuant to GASB Statement Number 63 and GASB Statement Number 65, the water district recognizes deferred outflows and inflows or resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future period.

Note 2. Cash

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

Graves County Water District’s policies regarding deposits of cash are discussed above. The table presented below is designed to disclose the level of custody credit risk assumed by the District based upon how its deposits were insured or secured with collateral at December 31, 2019. The categories of credit risk are defined as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the District (public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution’s trust department or agent in the District’s name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the Pledging financial institution, or by its trust department or agent, but not in the District’s name; or collateralized with no written or approved collateral agreement.

GRAVES COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019

Note 2. Cash – (Continued)

December 31, 2019

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Custody Credit Risk Category</u>		
		<u>1</u>	<u>2</u>	<u>3</u>
Demand Deposits-FNB	\$ 341,750	\$ 341,750	\$ -	\$ -
Time Deposits-FNB	\$ -	\$ -	\$ -	\$ -

Custodial Credit Risk – Deposits

Custodial credit risk in the event of a depository institution failure, the entity’s deposits may not be returned. The Graves County Water District does not have a depository policy for custodial credit risk. As of December 31, 2019, public funds were not exposed to custodial credit risk.

Note 3. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 4. Grants/Loans

In the normal course of operations, the District receives grant/loan funds from various Federal and/or State agencies. The grant/loan programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting/loaning of funds. Any liability for reimbursement which may arise as the result of an audit is not believed to be material.

Note 5. Customer Accounts Receivable

The District provides an allowance for doubtful collections that is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Normal billing receivables are due 15 days after billing. Receivables past due are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. No provision for doubtful accounts has been made at December 31, 2019, as management considers all amounts fully collectible.

GRAVES COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019

Note 6. Maintenance and Replacement Reserve

In accordance with both loan agreements with the Kentucky Infrastructure Authority, a maintenance and replacement reserve account are required to receive an amount equal to 10% of the amount of loan payments until the amount in such account is equal to 5% of the original principal amount of the loans. The Fancy Farm Interconnect reserve was based on \$500,000 at 5%. Water Loss Reduction was placed into service during the 2019 fiscal year to help alleviate the expense for water loss throughout the water district. The Hickory Debt Reduction was placed into service to help reduce the debt incurred previously by the Hickory Water District that was merged with the Graves County Water District. The Customer Deposit account is maintained in relation to the liability incurred by the Graves County Water District when customers make a deposit with the water district when the customer opens an account.

Restricted cash consists of the following:

<u>Original Balance of Note</u>	<u>Total Reserve</u>	<u>Current Reserve</u>
South Graves Water District B07-03		
\$849,154	\$ 42,458	\$ 42,458
Fancy Farm Water District B05-04		
\$596,776	29,839	29,839
Hickory Water District B96-04		
\$528,000	26,400	26,400
Fancy Farm Interconnect B11-02		
\$780,000	25,000	15,000
Water Loss Reduction		23,897
Hickory Debt Reduction		2,217
Customer Deposit		54,083
<u>Original Balance of Reserve for all notes</u>	<u>\$ 123,697</u>	<u>\$ 193,894</u>

Note 7. Budget

The budget for the proprietary fund operation is prepared on the cash and expenditures basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the applicable expenditure is expected to be made. Budgeted appropriations lapse at year-end.

GRAVES COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019

Note 8. Capital Assets

A summary of the Graves County Water District's change in capital assets during 2019 is as follows:

<u>Water System</u>				
<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Organization	\$ 85,680	\$ -	\$ -	\$ 85,680
Franchises	7,921			7,921
Land & Land Rights	50,186			50,186
Structures & Improvements	1,615,983			1,615,983
Collecting & Impounding Res	54,620			54,620
Lake, River Other Intakes	88,226			88,226
Wells and Springs	548,725	8,439		557,164
Power Generation Equipment	17,141			17,141
Pumping Equipment	282,585	3,981		286,566
Water Treatment Equipment	524,116			524,116
Distribution Reservoirs	2,486,254			2,486,254
Transmission and Distribution Mains	8,416,970	106,870		8,523,840
Services	319,701			319,701
Meters	2,501,413	9,510		2,510,923
Hydrants	127,104			127,104
Plant and Misc Equipment	49,622	14,816		64,438
Furniture and Equipment	72,116			72,116
Transportation Stores Equipment	10,750			10,750
Tools, Shop & Garage Equipment	2,158			2,158
Power Operated Equipment	31,209			31,209
Miscellaneous	6,456			6,456
Other Tangible	4,000			4,000
Total at Historical Cost	<u>17,302,936</u>	<u>143,616</u>	<u>-</u>	<u>17,446,552</u>
Less: Accumulated Depreciation				
Total Accumulated Depreciation	<u>(9,514,532)</u>	<u>(329,099)</u>	<u>-</u>	<u>(9,843,631)</u>
Capital Assets, Net	<u>\$ 7,788,404</u>	<u>\$ (185,483)</u>	<u>\$ -</u>	<u>\$ 7,602,921</u>

GRAVES COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019

Note 8. Capital Assets- (Continued)

Sewer System

Land & Land Rights	\$	11,319		\$	11,319
Structures & Improvements		456,992	2,285		459,277
Collection System-Force		626,832			626,832
Collection System-Gravity		55,473			55,473
Other Collection Plant Facilities		41,741			41,741
Services		2,104			2,104
Receiving Wells & Pump		330,535			330,535
Pumping Equipment		41,998	4,888		46,886
Other Pumping Equipment		19,420			19,420
Oxidation Lagoon		105,651			105,651
Plant Sewer		22,186			22,186
Tools, Shop & Garage Equipment		2,362			2,362
Communication Equipment		450			450
Miscellaneous		1,811			1,811
Total at Historical Cost		<u>1,718,874</u>	<u>7,173</u>	<u>-</u>	<u>1,726,047</u>
Less: Accumulated Depreciation					
Total Accumulated Depreciation		<u>(1,355,040)</u>	<u>(24,234)</u>		<u>(1,379,274)</u>
Capital Assets, Net	\$	<u>363,834</u>	\$ (17,061)	\$ -	\$ <u>346,773</u>

Note 9. Long Term Debt

KIA B05-04

Graves County Water District assumed a note between Fancy Farm Water District and the Kentucky Infrastructure Authority the original amount of this note was \$596,776 the amount assumed was \$525,271. Principal and interest payments are due semi-annually for 20 years. The note bears interest of .48%. During the year 2014, both interest and principal payments were made in accordance with the note agreement. As of December 31, 2019, the balance was \$133,457.

Future principal and interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total Payment</u>
2020	\$ 20,262	\$ 873	\$ 21,135
2021	20,359	735	21,094
2022	20,457	597	21,054
2023	20,556	457	21,013
2024	20,654	317	20,971
2025-2026	31,169	212	31,381
Total	<u>\$ 133,457</u>	<u>\$ 3,191</u>	<u>\$ 136,648</u>

**GRAVES COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2019**

Note 9. Long-Term Debt - (Continued)

KIA B07-03

Note payable to Kentucky Infrastructure Authority bearing interest of .40%. Principal and interest are payable semi-annually on the note. This note was assumed by the Water district on behalf of South Graves Water District in the amount of \$849,154. As of December 31, 2019, the balance was \$356,651.

Future principal and interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total Payment</u>
2020	\$ 50,341	\$ 2,064	\$ 52,405
2021	50,543	1,762	52,305
2022	50,745	1,459	52,204
2023	50,949	1,154	52,103
2024	51,153	848	52,001
2025-2026	102,920	773	103,693
Total	<u>\$ 356,651</u>	<u>\$ 8,060</u>	<u>\$ 364,711</u>

KIA B96-04

Note payable to Kentucky Infrastructure Authority bearing interest of 1.80%. Principal and interest are payable semi-annually on the note. This note was assumed by the Water district on behalf of Hickory Water District in the amount of \$528,000. As of December 31, 2019, the balance was \$46,492.

Future principal and interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total Payment</u>
2020	\$ 30,855	\$ 776	\$ 31,631
2021	15,637	156	15,793
	<u>\$ 46,492</u>	<u>\$ 932</u>	<u>\$ 47,424</u>

Graves County Fiscal Court

The Sedalia County Water District merged with the Graves County Water District during the fiscal year 2016. The Sedalia Water District had a loan with the Graves County Fiscal Court in the amount of \$3,344. The Graves County Fiscal Court balance as of December 31, 2019 is \$3,344.

GRAVES COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019

Note 9. Long-Term Debt - (Continued)

KIA B11-02

Note payable to Kentucky Infrastructure Authority for \$1,000,000 bearing interest of 2% for twenty years. The Note is to fund the Fancy Farm Area Interconnect and the Automated Meter Upgrades. Payments are calculated on 20-year semi-annual payments bearing 2% interest. The following is the final amortization. An annual reserve amount of \$2,500 will be required with a maximum reserve of \$25,000. As of December 31, 2019, the balance was \$577,646.

Future principal and interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total Payment</u>
2020	\$ 36,138	\$ 12,510	\$ 48,648
2021	36,864	11,711	48,575
2022	37,605	10,896	48,501
2023	38,361	10,065	48,426
2024	39,132	9,217	48,349
2025-2029	207,779	32,753	240,532
2030-2033	181,767	9,102	190,869
	<u>\$ 577,646</u>	<u>\$ 96,254</u>	<u>\$ 673,900</u>

FNB BANK

Note payable to FNB Bank for \$100,000 bearing interest of 3% for ten years. The Note was used to fund the replacement of water mains in the Fancy Farm Area. Principal and interest are due semi-annually, for a total of twenty payments. As of December 31, 2019, the balance was \$73,089.

Future principal and interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Payment</u>
2020	\$ 10,469	\$ 1,205	\$ 11,674
2021	9,844	1,830	11,674
2022	10,145	1,529	11,674
2023	10,456	1,218	11,674
2024	10,774	900	11,674
2025-2026	21,401	794	22,195
	<u>\$ 73,089</u>	<u>\$ 7,476</u>	<u>\$ 80,565</u>

CFSB BANK

Line of Credit payable to CFSB Bank for \$200,000 bearing interest of no less than 3.49% or more than 19.00% for two years, maturing December 10, 2020. The Line of Credit is used to fund the operations of the district. Interest is due monthly and principal is due at maturity. As of December 31, 2019, the balance was \$172,450.

GRAVES COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019

Note 10. Changes in Long-Term Debt

Changes in Long- Term Debt consist of the following:

Description	Beginning Balance	Additions	Deletions	Ending Balance	Payable Within One Year
N/P KIA #B05-04	\$ 153,622	\$ -	\$ 20,165	\$ 133,457	\$ 20,262
N/P KIA #B07-03	406,791	-	50,140	356,651	50,341
N/P KIA #B11-02	613,071	-	35,425	577,646	36,138
N/P KIA #96-04	76,799	-	30,308	46,491	30,855
N/P Graves County Fiscal Court	3,344	-	-	3,344	3,344
N/P FNB Loan	82,333	-	9,243	73,090	9,516
N/P CFSB	32,450	140,000	-	172,450	172,450
Totals	<u>\$ 1,368,410</u>	<u>\$ 140,000</u>	<u>\$ 145,281</u>	<u>\$ 1,363,129</u>	<u>\$ 322,906</u>

Note 11. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. The District carries commercial insurance for risk of loss. The District did not settle claims that exceeded the District's commercial insurance coverage in any of the past three years.

Note 12. Subsequent Event

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through March 25, 2020, the date financial statements were available to be issued. The District is currently applied for a rate increase to support the operations and improvements need for the District.

**GRAVES COUNTY WATER DISTRICT
COMBINED STATEMENTS OF NET POSITION
DECEMBER 31, 2019**

	Water Fund	Sewer Fund	Totals
CURRENT ASSETS			
Cash and cash equivalents	\$ 1,652	\$ 38,292	\$ 39,944
Customer accounts receivable	193,173	8,336	201,509
Interfund receivable		360,760	360,760
Prepaid insurance	7,533	685	8,218
Total current assets	<u>202,358</u>	<u>408,073</u>	<u>610,431</u>
NONCURRENT ASSETS			
Restricted cash	193,894	-	193,894
Depreciable capital assets:			
Utility plant in service, at cost	17,446,552	1,726,047	\$ 19,172,599
Less accumulated provision for depreciation computed by the straight-line method	<u>(9,843,631)</u>	<u>(1,379,274)</u>	<u>(11,222,905)</u>
Total capital assets	<u>7,602,921</u>	<u>346,773</u>	<u>7,949,694</u>
TOTAL NONCURRENT ASSETS	<u>7,796,815</u>	<u>346,773</u>	<u>8,143,588</u>
TOTAL ASSETS	<u>\$ 7,999,173</u>	<u>\$ 754,846</u>	<u>\$ 8,754,019</u>
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 105,505	\$ 3,118	\$ 108,623
Customer deposits	159,174	-	159,174
Land condemnation escrow	5,478	-	5,478
Interfund payable	360,760	-	360,760
Current portion of long-term debt	322,906	-	322,906
Total current liabilities	<u>953,823</u>	<u>3,118</u>	<u>956,941</u>
NONCURRENT LIABILITIES			
Long-term debt	1,040,223	-	1,040,223
Total noncurrent liabilities	<u>1,040,223</u>	<u>-</u>	<u>1,040,223</u>
Total liabilities	<u>1,994,046</u>	<u>3,118</u>	<u>1,997,164</u>
NET POSITION			
Investments in capital assets, net of related debt	5,608,875	343,655	5,952,530
Restricted for maintenance and replacement reserve	193,894	-	193,894
Unrestricted	<u>202,358</u>	<u>408,073</u>	<u>610,431</u>
Total net position	<u>6,005,127</u>	<u>751,728</u>	<u>6,756,855</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 7,999,173</u>	<u>\$ 754,846</u>	<u>\$ 8,754,019</u>

GRAVES COUNTY WATER DISTRICT
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019

	Water Fund	Sewer Fund	Totals
OPERATING REVENUE			
Charge for services	\$ 1,747,968	\$ 100,104	\$ 1,848,072
Other income	27,996	-	27,996
Total operating income	<u>1,775,964</u>	<u>100,104</u>	<u>1,876,068</u>
OPERATING EXPENSE			
Advertising	3,673		3,673
Commissioners salaries	23,100	2,100	25,200
Purchased power	104,267	6,637	110,904
Purchased water	321,680		321,680
Chemicals	79,378	2,401	81,779
Materials and supplies	95,815	2,580	98,395
Equipment rental	36,225		36,225
Contractual services	962,650	37,392	1,000,042
Insurance	20,062	1,824	21,886
Miscellaneous	23,252	1,730	24,982
Bad debt	8,403		8,403
Depreciation and amortization	329,097	24,234	353,331
Tax and license	5,975	323	6,298
Total operating expenses	<u>2,013,577</u>	<u>79,221</u>	<u>2,092,798</u>
Operating income (loss)	<u>(237,613)</u>	<u>20,883</u>	<u>(216,730)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	1,090	2	1,092
Interest expense	(23,155)	(1,417)	(24,572)
Grant proceeds	108,546		108,546
Misc nonutility revenue	500		500
Misc nonutility expense	(4,124)	-	(4,124)
Nonoperating revenues (expenses)	<u>82,857</u>	<u>(1,415)</u>	<u>81,442</u>
Income (loss) before capital contributions	(154,756)	19,468	(135,288)
NET POSITION			
Beginning of year	<u>6,159,883</u>	<u>732,260</u>	<u>6,892,143</u>
End of year	<u>\$ 6,005,127</u>	<u>\$ 751,728</u>	<u>\$ 6,756,855</u>

**GRAVES COUNTY WATER DISTRICT
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Water Fund	Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 1,715,719	\$ 100,069	\$ 1,815,788
Cash payments to suppliers for goods and services	(1,667,216)	(54,445)	(1,721,661)
Customer deposits received	6,004	-	6,004
Net cash provided by operating activities	54,507	45,624	100,131
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Interfund Transfers	360,760	(360,760)	-
Net cash provided by (used for) noncapital financing activities	360,760	(360,760)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments	(145,281)	-	(145,281)
Interest paid	(21,319)	(1,417)	(22,736)
Interest paid on customer deposits	(1,836)	-	(1,836)
Proceeds from debt	140,000	-	140,000
Grant proceeds	108,546	-	108,546
Utility plant additions and improvements	(143,616)	(7,173)	(150,789)
Net cash provided by (used for) capital and related financing activities	(63,506)	(8,590)	(72,096)
CASH FLOWS FROM INVESTING ACTIVITIES			
Other nonutility	(3,624)	-	(3,624)
Interest income	1,090	2	1,092
Net cash provided by (used for) investing activities	(2,534)	2	(2,532)
Net decrease in cash and cash equivalents	349,227	(323,724)	25,503
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR (Restated)	(153,681)	362,016	208,335
CASH AND CASH EQUIVALENTS - END OF THE YEAR	\$ 195,546	\$ 38,292	\$ 233,838
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (237,613)	\$ 20,883	\$ (216,730)
Adjustments to reconcile operating income (loss) to cash provided by operating activities:			
Depreciation and amortization	329,099	24,234	353,333
Changes in assets and liabilities:			
Accounts receivable	(60,245)	(35)	(60,280)
Prepaid insurance	5,963	542	6,505
Accounts payable and accrued expenses	11,299	-	11,299
Customer deposits	6,004	-	6,004
Net cash provided by operating activities	\$ 54,507	\$ 45,624	\$ 100,131
Supplemental Information			
Interest Paid	\$ 23,155	\$ 1,417	\$ 24,572



**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
Graves County Water District
Mayfield, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Graves County Water District, for the year ended December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated March 25, 2020. The Graves County Water District financial statements are prepared on a prescribed basis of accounting that demonstrates compliance with the regulatory basis of accounting prescribed by the Public Service Commission.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Graves County Water 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Graves County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Graves County Water District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Graves County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Commissioners
Graves County Water District

Purpose of This Report

This 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.

Romaine & Associates, PLLC

Mayfield, Kentucky
March 25, 2020