

**CITY OF GRAYSON UTILITY COMMISSION,
GRAYSON KENTUCKY**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
City of Grayson Utility Commission
Grayson, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the City of Grayson Utility Commission, Grayson Kentucky (the "Commission"), a component unit of the City of Grayson, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Commission'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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the City of Grayson Utility Commission, Grayson, Kentucky as of June 30, 2017, and the changes in its financial position and its cash flows for the year 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 information on pages 4 through 6 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2018, on our consideration of the City of Grayson Utility Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Kelley Dalloway Smith Goolsby, PC

Ashland, Kentucky
January 25, 2018

**CITY OF GRAYSON UTILITY COMMISSION, GRAYSON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

The discussion and analysis of City of Grayson Utility Commission, Grayson, Kentucky's financial performance provides an overview of the Commission's financial activities for the fiscal year ended June 30, 2017. This information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The Commission's net position decreased by \$352,507.
- The Commission's non-operating revenues (expenses) increased by \$11,137, due primarily to a decrease in interest expense, partially offset by a decrease in grant funding in the current year.

OVERVIEW OF FINANCIAL STATEMENTS

The Commission presents its basic financial statements using the economic resources measurement focus and accrual basis of accounting. As a Business-Type Activity, the Commission's basic financial statements include a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. Notes to the basic financial statements, required supplementary information, including this section, support these statements. All sections must be considered together to obtain a complete understanding of the financial position and results of the operations of the Commission.

Statement of Net Position. The Statement of Net Position includes all assets and liabilities of the Commission, with the difference between the two reported as net position. Assets and liabilities are reported at their book value, on an accrual basis, as of June 30, 2017. This statement also identifies major categories of restrictions on the net position of the Commission.

Statement of Revenues, Expenses, and Changes in Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred by the Commission during the year ended June 30, 2017 on an accrual basis.

Statement of Cash Flows. The Statement of Cash Flows presents the changes in the Commission's cash and cash equivalents for the year ended June 30, 2017, summarized by operating, capital and noncapital financing, and investing activities. The statement is prepared using the direct method of reporting cash flows, and, therefore, presents gross rather than net amounts for the year's activities.

Notes to Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to basic financial statements can be found on pages 10-14 of this report.

CONDENSED FINANCIAL POSITION INFORMATION

Grayson Utility Commission's Net Position

	2017	2016
Current assets	\$ 3,481,530	\$ 3,644,295
Noncurrent assets	17,597,725	18,195,658
Total assets	<u>21,079,255</u>	<u>21,839,953</u>
Current liabilities	717,293	726,701
Long-term liabilities	5,072,479	5,471,262
Total liabilities	<u>5,789,772</u>	<u>6,197,963</u>
Net position:		
Net investment in capital assets	12,139,595	12,354,513
Restricted	944,783	1,007,484
Unrestricted	2,205,105	2,279,993
Total net position	<u>\$ 15,289,483</u>	<u>\$ 15,641,990</u>

By far the largest portion of the Commission net position 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 Commission uses these capital assets to provide services to citizens and consumers; consequently, these assets are *not* available for future spending. Although the Commission'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 those liabilities.

The balance of unrestricted net position may be used to meet the Commission's ongoing obligations to citizens, customers, and creditors. The Commission's net position decreased 2.25 percent.

Grayson Utility Commission's Changes in Net Position

	<u>2017</u>	<u>2016</u>
Revenues:		
Gas	\$ 1,300,533	\$ 1,200,504
Sewer	899,163	944,781
Water	2,107,516	2,193,593
Garbage	<u>676,803</u>	<u>635,547</u>
Total revenues	<u>4,984,015</u>	<u>4,974,425</u>
Expenses:		
Gas	1,222,395	1,110,271
Sewer	1,051,479	1,064,905
Water	2,314,223	2,296,158
Garbage	<u>653,885</u>	<u>623,866</u>
Total expenses	<u>5,241,982</u>	<u>5,095,200</u>
Operating income (loss)	<u>(257,967)</u>	<u>(120,775)</u>
Non-operating revenue (expenses), net	<u>(134,639)</u>	<u>(145,776)</u>
Capital contributions	<u>40,099</u>	<u>34,650</u>
Increase (decrease) in net position	(352,507)	(231,901)
Net position, beginning	<u>15,641,990</u>	<u>15,873,891</u>
Net position, ending	<u>\$ 15,289,483</u>	<u>\$ 15,641,990</u>

FINANCIAL ANALYSIS OF THE COMMISSION'S FUNDS

The Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Proprietary funds. The Commission's proprietary fund provides the same type of information found in government-wide financial statements, but in more detail.

Enterprise fund. The Utility Enterprise is a fund that accounts for operations in a manner similar to a private business enterprise. Operations are accounted for in such a manner as to show net income or loss and the fund is intended to be entirely or predominately self supported from user charges.

Operating revenues decreased 0.2 percent due primarily to an increase in gas prices, partially offset by a decrease in overall water consumption in the current year. Operating expenses increased by 2.9 percent due primarily to an increase in gas prices.

Capital Assets

The Commission's investment in capital assets for its business-type activities as of June 30, 2017, approximates \$17.6 million (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, machinery and equipment. The decrease in the Commission's investment in capital assets for the current year was 3.3 percent, before current depreciation.

Additional information on the Commission's capital assets can be found in Note (3) to the financial statements.

Debt Administration

At the end of the current fiscal year, the Commission had total debt outstanding of \$5,458,130. The Commission's long-term obligations outstanding as of June 30, 2017 consisted of the following:

Revenue bonds	\$ 1,976,500
Notes payable	<u>3,481,630</u>
Total	<u>\$ 5,458,130</u>

The Commission's total obligations decreased by approximately \$383,015 during the fiscal year. The decrease in obligations was from normal repayment of principal on existing outstanding debt, net of new proceeds on notes payable.

Additional information on the Commission's long-term debt can be found in Note (4) to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

In considering its budget for the fiscal year 2018, the Board of Commissioners and management had no significant factors expected to impact next year to consider.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, customers, investors, and creditors, with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. If you have any questions about this report or need any additional information, contact George Steele, Mayor, Gerald Haney, Superintendent or Dinah Gilliam, Bookkeeper at 671 S. State Highway 7, Grayson, Kentucky 41143 or phone (606) 474-6651.

CITY OF GRAYSON UTILITY COMMISSION, GRAYSON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

ASSETS

Current assets:

Unrestricted:

Cash and cash equivalents	\$ 1,786,550
Accounts receivable:	
Unbilled receivables	225,705
Customers	379,824
Interest	126
Allowance for doubtful accounts	(23,891)
Inventory for supplies	168,433
Total unrestricted current assets	<u>2,536,747</u>

Restricted assets:

Cash and cash equivalents	944,783
Total restricted current assets	<u>944,783</u>
Total current assets	<u>3,481,530</u>

Capital assets:

Nondepreciable capital assets	572,950
Depreciable capital assets	36,712,369
Accumulated depreciation	(19,687,594)
Net capital assets	<u>17,597,725</u>
Total assets	<u>21,079,255</u>

LIABILITIES

Accounts payable	75,676
Accrued wages	53,220
Other accrued liabilities	10,456
Accrued interest payable	45,313
Current portion of long-term debt	532,628
Total current liabilities	<u>717,293</u>

Customer deposits	146,977
Long-term debt, net of current portion	4,925,502
Total long-term liabilities	<u>5,072,479</u>
Total liabilities	<u>5,789,772</u>

NET POSITION

Net investment in capital assets	12,139,595
Restricted	944,783
Unrestricted	<u>2,205,105</u>
Total net position	<u>\$ 15,289,483</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF GRAYSON UTILITY COMMISSION, GRAYSON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

OPERATING REVENUES	
Gas	\$ 1,300,533
Sewer	899,163
Water	2,107,516
Garbage	676,803
Total operating revenues	<u>4,984,015</u>
OPERATING EXPENSES	
Gas:	
Gas purchases	678,647
Salaries and benefits	176,938
Contractual services	68,715
Depreciation	90,249
Materials and supplies	72,288
Other operating expenses	135,558
	<u>1,222,395</u>
Sewer:	
Salaries and benefits	298,976
Contractual services	27,464
Depreciation	339,800
Materials and supplies	76,659
Other operating expenses	308,580
	<u>1,051,479</u>
Water:	
Salaries and benefits	749,361
Contractual services	163,628
Depreciation	479,562
Materials and supplies	428,178
Other operating expenses	493,494
	<u>2,314,223</u>
Garbage:	
Contract	653,885
Total operating expenses	<u>5,241,982</u>
OPERATING LOSS	<u>(257,967)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income	3,839
Interest expense	(152,630)
Grant income	14,152
Total non-operating revenues (expenses)	<u>(134,639)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(392,606)
CAPITAL CONTRIBUTIONS	<u>40,099</u>
DECREASE IN NET POSITION	(352,507)
NET POSITION, JUNE 30, 2016	<u>15,641,990</u>
NET POSITION, JUNE 30, 2017	<u><u>\$ 15,289,483</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF GRAYSON UTILITY COMMISSION, GRAYSON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 5,000,473
Cash payments to suppliers for goods and services	(3,125,983)
Cash payments to employees	(1,220,739)
Net cash provided by operating activities	<u>653,751</u>

**CASH FLOWS FROM CAPITAL
AND RELATED FINANCING ACTIVITIES**

Acquisition and construction of capital assets	(311,678)
Proceeds from issuance of debt	141,549
Principal paid on long-term debt	(524,564)
Interest paid on long-term debt	(155,566)
Capital contributions	40,099
Capital grants received	14,152
Net cash used for capital and related financing activities	<u>(796,008)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	3,839
Net cash provided by investing activities	<u>3,839</u>

Net decrease in cash and cash equivalents	(138,418)
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Cash and cash equivalents, June 30, 2016	<u>2,869,751</u>
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Cash and cash equivalents, June 30, 2017	<u><u>\$ 2,731,333</u></u>
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**RECONCILIATION OF OPERATING LOSS
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating loss	\$ (257,967)
Adjustments:	
Depreciation	909,611
Changes in assets and liabilities:	
Decrease in accounts receivable	16,458
Decrease in inventory	7,889
Decrease in accounts payable	(26,776)
Increase in accrued wages	1,803
Increase in other accrued liabilities	702
Increase in customer deposits	2,031
Net cash provided by operating activities	<u><u>\$ 653,751</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF GRAYSON UTILITY COMMISSION, GRAYSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

This summary of significant accounting policies of the City of Grayson Utility Commission, Grayson, Kentucky (the "Commission"), a component unit of the City of Grayson, Kentucky is presented to assist in understanding the Commission's financial statements. The financial statements and notes are representations of the Commission's management, who are responsible for their integrity and objectivity. These accounting policies, as applied to the aforementioned financial statements, conform to generally accepted accounting principles applicable to governmental units.

Basis of Presentation

The account classification structures used by the Commission conform to accounting principles generally accepted in the United States of America consistent with governmental enterprise fund accounting. The accounting records of the Commission are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid.

Organization and Activity

The City of Grayson Utility Commission provides water, sewer, gas, and garbage services to residents and businesses of the City and areas surrounding the City, the operations of which are financed by user charges.

The Commission was established in November 2000, by the City Council of the City of Grayson, Kentucky, for the purpose of managing and directing the various utility operations of the City. The Commission is composed of five members: the Mayor of the City of Grayson, Kentucky and four public members. The Commission has the full power and authority to appoint and remove all employees of the Grayson utilities and to fix and allow compensation of employees. The Commission also has the power and authority to purchase all supplies, initiate repairs and maintenance and choose depositories for funds. The power and authority to change utility rates and initiate permanent/capital improvements remains with the City Council of the City of Grayson, Kentucky. The Commission is to make recommendations for rate changes and capital projects.

Basis of Accounting

The operations of the Commission are financed and operated in a manner similar to business enterprises, and the goal of this governmental entity is to recover costs of providing goods and services, or possibly even to earn a profit. Accounting for these activities is similar to accounting for business enterprises.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Commission is charges to customers for sales and services. The Commission also recognizes as operating revenue tap fees intended to recover the costs of connecting new customers to the utility system. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Encumbrances

The Commission does not use a system of encumbrances in their accounting and reporting methods.

Receivables

The Utility Commission employee's read meters to measure customer consumption of gas, sewer and water in the middle of the month. Estimates for unbilled receivables were based on consumption for the meter reading period immediately following the year end. This usage was prorated for the number of days within the fiscal year and multiplied by the appropriate rates. The allowance for doubtful accounts is estimated using accounts receivable past due more than 60 days.

Inventory of Supplies

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventory of the Utility Commission consists of materials and supplies.

Investments

Investments are stated at cost, which approximates market.

Property, Plant and Equipment

Fixed assets consist of property, treatment plants, buildings and equipment used by the Utility Commission and are stated at cost. Major additions and improvements are capitalized; including extensions to water, sewer and gas lines, sometimes referred to as infrastructure, while items which do not extend the useful lives of the assets are expensed.

Depreciation has been provided using the straight-line method at rates based on estimated useful lives set forth below.

<u>Category</u>	<u>Life in years</u>
Gas System	22
Water and Sewer Systems	40 to 50
Vehicles and equipment	3 to 10

Depreciation expense charged to operations during the year ended June 30, 2017 was \$909,611.

Interest Expense

Interest expense incurred during the construction of financed projects is capitalized during the construction period. Interest expense on notes and bonds payable in subsequent years is expensed currently. Current year interest expense was \$152,630 and none was capitalized.

Cash and Cash Equivalents

For the purpose of these financial statements, cash and cash equivalents consist of unrestricted and restricted cash and cash equivalents.

Compensated Absences

The Commission's compensated absence policy states upon retirement, accumulated sick time will be paid at a rate of 50 percent of the employee's current base pay. Accumulated sick time in excess of 800 hours will be paid annually at a rate of 75 percent. Unused vacation time at December 31 will not carry over to the new calendar year. Any employee who terminates in good standing will be paid for the unused portion of vacation time that has been earned. Compensated absences included in accrued wages for the year ending June 30, 2017 was \$31,641.

Retirement Plan

The City of Grayson adopted a 457(b) retirement plan for its employees, which includes the newly created Utility Commission employees as of July 1, 1999. Participation in the plan is on a voluntary basis with eligibility starting after one year of full time employment. The City has no contract with the administrator of the plan specifying the time period for the vesting of matching funds; therefore, by default, upon participation all plan benefits are fully vested. The Commission contributes three percent of the employees' eligible salary, and the employees are required to match the three percent. Additional employee contributions are permissible up to ten percent of eligible salaries. A third party administrator maintains the plan assets and calculates benefits due. The Commission's contributions to the plan for the year ending June 30, 2017 were \$32,132.

Debt Issuance Costs

Debt issuance costs are expensed in the period they are incurred.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(2) RESTRICTED ASSETS

Sinking and Debt Service Reserve Funds for Bond and Note Retirement

"Bond and Note Sinking Funds" and "Debt Service Reserve Funds" are being maintained as required by various bond and note documents. Deposits into Bond and Note Sinking Funds are made monthly in order to accumulate funds for payment of bond and note principal and interest. A Debt Service Reserve Fund is required for the purpose of having monies available in order to prevent a default in the payment of the principal or interest. A Debt Service Replacement Reserve Fund in the amount of \$491,000 is being invested in various federally insured banks (See Note 5). In addition, sinking funds are maintained on Rural Development bonds in the amount of \$309,783 as required.

Reserve for Depreciation

The "Depreciation Fund" is being maintained as required by various bond and loan documents. These funds are required to be deposited into separate accounts for the purpose of maintaining the water, sewer and gas systems. The amount deposited in these accounts was \$144,000 at June 30, 2017.

(3) CAPITAL ASSETS

Capital assets consist of the following:

	Balance June 30, 2016	Additions	Deletions/ Transfers	Balance June 30, 2017
Land	\$ 572,950	\$ -	\$ -	\$ 572,950
Construction in progress	555,956	222,928	(778,884)	-
Cooks Wastewater Plant	2,023,385	-	-	2,023,385
General Equipment and Automobiles	4,661,653	18,000	-	4,679,653
Water System	15,682,716	13,000	-	15,695,716
Gas System	3,610,233	57,750	-	3,667,983
Sewer System	9,866,748	-	778,884	10,645,632
	36,973,641	311,678	-	37,285,319
Less: Accumulated Depreciation	18,777,983	909,611	-	19,687,594
Total	<u>\$ 18,195,658</u>	<u>\$ (597,933)</u>	<u>\$ -</u>	<u>\$ 17,597,725</u>

(4) DEBT

Notes payable at June 30, 2017 consisted of the following:

Kentucky Infrastructure Authority, payable in semi-annual installments of \$30,156, including interest of 1.7%, final payment due December 2025, collateralized by all the assets of the Commission's water system.	\$ 475,462
Kentucky Area Development District, payable in varying semi-annual installments, with interest at 2.5% to 5.4%, final payment due October 20, 2022, collateralized by the new utility building and water tower.	155,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program Series 2013C, payable in varying semi-annual installments, with interest at 4.03% to 4.28%, final payment due January 1, 2020, collateralized by all the assets of the Commission's water system.	102,500
Kentucky Infrastructure Authority, payable in semi-annual installments estimated at \$101,855, including interest of 1.8%, final payment due December 2022, collateralized by all the assets of the Commission's water system.	1,463,037
Kentucky Infrastructure Authority, payable in semi-annual Installments estimated at \$20,384, including interest of 1.0%, final payment due December 2036, collateralized by a pledge of utility revenues.	690,501
Kentucky Infrastructure Authority, payable in semi-annual installments of \$101,942, including interest of 1.8%, final payment due June 1, 2020, collateralized by all the assets of the Commission's wastewater system.	<u>595,130</u>
Total Utility Fund Notes Payable	<u>\$ 3,481,630</u>

The annual requirements to amortize all Proprietary Fund Debt, excluding revenue bonds payable outstanding as of June 30, 2017, including interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 485,628	\$ 63,269	\$ 548,897
2019	492,466	53,552	546,018
2020	497,470	43,168	540,638
2021	267,011	34,163	301,174
2022	267,344	33,830	301,174
2023-2027	1,118,808	65,267	1,184,075
2028-2032	181,567	13,597	195,164
2033-2037	171,336	4,312	175,648
Totals	<u>\$ 3,481,630</u>	<u>\$ 311,158</u>	<u>\$ 3,792,788</u>

Bonds payable included in long-term debt in the accompanying financial statements includes the following:

Revenue Bonds:

\$450,000 Utilities Revenue Bonds, 1998A series, maturing through February 1, 2019, with interest at 4.5%	\$ 333,000
\$2,000,000 Utilities Revenue Bonds, 2001 series, maturing through February 1, 2042, with interest at 4.5%	<u>1,643,500</u>
Total Utility Fund Bonds Payable	<u>\$ 1,976,500</u>

Summary of Bonds And Notes Payable Transactions

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Revenue bonds	\$ 2,022,000	\$ -	\$ 45,500	\$ 1,976,500
Notes payable	3,819,145	141,549	479,064	3,481,630
	<u>\$ 5,841,145</u>	<u>\$ 141,549</u>	<u>\$ 524,564</u>	<u>\$ 5,458,130</u>

Pledge of Utility Fund Revenues

Under the terms of the Ordinance authorizing the Series 1998 and the Ordinance authorizing the Series 1998A Bonds (the "1998A Ordinance"), the Series 1998 Bonds are payable from and secured by a first lien pledge of revenues and income derived from the ownership, operation, and use of services of the Utility's system.

Compliance with Bond Ordinances

The bond ordinances contain significant limitations and restrictions on annual debt reserve requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverages. Funds held in the various reserves at June 30, 2017 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash and cash equivalents.

Sinking Fund Requirements

Sinking Fund requirements are equal to the debt service requirement. The annual requirements to amortize all bonds as of June 30, 2017, including interest payments are as follows:

Year	Principal	Interest	Total
2018	\$ 47,000	\$ 88,865	\$ 135,865
2019	48,500	86,750	135,250
2020	51,500	84,330	135,830
2021	53,000	82,013	135,013
2022	56,000	79,582	135,582
2023-2027	318,500	357,658	676,158
2028-2032	397,500	278,483	675,983
2033-2037	495,500	179,574	675,074
2038-2042	509,000	67,477	576,477
Totals	<u>\$ 1,976,500</u>	<u>\$ 1,304,732</u>	<u>\$ 3,281,232</u>

(5) CASH AND INVESTMENTS

Deposits - At June 30, 2017, the carrying amount of the Commission's deposits (including amounts in restricted asset accounts) was \$2,731,333 and the bank balances totaled \$2,843,544. The difference between the carrying amounts and the bank balances was due to items in transit. Of the bank balances, \$500,000 was covered by the Bank Insurance Fund and \$2,343,544 was collateralized with pledged securities held by the depositories in the City's name.

(6) RISK MANAGEMENT

Significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**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***

Board of Commissioners
City of Grayson Utility Commission
Grayson, 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 City of Grayson Utility Commission, Grayson, Kentucky, a component unit of the City of Grayson, Kentucky, (the "Commission") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated January 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission'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 the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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 Commission'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.

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
January 25, 2018