

**CITY OF GRAYSON
UTILITY COMMISSION**

**AUDIT OF
FINANCIAL STATEMENTS**

For The Year Ended June 30, 2019

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Statement of Net Position	3
Statement of Revenues, Expenses and Changes in Fund Net Position	5
Statement of Cash Flows	7
Notes to the Financial Statements	9
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 <i>Government Auditing Standards</i>	18

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INDEPENDENT AUDITOR'S REPORT

To the 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 City of Grayson Utility Commission (the Commission), a component unit of the City of Grayson, Kentucky, as of and for the year ended June 30, 2019, 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 auditors' 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 auditors consider 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.

To the Commissioners
City of Grayson Utility Commission
Grayson, Kentucky

Opinion

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 City of Grayson Utility Commission, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2020, 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 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 City of Grayson Utility Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Morgan and Associates, LLC

Morgan and Associates, LLC

West Liberty, Kentucky
January 27, 2020

CITY OF GRAYSON UTILITY COMMISSION
STATEMENT OF NET POSITION
June 30, 2019

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents- Unrestricted	\$ 2,014,131
Accounts Receivable:	
Unbilled Receivables	220,047
Customers	457,498
Interest	125
Allowance for Doubtful Accounts	(51,337)
Accounts Receivable - Construction	370,848
Inventory for Supplies	<u>131,298</u>

Total Current Assets 3,142,610

NONCURRENT ASSETS

Capital Assets

Land	572,950
Cooks Wastewater Plant	2,023,385
General Equipment & Automobiles	4,679,653
Water System	15,774,889
Gas System	3,682,553
Sewer System	10,693,932
Less Accumulated Depreciation	<u>(21,327,384)</u>
Net Capital Assets	16,099,978

Cash and Cash Equivalents - Restricted 978,194

Total Noncurrent Assets 17,078,172

TOTAL ASSETS 20,220,782

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

CITY OF GRAYSON UTILITY COMMISSION
STATEMENT OF NET POSITION
June 30, 2019

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accrued Interest	37,248
Accrued Salaries	57,851
Payroll Liabilities	2,293
Accounts Payable	64,124
Accounts Payable - Construction	370,848
Sales Tax Payable	6,824
Utility Tax Payable	6,386
Current Portion of Long-term Debt	557,257
Total Current Liabilities	1,102,831

LONG-TERM LIABILITIES

Long-term Debt, Net of Current Portion	3,819,045
Total Long-Term Liabilities	3,819,045

OTHER LIABILITIES

Customer Deposits	159,212
Total Other Liabilities	159,212

TOTAL LIABILITIES 5,081,088

NET POSITION

Invested in Capital Assets, Net of Related Debt	11,723,676
Restricted for:	
Debt Service	978,194
Unrestricted	2,437,824
	2,437,824

TOTAL NET POSITION 15,139,694

TOTAL LIABILITIES AND NET POSITION \$ 20,220,782

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

**CITY OF GRAYSON UTILITY COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
For The Year Ended June 30, 2019**

OPERATING REVENUES

Gas	\$ 1,533,483
Sewer	1,057,751
Water	2,359,149
Garbage	<u>732,538</u>
 Total Operating Revenues	 5,682,921

OPERATING EXPENSES

Gas:	
Gas Purchases	839,921
Salaries and Benefits	208,673
Contractual Services	67,737
Depreciation	66,322
Materials and Supplies	88,760
Other Operating Expenses	<u>126,543</u>
	1,397,956
Sewer:	
Salaries and Benefits	353,544
Contractual Services	142,596
Depreciation	278,991
Materials and Supplies	93,378
Other Operating Expenses	<u>315,308</u>
	1,183,817
Water:	
Salaries and Benefits	690,247
Contractual Services	201,368
Depreciation	446,763
Materials and Supplies	413,111
Other Operating Expenses	<u>465,052</u>
	2,216,541
Garbage:	
Contract	<u>723,963</u>
 Total Operating Expenses	 <u>5,522,277</u>
 NET OPERATING INCOME (LOSS)	 160,644

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

**CITY OF GRAYSON UTILITY COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSTION
For The Year Ended June 30, 2019**

NON OPERATING REVENUES (EXPENSES)	
Grant Proceeds	961,413
Utility Relocation Expense	(961,413)
Interest Expense	(142,630)
Interest Income	<u>8,578</u>
Total Non Operating Revenues (Expenses)	<u>(134,052)</u>
Loss Before Capital Contribution	26,592
Capital Contributions	<u>27,550</u>
Net Change in Net Position	54,142
Net Position - Beginning (Restated)	<u>15,085,552</u>
Total Net Position - Ending	<u><u>\$ 15,139,694</u></u>

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

**CITY OF GRAYSON UTILITY COMMISSION
STATEMENT OF CASH FLOWS
For The Year Ended June 30, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES

Payments from Customers	\$ 5,607,245
Payments to Vendors	(3,502,586)
Payments for Payroll and Related Expenses	<u>(1,252,464)</u>
 Net Cash Provided (Used) by Operating Activities	 852,195

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

Capital Contributions	27,550
Grants Received	961,413
Utility Relocation Expense	(961,413)
Capital Asset Additions	(45,443)
Interest Paid on Debt	(145,137)
Payments on Capital Debt	<u>(546,651)</u>
 Net Cash Provided (Used) by Capital and Related Financing Activities	 (709,681)

CASH FLOWS FROM INVESTING ACTIVITIES

Cash Received from Interest	<u>8,578</u>
 Net Cash Provided (Used) by Investing Activities	 <u>8,578</u>

INCREASE (DECREASE) IN CASH 151,092

CASH AT BEGINNING OF YEAR (RESTATED) 2,841,233

CASH AT END OF YEAR \$ 2,992,325

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

**CITY OF GRAYSON UTILITY COMMISSION
STATEMENT OF CASH FLOWS
For The Year Ended June 30, 2019**

Net Operating Income	\$ 160,644
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	792,076
Changes in Assets/Liabilities:	
Accounts Receivable	(85,806)
Accounts Receivable - Construction	(238,317)
Inventory	(20,646)
Accounts Payable	(2,161)
Accounts Payable - Construction	238,317
Other Accrued Liabilities	(2,042)
Customer Deposits	10,130
	<hr/>
Net Cash Provided (Used) by Operating Activities	<u>\$ 852,195</u>

Supplementary Information

Interest Expensed	<u>\$ 142,630</u>
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The accompanying notes are an integral part of the financial statements.

CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the City of Grayson Utility Commission (the Commission), a component unit 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.

Organization & 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.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Commission's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America.

All activities of the Commission 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 Commission is determined by its measurement focus. The transactions of the Commission 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 is segregated into "invested in capital assets, net of related debt;" "restricted;" and "unrestricted" components.

CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the Commission's ongoing operations. The principal operating revenues are charges to customers for sales and services that are provided to them. The Commission also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water system. Operating expenses 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.

Accounts Receivables

Accounts receivables are stated at face amount and include billed and unbilled receivables due as of June 30, 2019. Unbilled receivables represent income earned during the current year, but not yet billed to the customer. The billing mailed on June 30, 2019 was for customer usage from approximately May 16 through June 15, 2019. The entire amount is considered accounts receivable as of June 30, 2019. The billing mailed on July 31, 2019 was for usage from approximately June 16 through July 15, 2019. Approximately half of this billing is considered unbilled receivables at June 30, 2019.

Allowance for Doubtful Accounts

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.

Deposits and Investments

KRS 66.480 authorizes the Commission to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The reported value excludes the costs of normal maintenance and repairs that are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

Depreciation is charged as an expense against operations. Capital assets of the Commission are depreciated using the straight-line method over their estimated useful lives in years as set forth below:

<u>Category</u>	<u>Life in Years</u>
Gas System	22
Water and Sewer Systems	40 - 50
Vehicles and Equipment	3 - 10

The depreciation expense charged to operations during the period ended June 30, 2019 is \$792,076.

Capitalized Interest on Indebtedness

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed. There was no capitalized interest in 2019.

Cash and Cash Equivalents

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

Restricted Net Position

Some of the Commission’s assets have certain constraints that have been placed on how they can be used. By definition, restricted assets are cash or other assets, whose use in whole or in part are restricted for specific purposes bound by virtue of contractual agreements, legal requirements or enabling legislation.

Certain proceeds of the Commission’s revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. The “debt service” accounts are used to segregate resources accumulated for debt service payments over the next twelve months. The “depreciation reserve” account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals, replacements and extensions.

CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Income Tax

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

Use of Estimates

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

NOTE B – RESTRICTIONS ON CASH

Bond and Note Sinking Funds

Deposits into Bond and Note Sinking Funds are required to be made monthly in order to accumulate funds for payment of bond and note principle and interest. A Debt Service Replacement Reserve Fund in the amount of \$491,000 is being invested in various federally insured banks. In addition, sinking funds are maintained on Rural Development bonds in the amount of \$337,926 as required.

Depreciation Reserve

The Depreciation Reserve Account is being maintained as required in 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 \$149,267 at June 30, 2019.

NOTE C – NET POSITION

Equity is classified as net position and displayed in three components:

- Invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets;
- Restricted net position - resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and
- Unrestricted net position - those assets that do not meet the definition of restricted net position or invested in capital assets.

**CITY OF GRAYSON UTILITY COMMISSION
 NOTES TO FINANCIAL STATEMENTS
 For the Year Ended June 30, 2019**

NOTE D – CASH AND INVESTMENTS

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Commission and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Commission’s deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2019, the bank balance was \$3,071,209; \$750,000 was covered by FDIC and \$2,321,209 by pledged collateral.

Deposits Covered By Federal Insurance	\$ 750,000
Deposits Collateralized	<u>2,321,209</u>
Total Bank Balance	<u>\$ 3,071,209</u>

NOTE E – FAIR VALUE MEASUREMENT

GASB Statement No. 72, Fair Value Measurement and Application, became effective in fiscal year 2016 which requires the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques.

The carrying amount of the following financial instruments approximate fair value because of the short maturity of the instruments: cash equivalents and accounts receivable.

NOTE F – RETIREMENT

The City of Grayson, Kentucky 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, 2019 were \$39,016.

**CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019**

NOTE G – 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, 2019 was \$25,820.

NOTE H – PROPERTY, PLANT, AND EQUIPMENT

The Commission’s major classes of utility capital assets and accumulated depreciation are shown below:

	Balance 6/30/2018	Additions	Disposals	Balance 6/30/2019
Land	\$ 572,950	\$	\$	\$ 572,950
Cooks Wastewater Plant	2,023,385			2,023,385
General Equipment and Automobiles	4,679,653			4,679,653
Water System	15,744,016	30,873		15,774,889
Gas System	3,667,983	14,570		3,682,553
Sewer System	10,693,932			10,693,932
Total	37,381,919	45,443		37,427,362
Less: Accumulated Depreciation	20,535,308	792,076		21,327,384
Fixed Assets Net of A/D	\$ 16,846,611	\$ (746,633)	\$ 0	\$ 16,099,978

NOTE I – 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.

NOTE J – BONDS AND NOTE PAYABLE

Notes payable at June 30, 2019 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.	\$ 369,663
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**CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019**

NOTE J – BONDS AND NOTE PAYABLE (CONTINUED)

Kentucky Area Development District, payable in varying semi-annual installments with interest of 2.5% to 5.4%, final payment due October 20, 2022, collateralized by the new utility building and water tower.	105,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program Series 2013C, payable in varying semi-annual installments with interest of 4.03% to 4.28%, final payment due January 1, 2022, collateralized by all the assets of the Commission's water system.	35,000
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.	1,157,997
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.	625,701
Kentucky Infrastructure Authority, payable in semi-annual installments estimated at \$101,942, including interest of 1.8%, final payment due June, 2020, collateralized by all the assets of the Commission's wastewater system.	<u>201,942</u>
Total Utility Fund Notes Payable	<u>\$ 2,495,303</u>

The annual requirements to amortize all Notes Payable outstanding as of June 30, 2019 including interest are as follows:

Year Ended June 30	Scheduled Interest & Fees	Scheduled Principal	Total Payment
2020	\$ 47,982	\$ 505,757	\$ 553,739
2021	37,092	272,904	309,996
2022	30,593	277,063	307,656
2023	23,964	286,293	310,257
2024	18,003	260,597	278,600
2025-2029	33,357	611,109	644,466
2030-2034	11,936	185,369	197,305
2035-2037	1,738	96,211	97,949
Totals	<u>\$ 204,665</u>	<u>\$ 2,495,303</u>	<u>\$ 2,699,968</u>

CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE J – BONDS AND NOTE PAYABLE (Continued)

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%	\$ 313,000
\$2,000,000 Utilities Revenue Bonds, 2001 series, maturing through February 1, 2042, with interest at 4.5%	<u>1,568,000</u>
Total Utility Fund Bonds Payable	<u>\$ 1,881,000</u>

Year Ended June 30	Scheduled Interest	Scheduled Principal	Total Payment
2020	\$ 83,486	\$ 51,500	\$ 134,986
2021	81,135	53,000	134,135
2022	78,683	56,000	134,683
2023	76,118	58,000	134,118
2024	73,440	61,000	134,440
2025-2029	322,211	347,500	669,711
2030-2034	230,321	434,500	664,821
2035-2039	123,763	515,500	639,263
2040-2042	20,789	304,000	324,789
Totals	<u>\$ 1,089,946</u>	<u>\$ 1,881,000</u>	<u>\$ 2,970,946</u>

Changes in Long-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities:					
Financing Obligations	\$ 2,993,453		\$ 498,151	\$ 2,495,302	\$ 505,757
Revenue Bonds	1,929,500		48,500	1,881,000	51,500
Business-type Activities					
Long-term Liabilities	<u>\$ 4,922,953</u>	<u>\$ 0</u>	<u>\$ 546,651</u>	<u>\$ 4,376,302</u>	<u>\$ 557,257</u>

The total interest expense incurred by the Commission during the current fiscal year was \$142,630.

CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE K – PRIOR PERIOD ADJUSTMENT

Beginning balances have been increased \$5,400 for old outstanding checks that were voided.

NOTE L – SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 27, 2020, which is the date the financial statements were available to be issued.

Morgan and Associates, LLC

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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 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 business-type activities of City of Grayson Utility Commission, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise City of Grayson Utility Commission's basic financial statements and have issued our report thereon dated January 27, 2020.

Internal Control Over Financial Reporting

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

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*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Grayson Utility 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

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.

Morgan and Associates, LLC

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West Liberty, Kentucky

January 27, 2020