

**CITY OF GRAYSON
UTILITY COMMISSION**

**AUDIT OF
FINANCIAL STATEMENTS**

For The Year Ended June 30, 2021

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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, 2021, 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 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 Commission, as of June 30, 2021, 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 November 18, 2021, on our consideration of the 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 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
November 18, 2021

**CITY OF GRAYSON UTILITY COMMISSION
STATEMENT OF NET POSITION
June 30, 2021**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents- Unrestricted	\$	2,956,891
Accounts Receivable:		
Unbilled Receivables		231,442
Customers		446,056
Interest		125
Allowance for Doubtful Accounts		(63,211)
Inventory for Supplies		261,009
		261,009
 Total Current Assets		 3,832,312

NONCURRENT ASSETS

Capital Assets		
Land		572,950
Cooks Wastewater Plant		2,023,385
General Equipment & Automobiles		4,835,622
Water System		16,036,083
Gas System		3,693,924
Sewer System		11,007,043
Less Accumulated Depreciation		(22,971,155)
Net Capital Assets		15,197,852
Cash and Cash Equivalents - Restricted		352,371
 Total Noncurrent Assets		 15,550,223
 TOTAL ASSETS		 19,382,535

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

CITY OF GRAYSON UTILITY COMMISSION
STATEMENT OF NET POSITION
June 30, 2021

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accrued Salaries	79,634
Payroll Liabilities	15,473
Accounts Payable	64,124
Sales Tax Payable	6,824
Utility Tax Payable	6,386
Current Portion of Long-term Debt	332,063
Total Current Liabilities	504,504

LONG-TERM LIABILITIES

Long-term Debt, Net of Current Portion	3,206,246
Total Long-Term Liabilities	3,206,246

OTHER LIABILITIES

Customer Deposits	164,242
Total Other Liabilities	164,242

TOTAL LIABILITIES 3,874,992

NET POSITION

Invested in Capital Assets, Net of Related Debt	11,659,543
Restricted for:	
Debt Service	352,371
Unrestricted	3,495,629
	3,847,999

TOTAL NET POSITION 15,507,543

TOTAL LIABILITIES AND NET POSITION \$ 19,382,535

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, 2021**

OPERATING REVENUES	
Gas	\$ 1,438,912
Sewer	1,177,063
Water	2,738,322
Garbage	<u>811,586</u>
Total Operating Revenues	6,165,883
OPERATING EXPENSES	
Gas:	
Gas Purchases	665,221
Salaries and Benefits	227,213
Contractual Services	82,543
Depreciation	74,464
Materials and Supplies	118,081
Other Operating Expenses	<u>159,712</u>
	1,327,234
Sewer:	
Salaries and Benefits	396,263
Contractual Services	142,888
Depreciation	279,550
Materials and Supplies	71,562
Other Operating Expenses	<u>392,857</u>
	1,283,120
Water:	
Salaries and Benefits	775,269
Contractual Services	279,480
Depreciation	464,732
Materials and Supplies	356,948
Other Operating Expenses	<u>595,964</u>
	2,472,393
Garbage:	
Contract	805,882
Other Operating Expenses	<u>213</u>
	806,095
Total Operating Expenses	<u>5,888,842</u>
NET OPERATING INCOME (LOSS)	277,041

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, 2021**

NON OPERATING REVENUES (EXPENSES)

Capital Contributions	66,105
Interest Expense	<u>(92,445)</u>
Total Non Operating Revenues (Expenses)	<u>.(26,340)</u>
Net Change in Net Position	250,701
Net Position - Beginning	<u>15,256,842</u>
Total Net Position - Ending	<u>\$ 15,507,543</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, 2021**

CASH FLOWS FROM OPERATING ACTIVITIES	
Payments from Customers	\$ 6,121,116
Payments to Vendors	(3,760,284)
Payments for Payroll and Related Expenses	<u>(1,369,497)</u>
Net Cash Provided (Used) by Operating Activities	991,335
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Contributions	66,105
Capital Asset Additions	(162,529)
Interest Paid on Debt	(92,445)
Payments on Capital Debt	<u>(431,236)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(620,105)</u>
INCREASE (DECREASE) IN CASH	371,230
CASH AT BEGINNING OF YEAR	<u>2,938,032</u>
CASH AT END OF YEAR	<u><u>\$ 3,309,262</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, 2021**

Net Operating Income	\$ 277,041
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	818,746
Changes in Assets/Liabilities:	
Accounts Receivable	(65,483)
Doubtful Accounts	11,874
Inventory	(88,998)
Other Accrued Liabilities	29,313
Customer Deposits	8,842
Net Cash Provided (Used) by Operating Activities	<u>\$ 991,335</u>

Supplementary Information

Interest Expensed	\$ 92,445
	<u>92,445</u>

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, 2021

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, 2021

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, 2021. Unbilled receivables represent income earned during the current year, but not yet billed to the customer. The billing mailed on June 30, 2021 was for customer usage from approximately May 16 through June 15, 2021. The entire amount is considered accounts receivable as of June 30, 2021. The billing mailed on July 31, 2021 was for usage from approximately June 16 through July 15, 2021. Approximately half of this billing is considered unbilled receivables at June 30, 2021.

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 replacement cost. 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, 2021**

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:

Category	Life in Years
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, 2021 is \$818,746.

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, 2021**

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 principal and interest. A Debt Service Replacement Reserve Fund in the amount of \$352,371 is being invested in various federally insured banks.

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.

NOTE D – 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.

CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE E – 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, 2021, the bank balance was \$3,338,701; \$750,000 was covered by FDIC and \$2,588,701 by pledged collateral.

Deposits Covered By Federal Insurance	\$ 750,000
Deposits Collateralized	<u>2,588,701</u>
Total Bank Balance	<u>\$ 3,338,701</u>

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, 2021 were \$43,022.

NOTE G – 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.

**CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021**

NOTE H – 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, 2021 was \$79,634.

NOTE I – PROPERTY, PLANT, AND EQUIPMENT

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

	Balance 6/30/2020	Additions	Disposals	Balance 6/30/2021
Land	\$ 572,950	\$	\$	\$ 572,950
Cooks Wastewater Plant	2,023,385			2,023,385
General Equipment and Automobiles	4,773,988	61,634		4,835,622
Water System	15,935,188	100,895		16,036,083
Gas System	3,693,924			3,693,924
Sewer System	11,007,043			11,007,043
Total	38,006,478	162,529		38,169,007
Less: Accumulated Depreciation	22,152,409	818,746		22,971,155
Fixed Assets Net of A/D	\$ 15,854,069	\$ (656,217)	\$ 0	\$ 15,197,852

NOTE J – BONDS AND NOTE PAYABLE

Notes payable at June 30, 2021 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.	\$ 260,221
Kentucky Infrastructure Authority, payable in semi-annual installments estimated at \$101,855, including interest of 1.8%, final payment due June 2026, collateralized by all the assets of the Commission’s water system.	841,826

CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE J – BONDS AND NOTE PAYABLE (CONTINUED)

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. 559,595

Total Utility Fund Notes Payable \$ 1,661,642

The annual requirements to amortize all Notes Payable outstanding as of June 30, 2021 including interest are as follows:

Year Ended June 30	Scheduled Interest & Fees	Scheduled Principal	Total Payment
2022	\$ 27,723	\$ 252,063	\$ 279,786
2023	22,904	256,293	279,197
2024	18,003	260,597	278,600
2025	13,020	264,974	277,994
2026	7,946	239,272	247,218
2027-2031	18,494	179,904	198,398
2032-2036	7,454	189,107	196,561
2037	117	19,432	19,549
Totals	<u>\$ 115,661</u>	<u>\$ 1,661,642</u>	<u>\$ 1,777,303</u>

Whenever any Event of Default has occurred and is continuing, the Authority (Kentucky Infrastructure Authority) may, without any further demand or notice, take one or any combination of the following remedial steps:

- A. Declare all payments due hereunder, as set forth in the Schedule of Payments to be immediately due and payable.
- B. Exercise all the rights and remedies of the Authority set forth in the Act.
- C. Take whatever action at law or in equity may appear necessary or desirable to enforce its rights under this Assistance Agreement.

Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Authority under this Assistance Agreement, the Authority shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the System and all receipts therefrom, pending such proceedings, with such power as the court making such appointment shall confer; provided, however, that the Authority may, with or without action under this Section, pursue any available remedy to enforce the payment obligations hereunder, or to remedy any Event of Default.

CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE J – BONDS AND NOTE PAYABLE (Continued)

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

Revenue Bonds:

\$2,030,000 Utilities Revenue Bonds, 2020 series, maturing through February 1, 2040, with interest at 2.25% \$ 1,876,667

Year Ended June 30	Scheduled Interest	Scheduled Principal	Total Payment
2022	\$ 53,206	\$ 80,000	\$ 133,206
2023	51,206	85,000	136,206
2024	49,081	85,000	134,081
2025	46,956	85,000	131,956
2026	44,831	90,000	134,831
2027-2031	189,406	480,000	669,406
2032-2036	121,331	545,000	666,331
2037-2040	37,463	426,667	464,130
Totals	<u>\$ 593,480</u>	<u>\$ 1,876,667</u>	<u>\$ 2,470,147</u>

Whenever any Event of Default has occurred and is continuing, the Lessor may, without any further demand or notice, take one or any combination of the following remedial steps:

- A. Terminate the Lease Term and give notice to the Lessee to vacate or surrender the Project within 60 days from the date of such notice;
- B. Take legal title to, and sell or re-lease the Project or any portion thereof;
- C. Declare an amount equal to all Base Rentals and Additional Rentals under this Lease to be immediately due and payable, whereupon that amount shall become immediately due and payable; or
- D. Take whatever action at law or in equity may appear necessary or desirable to enforce its rights in and to the Project under this Lease (including, without limitation, the right to possession of the Project and the right to sell or re-lease or otherwise dispose of the Project in accordance with applicable law and to appoint a receiver to operate the Project) and to recover damages for the breach thereof.

No remedy herein conferred upon or reserved to the Lessor is intended to be exclusive, and every such remedy will be cumulative and will be in addition to every other remedy given hereunder and every remedy now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power and any such right and power may be exercised from time to time and as often as may be deemed expedient. If any agreement contained herein should be breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach hereunder.

CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE J – BONDS AND NOTE PAYABLE (Continued)

The Lessee will remain liable for all covenants and obligations under this Lease, and for all legal fees and other costs and expenses, including court costs awarded by a court of competent jurisdiction, incurred by the Lessor with respect to the enforcement of any of the remedies under this Lease, when a court of competent jurisdiction has finally adjudicated that an Event of Default has occurred.

Changes in Long-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-type Activities:</u>					
Financing Obligations	\$ 1,989,545	\$	\$ 327,903	\$ 1,661,642	\$ 252,063
Revenue Bonds	1,980,000		103,333	1,876,667	80,000
Business-type Activities					
Long-term Liabilities	<u>\$ 3,969,545</u>	<u>\$</u>	<u>0</u>	<u>\$ 431,236</u>	<u>\$ 3,538,309</u>
				<u>\$ 332,063</u>	

The total interest expense incurred by the Commission during the current fiscal year was \$92,445.

NOTE K – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 18, 2021, 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 (the Commission), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated November 18, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Grayson Utility Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Grayson Utility Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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

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

Morgan and Associates, LLC

West Liberty, Kentucky

November 18, 2021