

**CITY OF GRAYSON
UTILITY COMMISSION**

**AUDIT OF
FINANCIAL STATEMENTS**

For The Year Ended June 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
City of Grayson Utility Commission
Grayson, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the City of Grayson Utility Commission, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City of Grayson Utility Commission's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the City of Grayson Utility Commission, as of June 30, 2023, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Grayson Utility Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Grayson Utility Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

To the Commissioners
City of Grayson Utility Commission
Grayson, Kentucky

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Grayson Utility Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Grayson Utility Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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 14, 2023, 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

To the Commissioners
City of Grayson Utility Commission
Grayson, Kentucky

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 City of Grayson Utility Commission's internal control over financial reporting and compliance.

Morgan and Associates, LLC

Morgan and Associates, LLC

West Liberty, Kentucky
November 14, 2023

CITY OF GRAYSON UTILITY COMMISSION
STATEMENT OF NET POSITION
June 30, 2023

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents- Unrestricted	\$	4,043,149
Accounts Receivable:		
Unbilled Receivables		284,016
Customers		526,108
Interest		125
Allowance for Doubtful Accounts		(88,985)
Inventory for Supplies		249,693
		249,693

Total Current Assets 5,014,106

NONCURRENT ASSETS

Capital Assets		
Land		602,950
Construction in Progress		3,562,425
Cooks Wastewater Plant		2,023,385
General Equipment & Automobiles		3,232,513
Water System		15,840,174
Gas System		1,305,883
Sewer System		10,888,751
Less Accumulated Depreciation		(19,796,958)
Net Capital Assets		17,659,123

Cash and Cash Equivalents - Restricted		1,515,629
		1,515,629

Total Noncurrent Assets 19,174,752

TOTAL ASSETS 24,188,858

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

CITY OF GRAYSON UTILITY COMMISSION
STATEMENT OF NET POSITION
June 30, 2023

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accrued Salaries	70,826
Payroll Liabilities	19,557
Accounts Payable	64,124
Sales Tax Payable	9,493
Utility Tax Payable	8,540
Current Portion of Long-term Debt	497,680
Total Current Liabilities	670,220

LONG-TERM LIABILITIES

Long-term Debt, Net of Current Portion	7,227,690
Total Long-Term Liabilities	7,227,690

OTHER LIABILITIES

Customer Deposits	171,666
Total Other Liabilities	171,666

TOTAL LIABILITIES 8,069,576

NET POSITION

Invested in Capital Assets, Net of Related Debt	9,933,753
Restricted for:	
Debt Service	1,515,629
Unrestricted	4,669,900
	4,669,900

TOTAL NET POSITION 16,119,282

TOTAL LIABILITIES AND NET POSITION \$ 24,188,858

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, 2023**

OPERATING REVENUES	
Gas	\$ 2,407,165
Sewer	1,320,596
Water	2,937,482
Garbage	<u>967,729</u>
Total Operating Revenues	7,632,972
OPERATING EXPENSES	
Gas:	
Gas Purchases	1,636,450
Salaries and Benefits	222,695
Contractual Services	56,220
Depreciation	77,832
Materials and Supplies	104,355
Other Operating Expenses	<u>205,269</u>
	2,302,821
Sewer:	
Salaries and Benefits	415,731
Contractual Services	120,981
Depreciation	212,264
Materials and Supplies	76,311
Other Operating Expenses	<u>451,118</u>
	1,276,405
Water:	
Salaries and Benefits	893,191
Contractual Services	140,800
Depreciation	462,807
Materials and Supplies	531,576
Other Operating Expenses	<u>740,465</u>
	2,768,839
Garbage:	
Contract	<u>960,198</u>
	960,198
Total Operating Expenses	<u>7,308,263</u>
NET OPERATING INCOME (LOSS)	324,709

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, 2023**

Capital Contributions	70,200
Interest Income	7,275
Interest Expense	<u>(266,420)</u>
Total Non Operating Revenues (Expenses)	<u>(188,945)</u>
Net Change in Net Position	135,764
Net Position - Beginning	<u>15,983,518</u>
Total Net Position - Ending	<u><u>\$ 16,119,282</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, 2023**

CASH FLOWS FROM OPERATING ACTIVITIES

Payments from Customers	\$ 7,552,296
Payments to Vendors	(5,055,892)
Payments for Payroll and Related Expenses	<u>(1,566,768)</u>
Net Cash Provided (Used) by Operating Activities	929,636

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Capital Contributions	70,200
Capital Asset Additions	(2,768,832)
Interest Income	7,275
Interest Paid on Debt	(266,420)
Payments on Capital Debt	<u>(403,793)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(3,361,570)</u>

INCREASE (DECREASE) IN CASH	(2,431,934)
CASH AT BEGINNING OF YEAR	<u>7,990,712</u>
CASH AT END OF YEAR	<u><u>\$ 5,558,778</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, 2023

Net Operating Income	\$ 324,709
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	752,903
Changes in Assets/Liabilities:	
Accounts Receivable	(104,090)
Doubtful Accounts	18,148
Inventory	(40,217)
Accrued Salaries	(35,151)
Other Accrued Liabilities	8,068
Customer Deposits	5,266
	<hr/>
Net Cash Provided (Used) by Operating Activities	<u>\$ 929,636</u>

Supplementary Information

Interest Expensed	<u>\$ 266,420</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, 2023

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, 2023

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, 2023. Unbilled receivables represent income earned during the current year, but not yet billed to the customer. The billing mailed on June 30, 2023 was for customer usage from approximately May 16 through June 15, 2023. The entire amount is considered accounts receivable as of June 30, 2023. The billing mailed on July 31, 2023 was for usage from approximately June 16 through July 15, 2023. Approximately half of this billing is considered unbilled receivables at June 30, 2023.

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, 2023**

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, 2023 is \$752,903.

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, 2023

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. Debt Service Replacement Reserve Funds totaling \$615,875 are being invested in various federally insured banks.

Bond Proceeds

As of June 30, 2023 the Utility Commission had made multiple draws on Series 2023A bond proceeds leaving \$899,754 in funds available for water meter upgrades.

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 – 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, 2023**

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, 2023, the bank balance was \$4,661,292; \$750,000 was covered by FDIC and \$3,911,292 by pledged collateral.

Deposits Covered By Federal Insurance	\$ 750,000
Deposits Collateralized	<u>3,911,292</u>
Total Bank Balance	<u>\$ 4,661,292</u>

NOTE F – 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 G – 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 six percent of the employees’ eligible salary, and the employees are required to match the six 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, 2023 were \$45,791.

CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

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, 2023 was \$50,022.

NOTE I – PROPERTY, PLANT, AND EQUIPMENT

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

	Balance 6/30/2022	Additions	Disposals	Balance 6/30/2023
Land	\$ 602,950		\$	\$ 602,950
Construction in Progress	1,013,785	2,548,640		3,562,425
Cooks Wastewater Plant	2,023,385			2,023,385
General Equipment and Automobiles	4,985,326	75,795	1,828,608	3,232,513
Water System	16,036,083	133,837	329,746	15,840,174
Gas System	3,693,924	5,550	2,393,591	1,305,883
Sewer System	11,007,043	5,010	123,302	10,888,751
Total	39,362,496	2,768,832	4,675,247	37,456,081
Less: Accumulated Depreciation	<u>23,719,302</u>	<u>752,903</u>	<u>4,675,247</u>	<u>19,796,958</u>
Fixed Assets Net of A/D	<u>\$ 15,643,194</u>	<u>\$ 2,015,929</u>	<u>\$ 0</u>	<u>\$ 17,659,123</u>

NOTE J – BONDS AND NOTE PAYABLE

Notes payable at June 30, 2023 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. \$ 147,011

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. 514,118

**CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2023**

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. 492,157

Total Utility Fund Notes Payable \$ 1,153,286

The annual requirements to amortize all Notes Payable outstanding as of June 30, 2023 including interest are as follows:

Year Ended June 30	Scheduled Interest & Fees	Scheduled Principal	Total Payment
2024	\$ 18,003	\$ 260,597	\$ 278,600
2025	13,020	264,974	277,994
2026	7,946	239,272	247,218
2027	4,556	35,267	39,823
2028	4,132	35,620	39,752
2029-2033	14,144	183,529	197,673
2034-2037	<u>3,233</u>	<u>134,027</u>	<u>137,260</u>
Totals	<u>\$ 65,034</u>	<u>\$ 1,153,286</u>	<u>\$ 1,218,320</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, 2023**

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%	\$ 1,709,583
\$4,925,000 Utilities Revenue Bonds, 2023 A series, maturing through January 1, 2044, with interest at 2.25%	<u>4,862,501</u>
Total Revenue Bonds Payable	<u>\$ 6,572,084</u>

The annual requirements to amortize all Bonds Payable outstanding as of June 30, 2023 including interest are as follows:

June 30	Scheduled Interest	Scheduled Principal	Total Payment
2024	\$ 205,844	\$ 237,083	\$ 442,927
2025	\$ 199,156	\$ 244,167	443,323
2026	\$ 192,256	\$ 261,250	453,506
2027	\$ 184,869	\$ 274,167	459,036
2028	\$ 177,094	\$ 289,167	466,261
2029-2033	\$ 754,157	\$ 1,623,749	2,377,906
2034-2038	\$ 495,693	\$ 1,913,751	2,409,444
2039-2043	\$ 164,656	\$ 1,676,250	1,840,906
2044	<u>\$ 1,903</u>	<u>\$ 52,500</u>	<u>54,403</u>
Totals	<u>\$ 2,375,628</u>	<u>\$ 6,572,084</u>	<u>\$ 8,947,712</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.

**CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2023**

NOTE J – BONDS AND NOTE PAYABLE (Continued)

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.

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	\$ 1,409,579	\$	\$ 256,293	\$ 1,153,286	\$ 260,597
Revenue Bonds	6,719,584		147,500	6,572,084	237,083
Business-type Activities					
Long-term Liabilities	<u>\$ 8,129,163</u>	<u>\$ 0</u>	<u>\$ 403,793</u>	<u>\$ 7,725,370</u>	<u>\$ 497,680</u>

The total interest expense incurred by the Commission during the current fiscal year was \$266,420.

NOTE K – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 14, 2023, 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, 2023, 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 14, 2023.

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 14, 2023

**CITY OF GRAYSON
UTILITY COMMISSION**

**AUDIT OF
FINANCIAL STATEMENTS**

For The Year Ended June 30, 2024

Morgan and Associates, LLC
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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
City of Grayson Utility Commission
Grayson, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the City of Grayson Utility Commission, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City of Grayson Utility Commission's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the City of Grayson Utility Commission, as of June 30, 2024, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Grayson Utility Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Grayson Utility Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

To the Commissioners
City of Grayson Utility Commission
Grayson, Kentucky

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Grayson Utility Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Grayson Utility Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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 February 19, 2025, 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

To the Commissioners
City of Grayson Utility Commission
Grayson, Kentucky

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 City of Grayson Utility Commission's internal control over financial reporting and compliance.

Morgan and Associates, LLC

Morgan and Associates, LLC

West Liberty, Kentucky
February 19, 2025

CITY OF GRAYSON UTILITY COMMISSION
STATEMENT OF NET POSITION
June 30, 2024

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents- Unrestricted	\$	4,021,229
Accounts Receivable:		
Unbilled Receivables		265,007
Customers		700,921
Interest		125
Allowance for Doubtful Accounts		(88,985)
Inventory for Supplies		249,693
		249,693

Total Current Assets		5,147,990
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NONCURRENT ASSETS

Capital Assets		
Land		602,950
Cooks Wastewater Plant		2,023,385
General Equipment & Automobiles		3,232,513
Water System		19,954,425
Gas System		1,305,883
Sewer System		10,903,125
Less Accumulated Depreciation		(20,561,744)
Net Capital Assets		17,460,537

Cash and Cash Equivalents - Restricted		1,407,073
		1,407,073

Total Noncurrent Assets		18,867,610
		18,867,610

TOTAL ASSETS		24,015,600
		24,015,600

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

CITY OF GRAYSON UTILITY COMMISSION
STATEMENT OF NET POSITION
June 30, 2024

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accrued Salaries	82,153
Payroll Liabilities	23,087
Accounts Payable	64,124
Sales Tax Payable	9,493
Utility Tax Payable	8,540
Current Portion of Long-term Debt	509,141
Total Current Liabilities	696,538

LONG-TERM LIABILITIES

Long-term Debt, Net of Current Portion	6,718,548
Total Long-Term Liabilities	6,718,548

OTHER LIABILITIES

Customer Deposits	174,751
Total Other Liabilities	174,751

TOTAL LIABILITIES 7,589,837

NET POSITION

Invested in Capital Assets, Net of Related Debt	10,232,848
Restricted for:	
Debt Service	1,407,073
Unrestricted	4,785,842
	4,785,842

TOTAL NET POSITION 16,425,763

TOTAL LIABILITIES AND NET POSITION \$ 24,015,600

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, 2024**

OPERATING REVENUES	
Gas	\$ 1,564,404
Sewer	1,867,746
Water	2,946,986
Garbarge	<u>1,015,089</u>
Total Operating Revenues	7,394,225
OPERATING EXPENSES	
Gas:	
Gas Purchases	831,141
Salaries and Benefits	265,850
Contractual Services	59,989
Depreciation	68,475
Materials and Supplies	124,893
Other Operating Expenses	<u>174,575</u>
	1,524,923
Sewer:	
Salaries and Benefits	467,159
Contractual Services	378,971
Depreciation	211,690
Materials and Supplies	134,441
Other Operating Expenses	<u>254,762</u>
	1,447,023
Water:	
Salaries and Benefits	1,002,069
Contractual Services	297,616
Depreciation	484,621
Materials and Supplies	568,334
Other Operating Expenses	<u>548,314</u>
	2,900,954
Garbage:	
Contract	<u>998,579</u>
	998,579
Total Operating Expenses	<u>6,871,479</u>
NET OPERATING INCOME (LOSS)	522,746

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, 2024**

Interest Income	19,303
Interest Expense	<u>(235,568)</u>
Total Non Operating Revenues (Expenses)	<u>(216,265)</u>
Net Change in Net Position	306,481
Net Position - Beginning	<u>16,119,282</u>
Total Net Position - Ending	<u><u>\$ 16,425,763</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, 2024**

CASH FLOWS FROM OPERATING ACTIVITIES

Payments from Customers	\$ 7,241,507
Payments to Vendors	(4,371,615)
Payments for Payroll and Related Expenses	<u>(1,720,222)</u>
Net Cash Provided (Used) by Operating Activities	1,149,670

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

Capital Asset Additions	(566,201)
Interest Income	19,303
Interest Paid on Debt	(235,568)
Payments on Capital Debt	<u>(497,680)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,280,146)</u>

INCREASE (DECREASE) IN CASH	(130,476)
CASH AT BEGINNING OF YEAR	<u>5,558,778</u>
CASH AT END OF YEAR	<u><u>\$ 5,428,302</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, 2024**

Net Operating Income	\$ 522,746
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	764,786
Changes in Assets/Liabilities:	
Accounts Receivable	(155,803)
Accrued Salaries	11,326
Other Accrued Liabilities	3,530
Customer Deposits	3,085
	<hr/>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 1,149,670</u></u>

Supplementary Information

Interest Expensed	<u><u>\$ 235,568</u></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, 2024

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, 2024

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, 2024. Unbilled receivables represent income earned during the current year, but not yet billed to the customer. The billing mailed on June 30, 2024 was for customer usage from approximately May 16 through June 15, 2024. The entire amount is considered accounts receivable as of June 30, 2024. The billing mailed on July 31, 2024 was for usage from approximately June 16 through July 15, 2024. Approximately half of this billing is considered unbilled receivables at June 30, 2024.

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, 2024

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, 2024 is \$764,786.

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, 2024

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. Debt Service Replacement Reserve Funds totaling \$507,319 are being invested in various federally insured banks.

Bond Proceeds

As of June 30, 2024 the Utility Commission had made multiple draws on Series 2022A bond proceeds leaving \$899,754 in funds available for water meter upgrades.

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 – 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, 2024**

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, 2024, the bank balance was \$4,506,488; \$750,000 was covered by FDIC and \$3,756,488 by pledged collateral.

Deposits Covered By Federal Insurance	\$ 750,000
Deposits Collateralized	<u>3,756,488</u>
Total Bank Balance	<u>\$ 4,506,488</u>

NOTE F – 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 G – 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 six percent of the employees’ eligible salary, and the employees are required to match the six 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, 2024 were \$53,790.

CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

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, 2024 was \$58,200.

NOTE I – PROPERTY, PLANT, AND EQUIPMENT

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

	Balance 6/30/2023	Additions	Disposals	Balance 6/30/2024
Land	\$ 602,950		\$	\$ 602,950
Construction in Progress	3,562,425	551,826	4,114,251	
Cooks Wastewater Plant	2,023,385			2,023,385
General Equipment and Automobiles	3,232,513			3,232,513
Water System	15,840,174	4,114,251		19,954,425
Gas System	1,305,883			1,305,883
Sewer System	10,888,751	14,374		10,903,125
Total	37,456,081	4,680,451	4,114,251	38,022,281
Less: Accumulated Depreciation	19,796,958	764,786		20,561,744
Fixed Assets Net of A/D	\$ 17,659,123	\$ 3,915,665	\$ 4,114,251	\$ 17,460,537

NOTE J – BONDS AND NOTE PAYABLE

Notes payable at June 30, 2024 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.	\$ 88,952
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.	345,807

CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

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.	<u>457,930</u>
Total Utility Fund Notes Payable	<u><u>\$ 892,689</u></u>

The annual requirements to amortize all Notes Payable outstanding as of June 30, 2024 including interest are as follows:

Year Ended June 30	Scheduled Interest & Fees	Scheduled Principal	Total Payment
2025	\$ 13,020	\$ 264,974	\$ 277,994
2026	7,946	239,272	247,218
2027	4,556	35,267	39,823
2028	4,132	35,620	39,752
2029	3,703	35,977	39,680
2030-2034	11,936	185,369	197,305
2035-2037	<u>1,738</u>	<u>96,210</u>	<u>97,948</u>
Totals	<u><u>\$ 47,031</u></u>	<u><u>\$ 892,689</u></u>	<u><u>\$ 939,720</u></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, 2024**

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%	\$ 1,624,583
\$4,925,000 Utilities Revenue Bonds, 2022 A series, maturing through January 1, 2044, with interest at 2.25%	<u>4,710,417</u>
Total Revenue Bonds Payable	<u>\$ 6,335,000</u>

The annual requirements to amortize all Bonds Payable outstanding as of June 30, 2024 including interest are as follows:

June 30	Scheduled Interest	Scheduled Principal	Total Payment
2025	\$ 211,382	\$ 244,167	\$ 455,549
2026	204,084.00	261,250.00	465,334
2027	196,268.00	274,167.00	470,435
2028	188,033.00	289,167.00	477,200
2029	179,348.00	301,250.00	480,598
2030-2034	780,843.00	1,681,667.00	2,462,510
2035-2039	464,324.00	1,965,833.00	2,430,157
2040-2044	125,980.00	1,317,499.00	1,443,479
Totals	<u>\$ 2,350,262</u>	<u>\$ 6,335,000</u>	<u>\$ 8,685,262</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.

**CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2024**

NOTE J – BONDS AND NOTE PAYABLE (Continued)

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.

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Business-type Activities:</u>					
Financing Obligations	\$ 1,153,286	\$	\$ 260,597	\$ 892,689	\$ 264,974
Revenue Bonds	<u>6,572,083</u>		<u>237,083</u>	<u>6,335,000</u>	<u>244,167</u>
Business-type Activities					
Long-term Liabilities	<u>\$ 7,725,369</u>	<u>\$ 0</u>	<u>\$ 497,680</u>	<u>\$ 7,227,689</u>	<u>\$ 509,141</u>

The total interest expense incurred by the Commission during the current fiscal year was \$235,568.

NOTE K – SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 19, 2025, 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, 2024, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated February 19, 2025.

Report on 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 or significant deficiencies 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*

Report on 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 financial statements. 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

February 19, 2025

**CITY OF GRAYSON
UTILITY COMMISSION**

**AUDIT OF
FINANCIAL STATEMENTS**

For The Year Ended June 30, 2025

Morgan and Associates, LLC
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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
City of Grayson Utility Commission
Grayson, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the City of Grayson Utility Commission, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the City of Grayson Utility Commission's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the City of Grayson Utility Commission, as of June 30, 2025, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Grayson Utility Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Grayson Utility Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Grayson Utility Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Grayson Utility Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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 December 11, 2025 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 City of Grayson Utility Commission's internal control over financial reporting and compliance.

Morgan and Associates, LLC

Morgan and Associates, LLC

West Liberty, Kentucky
December 11, 2025

CITY OF GRAYSON UTILITY COMMISSION
STATEMENT OF NET POSITION
June 30, 2025

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents- Unrestricted	\$	4,111,175
Accounts Receivable:		
Unbilled Receivables		265,007
Customers		510,776
Interest		125
Allowance for Doubtful Accounts		(38,853)
Inventory for Supplies		<u>249,692</u>

Total Current Assets 5,097,922

NONCURRENT ASSETS

Capital Assets		
Land		602,950
Construction in Progress		513,198
Cooks Wastewater Plant		2,023,385
General Equipment & Automobiles		3,479,813
Water System		19,954,425
Gas System		1,305,883
Sewer System		10,903,125
Less Accumulated Depreciation		<u>(21,386,448)</u>
Net Capital Assets		17,396,331

Cash and Cash Equivalents - Restricted		<u>862,624</u>
--	--	----------------

Total Noncurrent Assets 18,258,955

TOTAL ASSETS 23,356,877

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

CITY OF GRAYSON UTILITY COMMISSION
STATEMENT OF NET POSITION
June 30, 2025

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accrued Salaries	82,152
Payroll Liabilities	9,241
Accounts Payable	64,124
Sales Tax Payable	9,493
Utility Tax Payable	8,540
Current Portion of Long-term Debt	500,522
Total Current Liabilities	674,072

LONG-TERM LIABILITIES

Long-term Debt, Net of Current Portion	6,215,942
Total Long-Term Liabilities	6,215,942

OTHER LIABILITIES

Customer Deposits	170,899
Total Other Liabilities	170,899

TOTAL LIABILITIES 7,060,913

NET POSITION

Invested in Capital Assets, Net of Related Debt	10,679,867
Restricted for:	
Debt Service	862,624
Unrestricted	4,753,473
	4,753,473

TOTAL NET POSITION 16,295,964

TOTAL LIABILITIES AND NET POSITION \$ 23,356,877

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, 2025**

OPERATING REVENUES	
Gas	\$ 1,549,326
Sewer	1,455,032
Water	2,950,474
Garbage	<u>1,055,518</u>
Total Operating Revenues	7,010,350
OPERATING EXPENSES	
Gas:	
Gas Purchases	798,414
Salaries and Benefits	294,598
Contractual Services	42,425
Depreciation	61,202
Materials and Supplies	82,079
Other Operating Expenses	<u>148,774</u>
	1,427,492
Sewer:	
Salaries and Benefits	492,685
Contractual Services	180,662
Depreciation	215,781
Materials and Supplies	306,307
Other Operating Expenses	<u>267,070</u>
	1,462,505
Water:	
Salaries and Benefits	1,040,428
Contractual Services	133,971
Depreciation	547,720
Materials and Supplies	717,889
Other Operating Expenses	<u>565,799</u>
	3,005,807
Garbage:	
Contract	<u>1,048,301</u>
	1,048,301
Total Operating Expenses	<u>6,944,105</u>
NET OPERATING INCOME (LOSS)	66,245

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, 2025**

Interest Income	23,046
Interest Expense	<u>(223,514)</u>
Total Non Operating Revenues (Expenses)	<u>(200,468)</u>
Net Change in Net Position	(134,223)
Net Position - Beginning (Restated)	<u>16,430,187</u>
Total Net Position - Ending	<u><u>\$ 16,295,964</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, 2025**

CASH FLOWS FROM OPERATING ACTIVITIES

Payments from Customers	\$ 7,150,363
Payments to Vendors	(4,309,388)
Payments for Payroll and Related Expenses	<u>(1,827,711)</u>
 Net Cash Provided (Used) by Operating Activities	 1,013,264

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

Capital Asset Additions	(760,498)
Interest Income	23,046
Interest Paid on Debt	(223,514)
Payments on Capital Debt	<u>(511,225)</u>
 Net Cash Provided (Used) by Capital and Related Financing Activities	 <u>(1,472,191)</u>

INCREASE (DECREASE) IN CASH	(458,927)
 CASH AT BEGINNING OF YEAR (Restated)	 <u>5,432,726</u>
 CASH AT END OF YEAR	 <u><u>\$ 4,973,799</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, 2025**

Net Operating Income	\$ 66,245
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	824,704
Changes in Assets/Liabilities:	
Accounts Receivable	140,013
Other Accrued Liabilities	(13,846)
Customer Deposits	<u>(3,852)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,013,264</u>

Supplementary Information

Interest and Fees Expensed	<u>\$ 223,514</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, 2025

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, 2025

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, 2025. Unbilled receivables represent income earned during the current year, but not yet billed to the customer. The billing mailed on June 30, 2025 was for customer usage from approximately May 16 through June 15, 2025. The entire amount is considered accounts receivable as of June 30, 2025. The billing mailed on July 31, 2025 was for usage from approximately June 16 through July 15, 2025. Approximately half of this billing is considered unbilled receivables at June 30, 2025.

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, 2025**

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, 2025 is \$824,704.

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, 2025**

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. Debt Service Replacement Reserve Funds totaling \$476,068 are being invested in various federally insured banks.

Bond Proceeds

As of June 30, 2025 the Utility Commission had made multiple draws on Series 2022A bond proceeds leaving \$386,556 in funds available for water meter upgrades.

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 – 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, 2025

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, 2025, the bank balance was \$4,626,255; \$750,000 was covered by FDIC and \$3,876,255 by pledged collateral.

Deposits Covered By Federal Insurance	\$ 750,000
Deposits Collateralized	<u>3,876,255</u>
Total Bank Balance	<u>\$ 4,626,255</u>

NOTE F – 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 G – 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 six percent of the employees' eligible salary, and the employees are required to match the six 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, 2025 were \$49,217.

**CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2025**

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, 2025 was \$51,650.

NOTE I – PROPERTY, PLANT, AND EQUIPMENT

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

	Balance 6/30/2024	Additions	Disposals	Balance 6/30/2025
Land	\$ 602,950		\$	\$ 602,950
Construction in Progress		513,198		513,198
Cooks Wastewater Plant	2,023,385			2,023,385
General Equipment and Automobiles	3,232,513	247,300		3,479,813
Water System	19,954,425			19,954,425
Gas System	1,305,883			1,305,883
Sewer System	10,903,125			10,903,125
Total	38,022,281	760,498		38,782,779
Less: Accumulated Depreciation	20,561,744	824,704		21,386,448
Fixed Assets Net of A/D	\$ 17,460,537	\$ (64,206)	\$ 0	\$ 17,396,331

NOTE J – BONDS AND NOTE PAYABLE

Notes payable at June 30, 2025 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.	\$ 29,902
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.	174,452

**CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2025**

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. 423,360

Total Utility Fund Notes Payable \$ 627,714

The annual requirements to amortize all Notes Payable outstanding as of June 30, 2025 including interest are as follows:

Year Ended June 30	Scheduled Interest & Fees	Scheduled Principal	Total Payment
2026	\$ 7,946	\$ 239,272	\$ 247,218
2027	4,556	35,267	39,823
2028	4,132	35,620	39,752
2029	3,703	35,977	39,680
2030	3,270	36,337	39,607
2031-2035	9,706	187,228	196,934
2036-2037	<u>697</u>	<u>58,013</u>	<u>58,710</u>
Totals	<u>\$ 34,010</u>	<u>\$ 627,714</u>	<u>\$ 661,724</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, 2025**

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%	\$ 1,537,500
\$4,925,000 Utilities Revenue Bonds, 2022 A series, maturing through January 1, 2044, with interest at 2.25%	<u>4,551,250</u>
Total Revenue Bonds Payable	<u>\$ 6,088,750</u>

The annual requirements to amortize all Bonds Payable outstanding as of June 30, 2025 including interest are as follows:

June 30	Scheduled Interest	Scheduled Principal	Total Payment
2026	\$ 204,084	\$ 261,250	\$ 465,334
2027	196,268	274,167	470,435
2028	188,033	289,167	477,200
2029	179,348	301,250	480,598
2030	170,270	317,083	487,353
2031-2035	728,643	1,733,753	2,462,396
2036-2040	397,901	1,973,333	2,371,234
2041-2044	74,332	938,747	1,013,079
 Totals	 \$ 2,138,879	 \$ 6,088,750	 \$ 8,227,629

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.

**CITY OF GRAYSON UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2025**

NOTE J – BONDS AND NOTE PAYABLE (Continued)

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.

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Business-type Activities:</u>					
Financing Obligations	\$ 892,689	\$	\$ 264,975	\$ 627,714	\$ 239,272
Revenue Bonds	<u>6,335,000</u>		<u>246,250</u>	<u>6,088,750</u>	<u>261,250</u>
Business-type Activities					
Long-term Liabilities	<u>\$ 7,227,689</u>	<u>\$ 0</u>	<u>\$ 511,225</u>	<u>\$ 6,716,464</u>	<u>\$ 500,522</u>

The total interest expense incurred by the Commission during the current fiscal year was \$214,709.

NOTE K – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 11, 2025, which is the date the financial statements were available to be issued.

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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, 2025, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated December 11, 2025.

Report on 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 or significant deficiencies may exist that were not 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*

Report on 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 financial statements. 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

December 11, 2025