

**THE GARRARD COUNTY WATER ASSOCIATION, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2018 AND 2017**

**WITH**

**INDEPENDENT AUDITORS' REPORT**

THE GARRARD COUNTY WATER ASSOCIATION, INC.

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
The Garrard County Water Association, Inc.

We have audited the accompanying financial statements of The Garrard County Water Association, Inc. ( a nonprofit organization), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income, fund equity, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility For Financial Statements**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standard* , issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to fraud or error.

An audit includes performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Garrard County Water Association, Inc. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report Dated February 28, 2019, on our consideration of The Garrard County Water Association, Inc.'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 Garrard County Water Association, Inc.'s internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Garrard County Water Association, Inc.'s internal control over financial reporting and compliance.

*Robinson, Hughes & Christopher, P.S.C.*

ROBINSON, HUGHES & CHRISTOPHER, P.S.C.  
Certified Public Accountants

February 28, 2019

THE GARRARD COUNTY WATER ASSOCIATION, INC.

BALANCE SHEETS

	December 31, 2018	December 31, 2017
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash on hand	\$ 300	\$ 300
Cash on deposit	566,856	606,192
Accounts receivable - trade (net of allowances for uncollectible accounts of \$11,348 and \$9,044 respectively)	166,362	159,984
Due from employees - health insurance	184	119
Tap on fees receivable	2,447	3,041
Interest and dividends receivable	21,775	15,364
Prepaid insurance	15,071	15,635
Encroachment permit deposit	25,000	75,000
Total Current Assets	<u>797,995</u>	<u>875,635</u>
RESTRICTED ASSETS:		
Cash in bank - System Improvement Project	217,753	-
Cash in bank - Extension Escrow Account	-	500
Certificates of deposit - used to satisfy loan requirements	201,303	-
Grant receivable	24,534	-
Total Restricted Assets	<u>443,590</u>	<u>500</u>
INVESTMENTS:		
Certificates of deposit	3,644,767	3,239,409
Debt and equity securities	596,507	627,417
Total Investments	<u>4,241,274</u>	<u>3,866,826</u>
FIXED ASSETS, LESS DEPRECIATION	<u>11,333,641</u>	<u>8,727,778</u>
TOTAL ASSETS	<u>\$ 16,816,500</u>	<u>\$ 13,470,739</u>
<u>LIABILITIES AND FUND EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 105,119	\$ 94,219
Interest payable	44,947	-
Note payable USDA	55,705	-
Construction costs payable	-	59,731
Payroll taxes payable	2,867	3,553
Contributions in advance of new connections	9,425	13,050
Rent deposit payable	1,000	1,000
Total Current Liabilities	<u>219,063</u>	<u>171,553</u>
LONG-TERM LIABILITIES:		
Note payable USDA	2,367,295	-
Construction costs payable	-	202,523
Total Long-term Liabilities	<u>2,367,295</u>	<u>202,523</u>
LIABILITIES PAYABLE FROM RESTRICTED CASH:		
Payable from extension escrow deposits	-	500
Construction costs payable	242,287	-
Total Liabilities Payable from Restricted Cash	<u>242,287</u>	<u>500</u>
TOTAL LIABILITIES	<u>2,828,645</u>	<u>374,576</u>
FUND EQUITY:		
Contributed capital	10,331,944	9,492,352
Retained earnings	3,655,911	3,603,811
Total Fund Equity	<u>13,987,855</u>	<u>13,096,163</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 16,816,500</u>	<u>\$ 13,470,739</u>

"See accompanying notes."

THE GARRARD COUNTY WATER ASSOCIATION, INC.

INCOME STATEMENTS

	For The Year Ended December 31,	
	2018	2017
OPERATING REVENUE:		
Water sales - metered	\$ 2,085,471	\$ 1,865,184
Service charges	85,315	88,002
Bulk water sales	1,431	2,543
Machine hire and labor	2,095	2,798
Hydrant fees	1,200	1,150
Miscellaneous	885	705
Total Operating Revenue	<u>2,176,397</u>	<u>1,960,382</u>
OPERATING EXPENSES:		
Purchased water	933,669	852,704
Depreciation	476,746	441,795
Salaries (net of capitalized labor)	305,719	300,372
Repairs and maintenance	107,328	95,780
Group insurance	50,494	35,283
Interest expense	44,947	-
Postage	32,359	30,910
Legal and accounting	31,725	33,612
Insurance	30,139	30,501
Utilities and telephone	27,712	28,447
Payroll taxes	25,677	25,109
Directors' fees	21,000	20,750
Water sampling	17,404	6,299
Bad debts	16,998	16,656
Gas and oil	15,589	12,571
Pension expense	10,005	9,843
Bill processing fees	9,807	16,956
PSC assessment	3,927	4,138
Office supplies	2,634	5,308
Collection fees - loading stations	1,226	1,200
Other	9,411	8,341
Total Operating Expenses	<u>2,174,516</u>	<u>1,976,575</u>
OPERATING INCOME (LOSS)	1,881	(16,193)
OTHER INCOME (EXPENSE):		
Investment income	47,335	111,527
Investment fees	(2,238)	(2,227)
Rent income	6,000	4,500
Rental expenses	(878)	-
Gain on disposition of equipment	-	3,100
NET INCOME	<u>\$ 52,100</u>	<u>\$ 100,707</u>

"See accompanying notes."

THE GARRARD COUNTY WATER ASSOCIATION, INC.  
STATEMENTS OF FUND EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Contributed Capital	Retained Earnings	Total Fund Equity
Beginning balance January 1, 2017	\$ 9,456,602	\$ 3,503,104	\$ 12,959,706
CONTRIBUTED CAPITAL:			
Contributions in aid of construction received or credited	32,050		32,050
Line donated by developer	3,700		3,700
NET INCOME FOR THE PERIOD		100,707	100,707
Ending balance December 31, 2017	<u>9,492,352</u>	<u>3,603,811</u>	<u>13,096,163</u>
CONTRIBUTED CAPITAL:			
Contributions in aid of construction received or credited	56,550		56,550
Grant received from the Unites States Department of Agriculture - Rural Utility Services	783,042		783,042
NET INCOME FOR THE PERIOD		52,100	52,100
Ending balance December 31, 2018	<u><u>\$ 10,331,944</u></u>	<u><u>\$ 3,655,911</u></u>	<u><u>\$ 13,987,855</u></u>

"See accompanying notes."

THE GARRARD COUNTY WATER ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

	For The Year Ended December 31,	
	2018	2017
Cash Flows From Operating Activities:		
Net income	\$ 52,100	\$ 100,707
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	476,746	441,795
Gain on disposition of equipment	-	(3,100)
Realized (gain) or loss on investments	166	5,718
Unrealized (gain) or loss on investments	60,992	(23,091)
Change in:		
Accounts receivable	(6,378)	(13,302)
Other receivables	529	1,840
Interest receivable	(6,411)	(4,043)
Prepaid expenses	564	(1,027)
Accounts payable	10,214	8,225
Interest payable	44,947	-
Rent deposit payable	-	1,000
Net Cash Provided By Operating Activities	633,469	514,722
Cash Flows From Investing Activities:		
Fixed assets purchased	(3,082,609)	(935,047)
Proceeds from sale of fixed assets	-	3,100
Change in encroachment permit deposit	50,000	(75,000)
Proceeds from investments sold and matured	598,067	866,811
Investments purchased	(1,234,976)	(1,201,071)
Net Cash Used In Investing Activities	(3,669,518)	(1,341,207)
Cash Flows From Financing Activities:		
Contributions from customers in aid of meter installations	56,550	32,050
Contributions from customers in advance of meter installations	(3,625)	11,600
Grant from USDA RUS	783,042	-
Change in grant receivable	(24,534)	-
Loan proceeds received from USDA RUS	2,423,000	-
Change in construction costs payable	(19,967)	262,254
Net Cash Provided By Financing Activities	3,214,466	305,904
Net increase (decrease) in cash	178,417	(520,581)
Cash at beginning of year	606,492	1,127,073
Cash at end of year	\$ 784,909	\$ 606,492

Supplemental Schedule of Noncash Investing and Financing Activities:

During 2017, a water service line costing \$3,700 was donated to the Association.

No interest was paid during 2018, because the first payment on the USDA note wasn't due until 2019.

"See accompanying notes."



THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE I - Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The Garrard County Water Association, Inc. (the Association) was incorporated on February 3, 1970. The Association sells water to residential, agricultural, and commercial customers in much of rural Garrard County and parts of Madison, Lincoln, and Rockcastle Counties, Kentucky.

Basis of Accounting

The financial statements of the Association have been prepared in accordance with generally accepted accounting principles (GAAP) and accordingly, reflect all significant receivables, payables and other liabilities.

Use of Estimates

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, all bank deposits and repurchase agreements purchased with a maturity of three months or less are considered to be cash equivalents. Overdrafts are treated as components of cash if the bank has the right of offset against other deposits.

Accounts Receivable - Trade

Receivables for water sales are recorded monthly following the reading of meters and verification of those readings.

On a quarterly basis, the Association's board of directors is provided with a listing of accounts deemed to be uncollectible. Generally, this listing is comprised of customers who have moved without paying their water bill and for which no forwarding address can be found. After reviewing the listing, the board approves charging off the accounts.

The allowance for doubtful accounts is calculated using the percentage of sales charged off over the the most recent five years multiplied by the customer accounts receivable outstanding.

Inventory

Materials and supplies are expensed when purchased with no inventory account being maintained. Management considers such inventories immaterial in relation to the financial statements taken as a whole.

Investments

Investments in certificates of deposit which the Association has both the intention and ability to hold to maturity are reported at cost.

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value on the balance sheet.

Investment income consists of interest and dividend income on investments as well as realized and unrealized gains. Investment fees are recognized as an expense.

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE I - Nature of Activities and Summary of Significant Accounting Policies (continued)

Fixed Assets

Fixed assets purchased by the Association are recorded at cost. New line additions received from subdivision developers and others are recorded at the cost incurred to construct the additions. Other fixed assets donated to the Association are recorded at fair value at the time of the donation. Fixed asset additions costing less than \$500 are charged to expense as purchases are made. Fixed assets are reported on the financial statements net of an allowance for depreciation. Depreciation expense has been calculated on the straight-line basis over the estimated useful lives of the assets.

Contributed Capital

Customer connection fees received for existing lines, grants received, and service lines contributed by others have been accorded the same treatment in these statements as that required by the Public Service Commission. This policy results in such amounts being credited directly to contributed capital rather than being recorded as income. Connection fees received for new lines are recorded as liabilities until construction is completed.

Reimbursements to developers for partial cost of line additions are offset against contributed capital.

Income Taxes

The Association has been classified as exempt from income taxes under IRC Section 501(c)(12) and will retain this exemption as long as at least 85% of its gross income consists of amounts collected from members for the sole purpose of meeting losses and expenses. Management monitors to make certain that the 85% test described above is met and that all income not collected from members is excluded from tax under IRC Sections 512, 513, or 514. Accordingly, management has determined that no provision for income taxes is needed and that no significant exposure to risk of assessment of income or excise taxes currently exists. The federal returns for the current and preceding three years remain subject to examination.

NOTE II - Deposits

A. Accounts Maintained

The Association maintains the following unrestricted accounts - Revenue Funds, Operation and Maintenance and Depreciation Reserve.

All income collected, with the exception of interest credited to other interest bearing checking accounts, is deposited to the Revenue Funds Account.

An amount sufficient to pay reasonable and necessary current expenses is to be maintained in the Operation and Maintenance Account. The Association transfers funds from the Revenue Funds Account at the beginning of each month in order to meet these expenses.

The Association has also established a Depreciation Reserve Account to be drawn against for large and non-recurring expenditures.

The Association also maintains the following restricted accounts - USDA general loan reserve, USDA debt service reserve, system improvements, and extension escrow account.

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE II - Deposits (continued)

Pursuant to a loan security agreement with the United States Department of Agriculture dated May 2, 2017, the Association is required to set aside \$839 per month in a general loan reserve account until a sum of \$100,652 is accumulated. Subject to the written approval of the USDA, amounts accumulated in this account may be withdrawn and used for such things as loan installments, emergency maintenance, extensions to facilities and replacement of short-lived assets. The Association has elected to fully fund the general loan reserve currently.

Also pursuant to the aforementioned security agreement, the Association is required to set aside monthly, in a debt service reserve, an amount sufficient to service the annual loan payment of \$100,652 due annually on January 4th .

The 2017 systems improvement project was funded by Association funds, a USDA loan and USDA grant. Funds deposited to the account may be used only for the payment of costs associated with the project.

The Association requires developers of new subdivisions and others desiring to add privately sponsored extensions to make deposits to an Extension Escrow Account to cover the cost of waterline extensions. The waterline construction costs are then paid from the Escrow Account as incurred. Any deposits remaining at the end of the construction are refunded to the sponsor of the extension.

B. Deposit Security

The Association maintains its deposits with various banks. At December 31, 2018, \$4,097,570 of the balance was covered by standard federal depository insurance, \$427,747 was secured by securities under a repurchase agreement described on below, and \$105,362 was unsecured.

Pursuant to a sweep account agreement with a local bank, a balance of \$25,000 is maintained in a non-interest bearing checking account. On a daily basis, funds are either swept out of or into the account as necessary to maintain the \$25,000 balance. The funds in excess of \$25,000 are placed in retail repurchase agreements (Repos). The Repos evidence a borrowing by the bank to be fully collateralized by securities which are the direct obligation of, or the principal and interest of which are fully guaranteed by, the United States, one of its agencies, or investment grade securities or investment grade corporate bonds. All securities which are part of the repurchase agreement are held by a third party custodian which serves as agent for the Association.

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE II - Deposits (continued)

C. Summary of Account Balances

	Cash on Deposit			Certificates of Deposit Included in Investments	Total Deposits
	Non-Interest Bearing	Interest Bearing	Total		
<u>Unrestricted deposits:</u>					
Revenue Funds	\$ 25,000	\$ 427,747	\$ 452,747	\$ -	\$ 452,747
Operations and Maintenance	62,801		62,801		62,801
Depreciation Reserve	-	51,308	51,308	3,644,767	3,696,075
Total Unrestricted Deposits	87,801	479,055	566,856	3,644,767	4,211,623
<u>Restricted deposits:</u>					
USDA general loan reserve				100,652	100,652
USDA debt service				100,651	100,651
System Improvements	217,753	-	217,753	-	217,753
Total Restricted Deposits	217,753	-	217,753	201,303	419,056
Total deposits	<u>\$ 305,554</u>	<u>\$ 479,055</u>	<u>\$ 784,609</u>	<u>\$ 3,846,070</u>	<u>\$ 4,630,679</u>

D. Maturities - Certificates of Deposit

A breakdown of certificates of deposit by year of maturity is as follows:

2019	697,070
2020	1,050,000
2021	799,000
2022	1,300,000
	<u>\$ 3,846,070</u>

Note III - Investments - Debt and Equity Securities

In addition to investments in certificates of deposit described in Note II, the Association has invested in various debt and equity securities. As previously stated, these investments are reported at fair value on the balance sheet and are considered to be trading securities.

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a fair value hierarchy that requires the Association to maximize the use of observable inputs when measuring fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Association's market assumptions. The three levels to the fair value hierarchy are discussed on the following page.

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note III - Investments - Debt and Equity Securities (continued)

Level 1 - Quoted prices for identical assets or liabilities in active markets.

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; or market-corroborated inputs.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

During 2018 and 2017, all of the Association's debt and equity securities were measured using either level 1 or level 2 inputs. The following tables represent debt and equity investments that are measured at fair value on a recurring basis at December 31, 2018 and 2017:

	December 31, 2018		
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Corporate bonds and notes	\$ 215,295	\$ -	\$ 215,295
Mutual fund - balanced fund	164,568	164,568	
Equity mutual funds	77,829	77,829	
Mutual funds investing in interest bearing securities	53,935	53,935	
Mutual funds - real estate	38,072	38,072	
Closed end utility fund	19,968	19,968	
Money market fund	14,517	14,517	
Exchange traded fund - S&P U.S. Preferred Stock Index	12,323	12,323	
Total	<u>\$ 596,507</u>	<u>\$ 381,212</u>	<u>\$ 215,295</u>

	December 31, 2017		
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Corporate bonds and notes	\$ 197,673	\$ -	\$ 197,673
Mutual fund - balanced fund	173,427	173,427	
Equity mutual funds	92,016	92,016	
Mutual funds investing in interest bearing securities	65,393	65,393	
Mutual funds - real estate	46,117	46,117	
Closed end utility fund	20,736	20,736	
Money market fund	18,350	18,350	
Exchange traded fund - S&P U.S. Preferred Stock Index	13,705	13,705	
Total	<u>\$ 627,417</u>	<u>\$ 429,744</u>	<u>\$ 197,673</u>

NOTE IV - Investment Income

Investment income consisted of the following:

	For the year ended December 31,	
	2018	2017
Interest income	\$ 83,009	\$ 73,865
Dividends	25,235	20,289
Unrealized gain (loss) on investments	(60,743)	23,091
Realized loss on investments	(166)	(5,718)
Total	<u>\$ 47,335</u>	<u>\$ 111,527</u>

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE V - Accounts Receivable - Trade

As of December 31, 2018, the outstanding trade accounts receivable consisted of the following.

	Current	Period Since Due Date			Total
		30-59 Days	60-89 Days	90 Days and Over	
Customers	\$ 117,389	\$ 17,795	\$ 11,052	\$ 31,224	\$ 177,460
Miscellaneous	250				250
Total	<u>\$ 117,639</u>	<u>\$ 17,795</u>	<u>\$ 11,052</u>	<u>\$ 31,224</u>	<u>\$ 177,710</u>

NOTE VI - Fixed Assets

Fixed assets consisted of the following at December 31, 2018 and 2017:

	Depreciable Lives -Years	Historical Cost Basis	
		2018	2017
Land and land rights	N/A	\$ 99,907	\$ 99,907
Land held for rental	N/A	24,004	24,004
Distribution reservoirs and standpipes	40 - 50	2,003,229	1,255,843
Transmission and distribution mains	40 - 50	15,245,390	12,534,128
Fire mains	50	6,803	6,803
Meters and meter installations	40 -50	1,721,062	1,588,340
Hydrants	40 -50	8,859	8,859
Maintenance equipment	5 - 10	309,925	309,925
Loading station equipment	10	2,750	2,750
Buildings	25 - 40	133,644	133,644
Rental building	40	53,757	53,758
Office equipment	5	68,767	42,928
Construction in process	N/A	-	858,531
Total		19,678,097	16,919,420
Less: Accumulated depreciation		8,344,456	8,191,642
Total Fixed Assets		<u>\$ 11,333,641</u>	<u>\$ 8,727,778</u>

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE VII - Long-term Debt

Construction Costs Payable

As further discussed in Note X, at December 31, 2017, the Association owed \$202,523 in construction costs that were to be paid for with the first draw on a \$2,423,000 loan from the Rural Utilities Service of the United States Department of Agriculture (RUS). Because this payable was to be funded with long-term debt, it was required to be classified as long-term debt.

Note Payable USDA

During 2018, the \$2,423,000 loan proceeds were received from and a promissory note was issued to the Rural Utility Services of the United States Department of Agriculture. The note bears an interest rate of 2.75% and is to be repaid in 40 annual payments of \$100,652. The note is secured by a pledge of revenues and a lien on all personal and real property owned by the Association.

The terms of the note include certain requirements to establish cash reserves. These requirements are more fully described in Note II.

The following schedule summarizes the maturities of principle for the note for the next five years.

2019	\$ 55,705
2020	35,551
2021	36,529
2022	37,534
2023	38,565
2024-2058	<u>2,219,116</u>
Total	2,423,000
Less current portion	(55,705)
Long-term portion	<u>\$ 2,367,295</u>

NOTE VIII - Pension Expense

The Association provides pension benefits to eligible employees through a 401-K plan. Employees must be age 21 or over with one year of service as of either of the plan entrance dates of January 1 and July 1 to be eligible to participate. Employee participation is elective. Employees under age 50 may elect to contribute up to \$18,500 annually. Employees age 50 or over may elect to contribute up to \$24,500 annually. Employee elective contributions are matched by the employer up to 5% of employee compensation.

Under the plan, employees are immediately vested in the contributions made by the employee and are vested in the employer contributions over a five year period beginning with the date of employment as follows:

0 - 1 year	0%	3 years	60%
1 year	20%	4 years	80%
2 years	40%	5 years	100%

The Association's policy is to fund the pension expense as the liability accrues.

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE IX - Insurance In Force

In order to secure itself against various unexpected losses, the Association maintains insurance coverage as described below:

<u>Description</u>	<u>Amount</u>
Workers compensation	Statutory Limit
Kentucky Association of Counties All Lines Fund	
General liability	\$ 3,000,000
Real and personal property	15,000,000
Public officials	3,000,000
Auto liability	3,000,000
Auto comprehensive and collision	ACV
Public officials and employee fidelity	150,000
ERISA bond	100,000

NOTE X - Commitments and Contingencies

During 2017, the Association entered into various contracts for the construction of water transmission and storage improvements with an estimated total cost to complete of \$3,887,000. The Association was to provide \$657,000 of the funding for the construction project. A loan from the RUS of \$2,423,000 and a RUS grant of \$807,000 was to provide the remaining funding.

During 2018, the project was almost entirely completed. As of December 31, 2018, the remaining unaccrued costs to complete the project totaled \$36,014. Of this amount, \$23,958 was paid using the remaining RUS grant funds committed to the project. The remaining \$12,056 was paid with additional Association funds.

In connection with the construction of additional water lines, the Association has received various grants. Terms of the grants include repayment of the grant funds in the event of the Association's default on its representations and warranties as specified in the grant agreements.

NOTE XI - Source of Water Supply

The Association purchases most of its water (81.2% during 2018) from the City of Lancaster under a contract dated October 3, 2017 which was effective January 1, 2018. This new contract continues the relationship between these two entities indefinitely. The Association is, therefore, dependent upon the continuing ability of the City of Lancaster to provide a sufficient supply of water.

NOTE XII- Concentration of Credit Risk

The Association is subject the credit risks associated with selling water to residential, agricultural, and commercial customers in an area where the economy is largely agricultural based.



THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE XIII - Water Losses

During 2018, the Association incurred the following water loss:

	Gallons (1,000's)	Percent
Water purchased	397,358	100.00 %
Less: metered sales to customers	(312,551)	(78.66)
unmetered sales to customers (loading stations)	(400)	(0.10)
water used by Association	(5,759)	(1.45)
Water loss	<u>78,648</u>	<u>19.79 %</u>

Breakdown of water loss:

Line leaks	71,260	17.93 %
Tank overflows	-	-
Line breaks	<u>7,388</u>	<u>1.86</u>
Total water loss	<u>78,648</u>	<u>19.79 %</u>

NOTE XIV- Subsequent Events

Events subsequent to December 31, 2018 have been evaluated to determine their potential impact on the financial statements. Events through February 28, 2019, the date the financial statements were available to be issued, were considered.

There were no events occurring during this period requiring disclosure in the financial statements.

THE GARRARD COUNTY WATER ASSOCIATION, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

Federal Grantor/ <u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.760	\$ 3,206,042
Federal expenditures financed by:		
USDA Rural Utility Services loan		\$ 2,423,000
USDA Rural Utility Services grant		783,042
Total federal expenditures		\$ 3,206,042

**Notes to Schedule of Expenditures of Federal Awards**

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of The Garrard County Water Association, Inc. under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of The Garrard County Water Association, Inc., it is not intended to and does not present the financial position, income, changes in fund equity, or cash flows of The Garrard County Water Association, Inc.

Note B - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Only cost directly relating to the water improvements project partially financed by the USDA Rural Utility Services loan and grant included on the Schedule. Thus, no election was made by The Garrard County Water Association, Inc. with regard to the 10% de minimus cost rate as covered in 2 CFR section 200.414.

Note C - Balance of Loan Outstanding

The full amount of the USDA Rural Utility Services loan, \$2,423,000, was outstanding at December 31, 2019.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

Board of Directors  
The Garrard County Water Association, Inc.

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 Garrard County Water Association, Inc. (a nonprofit association), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income, fund equity, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 28, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered The Garrard County Water Association, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Garrard County Water Association, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of The Garrard County Water Association, Inc.'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 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 material misstatement 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 we consider to be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The Garrard County Water Association, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements that 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*.

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, 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.

## **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 association'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 association's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

*Robinson, Hughes & Christopher, P.S.C.*

ROBINSON, HUGHES & CHRISTOPHER, P.S.C.  
Certified Public Accountants

February 28, 2019

**Robinson, Hughes & Christopher, P.S.C.**  
**Certified Public Accountants**  
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM  
GUIDANCE**

Board of Directors  
The Garrard County Water Association, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited The Garrard County Water Association, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on The Garrard County Water Association, Inc.'s only major program for the year ended December 31, 2018. The Garrard County Water Association, Inc.'s major federal program was a Water and Waste Disposal Systems for Rural Communities Project funded by a loan and a grant received from the United States Department of Agriculture Rural Utilities Service (CFDA 10.760).

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for The Garrard County Water Association, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Garrard County Water Association, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for The Garrard County Water Association, Inc.'s major program. However, our audit does not provide a legal determination of The Garrard County Water Association, Inc.'s compliance.

## **Opinion on Each Major Federal Program**

In our opinion, The Garrard County Water Association, Inc. complied, in all material respects, with the types of compliance requirements referred to on the previous page that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

## **Other Matters**

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance.

## **Report on Internal Control Over Compliance**

Management of The Garrard County Water Association, Inc. is responsible for establishing and maintaining internal control over compliance with the types of compliance requirements referred to on the previous page. In planning and performing our audit of compliance, we considered The Garrard County Water Association, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform guidance, but not for the purpose of expressing an opinion on the effectiveness of The Garrard County Water Association, Inc.'s internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based upon the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Robinson, Hughes & Christopher, P.S.C.*

ROBINSON, HUGHES & CHRISTOPHER, P.S.C.  
Certified Public Accountants

February 28, 2019

THE GARRARD COUNTY WATER ASSOCIATION, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2018

**SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unmodified opinion on whether the financial statements of The Garrard County Water Association, Inc. were prepared in accordance with GAAP.
2. No significant deficiencies or material weaknesses in internal control were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of The Garrard County Water Association, Inc. were disclosed during the audit.
4. No significant deficiencies or material weakness in internal control over major federal award programs were disclosed during the audit.
5. The auditors' report on compliance for the major federal award program of The Garrard County Water Association, Inc. expressed an unmodified opinion on the major federal award program.
6. There were no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a).
7. During 2018, The Garrard County Water Association, Inc. received funding from one federal program. This program, tested as a major program was:  
Water and Waste Disposal Systems for Rural Communities      CFDA 10.760
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The Garrard County Water Association, Inc. was not considered to be a low-risk auditee.

**FINDINGS - FINANCIAL STATEMENT AUDIT**

There were no findings relating to the financial statements that were required to be reported in accordance with *Government Auditing Standards*.

**FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None