

THE GARRARD COUNTY WATER ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, and the related statements of income, retained earnings, 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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, 2019 and 2018, 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.

Emphasis-of-Matter

During 2019, The Garrard County Water Association, Inc. adopted revenue accounting standards collectively referred to as ASC 606. The adoption of these new standards was required under accounting principles generally accepted in the United States of America. Management elected to implement ASC 606 retroactively to 2018. Accordingly, certain account balances and transactions previously reported on the 2018 statements have been restated. These changes are described in the accounting policies disclosures on page 7 of the financial statements. These changes do not modify our opinion as provided in the preceding paragraph.

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

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

February 27, 2020

THE GARRARD COUNTY WATER ASSOCIATION, INC.

BALANCE SHEETS

	December 31, 2019	December 31, 2018
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash on hand	\$ 400	\$ 300
Cash in bank	738,421	566,856
Accounts receivable - trade (net of allowances for uncollectible accounts of \$8,708 and \$11,348 respectively)	171,687	166,362
Due from employees - health insurance	-	184
Connection fees receivable	2,062	2,447
Interest and dividends receivable	23,886	21,775
Prepaid insurance	14,510	15,071
Encroachment permit deposit	-	25,000
Total Current Assets	<u>950,966</u>	<u>797,995</u>
RESTRICTED ASSETS:		
Cash in bank - System Improvement Project	-	217,753
Certificates of deposit - used to satisfy loan requirements	201,303	201,303
Grant receivable	-	24,534
Total Restricted Assets	<u>201,303</u>	<u>443,590</u>
INVESTMENTS:		
Certificates of deposit	3,595,697	3,644,767
Debt and equity securities	691,784	596,507
Total Investments	<u>4,287,481</u>	<u>4,241,274</u>
FIXED ASSETS, LESS DEPRECIATION	<u>11,078,445</u>	<u>11,333,641</u>
TOTAL ASSETS	<u>\$ 16,518,195</u>	<u>\$ 16,816,500</u>
<u>LIABILITIES AND RETAINED EARNINGS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 150,889	\$ 105,119
Interest payable	10,955	44,947
Note payable USDA	89,044	55,705
Payroll taxes payable	3,418	2,867
Fees received in advance of new connections	725	9,425
Rent deposit payable	1,000	1,000
Total Current Liabilities	<u>256,031</u>	<u>219,063</u>
LONG-TERM LIABILITIES:		
Note payable USDA	2,081,086	2,367,295
LIABILITIES PAYABLE FROM RESTRICTED CASH:		
Construction costs payable	-	242,287
TOTAL LIABILITIES	<u>2,337,117</u>	<u>2,828,645</u>
RETAINED EARNINGS	<u>14,181,078</u>	<u>13,987,855</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$ 16,518,195</u>	<u>\$ 16,816,500</u>

"See accompanying notes."

THE GARRARD COUNTY WATER ASSOCIATION, INC.

INCOME STATEMENTS

	For The Year Ended December 31,	
	2019	2018
OPERATING REVENUE:		
Water sales - metered	\$ 2,142,354	\$ 2,085,471
Service charges	89,725	85,315
Connection fees	65,050	56,550
911 tax processing fee	10,335	-
Bulk water sales	1,545	1,431
Machine hire and labor	1,625	2,095
Hydrant fees	1,000	1,200
Miscellaneous	2,253	885
Total Operating Revenue	<u>2,313,887</u>	<u>2,232,947</u>
OPERATING EXPENSES:		
Purchased water	1,013,213	933,669
Depreciation	577,254	476,746
Salaries (net of capitalized labor)	344,770	305,719
Repairs and maintenance	89,585	107,328
Interest expense	63,789	44,947
Group insurance	59,702	50,494
Postage	33,837	32,359
Legal and accounting	30,498	31,725
Insurance	28,928	30,139
Payroll taxes	28,722	25,677
Directors' fees	20,750	21,000
Bad debts	18,780	16,998
Water sampling	17,298	17,404
Utilities and telephone	16,733	27,712
Gas and oil	13,605	15,589
Bill processing fees	13,593	9,807
Pension expense	10,472	10,005
Office supplies	5,887	2,634
PSC assessment	4,257	3,927
Loading station fee	1,200	1,226
Other	9,231	9,411
Total Operating Expenses	<u>2,402,104</u>	<u>2,174,516</u>
OPERATING INCOME (LOSS)	(88,217)	58,431
OTHER INCOME (EXPENSE):		
Government grants received	23,958	783,042
Contribution by developer to finance water line	33,206	-
Investment income	193,793	47,335
Investment fees	(2,412)	(2,238)
Rent income	6,000	6,000
Rental expenses	(860)	(878)
Gain on disposition of equipment	27,755	-
NET INCOME	<u>\$ 193,223</u>	<u>\$ 891,692</u>

"See accompanying notes."

THE GARRARD COUNTY WATER ASSOCIATION, INC.
STATEMENTS OF RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>For The Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 13,987,855	\$ 13,096,163
Net income for the period	<u>193,223</u>	<u>891,692</u>
Ending balance	<u>\$ 14,181,078</u>	<u>\$ 13,987,855</u>

"See accompanying notes."

THE GARRARD COUNTY WATER ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

	<u>For The Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities:		
Net income	\$ 193,223	\$ 891,692
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	577,254	476,746
Grant from USDA RUS	(23,958)	(783,042)
Gain on disposition of equipment	(27,755)	-
Realized (gain) or loss on investments	7,390	166
Unrealized (gain) or loss on investments	(75,044)	60,992
Contribution by developer to finance water line	(33,206)	-
Change in:		
Accounts receivable	(5,325)	(6,378)
Other receivables	569	529
Interest receivable	(2,111)	(6,411)
Prepaid expenses	561	564
Accounts payable	46,321	10,214
Interest payable	(33,992)	44,947
Fees received in advance of new connections	(8,700)	(3,625)
Net Cash Provided By Operating Activities	<u>615,227</u>	<u>686,394</u>
Cash Flows From Investing Activities:		
Fixed assets purchased	(312,693)	(3,082,609)
Proceeds from sale of fixed assets	18,390	-
Change in encroachment permit deposit	25,000	50,000
Proceeds from investments sold and matured	631,610	598,067
Investments purchased	(610,163)	(1,234,976)
Net Cash Used In Investing Activities	<u>(247,856)</u>	<u>(3,669,518)</u>
Cash Flows From Financing Activities:		
Grant from USDA RUS	23,958	783,042
Change in grant receivable	24,534	(24,534)
Loan proceeds received from USDA RUS	-	2,423,000
Principal payments made on USDA loan	(252,870)	-
Contribution by developer to finance water line	33,206	-
Change in construction costs payable	(242,287)	(19,967)
Net Cash Provided (Used) By Financing Activities	<u>(413,459)</u>	<u>3,161,541</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	(46,088)	178,417
Cash, cash equivalents, and restricted cash at beginning of year	784,909	606,492
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 738,821</u>	<u>\$ 784,909</u>
Cash on hand	\$ 400	\$ 300
Unrestricted cash in bank	738,421	566,856
Restricted cash in bank - System Improvement Project	-	217,753
Total cash, cash equivalents, and restricted cash at end of year	<u>\$ 738,821</u>	<u>\$ 784,909</u>

Supplemental Schedule of Noncash Investing and Financing Activities:

Interest of \$97,781 was paid during 2019. No interest was paid during 2018.

During 2019, two trucks were traded in on new trucks and trade-in allowances totaling \$9,600 were received.

"See accompanying notes."

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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. Those readings are typically taken around the 12th of each month.

Unbilled water sales occurring between the 13th and end of each month are not accrued as receivables and the related water purchases are not accrued as payables. Management considers such receivables and payables immaterial in relation to the financial statements taken as a whole.

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.

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.

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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

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.

Revenue Recognition

Revenue relates to the sale of water and associated service charges and connection fees. Water sales are recognized following monthly reading of customer water meters and is for water already provided to the customer. Service charges include fees for unlocking meters charged new customers moving into addresses with existing meters, collection fees charged when Association employees receive payment from a customer at the customer's home or place of business at the time the customer's meter was scheduled to be disconnected for failure to pay, and reconnection fees charged when a customer whose meter was disconnected for failure to pay their bill subsequently pays their bill and requests that the Association reconnect their meter. The service charges described in the previous sentence are recognized when the service is performed. Service charges also include a penalty equal to 10% of water charges assessed to customers failing to pay their bills by the 10th of the month, as required. Penalties are recognized as income on the date they are assessed.

Connection fees are charged to customers when a new meter is added to the system. Upon receipt, this fee is initially recorded as liability and is recognized as income when the new meter is added to the system and service is established, typically within 10 to 14 business days.

The rates charged to customers for water and all associated service charges and connection fees are subject to pre-approval by the Kentucky Public Service Commission (PSC).

Adoption of New Accounting Standard

On January 1, 2019, the Association adopted *Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "ASC 606"), which creates a single framework for recognizing revenue from contracts with customers that fall within its scope. ASC 606 is intended to improve comparability across industries and provide improved disclosures.

Currently, GAAP provides no specific guidance as to the recognition of government grants on the financial statements of business enterprises and the accounting for such grants varies. Prior to adoption of ASC 606, the Association recognized receipt of such grants, as well as connection fees received from members and line additions donated by developers, as contributed capital on a separate statement of fund equity rather than as income on the income statement. In view of ASC 606, management has determined that these transactions should be reported on the income statement. Accordingly, connection fees received from members are now included in operating income and government grants received in aid of construction and lines contributed by developers are included on the income statement as other income.

For the sake of comparability, management has elected to retroactively apply the changes in accounting for revenue to the 2018 financial statements. As a result, \$56,550 of connection fees have been reclassified to operating revenue and \$783,042 in government grants have been moved to other income on the 2018 income statement.

Consistent with the reclassifications mentioned in the previous paragraph, fund equity as of January 1, 2018, totaling \$13,096,163 which was previously bifurcated into two classifications - contributed capital of \$9,492,352 and retained earnings of \$3,603,811 - has been restated to the single classification of retained earnings.

While the implementation of ASC 606 resulted in reclassifications of transactions and fund equity, management has determined that it did not result in any significant change in the timing or amount of the transactions recognized when compared to accounting standards used prior to its implementation.

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE II - Deposits

A. Accounts Maintained

The Association maintains the following unrestricted accounts - revenue, 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 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 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.

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 \$100,651 due annually on January 4th .

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 extension 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, 2019, \$4,024,030 of the balance was covered by standard federal depository insurance, \$511,391 was secured by securities under a repurchase agreement described below, and \$0 was unsecured. 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 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, 2019 AND 2018

NOTE II - Deposits (continued)

C. Summary of Account Balances

	December 31, 2019				
	Cash on Deposit			Certificates of Deposit Included in Investments	Total Deposits
	Non-Interest Bearing	Interest Bearing	Total		
<u>Unrestricted Deposits:</u>					
Revenue	\$ 25,000	\$ 514,659	\$ 539,659	\$ -	\$ 539,659
Operations and maintenance	198,762	-	198,762		198,762
Depreciation reserve	-	-	-	3,595,697	3,595,697
Total Unrestricted Deposits	223,762	514,659	738,421	3,595,697	4,334,118
<u>Restricted Deposits:</u>					
USDA general loan reserve	-	-	-	100,652	100,652
USDA debt service	-	-	-	100,651	100,651
Total Restricted Deposits	-	-	-	201,303	201,303
Total Deposits	\$ 223,762	\$ 514,659	\$ 738,421	\$ 3,797,000	\$ 4,535,421

	December 31, 2018				
	Cash on Deposit			Certificates of Deposit Included in Investments	Total Deposits
	Non-Interest Bearing	Interest Bearing	Total		
<u>Unrestricted Deposits:</u>					
Revenue	\$ 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	\$ 305,554	\$ 479,055	\$ 784,609	\$ 3,846,070	\$ 4,630,679

D. Maturities - Certificates of Deposit

A breakdown of certificates of deposit by year of maturity as of December 31, 2019 is as follows:

2020	\$ 1,050,000
2021	1,447,000
2022	1,300,000
	\$ 3,797,000

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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 as follows:

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 2019 and 2018, 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, 2019 and 2018:

	December 31, 2019		
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Mutual funds	\$ 402,528	\$ 402,528	\$ -
Corporate bonds and notes	227,550	-	227,550
Closed end utility fund	24,518	24,518	
Exchange traded fund	19,171	19,171	
Money market fund	18,017	18,017	
Total	<u>\$ 691,784</u>	<u>\$ 464,234</u>	<u>\$ 227,550</u>

	December 31, 2018		
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Mutual funds	\$ 334,404	\$ 334,404	\$ -
Corporate bonds and notes	215,295	-	215,295
Closed end utility fund	19,968	19,968	
Money market fund	14,517	14,517	
Exchange traded fund	12,323	12,323	
Total	<u>\$ 596,507</u>	<u>\$ 381,212</u>	<u>\$ 215,295</u>

NOTE IV - Investment Income

Investment income consisted of the following:

	<u>For the year ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Interest income	\$ 104,319	\$ 83,009
Dividends	21,820	25,235
Unrealized gain (loss) on investments	75,044	(60,743)
Realized loss on investments	(7,390)	(166)
Total	<u>\$ 193,793</u>	<u>\$ 47,335</u>

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE V - Accounts Receivable - Trade

Trade accounts receivable outstanding at the beginning of 2018 totaled \$169,028. The related allowance for doubtful accounts at that date was \$9,044.

As of December 31, 2019, 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	\$ 131,532	\$ 14,596	\$ 5,645	\$ 27,992	\$ 179,765
Miscellaneous			102	528	630
Total	<u>\$ 131,532</u>	<u>\$ 14,596</u>	<u>\$ 5,747</u>	<u>\$ 28,520</u>	<u>\$ 180,395</u>

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, 2019 and 2018:

	Depreciable Lives -Years	Historical Cost Basis	
		2019	2018
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	2,060,026	2,003,229
Transmission and distribution mains	40 - 50	15,336,369	15,245,390
Fire mains	50	6,803	6,803
Meters and meter installations	40 -50	1,776,355	1,721,062
Hydrants	40 -50	8,859	8,859
Maintenance equipment	5 - 10	340,782	309,925
Loading station equipment	10	2,750	2,750
Buildings	25 - 40	135,927	133,644
Rental building	40	53,757	53,757
Office equipment	5	66,589	68,767
Total		19,912,128	19,678,097
Less: Accumulated depreciation		8,833,683	8,344,456
Total Fixed Assets		<u>\$ 11,078,445</u>	<u>\$ 11,333,641</u>

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE VII - Note Payable USDA

During 2018, \$2,423,000 in 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 was to be repaid in 40 annual payments of \$100,652.

During 2019, the Association elected to pay an additional \$250,000 above the required \$100,652 annual payment. As a result, the remaining repayment period was reduced by seven years.

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

The loan is secured by a pledge of its properties both real and personal, an assignment and pledge of revenues, and all contract rights including accounts receivable.

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

	As of December 31,	
	2019	2018
2019	N/A	\$ 55,705
2020	\$ 89,044	35,551
2021	43,422	36,529
2022	44,616	37,534
2023	45,843	38,565
2024	47,104	39,626
2025 to maturity	1,900,101	2,179,490
Total	2,170,130	2,423,000
Less current portion	(89,044)	(55,705)
Long-term portion	<u>\$ 2,081,086</u>	<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 \$19,000 annually. Employees age 50 or over may elect to contribute up to \$25,000 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, 2019 AND 2018

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	150,000

NOTE X - Commitments and Contingencies

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 (91.4% during 2019) 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, 2019 AND 2018

NOTE XIII - Water Losses

During 2019, the Association incurred the following water losses:

	2019	
	Gallons (1,000's)	Percent
Water purchased	412,343	100.00 %
Less: metered sales to customers	(323,854)	(78.54)
unmetered sales via loading stations	(329)	(0.08)
water used by Association	(9,607)	(2.33)
Water loss	<u>78,553</u>	<u>19.05 %</u>

Breakdown of water loss:

Line leaks	68,763	16.68 %
Line breaks	9,790	2.37
Total water loss	<u>78,553</u>	<u>19.05 %</u>

NOTE XIV - Regulatory Capital

For purposes of reporting to the PSC, the Association continues to be required to recognize government grants received in aid of construction, as well as connection fees received from members and line additions donated by developers, as additions to the equity account "contributed capital" rather than as income on the income statement. The following table reconciles the information provided on the statement of changes in fund equity to equity capital as reported to the PSC.

	Contributed Capital	Retained Earnings	Total Fund Equity
Balance as of January 1, 2018 per statement	\$ -	\$13,096,163	\$13,096,163
To reclassify to regulatory basis	9,492,352	(9,492,352)	-
Balance as of January 1, 2018 for PSC	9,492,352	3,603,811	13,096,163
Net income for 2018 as reclassified for PSC	839,592	52,100	891,692
Balance as of December 31, 2018 per PSC	10,331,944	3,655,911	13,987,855
Net income for 2019 as reclassified for PSC	122,214	71,009	193,223
Balance as of December 31, 2019 per PSC	<u>\$10,454,158</u>	<u>\$ 3,726,920</u>	<u>\$14,181,078</u>

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE XV- Subsequent Events

Events subsequent to December 31, 2019, have been evaluated to determine their potential impact on the financial statements. Events through February 27, 2020, 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.