

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

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2020 AND 2019**

THE GARRARD COUNTY WATER ASSOCIATION, INC.

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1 - 2
BALANCE SHEETS	3
INCOME STATEMENTS	4
STATEMENTS OF RETAINED EARNINGS	5
STATEMENTS OF CASH FLOWS	6
NOTES TO THE FINANCIAL STATEMENTS	7 - 16
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	17-18

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
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 sheet as of December 31, 2020, and the related statements of income, retained earnings, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association'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 Association'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, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Prior Period Financial Statements**

The financial statements of the Association as of December 31, 2019, were audited by other auditors whose report dated February 27, 2020, expressed an unmodified opinion on those financial statements.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2021, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

*Kerbaugh, Rodes & Butler, PLLC*

Kerbaugh, Rodes & Butler, PLLC  
Certified Public Accountants

Danville, Kentucky  
March 8, 2021

THE GARRARD COUNTY WATER ASSOCIATION, INC.

BALANCE SHEETS

	December 31, 2020	December 31, 2019
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash on hand	\$ 400	\$ 400
Cash in bank	1,204,720	738,421
Accounts receivable - trade (net of allowances for uncollectible accounts of \$7,622 and \$8,708, respectively)	203,327	171,687
Connection fees receivable	1,103	2,062
Interest and dividends receivable	17,741	23,886
Prepaid expenses	20,369	14,510
Total Current Assets	<u>1,447,660</u>	<u>950,966</u>
RESTRICTED ASSETS:		
Certificates of deposit - used to satisfy loan requirements	201,303	201,303
Total Restricted Assets	<u>201,303</u>	<u>201,303</u>
INVESTMENTS:		
Certificates of deposit	2,395,697	3,595,697
Debt and equity securities	734,834	691,784
Total Investments	<u>3,130,531</u>	<u>4,287,481</u>
FIXED ASSETS, LESS DEPRECIATION	<u>10,845,563</u>	<u>11,078,445</u>
TOTAL ASSETS	<u>\$ 15,625,057</u>	<u>\$ 16,518,195</u>
<u>LIABILITIES AND RETAINED EARNINGS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 162,331	\$ 150,889
Interest payable	12,079	10,955
Note payable USDA	88,177	89,044
Payroll taxes payable	3,920	3,418
Fees received in advance of new connections	5,189	725
Rent deposit payable	1,000	1,000
Total Current Liabilities	<u>272,696</u>	<u>256,031</u>
LONG-TERM LIABILITIES:		
Note payable USDA	<u>1,075,944</u>	<u>2,081,086</u>
TOTAL LIABILITIES	<u>1,348,640</u>	<u>2,337,117</u>
RETAINED EARNINGS	<u>14,276,417</u>	<u>14,181,078</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$ 15,625,057</u>	<u>\$ 16,518,195</u>

"See accompanying notes."

THE GARRARD COUNTY WATER ASSOCIATION, INC.

INCOME STATEMENTS

	For The Year Ended December 31,	
	<u>2020</u>	<u>2019</u>
OPERATING REVENUE:		
Water sales - metered	\$ 2,106,108	\$ 2,142,354
Service charges	50,543	89,725
Connection fees	69,842	65,050
911 tax processing fee	15,788	10,335
Bulk water sales	136	1,545
Machine hire and labor	1,332	1,625
Hydrant fees	1,150	1,000
Miscellaneous	273	2,253
Total Operating Revenue	<u>2,245,172</u>	<u>2,313,887</u>
OPERATING EXPENSES:		
Purchased water	998,432	1,013,213
Depreciation	562,635	577,254
Salaries (net of capitalized labor)	369,340	344,770
Repairs and maintenance	82,611	89,585
Group insurance	75,938	59,702
Interest expense	45,768	63,789
Postage	32,860	33,837
Insurance	29,289	28,928
Bad debts	26,569	18,780
Payroll taxes	26,208	28,722
Legal and accounting	24,717	30,498
Directors' fees	17,500	20,750
Utilities and telephone	15,500	16,733
Pension expense	14,081	10,472
Gas and oil	10,081	13,605
Bill processing fees	8,605	13,593
Water sampling	7,834	17,298
Office supplies	6,539	5,887
PSC assessment	4,498	4,257
Loading station fee	-	1,200
Other	8,178	9,231
Total Operating Expenses	<u>2,367,183</u>	<u>2,402,104</u>
OPERATING INCOME (LOSS)	(122,011)	(88,217)
OTHER INCOME (EXPENSE):		
Government grant received - USDA	-	23,958
Government grant received - PPP	88,540	
Contribution by developer to finance water line	-	33,206
Investment income	127,616	193,793
Investment fees	(2,450)	(2,412)
Rent income	4,500	6,000
Rental expenses	(856)	(860)
Gain on disposition of equipment	-	27,755
NET INCOME	<u>\$ 95,339</u>	<u>\$ 193,223</u>

"See accompanying notes."

THE GARRARD COUNTY WATER ASSOCIATION, INC.  
STATEMENTS OF RETAINED EARNINGS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>For The Year Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 14,181,078	\$ 13,987,855
Net income for the period	<u>95,339</u>	<u>193,223</u>
Ending balance	<u>\$ 14,276,417</u>	<u>\$ 14,181,078</u>

"See accompanying notes."

THE GARRARD COUNTY WATER ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

	<u>For The Year Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities:		
Net income	\$ 95,339	\$ 193,223
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	562,635	577,254
Government grants	(88,540)	(23,958)
Gain on disposition of equipment	-	(27,755)
Realized (gain) or loss on investments	(1,701)	7,390
Unrealized (gain) or loss on investments	(19,646)	(75,044)
Contribution by developer to finance water line	-	(33,206)
Change in:		
Accounts receivable	(31,640)	(5,325)
Connection fees receivable	959	569
Interest receivable	6,145	(2,111)
Prepaid expenses	(5,859)	561
Accounts payable	11,442	45,770
Interest payable	1,124	(33,992)
Payroll taxes payable	502	551
Fees received in advance of new connections	4,464	(8,700)
Net Cash Provided By Operating Activities	<u>535,224</u>	<u>615,227</u>
Cash Flows From Investing Activities:		
Fixed assets purchased	(329,753)	(312,693)
Proceeds from sale of fixed assets	-	18,390
Change in encroachment permit deposit	-	25,000
Proceeds from investments sold and matured	1,247,000	631,610
Investments purchased	(68,703)	(610,163)
Net Cash Provided (Used) By Investing Activities	<u>848,544</u>	<u>(247,856)</u>
Cash Flows From Financing Activities:		
Government grants	88,540	23,958
Change in grant receivable	-	24,534
Principal payments made on USDA loan	(1,006,009)	(252,870)
Contribution by developer to finance water line	-	33,206
Change in construction costs payable	-	(242,287)
Net Cash Used By Financing Activities	<u>(917,469)</u>	<u>(413,459)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	466,299	(46,088)
Cash, cash equivalents, and restricted cash at beginning of year	<u>738,821</u>	<u>784,909</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 1,205,120</u>	<u>\$ 738,821</u>
Cash on hand	\$ 400	\$ 400
Unrestricted cash in bank	<u>1,204,720</u>	<u>738,421</u>
Total cash, cash equivalents, and restricted cash at end of year	<u>\$ 1,205,120</u>	<u>\$ 738,821</u>

Supplemental Schedule of Noncash Investing and Financing Activities:

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, 2020 AND 2019

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 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, 2020 AND 2019

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 customers 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 a 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).

The cost of lines contributed by developers are included on the income statement as other income at the time that the lines are accepted by the Association and added to the system.

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. Management has determined that these transactions should be reported on the income statement as other income at the time that the conditions of the grant are met.

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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, 2020, \$3,203,759 of the balance was covered by standard federal depository insurance, \$597,961 was secured by securities under a repurchase agreement described below, and \$0 was unsecured. 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.

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, 2020 AND 2019

NOTE II - Deposits (continued)

C. Summary of Account Balances

	December 31, 2020				
	Cash on Deposit			Certificates of Deposit Included in Investments	Total Deposits
	Non-Interest Bearing	Interest Bearing	Total		
<u>Unrestricted Deposits:</u>					
Revenue	\$ 25,000	\$ 1,051,087	\$ 1,076,087	\$ -	\$ 1,076,087
Operations and maintenance	128,633	-	128,633		128,633
Depreciation reserve	-	-	-	2,395,697	2,395,697
Total Unrestricted Deposits	153,633	1,051,087	1,204,720	2,395,697	3,600,417
<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	\$ 153,633	\$ 1,051,087	\$ 1,204,720	\$ 2,597,000	\$ 3,801,720

A breakdown of certificates of deposit by year of maturity as of December 31, 2020 follows:

2021	\$ 1,297,000
2022	1,300,000
	\$ 2,597,000

	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

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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 2020 and 2019, 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, 2020 and 2019:

	December 31, 2020		
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Mutual funds	\$ 460,108	\$ 460,108	\$ -
Corporate bonds and notes	195,794	-	195,794
Closed end utility fund	19,699	19,699	
Exchange traded fund	30,038	30,038	
Money market fund	29,195	29,195	
Total	<u>\$ 734,834</u>	<u>\$ 539,040</u>	<u>\$ 195,794</u>

	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>

NOTE IV - Investment Income

Investment income consisted of the following:

	<u>For the year ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Interest income	\$ 88,793	\$ 104,319
Dividends	17,476	21,820
Unrealized gain on investments	19,646	75,044
Realized gain (loss) on investments	1,701	(7,390)
Total	<u>\$ 127,616</u>	<u>\$ 193,793</u>

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE V - Accounts Receivable - Trade

Trade accounts receivable outstanding at the beginning of 2019 totaled \$177,710. The related allowance for doubtful accounts at that date was \$11,348.

As of December 31, 2020, 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	\$ 134,453	\$ 16,686	\$ 10,153	\$ 49,107	\$ 210,399
Miscellaneous				550	550
Total	<u>\$ 134,453</u>	<u>\$ 16,686</u>	<u>\$ 10,153</u>	<u>\$ 49,657</u>	<u>\$ 210,949</u>

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>

NOTE VI - Fixed Assets

Fixed assets consisted of the following at December 31, 2020 and 2019:

	Depreciable Lives -Years	Historical Cost Basis	
		2020	2019
Land and land rights	N/A	\$ 99,907	\$ 99,907
Land held for rental	N/A	24,004	24,004
Construction in process	N/A	88,854	-
Distribution reservoirs and standpipes	40 - 50	2,060,026	2,060,026
Transmission and distribution mains	40 - 50	15,339,783	15,336,369
Fire mains	50	6,803	6,803
Meters and meter installations	40 -50	1,860,607	1,776,355
Hydrants	40 -50	8,859	8,859
Maintenance equipment	5 - 10	340,782	340,782
Loading station equipment	10	-	2,750
Buildings	25 - 40	135,927	135,927
Rental building	40	53,757	53,757
Office equipment	5	66,589	66,589
Total		20,085,898	19,912,128
Less: Accumulated depreciation		9,240,335	8,833,683
Total Fixed Assets		<u>\$ 10,845,563</u>	<u>\$ 11,078,445</u>

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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 and 2020, the Association elected to pay an additional \$250,000 and \$950,000, respectively, above the required annual payments. As a result, the remaining repayment period has been reduced by twenty-four 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,	
	2020	2019
2020	N/A	\$ 89,044
2021	\$ 88,177	43,422
2022	71,064	44,616
2023	73,018	45,843
2024	75,025	47,104
2025	77,089	
2026 to maturity	779,748	1,900,101
Total	1,164,121	2,170,130
Less current portion	(88,177)	(89,044)
Long-term portion	\$ 1,075,944	\$ 2,081,086

Interest of \$44,643 and \$97,781 was paid during 2020 and 2019, respectively.

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 \$19,500 annually. Employees age 50 or over may elect to contribute up to \$26,000 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, 2020 AND 2019

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 (90.1% during 2020) 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, 2020 AND 2019

NOTE XIII - Water Losses

During 2020 and 2019, the Association incurred the following water losses:

	2020		2019	
	Gallons (1,000's)	Percent	Gallons (1,000's)	Percent
Purchased	400,066	100.00 %	412,343	100.00 %
Sold	(304,371)	(76.09)	(324,183)	(78.62)
Used by Association	(8,578)	(2.14)	(9,607)	(2.33)
Water loss	<u>87,117</u>	<u>21.77 %</u>	<u>78,553</u>	<u>19.05 %</u>

Breakdown of water loss:

Line leaks	79,925	19.98 %	68,763	16.68 %
Line breaks	6,892	1.72	9,790	2.37
Tank overflows	300	0.07	-	-
Total water loss	<u>87,117</u>	<u>21.77 %</u>	<u>78,553</u>	<u>19.05 %</u>

NOTE XIV - Regulatory Capital

For purposes of reporting to the PSC, the Association is required to recognize government grants received, 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 statements of changes in retained earnings to equity capital as reported to the PSC.

	Contributed Capital	Retained Earnings	Total Fund Equity
January 1, 2019 balance per statement	\$ -	\$ 13,987,855	\$ 13,987,855
To reclassify to regulatory basis	10,331,944	(10,331,944)	-
January 1, 2019 balance per PSC	10,331,944	3,655,911	13,987,855
2019 net income as reclassified for PSC	122,214	71,009	193,223
December 31, 2019 balance per PSC	10,454,158	3,726,920	14,181,078
2020 net income as reclassified for PSC	158,382	(63,043)	95,339
December 31, 2020 balance per PSC	<u>\$ 10,612,540</u>	<u>\$ 3,663,877</u>	<u>\$ 14,276,417</u>

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE XV - COVID-19 Uncertainty and Related Federal Assistance

During 2020, the World Health Organization characterized an outbreak of a novel strain of coronavirus (COVID-19) as a pandemic. Multiple jurisdictions in the U.S. have declared a state of emergency, including the Commonwealth of Kentucky. As a result of this pandemic, the PSC issued an order on May 16, 2020, suspending until further notice the ability of utilities to shut off service due to nonpayment and the assessment of late payment fees. On September 21, 2020, the PSC lifted the moratorium on disconnects for nonpayment beginning October 20, 2020, subject to certain conditions, and continued the moratorium on the assessment of late payment charges for residential customers only until December 31, 2020.

Under the terms of the October 20, 2020 order, utilities were required to create payment plans for all residential customers with respect to arrearages accumulated from service rendered on or after March 16, 2020 and before October 1, 2020, to the extent that past due balances exist. The term of the default payment plans shall be no less than six months and no longer than two years.

As a result of these orders, service fees decreased and accounts receivable collections may be delayed when compared to previous years.

The Paycheck Protection Program (PPP) is a federal relief program established by Congress and implemented by the U.S. Treasury Department and the Small Business Administration. The PPP provides loans to small businesses hurt by the COVID-19 pandemic. The loans are forgiven to the extent that the eligible small business meets certain criteria regarding use of the funds and maintenance of staffing at pre-pandemic levels. The Association received a PPP loan and met the criteria for forgiveness prior to December 31, 2020 and anticipates that full forgiveness will be granted once it submits its application for forgiveness. Accordingly, the funding received has been recognized as grant income in the other income section of the 2020 income statement.

NOTE XVI- Subsequent Events

Events subsequent to December 31, 2020, have been evaluated to determine their potential impact on the financial statements. Events through March 8, 2021, 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.

# Kerbaugh, Rodes & Butler, PLLC

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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 Board of Directors of  
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 organization), which comprise the balance sheet as of December 31, 2020, and the related statements of income, retained earnings, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 8, 2021.

### **Internal Control over Financial Reporting**

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Association'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 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 communication is not suitable for any other purpose.

*Kerbaugh, Rodes & Butler, PLLC*

Kerbaugh, Rodes & Butler, PLLC  
Certified Public Accountants

Danville, Kentucky  
March 8, 2021