

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

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2021 AND 2020**

THE GARRARD COUNTY WATER ASSOCIATION, INC.

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
The Garrard County Water Association, Inc.

### Opinion

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, 2021 and 2020, and the related statements of income, retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2021 and 2020, 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.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (*Government Auditing Standards*), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2022 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, 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 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 7, 2022

THE GARRARD COUNTY WATER ASSOCIATION, INC.  
BALANCE SHEETS

	December 31, 2021	December 31, 2020
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash on hand	\$ 400	\$ 400
Cash in bank	1,683,868	1,204,720
Accounts receivable - trade (net of allowances for uncollectible accounts of \$6,180 and \$7,622, respectively)	132,500	203,327
Connection fees receivable	604	1,103
Interest and dividends receivable	8,505	17,741
Prepaid expenses	16,685	20,369
Total Current Assets	1,842,562	1,447,660
RESTRICTED ASSETS:		
Certificates of deposit - used to satisfy loan requirements	-	201,303
Total Restricted Assets	-	201,303
INVESTMENTS:		
Certificates of deposit	1,300,000	2,395,697
Debt and equity securities	793,015	734,834
Total Investments	2,093,015	3,130,531
FIXED ASSETS, LESS DEPRECIATION	10,635,052	10,845,563
TOTAL ASSETS	\$ 14,570,629	\$ 15,625,057
 <u>LIABILITIES AND RETAINED EARNINGS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 178,609	\$ 162,331
Interest payable	-	12,079
Note payable USDA	-	88,177
Payroll taxes payable	3,878	3,920
Fees received in advance of new connections	3,320	5,189
Rent deposit payable	1,000	1,000
Total Current Liabilities	186,807	272,696
LONG-TERM LIABILITIES:		
Note payable USDA	-	1,075,944
TOTAL LIABILITIES	186,807	1,348,640
RETAINED EARNINGS	14,383,822	14,276,417
TOTAL LIABILITIES AND RETAINED EARNINGS	\$ 14,570,629	\$ 15,625,057

"See accompanying notes."

THE GARRARD COUNTY WATER ASSOCIATION, INC.

INCOME STATEMENTS

	For The Year Ended December 31,	
	2021	2020
<b>OPERATING REVENUE:</b>		
Water sales - metered	\$ 2,088,842	\$ 2,106,108
Service charges	91,027	50,543
Connection fees	76,966	69,842
911 tax processing fee	15,816	15,788
Bulk water sales	189	136
Machine hire and labor	450	1,332
Hydrant fees	1,200	1,150
Miscellaneous	124	273
Total Operating Revenue	2,274,614	2,245,172
<b>OPERATING EXPENSES:</b>		
Purchased water	1,079,697	998,432
Depreciation	430,630	562,635
Salaries (net of capitalized labor)	362,202	369,340
Group insurance	76,252	75,938
Repairs and maintenance	63,649	82,611
Postage	37,047	32,860
Bad debts	33,257	26,569
Insurance	32,128	29,289
Legal and accounting	30,040	24,717
Payroll taxes	29,996	26,208
Directors' fees	20,750	17,500
Gas and oil	14,863	10,081
Utilities and telephone	14,809	15,500
Pension expense	13,330	14,081
Bill processing fees	12,765	8,605
Water sampling	9,260	7,834
Interest expense	6,603	45,768
PSC assessment	4,351	4,498
Office supplies	3,289	6,539
Other	12,729	8,178
Total Operating Expenses	2,287,647	2,367,183
<b>OPERATING INCOME (LOSS)</b>	<b>(13,033)</b>	<b>(122,011)</b>
<b>OTHER INCOME (EXPENSE):</b>		
Government grant received - PPP	-	88,540
Investment income	99,892	127,616
Investment fees	(2,756)	(2,450)
Rent income	6,000	4,500
Rental expenses	(856)	(856)
Gain on disposition of equipment	18,158	-
<b>NET INCOME</b>	<b>\$ 107,405</b>	<b>\$ 95,339</b>

"See accompanying notes."

THE GARRARD COUNTY WATER ASSOCIATION, INC.  
STATEMENTS OF RETAINED EARNINGS  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>For The Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 14,276,417	\$ 14,181,078
Net income for the period	<u>107,405</u>	<u>95,339</u>
Ending balance	<u>\$ 14,383,822</u>	<u>\$ 14,276,417</u>

"See accompanying notes."

THE GARRARD COUNTY WATER ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

	For The Year Ended December 31,	
	2021	2020
Cash Flows From Operating Activities:		
Net income	\$ 107,405	\$ 95,339
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	430,630	562,635
Government grants	-	(88,540)
Gain on disposition of equipment	(18,158)	-
Realized (gain) or loss on investments	-	(1,701)
Unrealized (gain) or loss on investments	(21,917)	(19,646)
Change in:		
Accounts receivable	70,827	(31,640)
Connection fees receivable	499	959
Interest receivable	9,236	6,145
Prepaid expenses	3,684	(5,859)
Accounts payable	16,278	11,442
Interest payable	(12,079)	1,124
Payroll taxes payable	(42)	502
Fees received in advance of new connections	(1,869)	4,464
Net Cash Provided By Operating Activities	<u>584,494</u>	<u>535,224</u>
Cash Flows From Investing Activities:		
Fixed assets purchased	(222,747)	(329,753)
Proceeds from sale of fixed assets	20,786	-
Proceeds from investments sold and matured	1,297,000	1,247,000
Investments purchased	(36,264)	(68,703)
Net Cash Provided (Used) By Investing Activities	<u>1,058,775</u>	<u>848,544</u>
Cash Flows From Financing Activities:		
Government grants	-	88,540
Principal payments made on USDA loan	(1,164,121)	(1,006,009)
Net Cash Used By Financing Activities	<u>(1,164,121)</u>	<u>(917,469)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	479,148	466,299
Cash, cash equivalents, and restricted cash at beginning of year	<u>1,205,120</u>	<u>738,821</u>
Cash, cash equivalents, and restricted cash at end of year	<u><u>\$ 1,684,268</u></u>	<u><u>\$ 1,205,120</u></u>
Cash on hand	\$ 400	\$ 400
Unrestricted cash in bank	<u>1,683,868</u>	<u>1,204,720</u>
Total cash, cash equivalents, and restricted cash at end of year	<u><u>\$ 1,684,268</u></u>	<u><u>\$ 1,205,120</u></u>

"See accompanying notes."



THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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, 2021 AND 2020

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, 2021 AND 2020

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 was required to set aside \$839 per month in a general loan reserve account until a sum of \$100,652 was accumulated. Subject to the written approval of the USDA, amounts accumulated in this account could have been 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 at the time the loan was received.

Also pursuant to the aforementioned security agreement, the Association was 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, 2021, \$1,647,235 of the balance was covered by standard federal depository insurance, \$1,336,632 was secured by securities under a repurchase agreement described below, and \$0 was unsecured. 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.

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, 2021 AND 2020

NOTE II - Deposits (continued)

C. Summary of Account Balances

	December 31, 2021				
	Cash on Deposit			Certificates of Deposit Included in Investments	Total Deposits
	Non-Interest Bearing	Interest Bearing	Total		
<u>Unrestricted Deposits:</u>					
Revenue	\$ 25,000	\$ 1,336,633	\$ 1,361,633	\$ -	\$ 1,361,633
Operations and maintenance	73,235	-	73,235		73,235
Depreciation reserve	-	249,000	249,000	1,300,000	1,549,000
Total Unrestricted Deposits	98,235	1,585,633	1,683,868	1,300,000	2,983,868
<u>Restricted Deposits:</u>					
USDA general loan reserve	-	-	-	-	-
USDA debt service	-	-	-	-	-
Total Restricted Deposits	-	-	-	-	-
Total Deposits	\$ 98,235	\$ 1,585,633	\$ 1,683,868	\$ 1,300,000	\$ 2,983,868

A breakdown of certificates of deposit by year of maturity as of December 31, 2021 follows:

2022	1,300,000
	\$ 1,300,000

	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

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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 2021 and 2020, 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, 2021 and 2020:

	December 31, 2021		
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Mutual funds	\$ 525,210	\$ 525,210	\$ -
Corporate bonds and notes	188,566	-	188,566
Closed end utility fund	20,871	20,871	
Exchange traded fund	35,881	35,881	
Money market fund	22,487	22,487	
Total	<u>\$ 793,015</u>	<u>\$ 604,449</u>	<u>\$ 188,566</u>

	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>

NOTE IV - Investment Income

Investment income consisted of the following:

	<u>For the year ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Interest income	\$ 44,893	\$ 88,793
Dividends	33,082	17,476
Unrealized gain on investments	21,917	19,646
Realized gain (loss) on investments	-	1,701
Total	<u>\$ 99,892</u>	<u>\$ 127,616</u>

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTE V - Accounts Receivable - Trade

Trade accounts receivable outstanding at the beginning of 2020 totaled \$180,395. The related allowance for doubtful accounts at that date was \$8,708.

As of December 31, 2021, 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	\$ 130,993	\$ 5,875	\$ (2,325)	\$ 3,937	\$ 138,480
Miscellaneous				200	200
Total	<u>\$ 130,993</u>	<u>\$ 5,875</u>	<u>\$ (2,325)</u>	<u>\$ 4,137</u>	<u>\$ 138,680</u>

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>

NOTE VI - Fixed Assets

Fixed assets consisted of the following at December 31, 2021 and 2020:

	Depreciable Lives -Years	Historical Cost Basis	
		2021	2020
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	140,186	88,854
Distribution reservoirs and standpipes	40 - 50	2,051,096	2,060,026
Transmission and distribution mains	55	15,345,251	15,339,783
Fire mains	50	6,803	6,803
Meters and meter installations	20 -40	1,985,739	1,860,607
Hydrants	40 -50	8,859	8,859
Maintenance equipment	5 - 10	348,486	340,782
Buildings	25 - 40	135,927	135,927
Rental building	40	53,757	53,757
Office equipment	5	66,589	66,589
Total		<u>20,266,604</u>	<u>20,085,898</u>
Less: Accumulated depreciation		<u>9,631,552</u>	<u>9,240,335</u>
Total Fixed Assets		<u>\$ 10,635,052</u>	<u>\$ 10,845,563</u>

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTE VI - Fixed Assets (continued)

During 2021, management reviewed the estimated useful lives used in calculating depreciation for all fixed assets. The lives previously used were compared to actual results experienced by the Association and to industry standards as published by the National Association of Regulatory Utility Commissioners. Management determined that the estimated lives used to calculate depreciation for several categories of assets were too short and revised the estimated lives used in calculating depreciation accordingly. Most notable among the changes was an increase in the estimated useful life of transmission and distribution mains from 40 to 55 years. The revisions in estimated useful lives resulted in an \$122,351 decrease in depreciation expense recorded for 2021 from what it would have been had the estimated useful lives previously used continued to have been used.

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 bore an interest rate of 2.75% and was to be repaid in 40 annual payments of \$100,652.

During 2019 through 2021, the Association elected to make additional payments on the loan above the required annual payments. As a result, the loan was paid off in 2021.

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

The loan was 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,	
	2021	2020
2021	\$ -	\$ 88,177
2022	-	71,064
2023	-	73,018
2024	-	75,025
2025	-	77,089
2026 to maturity	-	779,748
Total	-	1,164,121
Less current portion	-	(88,177)
Long-term portion	\$ -	\$ 1,075,944

Interest of \$18,682 and \$44,643 was paid during 2021 and 2020, 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.

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTE VIII - Pension Expense (continued)

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.

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 (84.4% during 2021) 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 to 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, 2021 AND 2020

NOTE XIII - Water Losses

During 2021 and 2020, the Association incurred the following water losses:

	2021		2020	
	Gallons (1,000's)	Percent	Gallons (1,000's)	Percent
Purchased	428,919	100.00 %	400,066	100.00 %
Sold	(299,251)	(69.76)	(304,371)	(76.09)
Used by Association	(10,620)	(2.48)	(8,578)	(2.14)
Water loss	<u>119,048</u>	<u>27.76 %</u>	<u>87,117</u>	<u>21.77 %</u>

Breakdown of water loss:

Line leaks	107,300	25.02 %	79,925	19.98 %
Line breaks	11,748	2.74	6,892	1.72
Tank overflows	-	-	300	0.07
Total water loss	<u>119,048</u>	<u>27.76 %</u>	<u>87,117</u>	<u>21.77 %</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, 2020 balance per statement	\$ -	\$ 14,181,078	\$ 14,181,078
To reclassify to regulatory basis	10,454,158	(10,454,158)	-
January 1, 2020 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	10,612,540	3,663,877	14,276,417
2021 net income as reclassified for PSC	76,966	30,439	107,405
December 31, 2021 balance per PSC	<u>\$ 10,689,506</u>	<u>\$ 3,694,316</u>	<u>\$ 14,383,822</u>

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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. 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 were to be no less than six months and no longer than two years.

As a result of these orders, service fees decreased in 2020 and accounts receivable collections were delayed when compared to previous years.

The Paycheck Protection Program (PPP) was a federal relief program established by Congress and implemented by the U.S. Treasury Department and the Small Business Administration. The PPP provided loans to small businesses hurt by the COVID-19 pandemic. The loans were forgiven to the extent that the eligible small business met 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. As anticipated the Association received full forgiveness when it submitted its application for forgiveness. Accordingly, the funding received was recognized as grant income in the other income section of the 2020 income statement.

NOTE XVI- Subsequent Events

Events subsequent to December 31, 2021, have been evaluated to determine their potential impact on the financial statements. Events through March 7, 2022, 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, 2021, 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 7, 2022.

### **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) as a basis for designing 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 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 7, 2022