

THE GARRARD COUNTY WATER ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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.

Report on the Audit of the Financial Statements

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, 2022 and 2021, 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 present fairly, in all material respects, the financial position of the Association as of December 31, 2022 and 2021, 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.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2023, 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 24, 2023

THE GARRARD COUNTY WATER ASSOCIATION, INC.

BALANCE SHEETS

	December 31, 2022	December 31, 2021
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash on hand	\$ 400	\$ 400
Cash in bank	1,119,142	1,683,868
Accounts receivable - trade (net of allowances for uncollectible accounts of \$8,142 and \$6,180, respectively)	163,000	132,500
Due from developers for construction of extensions	42,890	-
Connection fees receivable	292	604
Interest and dividends receivable	17,716	8,505
Prepaid expenses	17,645	16,685
Total Current Assets	<u>1,361,085</u>	<u>1,842,562</u>
RESTRICTED ASSETS:		
Cash in bank received from developer in advance of construction	2,000	-
Total Restricted Assets	<u>2,000</u>	<u>-</u>
INVESTMENTS:		
Certificates of deposit	2,349,000	1,300,000
Debt and equity securities	713,570	793,015
Total Investments	<u>3,062,570</u>	<u>2,093,015</u>
FIXED ASSETS, LESS DEPRECIATION	<u>11,473,782</u>	<u>10,635,052</u>
TOTAL ASSETS	<u>\$ 15,899,437</u>	<u>\$ 14,570,629</u>
<u>LIABILITIES AND RETAINED EARNINGS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 179,839	\$ 178,609
Payroll taxes payable	4,656	3,878
Due to employees for supplemental insurance premiums withheld	419	-
Fees received in advance of new connections	16,406	3,320
Rent deposit payable	1,000	1,000
Total Current Liabilities	<u>202,320</u>	<u>186,807</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Deposit from developer in advance of construction	2,000	-
Total Liabilities Payable From Restricted Assets	<u>2,000</u>	<u>-</u>
LONG-TERM LIABILITIES:		
Note payable	661,188	-
Construction payable	455,201	-
Interest payable	2,378	-
Total Long-term Liabilities	<u>1,118,767</u>	<u>-</u>
TOTAL LIABILITIES	<u>1,323,087</u>	<u>186,807</u>
RETAINED EARNINGS	<u>14,576,350</u>	<u>14,383,822</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$ 15,899,437</u>	<u>\$ 14,570,629</u>

"See accompanying notes."

THE GARRARD COUNTY WATER ASSOCIATION, INC.

INCOME STATEMENTS

	For The Year Ended December 31,	
	2022	2021
OPERATING REVENUE:		
Water sales - metered	\$ 2,248,759	\$ 2,088,842
Service charges	91,462	91,027
Connection fees	88,024	76,966
911 tax processing fee	16,643	15,816
Bulk water sales	785	189
Machine hire and labor	950	450
Hydrant fees	1,150	1,200
Miscellaneous	197	124
Total Operating Revenue	<u>2,447,970</u>	<u>2,274,614</u>
OPERATING EXPENSES:		
Purchased water	1,119,807	1,079,697
Depreciation	434,782	430,630
Salaries (net of capitalized labor)	393,153	362,202
Group insurance	73,598	76,252
Repairs and maintenance	48,859	63,649
Postage	41,848	37,047
Insurance	32,520	32,128
Legal and accounting	36,298	30,040
Payroll taxes	32,576	29,996
Directors' fees	24,550	20,750
Gas and oil	22,244	14,863
Utilities and telephone	16,289	14,809
Pension expense	14,713	13,330
Bill processing fees	15,439	12,765
Bad debts	12,637	33,257
Water sampling	8,075	9,260
Interest expense	-	6,603
PSC assessment	3,281	4,351
Office supplies	3,993	3,289
Other	20,532	12,729
Total Operating Expenses	<u>2,355,194</u>	<u>2,287,647</u>
OPERATING INCOME (LOSS)	92,776	(13,033)
OTHER INCOME (EXPENSE):		
Grant received - KRWA	1,499	-
Contribution by developers to finance water line	106,440	-
Investment income (loss)	(36,794)	99,892
Investment fees	(2,554)	(2,756)
Rent income	6,000	6,000
Rental expenses	(839)	(856)
Gain on disposition of equipment	26,000	18,158
NET INCOME	<u>\$ 192,528</u>	<u>\$ 107,405</u>

"See accompanying notes."

THE GARRARD COUNTY WATER ASSOCIATION, INC.
STATEMENTS OF RETAINED EARNINGS

	<u>For The Year Ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 14,383,822	\$ 14,276,417
Net income for the period	<u>192,528</u>	<u>107,405</u>
Ending balance	<u><u>\$ 14,576,350</u></u>	<u><u>\$ 14,383,822</u></u>

"See accompanying notes."

THE GARRARD COUNTY WATER ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

	For The Year Ended December 31,	
	2022	2021
Cash Flows From Operating Activities:		
Net income	\$ 192,528	\$ 107,405
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	434,782	430,630
Water lines donated by developers	(106,440)	-
Grant received from Kentucky Rural Water Association	(1,499)	-
Add back portion of KRWA grant used for operating expenses	850	-
Gain on disposition of equipment	(26,000)	(18,158)
Realized (gain) or loss on investments	5,579	-
Unrealized (gain) or loss on investments	107,152	(21,917)
Change in:		
Accounts receivable	(30,500)	70,827
Connection fees receivable	312	499
Interest receivable	(9,211)	9,236
Prepaid expenses	(960)	3,684
Accounts payable	1,230	16,278
Interest payable	-	(12,079)
Payroll taxes payable	778	(42)
Due to employees for supplemental insurance premiums	419	-
Fees received in advance of new connections	13,086	(1,869)
Net Cash Provided By Operating Activities	<u>582,106</u>	<u>584,494</u>
Cash Flows From Investing Activities:		
Fixed assets purchased	(682,844)	(222,747)
Proceeds from sale of fixed assets	-	20,786
Construction costs paid on behalf of developers	(42,890)	-
Proceeds from investments sold and matured	1,407,115	1,297,000
Investments purchased	(2,489,401)	(36,264)
Net Cash Provided (Used) By Investing Activities	<u>(1,808,020)</u>	<u>1,058,775</u>
Cash Flows From Financing Activities:		
Advances received construction loan	661,188	-
Cash in bank received from developer in advance of construction	2,000	-
Principal payments made on USDA loan	-	(1,164,121)
Net Cash Provided (Used) By Financing Activities	<u>663,188</u>	<u>(1,164,121)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	(562,726)	479,148
Cash, cash equivalents, and restricted cash at beginning of year	<u>1,684,268</u>	<u>1,205,120</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 1,121,542</u>	<u>\$ 1,684,268</u>
Cash on hand	\$ 400	\$ 400
Unrestricted cash in bank	1,119,142	1,683,868
Restricted cash in bank	2,000	-
Total cash, cash equivalents, and restricted cash at end of year	<u>\$ 1,121,542</u>	<u>\$ 1,684,268</u>

Supplemental Schedule of Non-Cash Financing and Investing Activities

During 2022, two trucks and a trailer were traded in on two new trucks and a trailer. The trade-in allowances received totaled \$26,000. Also, the Kentucky Rural Water Association purchased an iPad costing \$649 and paid license fees of \$850 on behalf of Garrard County Water Association to assist in the implementation of a waterline location system.

"See accompanying notes."

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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, 2022 AND 2021

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, 2022 AND 2021

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.

As needed, 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. This account was terminated when the loan was paid off during 2021.

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. This account was also terminated when the loan was paid off in 2021.

The Association may require 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, 2022, \$2,600,772 of the balance was covered by standard federal depository insurance, \$859,418 was secured by securities under a repurchase agreement described below, and \$9,951 was unsecured. 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.

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, 2022 AND 2021

NOTE II - Deposits (continued)

C. Summary of Account Balances

	December 31, 2022				
	Cash on Deposit			Certificates of Deposit Included in Investments	Total Deposits
	Non-Interest Bearing	Interest Bearing	Total		
<u>Unrestricted Deposits:</u>					
Revenue	\$ 25,000	\$ 859,418	\$ 884,418	\$ -	\$ 884,418
Operations and maintenance	234,467	-	234,467		234,467
Depreciation reserve	-	257	257	2,349,000	2,349,257
Total Unrestricted Deposits	259,467	859,675	1,119,142	2,349,000	3,468,142
<u>Restricted Deposits:</u>					
Extension escrow	2,000	-	2,000	-	2,000
Total Restricted Deposits	2,000	-	2,000	-	2,000
Total Deposits	\$ 261,467	\$ 859,675	\$ 1,121,142	\$ 2,349,000	\$ 3,470,142

A breakdown of certificates of deposit by year of maturity as of December 31, 2022 follows:

2023	1,849,000
2024	500,000
	\$ 2,349,000

	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>					
Extension escrow	-	-	-	-	-
Total Restricted Deposits	-	-	-	-	-
Total Deposits	\$ 98,235	\$ 1,585,633	\$ 1,683,868	\$ 1,300,000	\$ 2,983,868

THE GARRARD COUNTY WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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 2022 and 2021, 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, 2022 and 2021:

	December 31, 2022		
	Total	Level 1	Level 2
Mutual funds	\$ 415,007	\$ 415,007	\$ -
Corporate bonds and notes	228,392	-	228,392
Closed end utility fund	21,600	21,600	-
Exchange traded fund	27,782	27,782	-
Money market fund	20,789	20,789	-
Total	\$ 713,570	\$ 485,178	\$ 228,392

	December 31, 2021		
	Total	Level 1	Level 2
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	\$ 793,015	\$ 604,449	\$ 188,566

NOTE IV - Investment Income

Investment income consisted of the following:

	For the year ended December 31,	
	2022	2021
Interest income	\$ 46,376	\$ 44,893
Dividends	29,561	33,082
Unrealized gain (loss) on investments	(107,152)	21,917
Realized gain (loss) on investments	(5,579)	-
Total	\$ (36,794)	\$ 99,892

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE V - Accounts Receivable - Trade

Trade accounts receivable outstanding at the beginning of 2021 totaled \$210,949. The related allowance for doubtful accounts at that date was \$7,622.

As of December 31, 2022, 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	\$ 157,081	\$ 8,798	\$ 3,115	\$ 2,148	\$ 171,142
Miscellaneous				-	-
Total	<u>\$ 157,081</u>	<u>\$ 8,798</u>	<u>\$ 3,115</u>	<u>\$ 2,148</u>	<u>\$ 171,142</u>

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>

NOTE VI - Fixed Assets

Fixed assets consisted of the following at December 31, 2022 and 2021:

	Depreciable Lives -Years	Historical Cost Basis	
		2022	2021
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	1,124,985	140,186
Distribution reservoirs and standpipes	40 - 50	2,051,096	2,051,096
Transmission and distribution mains	55	15,451,691	15,345,251
Fire mains	50	6,803	6,803
Meters and meter installations	20 -40	2,039,489	1,985,739
Hydrants	40 -50	8,859	8,859
Maintenance equipment	5 - 10	411,443	348,486
Buildings	25 - 40	135,927	135,927
Rental building	40	53,757	53,757
Office equipment	5	66,589	66,589
Total		21,474,550	20,266,604
Less: Accumulated depreciation		10,000,768	9,631,552
Total Fixed Assets		<u>\$ 11,473,782</u>	<u>\$ 10,635,052</u>

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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 - Notes Payable

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.

During 2022, the Association received a \$2,500,000 construction line of credit from Whitaker Bank. The interest rate on this unsecured loan is 4.625%. As of December 31, 2022, \$661,188 had been advanced on the line of credit. The \$2,378 in interest accruing on the note through December 31, 2022, was capitalized as part of the cost of the project. This loan is unsecured.

The United States Department of Agriculture Rural Development has agreed to refinance the \$2,500,000 loan once the construction project is completed.

Because both the construction costs payable and interest payable at December 31, 2022, will eventually be paid using the construction line of credit and will be included in the permanent refinancing to be received from the United States Department of Agriculture Rural Development, these payables are reported as long-term debt.

It is anticipated that the project will be completed and permanent financing received prior to the end of 2023. Annual payments of \$87,450 will be required beginning in 2024. The principal due follows:

<u>Year</u>	
2024	\$ 43,700
2025	44,465
2026	45,243
2027	46,035
2028	46,840
2029 to maturity	2,273,717
Total	<u>2,500,000</u>

Interest of \$0 and \$18,682 was paid during 2022 and 2021, respectively.

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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 \$20,500 annually. Employees age 50 or over may elect to contribute up to \$27,000 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.

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

During 2022, the Association entered into various contracts for the construction of water transmission and storage improvements with an estimated total cost to complete of \$2,600,567. The Association was to provide \$100,567 of the funding for the construction project. The remaining \$2,500,000 of funding was to be provided by loans as more fully described in Note VII.

Through December 31, 2022, project cost of \$1,124,985 had been incurred with \$1,118,767 of those costs expected to be covered by the \$2,500,000 financing and \$6,208 of the cost covered by Association funding. Completion of the project is expected during 2023.

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.

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE XI - Source of Water Supply

The Association purchases most of its water (91.8% during 2022) 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.

NOTE XIII - Water Losses

During 2022 and 2021, the Association incurred the following water losses:

	2022		2021	
	Gallons (1,000's)	Percent	Gallons (1,000's)	Percent
Purchased	416,429	100.00 %	428,919	100.00 %
Sold	(319,030)	(76.61)	(299,251)	(69.76)
Used by Association	(18,002)	(4.32)	(10,620)	(2.48)
Water loss	<u>79,397</u>	<u>19.07 %</u>	<u>119,048</u>	<u>27.76 %</u>

Breakdown of water loss:

Line leaks	73,824	17.73 %	107,300	25.02 %
Line breaks	5,573	1.34	11,748	2.74
Tank overflows	-	-	-	-
Total water loss	<u>79,397</u>	<u>19.07 %</u>	<u>119,048</u>	<u>27.76 %</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 table on the next page reconciles the information provided on the statements of changes in retained earnings to equity capital as reported to the PSC.

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE XIV- Regulatory Capital (continued)

	Contributed Capital	Retained Earnings	Total Fund Equity
January 1, 2021 balance per statement	\$ -	\$ 14,276,417	\$ 14,276,417
To reclassify to regulatory basis	10,612,540	(10,612,540)	-
January 1, 2021 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	10,689,506	3,694,316	14,383,822
2022 net income as reclassified for PSC	195,963	(3,435)	192,528
December 31, 2022 balance per PSC	<u>\$ 10,885,469</u>	<u>\$ 3,690,881</u>	<u>\$ 14,576,350</u>

NOTE XV- Subsequent Events

Events subsequent to December 31, 2022, have been evaluated to determine their potential impact on the financial statements. Events through March 24, 2023, the date the financial statements were available to be issued, were considered.

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

THE GARRARD COUNTY WATER ASSOCIATION, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2022

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.760	<u>\$ 979,567</u>
Federal expenditures to be financed by:		
USDA Rural Utility Services loan		<u>\$ 979,567</u>
Total federal expenditures		<u>\$ 979,567</u>

Notes to Schedule of Expenditures of Federal Awards

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of The Garrard County Water Association, Inc. under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of The Garrard County Water Association, Inc., it is not intended to and does not present the financial position, income, changes in retained earnings, or cash flows of The Garrard County Water Association, Inc.

Note B - Summary of Significant Accounting Policies

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

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

Note C - Balance of Loan Outstanding

As of December 31, 2022, the costs identified in the schedule above were either accrued and not yet paid or had been paid using interim financing provided by a local bank.

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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, 2022, 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 24, 2023.

Report on 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 or significant deficiencies may exist that were not identified.

Report on 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 24, 2023

Kerbaugh, Rodes & Butler, PLLC

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited The Garrard County Water Association's (the Association's) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended December 31, 2022. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Association's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Association's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Association's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and

therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Association's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Association's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Association's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
March 24, 2023

**THE GARRARD COUNTY WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.760

U.S. Department of Agriculture
Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish Between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? No

**THE GARRARD COUNTY WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Section IV – Prior Year Audit Findings

No findings were reported in the prior year.