

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

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2024 AND 2023**

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, 2024 and 2023, 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, 2024 and 2023, 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 21, 2025, 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 21, 2025

THE GARRARD COUNTY WATER ASSOCIATION, INC.

BALANCE SHEETS

	December 31, 2024	December 31, 2023
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash on hand	\$ 400	\$ 400
Cash in bank	719,371	740,559
Accounts receivable - trade (net of allowances for credit losses of \$5,640 and \$8,140, respectively)	170,240	169,113
Due from developers for construction of extensions	500	-
Connection fees receivable	354	354
Interest and dividends receivable	26,788	50,047
Prepaid expenses	24,614	21,608
Total Current Assets	942,267	982,081
RESTRICTED ASSETS:		
Cash in bank received from developer in advance of construction	1,500	2,000
Total Restricted Assets	1,500	2,000
INVESTMENTS:		
Certificates of deposit	3,649,000	3,349,000
Debt and equity securities	825,784	769,585
Total Investments	4,474,784	4,118,585
FIXED ASSETS, LESS DEPRECIATION	14,825,304	14,763,865
TOTAL ASSETS	\$ 20,243,855	\$ 19,866,531
<u>LIABILITIES AND RETAINED EARNINGS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 161,676	\$ 144,730
Construction payable	36,158	-
Interest payable	22,888	25,464
Notes payable	99,200	71,607
Refund due to developers for waterline costs	-	10,801
Payroll taxes payable	3,869	4,048
Due to employees for supplemental insurance premiums withheld	352	343
Fees received in advance of new connections	18,275	13,602
Rent deposit payable	1,000	1,000
Total Current Liabilities	343,418	271,595
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Deposit from developer in advance of construction	1,500	2,000
Total Liabilities Payable From Restricted Assets	1,500	2,000
LONG-TERM LIABILITIES:		
Notes payable	3,722,371	3,354,879
Construction payable	-	260,770
Total Long-term Liabilities	3,722,371	3,615,649
TOTAL LIABILITIES	4,067,289	3,889,244
RETAINED EARNINGS	16,176,566	15,977,287
TOTAL LIABILITIES AND RETAINED EARNINGS	\$ 20,243,855	\$ 19,866,531

"See accompanying notes."

THE GARRARD COUNTY WATER ASSOCIATION, INC.

INCOME STATEMENTS

	For The Year Ended December 31,	
	2024	2023
OPERATING REVENUE:		
Water sales - metered	\$ 2,523,686	\$ 2,440,033
Service charges	86,300	87,050
Connection fees	76,649	103,915
911 tax processing fee	17,298	16,730
Bulk water sales	154	485
Machine hire and labor	1,350	1,485
Hydrant fees	1,100	1,100
Miscellaneous	702	410
Total Operating Revenue	<u>2,707,239</u>	<u>2,651,208</u>
OPERATING EXPENSES:		
Purchased water	1,121,957	1,056,335
Depreciation	574,172	462,975
Salaries (net of capitalized labor)	436,367	394,091
Group insurance	77,966	62,304
Repairs and maintenance	122,142	109,490
Postage	56,606	47,094
Insurance	43,954	37,266
Legal and accounting	52,349	35,322
Payroll taxes	35,955	32,857
Directors' fees	37,500	31,900
Gas and oil	23,722	19,926
Utilities and telephone	20,530	17,123
Pension expense	17,177	14,716
Bill processing fees	23,355	18,462
Bad debts	6,316	14,355
Water sampling	9,680	12,815
Interest expense	73,849	20,632
PSC assessment	3,959	3,072
Office supplies	4,938	5,772
Other	13,289	13,758
Total Operating Expenses	<u>2,755,783</u>	<u>2,410,265</u>
OPERATING INCOME (LOSS)	(48,544)	240,943
OTHER INCOME (EXPENSE):		
Grant received - Cleaner Water Program	-	771,043
Waterline relocation funding - KDOT	-	225,002
Refund to developers for waterline costs	(6,434)	(10,801)
Investment income (loss)	250,749	175,124
Investment fees	(4,378)	(2,632)
Rent income	6,000	6,000
Rental expenses	(878)	(1,842)
Gain (loss) on disposition of fixed assets	2,764	(1,900)
NET INCOME	<u>\$ 199,279</u>	<u>\$ 1,400,937</u>

"See accompanying notes."

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

	For The Year Ended December 31,	
	2024	2023
Beginning balance	\$ 15,977,287	\$ 14,576,350
Net income for the period	199,279	1,400,937
Ending balance	<u>\$ 16,176,566</u>	<u>\$ 15,977,287</u>

"See accompanying notes."

THE GARRARD COUNTY WATER ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

	For The Year Ended December 31,	
	2024	2023
Cash Flows From Operating Activities:		
Net income	\$ 199,279	\$ 1,400,937
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	574,172	462,975
Grant received - Cleaner Water Program (CWP)	-	(771,043)
Waterline relocation funding - KDOT	-	(225,002)
(Gain) loss on disposition of equipment	(2,764)	1,900
Realized (gain) or loss on investments	(13,135)	-
Unrealized (gain) or loss on investments	(18,287)	(27,631)
Change in:		
Accounts receivable	(1,127)	(6,113)
Connection fees receivable	-	(62)
Interest receivable	23,259	(32,331)
Prepaid expenses	(3,006)	(3,963)
Accounts payable	16,946	(35,109)
Less accounts payable attributable to fixed asset purchase	(11,087)	-
Interest payable	(2,576)	25,464
Change in portion of interest payable capitalized	4,833	(4,833)
Refund due to developers for waterline costs	(10,801)	10,801
Payroll taxes payable	(179)	(608)
Due to employees for supplemental insurance premiums	9	(76)
Fees received in advance of new connections	4,673	(2,804)
Net Cash Provided By Operating Activities	760,209	792,502
Cash Flows From Investing Activities:		
Fixed assets purchased	(851,205)	(3,945,034)
Proceeds from sale of fixed assets	-	20,000
Fixed asset demolition cost	-	(21,900)
Construction costs (paid on behalf of) or reimbursed by developers	-	42,890
Proceeds from investments sold and matured	1,928,317	1,879,000
Investments purchased	(2,253,094)	(2,907,384)
Net Cash Provided (Used) By Investing Activities	(1,175,982)	(4,932,428)
Cash Flows From Financing Activities:		
Advances received from temporary construction loan	-	1,793,849
Repayment of temporary construction loan	-	(2,455,037)
USDA loan proceeds	-	2,500,000
Kentucky Infrastructure Authority loan proceeds	438,785	926,486
Cleaner Water Program Grant	-	771,043
Waterline relocation funding - KDOT	-	225,002
Change in cash received from developers in advance of construction	(500)	-
Change in amount due from developers	(500)	-
Principal payments made on USDA loan	(43,700)	-
Net Cash Provided (Used) By Financing Activities	394,085	3,761,343
Net increase (decrease) in cash, cash equivalents, and restricted cash	(21,688)	(378,583)
Cash, cash equivalents, and restricted cash at beginning of year	742,959	1,121,542
Cash, cash equivalents, and restricted cash at end of year	\$ 721,271	\$ 742,959
Cash on hand	\$ 400	\$ 400
Unrestricted cash in bank	719,371	740,559
Restricted cash in bank	1,500	2,000
Total cash, cash equivalents, and restricted cash at end of year	\$ 721,271	\$ 742,959

Supplemental Schedule of Non-Cash Financing and Investing Activities

During 2024, a truck was traded in on a new truck. The trade-in allowance received was \$9,000.

"See accompanying notes."



THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

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, 2024 AND 2023

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 are 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, 2024 AND 2023

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 November 2, 2021, the Association is required to set aside \$729 per month in a general loan reserve account until a sum of \$87,450 is accumulated. Subject to the written approval of the USDA, amounts accumulated in this account can be withdrawn and used for such things as loan installments, emergency maintenance, extensions to facilities and replacement of short-lived assets. This account was fully funded during 2023.

Also pursuant to the aforementioned security agreement, the Association is required to set aside in a debt service reserve, an amount sufficient to service the annual loan payment of \$87,450 due annually. This account was fully funded in 2023.

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, 2024, all deposits, which totaled \$4,369,871, were covered by standard federal depository insurance.

The Association maintains its deposits with various banks. At December 31, 2023, all deposits, which totaled \$4,091,559, were covered by standard federal depository insurance.

Until August 2023, the Association had a sweep agreement with a local bank with the following terms. A balance of \$25,000 was maintained in a non-interest bearing checking account. On a daily basis, funds were either swept out of or into the account as necessary to maintain the \$25,000 balance. The funds in excess of \$25,000 were placed in retail repurchase agreements (Repos). The Repos evidenced 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 were part of the repurchase agreement were held by a third party custodian which served as agent for the Association.

In August 2023, the aforementioned sweep agreement was replaced by a new sweep agreement at that same local bank. This agreement differs from the prior agreement in the following respects. Interest is paid on the base \$25,000. Funds in excess of \$25,000 are swept to interest bearing accounts at other banks.

THE GARRARD COUNTY WATER ASSOCIATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2024 AND 2023

NOTE II - Deposits (continued)

C. Summary of Account Balances

	December 31, 2024				
	Cash on Deposit			Certificates of Deposit Included in Investments	Total Deposits
	Non-Interest Bearing	Interest Bearing	Total		
<u>Unrestricted Deposits:</u>					
Revenue	\$ -	\$ 632,075	\$ 632,075	\$ -	\$ 632,075
Operations and maintenance	72,747		72,747		72,747
USDA debt service reserve				87,450	87,450
USDA general loan reserve				87,450	87,450
Depreciation reserve		14,549	14,549	3,474,100	3,488,649
Total Unrestricted Deposits	72,747	646,624	719,371	3,649,000	4,368,371
<u>Restricted Deposits:</u>					
Extension escrow	1,500	-	1,500	-	1,500
Total Restricted Deposits	1,500	-	1,500	-	1,500
Total Deposits	\$ 74,247	\$ 646,624	\$ 720,871	\$ 3,649,000	\$ 4,369,871

A breakdown of certificates of deposit by year of maturity as of December 31, 2024 follows:

2025	750,000
2026	1,099,000
2027	1,500,000
2028	300,000
	<u>\$ 3,649,000</u>

	December 31, 2023				
	Cash on Deposit			Certificates of Deposit Included in Investments	Total Deposits
	Non-Interest Bearing	Interest Bearing	Total		
<u>Unrestricted Deposits:</u>					
Revenue	\$ -	\$ 694,356	\$ 694,356	\$ -	\$ 694,356
Operations and maintenance	45,831	-	45,831		45,831
USDA debt service reserve				87,450	87,450
USDA general loan reserve				87,450	87,450
Depreciation reserve	-	372	372	3,174,100	3,174,472
Total Unrestricted Deposits	45,831	694,728	740,559	3,349,000	4,089,559
<u>Restricted Deposits:</u>					
Extension escrow	2,000	-	2,000	-	2,000
Total Restricted Deposits	2,000	-	2,000	-	2,000
Total Deposits	\$ 47,831	\$ 694,728	\$ 742,559	\$ 3,349,000	\$ 4,091,559

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

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 2024 and 2023, 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, 2024 and 2023:

	December 31, 2024		
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Mutual funds	\$ 258,814	\$ 258,814	\$ -
Common Stocks	242,310	242,310	-
Corporate bonds and notes	223,955	-	223,955
Closed end utility fund	23,814	23,814	-
Exchange traded fund	28,610	28,610	-
Money market fund	48,281	48,281	-
Total	<u>\$ 825,784</u>	<u>\$ 601,829</u>	<u>\$ 223,955</u>

	December 31, 2023		
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Mutual funds	\$ 450,774	\$ 450,774	\$ -
Corporate bonds and notes	242,175	-	242,175
Closed end utility fund	16,282	16,282	-
Exchange traded fund	28,383	28,383	-
Money market fund	31,971	31,971	-
Total	<u>\$ 769,585</u>	<u>\$ 527,410</u>	<u>\$ 242,175</u>

NOTE IV - Investment Income

Investment income consisted of the following:

	<u>For the year ended December 31,</u>	
	<u>2024</u>	<u>2023</u>
Interest income	\$ 191,977	\$ 124,999
Dividends	27,350	22,494
Unrealized gain (loss) on investments	18,287	27,631
Realized gain (loss) on investments	13,135	-
Total	<u>\$ 250,749</u>	<u>\$ 175,124</u>

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

NOTE V - Accounts Receivable - Trade

Trade accounts receivable outstanding at the beginning of 2023 totaled \$171,142. The related allowance for doubtful accounts at that date was \$8,142.

As of December 31, 2024 and 2023, the outstanding trade accounts receivable from customers by aging category were as follows.

<u>As of December 31,</u>	<u>Current</u>	<u>Period Since Due Date</u>			<u>Total</u>
		<u>30-59</u> <u>Days</u>	<u>60-89</u> <u>Days</u>	<u>90 Days</u> <u>and Over</u>	
2024	\$ 160,435	\$ 9,511	\$ 2,574	\$ 3,360	\$ 175,880
2023	\$ 158,756	\$ 11,131	\$ 3,872	\$ 3,494	\$ 177,253

NOTE VI - Fixed Assets

Fixed assets consisted of the following at December 31, 2024 and 2023:

	<u>Depreciable</u> <u>Lives - Years</u>	<u>Historical Cost Basis</u>	
		<u>2024</u>	<u>2023</u>
Land and land rights	N/A	\$ 103,407	\$ 103,407
Land held for rental	N/A	24,004	24,004
Construction in process	N/A	-	312,833
Distribution reservoirs and standpipes	40 - 50	2,672,945	2,180,809
Transmission and distribution mains	55	19,549,806	19,327,375
Fire mains	50	6,803	6,803
Meters and meter installations	20 - 40	2,428,838	2,338,321
Hydrants	40 - 50	25,591	25,591
Maintenance equipment	5 - 10	532,325	468,736
Buildings	25 - 40	140,369	135,927
Rental building	40	63,657	59,157
Office equipment	5	84,558	66,589
Total		25,632,303	25,049,552
Less: Accumulated depreciation		10,806,999	10,285,687
Total Fixed Assets		<u>\$ 14,825,304</u>	<u>\$ 14,763,865</u>

THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

NOTE VII - Notes Payable

During 2022, the Association received a \$2,500,000 construction line of credit from Whitaker Bank. The interest rate on this unsecured loan was 4.625%. As of December 31, 2022, \$661,188 had been advanced on the line of credit.

During 2023, an additional \$1,793,849 in construction costs were paid using advances on this line of credit. On July 14, 2023, the cumulative \$2,455,037 balance of this line of credit, accrued interest of \$24,899, and additional construction costs of \$20,064 were paid using the \$2,500,000 proceeds of a loan from the United States Department of Agriculture Rural Development (USDA).

The USDA loan bears an 1.75% interest rate and is to be repaid over a period of forty years with the first annual payment of \$87,450 due July 13, 2024. The terms of the note include certain requirements to establish cash reserves more fully described in Note II. The loan is secured by a pledge of its properties both real and personal, an assignment and pledge of revenues, and all contract rights including accounts receivable.

In 2023, the improvement project was expanded with a portion of the necessary funding to be provided by a loan from the Kentucky Infrastructure Authority (KIA). The KIA committed a maximum of \$1,400,000 to help fund the project. Through December 31, 2023, \$926,486 had been drawn on the KIA loan and used to pay for construction costs. During 2024, an additional \$438,785 was borrowed and used to complete the project. The balance of the loan at completion of the project was \$1,365,271.

The KIA loan bears an interest rate of 2.25% and is to be repaid over a period of twenty years with semi-annual payments of \$42,754 due on June 1 and December 1. In addition, a loan servicing fee equal to .20% of the outstanding loan balance shall be payable to the KIA as part of each loan payment.

Because the construction costs payable at December 31, 2023, were paid using additional draws on the KIA loan, this payable was reported as long-term debt.

The principal payments due on the USDA and KIA loans are as follows:

<u>Year</u>	<u>USDA</u>	<u>KIA</u>	<u>Total</u>
2025	\$ 44,465	\$ 54,735	\$ 99,200
2026	45,243	55,974	101,217
2027	46,035	57,240	103,275
2028	46,840	58,536	105,376
2029	47,660	59,860	107,520
2030	48,494	61,214	109,708
2031 to maturity	2,177,563	1,017,712	3,195,275
Total	<u>\$ 2,456,300</u>	<u>\$ 1,365,271</u>	<u>\$ 3,821,571</u>

Interest of \$48,315 was paid on the Whitaker Bank construction line of credit during 2023 and was capitalized as part of the cost of the improvement project. In addition, \$4,833 of the interest accrued on the KIA loan through December 31, 2023, was capitalized as part of the cost of the improvement project.

In 2024, an additional \$1,289 of interest on the KIA loan was capitalized as part of the cost of the improvement project.

THE GARRARD COUNTY WATER ASSOCIATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2024 AND 2023

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. Maximum employee contributions are determined by federal tax law. During 2024, employees under age 50 could elect to contribute up to \$23,000 annually. Employees age 50 or over could elect to contribute up to \$30,500 annually. Employee elective contributions are matched by the employer up to 5% of employee compensation.

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

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

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

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	\$ 5,000,000
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.

During 2023, the project was expanded with the addition of two new sources of funding. The first of these sources is a passthrough grant from the Kentucky Infrastructure Authority (KIA) known as the Kentucky Cleaner Water Program (KCWP). Funding for the KCWP was provided by an allocation of federal funds provided by the American Rescue Plan Act of 2021 / Coronavirus State Fiscal Recovery Fund. Through December 31, 2023, the Association received \$771,043 allocated under the KCWP and utilized it for funding of the project.



THE GARRARD COUNTY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

NOTE X - Commitments and Contingencies (continued)

The second source of new funding, a loan from the KIA, is described in Note VII.

Through December 31, 2023, project cost of \$4,492,927 had been incurred. Funding through that date was provided as follows: \$2,500,000 USDA loan, \$771,043 KCWP grant, \$926,486 KIA loan, \$260,770 construction payable to be paid with an additional draw on KIA loan, and \$34,628 Association funds.

The project was completed during 2024. The total cost of the project was \$4,672,230. Funding was provided as follows: \$2,500,000 USDA loan, \$771,043 KCWP grant, \$1,365,271 KIA loan, and \$35,916 Association funds.

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

NOTE XI - Source of Water Supply

The Association purchases most of its water (93.1% during 2024) from the City of Lancaster under a contract dated October 3, 2017 which was effective January 1, 2018. This 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, 2024 AND 2023

NOTE XIII - Water Losses

During 2024 and 2023, the Association incurred the following water losses:

	2024			2023	
	Gallons (1,000's)	Percent		Gallons (1,000's)	Percent
Purchased	458,248	100.00 %		436,016	100.00 %
Sold	(343,748)	(75.01)		(324,647)	(74.46)
Used by Association	(13,047)	(2.85)		(20,128)	(4.62)
Water loss	<u>101,453</u>	<u>22.14 %</u>		<u>91,241</u>	<u>20.92 %</u>

Breakdown of water loss:

Line leaks	99,433	21.70 %	89,091	20.43 %
Line breaks	1,795	0.39	2,025	0.46
Tank overflows	<u>225</u>	<u>0.05</u>	<u>125</u>	<u>0.03</u>
Total water loss	<u>101,453</u>	<u>22.14 %</u>	<u>91,241</u>	<u>20.92 %</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.

	Contributed Capital	Retained Earnings	Total Fund Equity
January 1, 2023 balance per statement	\$ -	\$14,576,350	\$14,576,350
To reclassify to regulatory basis	<u>10,885,468</u>	<u>(10,885,468)</u>	<u>-</u>
January 1, 2023 balance per PSC	10,885,468	3,690,882	14,576,350
2023 net income as reclassified for PSC	<u>1,089,159</u>	<u>311,778</u>	<u>1,400,937</u>
December 31, 2023 balance per PSC	11,974,627	4,002,660	15,977,287
2024 net income as reclassified for PSC	<u>70,216</u>	<u>129,063</u>	<u>199,279</u>
December 31, 2024 balance per PSC	<u>\$12,044,843</u>	<u>\$ 4,131,723</u>	<u>\$16,176,566</u>

NOTE XV- Subsequent Events

Events subsequent to December 31, 2024, have been evaluated to determine their potential impact on the financial statements. Events through March 21, 2025, 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

Certified Public Accountants

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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, 2024, 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 21, 2025.

### 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 statements. 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 21, 2025