

THE GARRARD COUNTY WATER ASSOCIATION

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2025 AND 2024

KERBAUGH, RODES & BUTLER, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

DANVILLE, KENTUCKY

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Kerbaugh, Rodes & Butler, PLLC

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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) (the Association), which comprise the balance sheets as of December 31, 2025 and 2024, 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, 2025 and 2024, 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 24, 2026, 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, 2026

THE GARRARD COUNTY WATER ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31, 2025 AND 2024

	2025	2024
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash on hand	\$ 400	\$ 400
Cash in bank	817,616	719,371
Accounts receivable - trade (net of allowances for credit losses of \$8,531 and \$5,640, respectively)	190,632	170,240
Due from developers for construction of extensions	500	500
Connection fees receivable	354	354
Interest and dividends receivable	28,373	26,788
Prepaid expenses	29,695	24,614
Total Current Assets	1,067,570	942,267
RESTRICTED ASSETS:		
Cash in bank received from developer in advance of construction	63,225	1,500
Total Restricted Assets	63,225	1,500
INVESTMENTS:		
Certificates of deposit	3,949,000	3,649,000
Debt and equity securities	910,883	825,784
Total Investments	4,859,883	4,474,784
FIXED ASSETS, LESS DEPRECIATION	14,597,529	14,825,304
TOTAL ASSETS	\$ 20,588,207	\$ 20,243,855
 <u>LIABILITIES AND RETAINED EARNINGS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 433,695	\$ 161,676
Construction payable	-	36,158
Interest payable	22,413	22,888
Current portion of notes payable	101,217	99,200
Payroll taxes payable	3,869	3,869
Due to employees for supplemental insurance premiums withheld	290	352
Fees received in advance of new connections	17,340	18,275
Rent deposit payable	1,000	1,000
Total Current Liabilities	579,824	343,418
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Deposit from developer in advance of construction	1,500	1,500
Total Liabilities Payable From Restricted Assets	1,500	1,500
LONG-TERM LIABILITIES:		
Notes payable	3,621,098	3,722,371
Total Long-term Liabilities	3,621,098	3,722,371
TOTAL LIABILITIES	4,202,422	4,067,289
RETAINED EARNINGS	16,385,785	16,176,566
TOTAL LIABILITIES AND RETAINED EARNINGS	\$ 20,588,207	\$ 20,243,855

See accompanying notes.

THE GARRARD COUNTY WATER ASSOCIATION, INC.
INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
OPERATING REVENUE:		
Water sales - metered	\$ 2,639,555	\$ 2,523,686
Service charges	89,198	86,300
Connection fees	90,887	76,649
911 tax processing fee	17,570	17,298
Bulk water sales	235	154
Machine hire and labor	300	1,350
Hydrant fees	1,000	1,100
Miscellaneous	624	702
Total Operating Revenue	2,839,369	2,707,239
OPERATING EXPENSES:		
Purchased water	1,284,057	1,121,957
Depreciation	583,125	574,172
Salaries (net of capitalized labor)	440,420	436,367
Group insurance	94,438	77,966
Repairs and maintenance	79,889	122,142
Postage	60,676	56,606
Insurance	49,186	43,954
Legal and accounting	37,696	52,349
Payroll taxes	36,452	35,955
Directors' fees	39,500	37,500
Gas and oil	24,441	23,722
Utilities and telephone	23,856	20,530
Pension expense	17,632	17,177
Bill processing fees	14,369	23,355
Bad debts	16,635	6,316
Water sampling	7,390	9,680
Interest expense	75,571	73,849
PSC assessment	4,196	3,959
Office supplies	6,206	4,938
Other	14,805	13,289
Total Operating Expenses	2,910,540	2,755,783
OPERATING INCOME (LOSS)	(71,171)	(48,544)
OTHER INCOME (EXPENSE):		
Refund to developers for waterline costs	-	(6,434)
Investment income (loss)	281,467	250,749
Investment fees	(6,203)	(4,378)
Rent income	6,000	6,000
Rental expenses	(874)	(878)
Gain (loss) on disposition of fixed assets	-	2,764
NET INCOME	\$ 209,219	\$ 199,279

See accompanying notes.

THE GARRARD COUNTY WATER ASSOCIATION, INC.
STATEMENTS OF RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
Beginning balance	\$ 16,176,566	\$ 15,977,287
Net income for the period	<u>209,219</u>	<u>199,279</u>
Ending balance	<u>\$ 16,385,785</u>	<u>\$ 16,176,566</u>

See accompanying notes.

THE GARRARD COUNTY WATER ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
Cash Flows From Operating Activities:		
Net income	\$ 209,219	\$ 199,279
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	583,125	574,172
(Gain) loss on disposition of equipment	-	(2,764)
Realized (gain) or loss on investments	(15,199)	(13,135)
Unrealized (gain) or loss on investments	(35,899)	(18,287)
Change in:		
Accounts receivable	(20,392)	(1,127)
Interest receivable	(1,585)	23,259
Prepaid expenses	(5,081)	(3,006)
Accounts payable	102,793	5,859
Interest payable	(475)	(2,576)
Change in portion of interest payable capitalized	-	4,833
Refund due to developers for waterline costs	-	(10,801)
Payroll taxes payable	-	(179)
Due to employees for supplemental insurance premiums	(62)	9
Fees received in advance of new connections	(935)	4,673
Net Cash Provided By Operating Activities	815,509	760,209
Cash Flows From Investing Activities:		
Fixed assets purchased	(222,282)	(851,205)
Proceeds from investments sold and matured	911,895	1,928,317
Investments purchased	(1,245,896)	(2,253,094)
Net Cash Provided By Investing Activities	(556,283)	(1,175,982)
Cash Flows From Financing Activities:		
Kentucky Infrastructure Authority loan proceeds	-	438,785
Change in cash received from developers in advance of construction	-	(500)
Change in amount due from developers	-	(500)
Principal payments made on KIA loan	(44,520)	-
Principal payments made on USDA loan	(54,736)	(43,700)
Net Cash Provided (Used) By Financing Activities	(99,256)	394,085
Net increase (decrease) in cash, cash equivalents, and restricted cash	159,970	(21,688)
Cash, cash equivalents, and restricted cash at beginning of year	721,271	742,959
Cash, cash equivalents, and restricted cash at end of year	\$ 881,241	\$ 721,271
Cash on hand	\$ 400	\$ 400
Unrestricted cash in bank	817,616	719,371
Restricted cash in bank	63,225	1,500
Total cash, cash equivalents, and restricted cash at end of year	\$ 881,241	\$ 721,271
<u>Supplemental Schedule of Non-Cash Financing and Investing Activities</u>		
Fixed assets included in accounts payable	\$ 180,313	\$ 11,087
Fixed assets included in construction payable	\$ -	\$ 36,158

See accompanying notes.

THE GARRARD COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

1. 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 credit losses 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.

THE GARRARD COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

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.

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 customer whose meter was disconnected for failure to pay their bill subsequently pays their bill and requests that the Association reconnect their meter. The service charges described in the previous sentence are recognized when the service is performed. Service charges also include a penalty equal to 10% of water charges assessed to customers failing to pay their bills by the 10th of the month, as required. Penalties are recognized as income on the date they are assessed.

Connection fees are charged to customers when a new meter is added to the system. Upon receipt, this fee is initially recorded as 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.

Management's Review of Subsequent Events

The Association has evaluated and considered the need to recognize or disclose subsequent events through March 24, 2026, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2025, have not been evaluated by the Association.

2. DEPOSITS

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.

THE GARRARD COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

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.

Deposit Security

The Association maintains its deposits with various banks. At December 31, 2025, all deposits, which totaled \$4,829,841, were covered by standard federal depository insurance. 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.

In August 2023, the Association entered into a new sweep agreement at a local bank. This agreement pays interest on the base \$25,000. Funds in excess of \$25,000 are swept to interest bearing accounts at other banks.

Deposits consist of the following at December 31, 2025:

	December 31, 2025				
	Cash on Deposit			Certificates of Deposit Included in Investments	Total Deposits
	Non-Interest Bearing	Interest Bearing	Total		
<u>Unrestricted Deposits:</u>					
Revenue	\$ -	\$ 786,426	\$ 786,426	\$ -	\$ 786,426
Operations and maintenance	23,538		23,538		23,538
USDA debt service reserve				87,450	87,450
USDA general loan reserve				87,450	87,450
Depreciation reserve		7,652	7,652	3,774,100	3,781,752
Total Unrestricted Deposits	23,538	794,078	817,616	3,949,000	4,766,616
<u>Restricted Deposits:</u>					
Extension escrow	63,225	-	63,225	-	63,225
Total Restricted Deposits	63,225	-	63,225	-	63,225
Total Deposits	\$ 86,763	\$ 794,078	\$ 880,841	\$ 3,949,000	\$ 4,829,841

THE GARRARD COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

A breakdown of certificates of deposit by maturity as of December 31, 2025 is as follows:

2026	\$	1,099,000
2027		1,500,000
2028		300,000
2029		350,000
2030		450,000
2031		-
2032		250,000
	<u>\$</u>	<u>3,949,000</u>

Deposits consist of the following at December 31, 2024:

	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

3. INVESTMENTS – DEBT AND EQUITY SECURITIES

In addition to investments in certificates of deposit described in Note 2, 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.

THE GARRARD COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

During 2025 and 2024, 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, 2025 and 2024:

	December 31, 2025			
	Total	Level 1	Level 2	Level 3
Mutual funds	\$ 282,145	\$ 282,145	\$ -	\$ -
Common Stocks	277,849	277,849	-	-
Corporate bonds and notes	277,524	-	277,524	-
Closed end utility fund	26,973	26,973	-	-
Exchange traded fund	28,174	28,174	-	-
Money market fund	18,218	18,218	-	-
	\$ 910,883	\$ 633,359	\$ 277,524	\$ -

	December 31, 2024			
	Total	Level 1	Level 2	Level 3
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	-	-
	\$ 825,784	\$ 601,829	\$ 223,955	\$ -

4. INVESTMENT INCOME

Investment income consisted of the following at December 31, 2025 and 2024:

	2025	2024
Interest income	\$ 198,546	\$ 191,977
Dividends	31,823	27,350
Unrealized gain (loss) on investments	35,899	18,287
Realized gain (loss) on investments	15,199	13,135
Total	\$ 281,467	\$ 250,749

5. ACCOUNTS RECEIVABLE – TRADE

Trade accounts receivable outstanding at the beginning of 2024 totaled \$177,253. The related allowance for credit losses at that date was \$8,140. As of December 31, 2025 and 2024, the outstanding trade accounts receivable from customers by aging category were as follows.

As of December 31,	Current	Period Since Due Date			Total
		30-59 Days	60-89 Days	90 Days and Over	
2025	\$ 177,037	\$ 13,526	\$ 2,753	\$ 5,847	\$ 199,163
2024	\$ 160,435	\$ 9,511	\$ 2,574	\$ 3,360	\$ 175,880

THE GARRARD COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

6. FIXED ASSETS

Fixed assets consists of the following at December 31, 2025 and 2024:

	Depreciable Lives -Years	Historical Cost Basis	
		2025	2024
Land and land rights	N/A	\$ 103,407	\$ 103,407
Land held for rental	N/A	24,004	24,004
Distribution reservoirs and standpipes	40 - 50	2,672,945	2,672,945
Transmission and distribution mains	55	19,549,806	19,549,806
Fire mains	50	6,803	6,803
Meters and meter installations	20 -40	2,728,078	2,428,838
Hydrants	40 -50	25,591	25,591
Maintenance equipment	5 - 10	540,084	532,325
Buildings	25 - 40	140,369	140,369
Rental building	40	63,657	63,657
Office equipment	5	86,015	84,558
Total		25,940,759	25,632,303
Less: Accumulated depreciation		11,343,230	10,806,999
Total Fixed Assets		\$ 14,597,529	\$ 14,825,304

7. NOTES PAYABLE

On July 14, 2023, the cumulative \$2,455,037 balance of a construction 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 2. 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. 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.

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

Year	USDA	KIA	Total
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	49,343	62,599	111,942
2032 to maturity	2,128,165	955,112	3,083,277
Total	\$ 2,411,780	\$ 1,310,535	\$ 3,722,315

THE GARRARD COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

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

8. 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 2025, 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. The Association's policy is to fund the pension expense as the liability accrues.

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%

9. 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

10. COMMITMENTS AND CONTINGENCIES

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

11. SOURCE OF WATER SUPPLY

The Association purchases most of its water (94.7% during 2025) 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 and contains a minimum purchase of 325,000,000 gallons. The Association is, therefore, dependent upon the continuing ability of the City of Lancaster to provide a sufficient supply of water.

THE GARRARD COUNTY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
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12. 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.

13. WATER LOSSES

During 2025 and 2024, the Association incurred the following water losses:

	2025		2024	
	Gallons (1,000's)	Percent	Gallons (1,000's)	Percent
Purchased	467,053	100.00%	458,248	100.00%
Sold	(341,558)	-73.13%	(343,748)	-75.01%
Used by Association	(14,522)	-3.11%	(13,047)	-2.85%
Water loss	<u>110,973</u>	<u>23.76%</u>	<u>101,453</u>	<u>22.14%</u>

During 2025 and 2024, the breakdown of water loss is as follows:

	2025		2024	
	Gallons (1,000's)	Percent	Gallons (1,000's)	Percent
Line leaks	105,669	95.22%	99,433	98.01%
Line breaks	5,304	4.78%	1,795	1.77%
Tank overflows	-	0.00%	225	0.22%
Total water loss	<u>110,973</u>	<u>100.00%</u>	<u>101,453</u>	<u>102.03%</u>

14. 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, 2024 balance per statement	\$ -	\$ 15,977,287	\$ 15,977,287
To reclassify to regulatory basis	11,974,627	(11,974,627)	-
January 1, 2024 balance per PSC	11,974,627	4,002,660	15,977,287
2024 net income as reclassified for PSC	70,216	129,063	199,279
December 31, 2024 balance per PSC	12,044,843	4,131,723	16,176,566
2025 net income as reclassified for PSC	90,887	118,332	209,219
December 31, 2025 balance per PSC	<u>\$ 12,135,730</u>	<u>\$ 4,250,055</u>	<u>\$ 16,385,785</u>

COMPLIANCE SECTION

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, 2025, 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, 2026.

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 24, 2026