

SOUTHEAST DAVIESS COUNTY WATER DISTRICT

**FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION**

DECEMBER 31, 2019 AND 2018

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
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December 31, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Southeast Daviess County Water District

Report on the Financial Statements

We have audited the accompanying financial statements of Southeast Daviess County Water District (District), a component unit of the Daviess County Fiscal Court, Kentucky, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Southeast Daviess County Water District as of December 31, 2019 and 2018, 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.

Other Matters

Required Supplementary Information

Management has omitted *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southeast Daviess County Water District's basic financial statements. The Budgetary Comparison Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Budgetary Comparison Schedule is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the Budgetary Comparison Schedule is fairly stated, in all material respects, in relation to the basic 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 19, 2020 on our consideration of Southeast Daviess County Water District'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 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 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 Southeast Daviess County Water District's internal control over financial reporting and compliance.

Alexander & Company CPAs PSC

Owensboro, Kentucky
March 19, 2020

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Net Position
December 31, 2019 and 2018

	2019	2018
Assets		
CURRENT ASSETS		
Cash	\$ 268,494	\$ 424,032
Accounts receivable	443,719	426,909
Investments	2,608,932	2,451,294
Interest receivable	2,846	2,216
Prepaid insurance	7,266	5,530
Inventory	139,071	179,354
TOTAL CURRENT ASSETS	3,470,328	3,489,335
 RESTRICTED ASSETS		
Cash - Meter Setting Fund	141,026	174,068
Cash - Medical Reimbursement Fund	81,175	22,969
Investments - customer deposits	163,834	157,745
Investments - medical reimbursement	201,197	196,228
Interest receivable	186	298
TOTAL RESTRICTED ASSETS	587,418	551,308
 CAPITAL ASSETS		
Land	56,350	56,350
Water plant	13,719,872	12,092,836
Construction in progress	19,182	1,056,215
	13,795,404	13,205,401
Less accumulated depreciation	(5,419,176)	(5,100,619)
NET CAPITAL ASSETS	8,376,228	8,104,782
TOTAL ASSETS	\$ 12,433,974	\$ 12,145,425

See accompanying notes.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Net Position
December 31, 2019 and 2018

	2019	2018
Liabilities and Net Assets		
CURRENT LIABILITIES		
Accounts payable	\$ 368,812	\$ 329,093
Accrued pension	24,392	20,931
Accrued school and sales taxes	7,116	6,748
Payroll taxes and withholding	8,532	7,286
Accrued payroll	13,224	11,409
Current liabilities payable from restricted assets:		
Accounts payable	5,517	63,292
TOTAL CURRENT LIABILITIES	427,593	438,759
NONCURRENT LIABILITIES		
Customer deposits payable from restricted assets	163,834	157,745
TOTAL LIABILITIES	591,427	596,504
NET POSITION		
Net investment in capital assets	8,376,228	8,104,782
Unrestricted	3,466,319	3,444,139
TOTAL NET POSITION	11,842,547	11,548,921
TOTAL LIABILITIES AND NET POSITION	\$ 12,433,974	\$ 12,145,425

See accompanying notes.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Water sales	\$ 2,406,540	\$ 2,132,325
Tap on fees	136,825	142,370
Miscellaneous service revenues	135,830	141,047
TOTAL OPERATING REVENUES	2,679,195	2,415,742
OPERATING EXPENSES		
Audit, accounting and legal	11,612	16,015
Bad debts	9,220	6,731
Depreciation	353,651	315,697
Education and seminars	965	975
Employee benefits	221,196	177,621
Engineering	1,948	-
Insurance	30,864	28,387
Materials, supplies, and repairs	118,409	121,213
Miscellaneous	7,564	8,406
Office supplies and expense	48,445	54,985
Payroll taxes	33,188	30,278
Phone and communication	6,508	5,492
PSC assessment	4,447	4,423
Rent of real estate	6,665	6,431
Salaries and wages	417,906	381,450
Transportation	32,711	29,240
Uniforms	3,883	2,927
Utilities	67,032	64,356
Water purchased	1,281,495	1,113,727
Water tests and meter service	13,475	11,110
TOTAL OPERATING EXPENSES	2,671,184	2,379,464
INCOME FROM OPERATIONS	8,011	36,278
NONOPERATING REVENUES (EXPENSES)		
Interest income	67,334	55,360
Interest expense	(4,563)	(2,316)
Loss on disposal of assets	(175)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	62,596	53,044
INCOME BEFORE CONTRIBUTIONS	70,607	89,322

See accompanying notes.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2019 and 2018

	2019	2018
CONTRIBUTED CAPITAL REVENUE		
Contributions in aid of construction	\$ 223,019	\$ 82,360
TOTAL CONTRIBUTED CAPITAL REVENUE	223,019	82,360
CHANGE IN NET POSITION	293,626	171,682
NET POSITION, BEGINNING OF YEAR	11,548,921	11,377,239
NET POSITION, END OF YEAR	\$ 11,842,547	\$ 11,548,921

See accompanying notes.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,668,474	\$ 2,389,637
Cash payments to employees for services	(586,729)	(590,544)
Cash payments for goods and services	(1,703,423)	(1,459,769)
NET CASH PROVIDED BY OPERATING ACTIVITIES	378,322	339,324
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(402,253)	(1,177,823)
Interest paid	(4,563)	(2,316)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(406,816)	(1,180,139)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments - net	(168,696)	475,658
Interest on investments	66,816	56,178
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(101,880)	531,836
NET DECREASE IN CASH	(130,374)	(308,979)
CASH AT BEGINNING OF YEAR	621,069	930,048
CASH AT END OF YEAR	\$ 490,695	\$ 621,069

See accompanying notes.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net income from operations	\$ 8,011	\$ 36,278
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation	353,651	315,697
(Increase) decrease in:		
Accounts receivable	(16,810)	(30,069)
Prepaid insurance	(1,736)	2,071
Inventory	40,283	(55,619)
Increase (decrease) in:		
Accounts payable	(18,056)	64,227
Accrued pension	3,461	654
Accrued school and sales tax	368	68
Accrued payroll	1,815	1,691
Payroll taxes and withholding	1,246	362
Customer deposits	6,089	3,964
Total adjustments	370,311	303,046
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 378,322	\$ 339,324

See accompanying notes.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Southeast Daviess County Water District (District) is a component unit of the Daviess County Fiscal Court, Kentucky and, therefore, is part of the financial reporting entity of the Daviess County Fiscal Court. The District is a water utility which operates in the rural section of Southeast Daviess County, Kentucky, and its sales are primarily to residential customers.

Proprietary Fund

The District is classified as a proprietary fund type. Proprietary funds are accounted for using the economic resources measurement focus; the accounting objectives are the determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary funds' activities are included on its statement of net position.

Basis of Accounting

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Government Accounting Standards Board (GASB) pronouncements.

The accrual basis of accounting is used for proprietary fund types. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

Regulation

The District's utility operations are subject to regulation with respect to rates, service, maintenance of accounting records and various other matters by the Commonwealth of Kentucky, Public Service Commission. The District's accounting policies recognize the financial effects of the rate making and accounting practices and policies of the Public Service Commission.

Management Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash Flows Information

For the purposes of the Statements of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Noncash financing activities for 2019 and 2018, representing water lines donated to the District, were \$206,377 and \$82,360, respectively.

Accounts Receivable

The District follows a monthly billing cycle. When meter reading is delayed, estimated bills are rendered based on the average of the three previous bills in order to promote consistency of water revenue. The District considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established based on a favorable history over a substantial period of time. If an account becomes more than sixty days overdue, it will be charged to operations using the direct write-off method.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

Inventory consists of materials and supplies and is stated at lower of cost (determined on the first-in, first-out basis) or net realizable value.

Water Plant

Water plant is stated at original cost (cost of the property to whoever first devoted it to public service). The cost of labor for additions to the water plant constructed by the District's employees is not capitalized.

Capital Assets

Utility plant assets are stated at cost. The cost of current repairs and maintenance is charged to expense, while the cost of replacements or betterments is capitalized.

Depreciation is provided on the basis of the estimated useful lives of assets using the straight-line method. Depreciation expense was \$353,651 and \$315,697 for the years 2019 and 2018, respectively. Estimated useful lives of major class of the water plant in service are as follows:

Pumping system	10-50 years
Transmission and distribution system	30-70 years
General plant	5-30 years

Operating Revenue

Operating revenue is recognized upon completion of monthly meter readings. At the end of each month, water service which has been rendered from the latest meter reading to the end of the month is unbilled.

Nonoperating Revenues and Expenses

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering water in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE B – CASH DEPOSITS AND INVESTMENTS

Cash at year end consists of:

	2019	2018
Cash	\$ 268,494	\$ 424,032
Cash - Meter Setting Fund	141,026	174,068
Cash - Medical Reimbursement Fund	81,175	22,969
	\$ 490,695	\$ 621,069

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE B – CASH DEPOSITS AND INVESTMENTS (continued)

Investments

Investments consist of seven certificates of deposit at local banks as of December 31, 2019. The first certificate of deposit has a value of \$601,438. This certificate pays an interest rate of 2.47% with a maturity date of February 13, 2021. The second certificate of deposit has a value of \$592,882. This certificate pays an interest rate of 1.85% with a maturity date of November 21, 2020. The third certificate of deposit has a value of \$507,138. This certificate pays an interest rate of 2.42% with a maturity date of May 16, 2020. The fourth certificate of deposit has a value of \$619,540. This certificate pays an interest rate of 2.72% with a maturity date of January 13, 2020. The fifth certificate of deposit has a value of \$247,494. This certificate pays an interest rate of 2.05% with a maturity date of October 30, 2020. The sixth certificate of deposit has a value of \$201,197. This certificate pays an interest rate of 2.25% with a maturity date of October 17, 2020. The seventh certificate of deposit has a value of \$204,274. This certificate of deposit pays an interest rate of 2.81% with a maturity date of April 13, 2021.

Investments consist of six certificates of deposit at local banks as of December 31, 2018. The first certificate of deposit has a value of \$587,635. This certificate pays an interest rate of 1.59% with a maturity date of February 12, 2019. The second certificate of deposit has a value of \$584,572. This certificate pays an interest rate of 1.35% with a maturity date of November 15, 2019. The third certificate of deposit has a value of \$592,386. This certificate pays an interest rate of 1.60% with a maturity date of May 16, 2019. The fourth certificate of deposit has a value of \$602,935. This certificate pays an interest rate of 2.72% with a maturity date of January 13, 2020. The fifth certificate of deposit has a value of \$241,511. This certificate pays an interest rate of 2.52% with a maturity date of October 28, 2019. The sixth certificate of deposit has a value of \$196,228. This certificate pays an interest rate of 2.52% with a maturity date of October 10, 2019.

Investments are shown on the Statement of Net Position as:

	2019	2018
Investments	\$ 2,608,932	\$ 2,451,294
Investments - customer deposits	163,834	157,745
Investments - medical reimbursements	201,197	196,228
	\$ 2,973,963	\$ 2,805,267

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United State government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds. The District's investment policy only allows investment choices that are in compliance with the state statutes. At December 31, 2019 and 2018, all investments held by the District were insured or collateralized with securities held by the District or by its agent in the District's name.

Concentration of Credit Risk

The District's investment policy places no limit on the amount the District may invest in any one issuer. The District's investments consist of collateralized certificate of deposits at a local bank. The District does not have a deposit policy for credit risk.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE C – CAPITAL ASSETS

Capital assets activity for the years ended December 31, 2019 and 2018, was as follows:

	Balance Dec. 31, 2018	Additions	Deletions	Balance Dec. 31, 2019
Capital assets not depreciated:				
Land	\$ 56,350	\$ -	\$ -	\$ 56,350
Construction in progress	1,056,215	17,145	1,054,178	19,182
Total capital assets not depreciated:	<u>1,112,565</u>	<u>17,145</u>	<u>1,054,178</u>	<u>75,532</u>
Capital assets depreciated:				
Buildings	152,171	10,152	-	162,323
Pumping stations	1,008,796	17,125	-	1,025,921
Equipment	279,057	1,190,681	13,370	1,456,368
Tanks, lines, meters and hydrants	10,652,812	466,244	43,796	11,075,260
Total capital assets depreciated	<u>12,092,836</u>	<u>1,684,202</u>	<u>57,166</u>	<u>13,719,872</u>
Less accumulated depreciation:				
Buildings	131,692	4,636	-	136,328
Pumping stations	464,313	29,671	-	493,984
Equipment	233,853	51,129	13,196	271,786
Tanks, lines, meters and hydrants	4,270,761	268,215	21,898	4,517,078
Total accumulated depreciation	<u>5,100,619</u>	<u>353,651</u>	<u>35,094</u>	<u>5,419,176</u>
Total capital assets depreciated, net	<u>6,992,217</u>	<u>1,330,551</u>	<u>22,072</u>	<u>8,300,696</u>
Total capital assets, net	<u>\$ 8,104,782</u>	<u>\$ 1,347,696</u>	<u>\$ 1,076,250</u>	<u>\$ 8,376,228</u>
	Balance Dec. 31, 2017	Additions	Deletions	Balance Dec. 31, 2018
Capital assets not depreciated:				
Land	\$ 56,350	\$ -	\$ -	\$ 56,350
Construction in progress	18,845	1,054,178	16,808	1,056,215
Total capital assets not depreciated:	<u>75,195</u>	<u>1,054,178</u>	<u>16,808</u>	<u>1,112,565</u>
Capital assets depreciated:				
Buildings	152,171	-	-	152,171
Pumping stations	1,008,796	-	-	1,008,796
Equipment	264,395	14,662	-	279,057
Tanks, lines, meters and hydrants	10,447,991	216,934	12,113	10,652,812
Total capital assets depreciated	<u>11,873,353</u>	<u>231,596</u>	<u>12,113</u>	<u>12,092,836</u>
Less accumulated depreciation:				
Buildings	126,507	5,185	-	131,692
Pumping stations	435,213	29,100	-	464,313
Equipment	210,189	23,664	-	233,853
Tanks, lines, meters and hydrants	4,016,343	257,747	3,329	4,270,761
Total accumulated depreciation	<u>4,788,252</u>	<u>315,696</u>	<u>3,329</u>	<u>5,100,619</u>
Total capital assets depreciated, net	<u>7,085,101</u>	<u>(84,100)</u>	<u>8,784</u>	<u>6,992,217</u>
Total capital assets, net	<u>\$ 7,160,296</u>	<u>\$ 970,078</u>	<u>\$ 25,592</u>	<u>\$ 8,104,782</u>

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE D – RETIREMENT PLANS

The District has a money-purchase retirement plan (Plan) covering all full-time employees that is a Defined Contribution plan. The fair value of investments is determined by the quoted market prices for each investment at the close of the market.

The District makes a contribution equal to eleven percent of the employee’s earned annual base salary. Employees become eligible after reaching the age of twenty and a half and after six months of full time employment. Employees become fully vested after five years of service from enrollment date.

Employer contributions to the Plan for 2019 and 2018 were \$45,076 and \$41,271, respectively. Accrued pension expense for the Plan as of December 31, 2019 and 2018 was \$24,392 and \$20,931, respectively. Pentegra Services, Inc. is the administrator of the funds. Mass Mutual Financial Group is the custodian of the funds.

During 2019 and 2018, there were no forfeitures under this plan.

In addition to the Plan, the District’s employees are also eligible to participate in a deferred compensation plan. The plan is organized as a Section 457(b) plan under the Internal Revenue Code. The plan permits employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, age sixty-two if still working or financial hardship. The District’s policy is to match the employee’s contribution up to three percent of the employee’s gross salary.

Employer contribution to the deferred compensation plan for 2019 and 2018 were \$12,082 and \$10,928, respectively. Pentegra Services, Inc. is the administrator of this retirement plan. Mass Mutual Financial Group is the custodian of the fund.

NOTE E – RESTRICTED ASSETS

Cash and investments held for the purpose of medical reimbursement and meter setting deposits are classified as restricted funds and liabilities to be paid by the District are classified as liabilities payable from restricted funds.

NOTE F – RWRA ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

The District bills and performs collections for sewer charges on behalf of the Regional Water Resource Agency (RWRA), a regional provider of comprehensive wastewater services for Daviess, County, Kentucky. Accounts receivable and accounts payable related to RWRA as of December 31, 2019 and 2018 was as follows:

	2019	2018
Accounts receivable - RWRA	\$ 253,444	\$ 239,511
Accounts receivable - District	190,275	187,398
Total accounts receivable	\$ 443,719	\$ 426,909
	2019	2018
Accounts payable - RWRA	\$ 216,119	\$ 212,155
Accounts payable - District	152,693	116,938
Total accounts payable	\$ 368,812	\$ 329,093

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE G – CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction represent additions to the water plant through extensions of the water distribution system. These additions are funded by individual users through payments made directly to the District or to independent contractors. Contributions to the water distribution system amounted to \$223,019 for 2019 and \$82,360 for 2018.

NOTE H – INCOME TAX STATUS

The District is exempt from federal and state income taxes and, accordingly, no provision for such taxes has been made.

NOTE I – OPERATING AND ADMINISTRATION EXPENSES

The District shares office space and personnel with the West Daviess County Water District. Administrative expenses and operating salaries and wages are allocated between the two water districts based the number of active meters for each District. Prior to July 1, 2019, 55% of those expenses are allocated to the District. After July 1, 2019, 59% of shared expenses were allocated to the District

NOTE J – LEASING ARRANGEMENTS

The District conducts its operations from facilities which are constructed upon land leased for a period of five years commencing March 1, 2017. The lease provides that the lessee shall have the right to extend this lease for additional five-year periods. Unless notice is given to cancel this lease sixty (60) days before the end of the original period or any extension thereof, then such extension shall be automatic. The monthly rent is \$974, however, the District's share is 59% (55% prior to July 1, 2019) or \$575 monthly. Rental expense was \$6,665 and \$6,431 for 2019 and 2018.

The following is a schedule of future minimum rental payments required under the above lease as of December 31, 2019:

<u>Year Ended December 31</u>	<u>Amount</u>
2020	\$ 6,900
2021	6,900
2022	1,150
	\$ 14,950

NOTE K – SUPPLIER

The District purchases all of its water for resale from the City Utility Commission of the City of Owensboro, Kentucky operating as Owensboro Municipal Utilities (OMU). The purchases from OMU for 2019 and 2018 was \$1,269,551 and \$1,105,196, respectively. Amounts payable to OMU at year-end for 2019 and 2018 were \$106,504 and \$87,259, respectively.

NOTE L – COMPENSATED ABSENCES

Employees are entitled to paid vacation and paid sick days, depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The District does not accrue compensation for paid vacation because the amount is considered immaterial. The District's policy is to record compensated absences when actually paid to employees.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE M – NET POSITION

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets; restricted and unrestricted net assets. Invested in capital assets consists of all capital assets, net of accumulated depreciation. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net assets not included in the above categories.

Included in restricted net position at December 31,

	2019	2018
Investments - Customer Deposits	\$ 163,834	\$ 157,745
Less: Restricted Liabilities	(163,834)	(157,745)
Restricted Net Position	\$ -	\$ -

NOTE N – COMMITMENTS AND CONTINGENCIES

Medical Expense Reimbursement Plan

The District provides a medical reimbursement plan (MERP) to its employees. The plan reimburses employees for medical and hospital expenses incurred by themselves and their dependents from December 1 to November 30 in any calendar year, but not to exceed \$3,000 for single employee or \$6,000 for family plan (or current health plan's out-of-pocket maximum less \$1,000 for single plan and \$2,000 for family plan) per plan year. The reimbursements exclude insurable and eligible medical and hospital expenses available to employees under the District's group insured health plan. This plan also excludes employee dental expenses and expenses for prescription and non-prescription drugs. The District has established a reserve consisting of cash and cash equivalents to cover future medical reimbursements which as of December 31, 2019 and 2018, totaled \$282,372 and \$219,197. For the years ended December 31, 2019 and 2018, medical reimbursements paid to employees were \$15,620 and \$12,371, respectively. There were no significant outstanding medical reimbursements to employees as of December 31, 2019 and 2018.

Water Purchases

The District purchases water monthly from Owensboro Municipal Utilities. The amount OMU charges the District for water purchases is based on an estimated rate. The supplier will retroactively compare the actual cost and estimated costs charged to the District and the difference (either the amount overpaid or underpaid) is communicated to the District. The District has the option to request a rate change or otherwise the rate remains unchanged.

As of May 31, 2019 and 2018, the total amount (underpaid) overpaid by the District was (\$18,152) and \$71,343. The District has not recognized a contingency on their records since this amount cannot be reasonably estimated as of December 31, 2019 and 2018.

NOTE O – SUBSEQUENT EVENTS

The District did not have any subsequent events through March 19, 2020, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2019.

SUPPLEMENTARY INFORMATION

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Budgetary Comparison Schedule
Year Ended December 31, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
OPERATING REVENUES	<u>\$ 2,599,000</u>	<u>\$ 2,599,000</u>	<u>\$ 2,679,195</u>	<u>\$ 80,195</u>
OPERATING EXPENSES				
Operation and maintenance expense	2,254,600	2,254,600	2,313,086	(58,486)
Depreciation expense	345,000	345,000	353,651	(8,651)
Taxes other than income	<u>4,400</u>	<u>4,400</u>	<u>4,447</u>	<u>(47)</u>
TOTAL OPERATING EXPENSES	<u>2,604,000</u>	<u>2,604,000</u>	<u>2,671,184</u>	<u>(67,184)</u>
INCOME FROM OPERATIONS	<u>(5,000)</u>	<u>(5,000)</u>	<u>8,011</u>	<u>13,011</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	60,000	60,000	67,334	7,334
Interest expense	(2,500)	(2,500)	(4,563)	(2,063)
Loss on disposal of assets	<u>-</u>	<u>-</u>	<u>(175)</u>	<u>(175)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>57,500</u>	<u>57,500</u>	<u>62,596</u>	<u>5,096</u>
INCOME BEFORE CONTRIBUTIONS	52,500	52,500	70,607	18,107
CONTRIBUTED CAPITAL REVENUE	<u>100,000</u>	<u>100,000</u>	<u>223,019</u>	<u>123,019</u>
CHANGE IN NET POSITION	<u>\$ 152,500</u>	<u>\$ 152,500</u>	<u>\$ 293,626</u>	<u>\$ 141,126</u>



**INDEPENDENT AUDITORS' 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 Commissioners
Southeast Daviess County Water District

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 Southeast Daviess County Water District, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 19, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Southeast Daviess County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Southeast Daviess County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Southeast Daviess County Water District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Southeast Daviess County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alexander & Company CPAs PSC

Owensboro, Kentucky
March 19, 2020

**SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Schedule of Findings and Responses
Year Ended December 31, 2019**

FINDINGS – FINANCIAL STATEMENT AUDIT

NONE