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**PUBLIC SERVICE  
COMMISSION**

**EAST DAVIESS COUNTY WATER ASSOCIATION, INC.**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTAL INFORMATION**

**DECEMBER 31, 2015 AND 2014**

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.

Contents

December 31, 2015 and 2014

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## INDEPENDENT AUDITORS' REPORT

To the Members  
East Daviess County Water Association, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of East Daviess County Water Association, Inc. (a nonprofit organization) which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income, retained deficit, and cash flows for the years then ended, and the related notes to the financial statements.

### 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.

### Auditor's 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 East Daviess County Water Association, Inc. as of December 31, 2015 and 2014, 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

### Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Insurance and Rates is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2016 on our consideration of East Daviess County Water 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 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 East Daviess County Water Association's internal control over financial reporting and compliance.

*Alford & Company CPAs PSC*

Owensboro, Kentucky  
March 15, 2016

**EAST DAVIESS COUNTY WATER ASSOCIATION, INC.**

**Balance Sheets**

**December 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
<b>UTILITY PLANT</b>		
Water plant in service	\$ 11,852,877	\$ 11,769,327
Construction in progress	19,540	20,947
Less: accumulated depreciation	(4,923,745)	(4,714,920)
<b>TOTAL UTILITY PLANT - NET</b>	<b>6,948,672</b>	<b>7,075,354</b>
<b>RESTRICTED FUNDS</b>		
Cash - reserve fund	540,901	513,216
Cash - construction fund	48	47
Cash - security deposit fund	26,302	24,073
<b>TOTAL RESTRICTED FUNDS</b>	<b>567,251</b>	<b>537,336</b>
<b>CURRENT ASSETS</b>		
Cash	559,602	532,948
Accounts receivable trade	160,373	167,605
Less: allowance for doubtful accounts	(14,579)	(14,469)
Other receivables	147	186
Inventory	42,105	41,192
Prepaid insurance	12,598	12,206
Other current assets	2,692	4,457
<b>TOTAL CURRENT ASSETS</b>	<b>762,938</b>	<b>744,125</b>
<b>DEFERRED EXPENSE</b>		
Unamortized debt expense	2,536	3,025
<b>TOTAL ASSETS</b>	<b>\$ 8,281,397</b>	<b>\$ 8,359,840</b>

See accompanying notes.

**EAST DAVIESS COUNTY WATER ASSOCIATION, INC.**

**Balance Sheets**

**December 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>LIABILITIES AND OTHER CREDITS</b>		
<b>RETAINED DEFICIT</b>	\$ (159,101)	\$ (221,612)
<b>LONG-TERM DEBT, net of current portion</b>	1,132,272	1,321,000
<b>CURRENT LIABILITIES</b>		
Accounts payable - trade	48,610	51,154
Accounts payable - RWRA	12,355	13,183
Current portion of long-term debt	184,698	178,100
Accrued taxes	3,728	3,665
Accrued interest	9,813	10,451
Customer deposits	25,680	24,005
Accrued payroll and payroll taxes	7,259	7,682
<b>TOTAL CURRENT LIABILITIES</b>	292,143	288,240
<b>TOTAL LIABILITIES</b>	1,424,415	1,609,240
<b>CONTRIBUTIONS</b>		
Federal grants	1,807,300	1,807,300
State and local grants	2,343,641	2,343,641
Contributions in aid	2,865,142	2,821,271
<b>TOTAL CONTRIBUTIONS</b>	7,016,083	6,972,212
<b>TOTAL LIABILITIES AND OTHER CREDITS</b>	\$ 8,281,397	\$ 8,359,840

See accompanying notes.

**EAST DAVIESS COUNTY WATER ASSOCIATION, INC.**

**Statements of Income**

**Years ended December 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>OPERATING REVENUE</b>		
Water sales	\$ 1,526,106	\$ 1,493,020
Miscellaneous service revenue	111,705	90,278
<b>TOTAL OPERATING REVENUES</b>	<b>1,637,811</b>	<b>1,583,298</b>
 <b>OPERATING EXPENSES</b>		
Bad debts	18,390	15,707
Depreciation and amortization	295,093	285,637
Directors' fees	12,750	12,750
Insurance	141,869	124,110
Legal and accounting	23,485	24,297
Miscellaneous	25,442	22,985
Office supplies and postage	44,120	38,022
Payroll taxes and fringe benefits	39,704	40,186
PSC assessment	3,010	2,915
Repairs	100,465	88,657
Salaries and wages	363,118	358,520
Telephone	9,419	8,653
Transportation	24,216	29,635
Utilities	38,458	36,880
Water purchased	377,063	376,434
Water testing	6,388	7,720
<b>TOTAL OPERATING EXPENSES</b>	<b>1,522,990</b>	<b>1,473,108</b>
 <b>INCOME FROM OPERATIONS</b>	<b>114,821</b>	<b>110,190</b>
 <b>OTHER INCOME (EXPENSE)</b>		
Loss on disposal of assets	(1,747)	(9,802)
Interest earned on investments	3,999	4,399
Interest expense	(54,562)	(61,913)
<b>TOTAL OTHER EXPENSE</b>	<b>(52,310)</b>	<b>(67,316)</b>
 <b>NET INCOME</b>	<b>\$ 62,511</b>	<b>\$ 42,874</b>

See accompanying notes.

**EAST DAVIESS COUNTY WATER ASSOCIATION, INC.**  
**Statements of Retained Deficit**  
**Years ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
RETAINED DEFICIT, BEGINNING OF YEAR	\$ (221,612)	\$ (264,486)
NET INCOME	<u>62,511</u>	<u>42,874</u>
RETAINED DEFICIT, END OF YEAR	<u>\$ (159,101)</u>	<u>\$ (221,612)</u>

See accompanying notes.



**EAST DAVIESS COUNTY WATER ASSOCIATION, INC.**  
**Statements of Cash Flows**  
**Years ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 62,511	\$ 42,874
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	295,093	285,637
Loss on disposal of assets	1,747	9,802
(Increase) decrease in:		
Accounts receivable	7,232	(11,623)
Other receivable	39	401
Reserve for bad debts	110	5,394
Prepaid insurance	(392)	(253)
Inventory	(913)	3,660
Other current assets	1,765	-
Increase (decrease) in:		
Accounts payable	(3,372)	6,687
Accrued taxes payable	63	82
Accrued interest	(638)	(614)
Customer deposits	1,675	3,005
Accrued payroll and payroll taxes	(423)	2,388
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>364,498</u>	<u>347,440</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for the purchase of property	(175,745)	(216,275)
Transfers to reserves and restricted funds	(29,915)	(30,862)
Proceeds from the sale of property	6,075	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(199,585)</u>	<u>(247,137)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	(182,130)	(174,802)
Contribution in aid of construction	43,871	82,340
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(138,259)</u>	<u>(92,462)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	26,654	7,841
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>532,948</u>	<u>525,107</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 559,602</u>	<u>\$ 532,948</u>

See accompanying notes.

**EAST DAVIESS COUNTY WATER ASSOCIATION, INC.**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Business

East Daviess County Water Association, Inc. (the "Water Association") is a water utility which operates in rural sections of Daviess, Hancock, and Ohio Counties of Kentucky, and its sales are primarily to residential customers.

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.

Regulation

The Water Association'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 Water Association's accounting policies recognize the financial effects of the ratemaking and accounting practices and policies of the Public Service Commission which conform to generally accepted accounting principles in all material respects.

Operating Revenue

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

Inventory

Inventory consists of materials and supplies which are stated at lower of cost (determined on the first-in, first-out basis) or market.

Utility Plant

Utility plant is stated at original cost (cost of the property to whomever first devoted it to public service.) The cost of labor for additions to the utility plant constructed by the Water Association's employees is not capitalized. It is the Water Association's policy to capitalize property or equipment over \$500.

**EAST DAVIESS COUNTY WATER ASSOCIATION, INC.**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Depreciation

Depreciation expense is computed on the straight-line method. Depreciation expense for 2015 and 2014 was \$ 294,605 and \$ 285,168 respectively. Estimated useful lives of major components of the utility plant in service are as follows:

Water reservoirs	50 years
Water pumps and equipment	40 years
Land improvements	25 years
Service equipment	10 years
Water lines and meters	50 years

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consists of water sales to residential, commercial, industrial, agricultural and other customers. The allowance for doubtful accounts is computed based on the aging of outstanding accounts receivable and historical collections experience and represents in management's opinion, an adequate allowance to provide for probable uncollectible accounts. Accounts receivable for the previous month's billing are considered past due after the 15<sup>th</sup> of the current month. Any inactive, unpaid accounts from the previous year are written off in the last quarter of the current year.

Amortization of Debt Discount and Expense

The Water Association uses the bond retirement method to amortize debt discount and expense.

Cash Flows Information

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

Cash paid for interest for 2015 and 2014 was \$ 55,200 and \$ 62,527, respectively.

Impairment of Long-Lived Assets

Management periodically evaluates whether events or circumstances have occurred that indicate that excess of cost over net assets acquired and other long-lived assets may not be recoverable or that the remaining useful life may warrant revision. When such events or circumstances are present, management assess the recoverability of long-lived assets by determining whether the carrying value will be recovered through the expected future cash flows. In the event the sum of the expected future cash flows resulting from the use of the asset is less than the carrying value of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. To date, no such impairment has been recognized.

**EAST DAVIESS COUNTY WATER ASSOCIATION, INC**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

**NOTE B - RESTRICTED FUNDS**

Funds are restricted as follows: (1) Reserve fund cash is restricted pursuant to loan agreements with the U.S. Department of Agriculture, Rural Development and US Bank as described in Note D; (2) Construction fund cash represents cash advanced by the U.S. Department of Agriculture, Rural Development and other grantors which is restricted for construction projects; and (3) Security deposit fund cash consists of security deposits paid by customers.

**NOTE C - LONG-TERM DEBT**

	2015	2014
Long-term debt consists of the following:		
Note payable to U.S. Department of Agriculture, Rural Development with interest at the rate of 4.375% per annum, due in annual installments of \$31,228, including interest through August 7, 2046.	\$ 432,220	\$ 444,022
Note payable to US Bank with interest at the rate of 3.71% per annum, due in monthly installments of \$17,175, including interest through July 7, 2020.	884,750	1,055,078
	1,316,970	1,499,100
Less: Current portion	184,698	178,100
	\$ 1,132,272	\$ 1,321,000

US Bank and U.S. Department of Agriculture, Rural Development hold mortgages on substantially all assets of the Water Association.

The Water Association's loan agreements include various covenants, including a provision that it will not borrow any money from any source or enter into any contract agreement or incur any other liabilities in connection with making extensions or improvements to the facility, exclusive of normal maintenance, without obtaining the prior written consent of the Mortgagees. The cash reserve fund associated with the U.S. Department of Agriculture, Rural Development loan is fully funded. US Bank does not require a reserve fund for their loan. The Reserve Fund shall be used and disbursed only for the purpose of paying the cost of repairing or replacing any damage to the facility which may be caused by unforeseen catastrophe, for making extensions or improvements to the facility with the prior written approval of the U.S. Department of Agriculture, Rural Development, and when necessary, for the purpose of making debt service payments on the U.S. Department of Agriculture, Rural Development note in the event funds are not available from current operating funds.

**EAST DAVIESS COUNTY WATER ASSOCIATION, INC**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

**NOTE C - LONG-TERM DEBT (continued)**

Maturities of notes payable are as follows:

Year Ended December 31	Amount
2016	\$ 184,698
2017	191,499
2018	198,784
2019	206,390
2020	147,406
Thereafter	388,193
	\$ 1,316,970

**NOTE D - UTILITY PLANT**

The major classes of Utility Plant at December 31, 2015 and 2014 consist of the following:

	2015	2014
Pumping system	\$ 485,953	\$ 427,802
Transmission and distribution system	10,586,738	10,541,588
General plant	780,186	799,937
	\$ 11,852,877	\$ 11,769,327

**NOTE E - INCOME TAX STATUS**

The Water Association maintains the tax position that it is exempt from federal and state income taxes and, accordingly, no provision for such taxes has been made. The Water Association did not pay any interest or penalty as a result of its tax position. The tax years 2013 through 2015 remain subject to examination by the Internal Revenue Service.

**NOTE F - CONTRIBUTIONS**

	Government Grants	Other	Total
Balance, December 31, 2013	\$ 4,150,941	\$ 2,738,931	\$ 6,889,872
Add: Tap-on fees and memberships	-	31,730	31,730
Reimbursed line costs	-	50,610	50,610
Government grants	-	-	-
Balance, December 31, 2014	\$ 4,150,941	\$ 2,821,271	\$ 6,972,212

**EAST DAVIESS COUNTY WATER ASSOCIATION, INC**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

**NOTE F - CONTRIBUTIONS (continued)**

	<u>Government Grants</u>	<u>Other</u>	<u>Total</u>
Balance, December 31, 2014	\$ 4,150,941	\$ 2,821,271	\$ 6,972,212
Add: Tap-on fees and memberships	-	31,113	31,113
Reimbursed line costs	-	12,758	12,758
Government grants	-	-	-
Balance, December 31, 2015	<u>\$ 4,150,941</u>	<u>\$ 2,865,142</u>	<u>\$ 7,016,083</u>

**NOTE G - SUPPLIER**

The Water Association purchases either directly or indirectly all of its water for resale from the City Utility Commission of the City of Owensboro, Kentucky operating as Owensboro Municipal Utilities (OMU). Purchases for the years ended December 31, 2015 and 2014 were \$ 377,063 and \$ 376,434, respectively.

**NOTE H - CONCENTRATION OF CREDIT RISK**

At December 31, 2015 and 2014, the Water Association's bank balance of cash and cash equivalents totaled \$ 1,151,393 and \$ 1,117,070, respectively. Of the total cash balance at December 31, 2015 and 2014, \$ 500,000 was covered by Federal depository insurance for both years with \$ 639,718 and \$ 608,949, respectively, covered by collateral held by the banks. Of the total bank deposits at December 31, 2015 and 2014, \$ 11,675 and \$ 8,121 respectively, was not covered by Federal depository insurance or by collateral held by the banks.

**NOTE I - 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 Association does not accrue compensation for paid vacation because the amount is considered immaterial. The Association's policy is to record compensated absences when actually paid to employees.

**NOTE J - FAIR VALUE MEASUREMENTS**

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

**EAST DAVIESS COUNTY WATER ASSOCIATION, INC**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

**NOTE J - FAIR VALUE MEASUREMENTS (continued)**

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in an active market. This level includes common stocks, corporate bonds or mutual funds based on the closing price reported in the active market where the securities are traded.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, inputs that are derived principally from or corroborated by observable market data by correlation, or other means.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Liabilities itemized below were measured at fair value during the year ended using the market approach.

Fair values of liabilities measured on a recurring basis at December 31, 2015 and 2014 are as follows:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2015</u>				
Long-term debt	<u>\$ 1,316,970</u>	<u>\$ –</u>	<u>\$ 1,316,970</u>	<u>\$ –</u>
<u>December 31, 2014</u>				
Long-term debt	<u>\$ 1,499,100</u>	<u>\$ –</u>	<u>\$ 1,499,100</u>	<u>\$ –</u>

**NOTE K – SUBSEQUENT EVENTS**

The Water Association did not have any subsequent events through March 15, 2016, which is the date the financial statements were issued requiring recording or disclosure in the financial statements for the year ended December 31, 2015.

**SUPPLEMENTAL INFORMATION**



**EAST DAVIESS COUNTY WATER ASSOCIATION, INC.**  
**Schedule of Insurance**  
**December 31, 2015**

<u>Coverage</u>	<u>Amount of Coverage</u>
Workmen's Compensation	\$ 500,000 per occurrence
General Liability	\$ 1,000,000/3,000,000
Property and Contents	\$ 3,260,000
Employee Dishonesty	\$ 300,000
Owned Automobile Liability	
Bodily injury and property damage	\$ 1,000,000 per accident
Umbrella Coverage	\$ 2,000,000/2,000,000

**EAST DAVIESS COUNTY WATER ASSOCIATION, INC.**  
**Schedule of Rates**  
**December 31, 2015**

Tap-on Fees

Charge

5/8" x 3/4" Meter  
 All larger meters

\$ 650  
 Actual Cost

Monthly rates

5/8" Meter

First 2,000 gallons  
 Next 4,000 gallons  
 Next 44,000 gallons  
 Over 50,000 gallons

\$15.19 (Minimum Bill)  
 5.10 per 1,000 gallons  
 4.08 per 1,000 gallons  
 3.33 per 1,000 gallons

3/4" Meter

First 3,000 gallons  
 Next 3,000 gallons  
 Next 44,000 gallons  
 Over 50,000 gallons

\$20.29 (Minimum Bill)  
 5.10 per 1,000 gallons  
 4.08 per 1,000 gallons  
 3.33 per 1,000 gallons

1" Meter

First 6,000 gallons  
 Next 44,000 gallons  
 Over 50,000 gallons

\$35.59 (Minimum Bill)  
 4.08 per 1,000 gallons  
 3.33 per 1,000 gallons

1-1/2" Meter

First 10,000 gallons  
 Next 40,000 gallons  
 Over 50,000 gallons

\$51.91 (Minimum Bill)  
 4.08 per 1,000 gallons  
 3.33 per 1,000 gallons

2" Meter

First 20,000 gallons  
 Next 30,000 gallons  
 Over 50,000 gallons

\$92.72 (Minimum Bill)  
 4.08 per 1,000 gallons  
 3.33 per 1,000 gallons



**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 Directors  
East Daviess County Water Association, Inc.

We have audited, 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, the financial statements of East Daviess County Water Association, Inc. (a nonprofit organization) as of and for the year ended December 31, 2015 and the related notes to the financial statements and have issued our report thereon dated March 15, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered East Daviess County Water Association Inc.'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 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Association'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as 2015-001 and 2015-002, that we consider to be significant deficiencies.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Daviess County Water Association, Inc.'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 that are required to be reported under *Government Auditing Standards*.

## Association's Response to Findings

East Daviess County Water Association's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Association's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## 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 result 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.

*Alford & Company CPAs PSC*

Owensboro, Kentucky  
March 15, 2016

**EAST DAVIESS COUNTY WATER ASSOCIATION, INC.**  
**Schedule of Findings and Responses**  
**Year Ended December 31, 2015**

**SUMMARY OF AUDITORS' RESULTS**

1. An unqualified opinion was issued on the financial statements for the year ended December 31, 2015.
2. Two significant deficiencies in the internal control were disclosed during the audit.
3. The audit did not disclose any noncompliance which was material to the financial statements.

**FINDINGS – FINANCIAL STATEMENT AUDIT**

2015-001 Significant Deficiency:

Segregation of Duties

*Condition:* The small size of the Association's bookkeeping staff limits the extent of the separation of duties. Presently, the Association's bookkeeper's responsibilities include cash disbursements functions, billing, preparing the bank reconciliations and accounting functions. There has been significant improvement in the segregation of duties regarding the cash receipts function. However, the segregation of duties, which is the basic premise of a good internal control structure, is not adequate.

*Criteria:* Internal controls should be in place that provide reasonable assurance that no one individual performs all the duties related to cash receipts and disbursements.

*Cause:* One employee performs the majority of the accounting functions due to the limited number of personnel in the office.

*Effect:* Transactions could be made without management's knowledge or approval.

*Recommendation:* Procedures should be implemented that require a greater segregation of duties involving cash receipts and disbursements.

*Views of Responsible Officials and Planned Corrective Actions:* Due to the limited number of personnel, management believes that an adequate segregation of duties is not achievable and that the costs of correcting the weakness would exceed the benefits that would be derived.

2015-002 Significant Deficiency:

Internal Control Over Financial Disclosures

*Condition:* The Association does not have defined monitoring controls in place to identify and assess disclosures in the financial statements.

*Criteria:* Internal controls should be in place to provide reasonable assurance that the disclosures in the financial statements are adequately updated.

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**FINDINGS – FINANCIAL STATEMENT AUDIT (continued)**

2015-2 Significant Deficiency (continued):

Internal Control Over Financial Disclosures (continued)

*Cause:* Lack of expertise with footnote disclosures.

*Effect:* The financial statements are not complete or accurate if the disclosures have not been updated.

*Recommendation:* Personnel should receive training in order to update the financial statements disclosures.

*Views of Responsible Officials and Planned Corrective Actions:* Due to the limited number of personnel, management believes that the cost of the hiring and/or training someone to update the disclosures would not be cost effective at this time.