

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2018 AND 2017

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Contents
December 31, 2018 and 2017

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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, 2018 and 2017, and the related statements of income, retained earnings, 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.

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 East Daviess County Water Association, Inc. as of December 31, 2018 and 2017, 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.

Report on Supplementary 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 20, 2019 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.

Alperton & Company CPAs PSC

Owensboro, Kentucky
March 20, 2019

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.

Balance Sheets

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
UTILITY PLANT		
Water plant in service	\$ 12,507,768	\$ 12,288,840
Construction in progress	-	9,170
Less: accumulated depreciation	<u>(5,596,265)</u>	<u>(5,365,094)</u>
TOTAL UTILITY PLANT - NET	<u>6,911,503</u>	<u>6,932,916</u>
RESTRICTED FUNDS		
Cash - reserve fund	39,636	38,851
Cash - construction fund	51	50
Cash - security deposit fund	<u>30,289</u>	<u>30,260</u>
TOTAL RESTRICTED FUNDS	<u>69,976</u>	<u>69,161</u>
CURRENT ASSETS		
Cash	955,501	1,010,892
Accounts receivable trade	171,368	169,736
Less: allowance for doubtful accounts	(18,472)	(12,225)
Other receivables	155	155
Inventory	58,004	48,790
Prepaid insurance	12,404	11,425
Other current assets	<u>7,243</u>	<u>7,243</u>
TOTAL CURRENT ASSETS	<u>1,186,203</u>	<u>1,236,016</u>
TOTAL ASSETS	<u>\$ 8,167,682</u>	<u>\$ 8,238,093</u>

See accompanying notes.

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.

Balance Sheets

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
LIABILITIES AND OTHER CREDITS		
RETAINED EARNINGS	\$ 44,548	\$ 620
LONG-TERM DEBT, net of current portion	521,127	731,532
CURRENT LIABILITIES		
Accounts payable - trade	61,955	50,036
Accounts payable - RWRA	15,719	11,683
Current portion of long-term debt	206,390	198,921
Accrued taxes	3,891	3,026
Accrued interest	6,584	8,421
Customer deposits	29,112	29,313
Accrued payroll and payroll taxes	23,204	8,277
TOTAL CURRENT LIABILITIES	346,855	309,677
TOTAL LIABILITIES	867,982	1,041,209
CONTRIBUTIONS		
Federal grants	1,807,300	1,807,300
State and local grants	2,343,641	2,343,641
Contributions in aid	3,104,211	3,045,323
TOTAL CONTRIBUTIONS	7,255,152	7,196,264
TOTAL LIABILITIES AND OTHER CREDITS	\$ 8,167,682	\$ 8,238,093

See accompanying notes.

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.

Statements of Income

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUE		
Water sales	\$ 1,627,647	\$ 1,631,227
Miscellaneous service revenue	75,105	89,614
TOTAL OPERATING REVENUES	<u>1,702,752</u>	<u>1,720,841</u>
OPERATING EXPENSES		
Bad debts	16,457	12,830
Depreciation	249,528	255,409
Directors' fees	12,750	12,750
Insurance	159,127	161,325
Legal and accounting	40,996	28,663
Miscellaneous	23,997	23,059
Office supplies and postage	52,232	47,032
Payroll taxes and fringe benefits	41,784	40,501
PSC assessment	3,442	3,271
Repairs	125,424	173,175
Salaries and wages	400,192	371,546
Telephone	11,048	8,462
Transportation	25,171	21,432
Utilities	48,734	45,946
Water purchased	404,408	384,357
Water testing	6,253	7,279
TOTAL OPERATING EXPENSES	<u>1,621,543</u>	<u>1,597,037</u>
INCOME FROM OPERATIONS	<u>81,209</u>	<u>123,804</u>
OTHER INCOME (EXPENSE)		
Loss on disposal of assets	(9,019)	(29,030)
Interest earned on investments	4,296	3,687
Interest expense	(32,558)	(41,030)
TOTAL OTHER EXPENSE	<u>(37,281)</u>	<u>(66,373)</u>
NET INCOME	<u>\$ 43,928</u>	<u>\$ 57,431</u>

See accompanying notes.

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Statements of Retained Earnings
Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	\$ 620	\$ (56,811)
NET INCOME	<u>43,928</u>	<u>57,431</u>
RETAINED EARNINGS, END OF YEAR	<u>\$ 44,548</u>	<u>\$ 620</u>

See accompanying notes.

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.

Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 43,928	\$ 57,431
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	249,528	255,409
Loss on disposal of assets	9,019	29,030
(Increase) decrease in:		
Accounts receivable	(1,632)	5,681
Other receivable	-	425
Reserve for bad debts	6,247	3,387
Prepaid insurance	(979)	475
Inventory	(9,214)	(1,267)
Other current assets	-	(4,551)
Increase (decrease) in:		
Accounts payable	15,955	4,849
Accrued taxes payable	865	(1,253)
Accrued interest	(1,837)	(727)
Customer deposits	(201)	2,694
Accrued payroll and payroll taxes	14,927	(468)
	326,606	351,115
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for the purchase of property	(246,304)	(343,070)
Decrease in construction in progress	9,170	-
Transfers to/from reserves and restricted funds	(815)	526,414
	(237,949)	183,344
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(202,936)	(195,572)
Contribution in aid of construction	58,888	62,462
	(144,048)	(133,110)
NET CASH USED IN FINANCING ACTIVITIES		
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(55,391)	401,349
CASH, BEGINNING OF YEAR	1,010,892	609,543
CASH, END OF YEAR	\$ 955,501	\$ 1,010,892

See accompanying notes.

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Notes to the Financial Statements
December 31, 2018 and 2017

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 net realizable value.

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 the Financial Statements
December 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation

Depreciation expense is computed on the straight-line method. Depreciation expense for 2018 and 2017 was \$249,528 and \$255,409 respectively. Estimated useful lives of major components of the utility plant in service are determined by the Kentucky Public Service Commission. The adjusted useful lives are as follows:

Water pumps and equipment	20 years
Service equipment	22.5 years
Land improvements	25 years
Meters	40 years
Water reservoirs	50 years
Water lines	62.5 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 15th of the current month. Any inactive, unpaid accounts from the previous year are written off in the last quarter of the current year.

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 2018 and 2017 was \$34,395 and \$41,233, 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 the Financial Statements
December 31, 2018 and 2017

NOTE B - RESTRICTED FUNDS

Funds are restricted as follows: (1) Reserve fund cash is restricted pursuant to a loan agreement with the U.S. Department of Agriculture, Rural Development; (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. Certain reclassifications of restricted cash have been made to the 2017 financial statement presentation to correspond to the current year's format. Assets and net income are unchanged due to these reclassifications.

NOTE C - LONG-TERM DEBT

	2018	2017
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.	\$ 393,624	\$ 407,044
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.	334,872	524,932
	728,496	931,976
Less: Unamortized debt issuance costs	979	1,523
Less: Current portion	206,390	198,921
	\$ 521,127	\$ 731,532

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 the Financial Statements
December 31, 2018 and 2017

NOTE C - LONG-TERM DEBT (continued)

Maturities of notes payable are as follows:

Year Ended December 31	Amount
2019	\$ 206,390
2020	147,406
2021	10,100
2022	10,552
2023	11,023
Thereafter	343,025
	\$ 728,496

NOTE D – UTILITY PLANT

The major classes of Utility Plant at December 31, 2018 and 2017 consist of the following:

	2018	2017
Pumping system	\$ 533,984	\$ 446,722
Transmission and distribution system	10,992,656	10,876,190
General plant	981,128	965,928
	\$ 12,507,768	\$ 12,288,840

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 2016 through 2018 remain subject to examination by the Internal Revenue Service.

EAST DAVIESS COUNTY WATER ASSOCIATION, INC
Notes to the Financial Statements
December 31, 2018 and 2017

NOTE F – CONTRIBUTIONS

	Government Grants	Other	Total
Balance, December 31, 2017	\$ 4,150,941	\$ 3,045,323	\$ 7,196,264
Add: Tap-on fees and memberships	-	41,296	41,296
Reimbursed line costs	-	17,592	17,592
Balance, December 31, 2018	<u>\$ 4,150,941</u>	<u>\$ 3,104,211</u>	<u>\$ 7,255,152</u>
	Government Grants	Other	Total
Balance, December 31, 2016	\$ 4,150,941	\$ 2,982,860	\$ 7,133,801
Add: Tap-on fees and memberships	-	31,525	31,525
Reimbursed line costs	-	30,938	30,938
Balance, December 31, 2017	<u>\$ 4,150,941</u>	<u>\$ 3,045,323</u>	<u>\$ 7,196,264</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, 2018 and 2017 were \$404,408 and \$384,357, respectively.

NOTE H - CONCENTRATION OF CREDIT RISK

At December 31, 2018 and 2017, the Water Association's bank balance of cash and cash equivalents totaled \$1,061,621 and \$1,120,843, respectively. Of the total cash balance at December 31, 2018, \$700,375 was covered by Federal depository insurance with \$922,110 covered by collateral held by the bank. In 2017, \$500,000 was covered by Federal depository insurance with \$922,110 covered by collateral held by the bank. Of the total bank deposits at December 31, 2018 and 2017, \$20,341 and \$17,211 respectively, was not covered by Federal depository insurance or by collateral held by the bank.

NOTE I – MEDICAL EXPENSE REIMBURSEMENT PLAN

The Association provides a medical reimbursement plan (MERP) to its employees. This plan was implemented to provide quality medical coverage for the Association's employees while decreasing the Association's overall medical insurance expense. 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 per plan year. The reimbursements exclude insurable and eligible medical, prescription, and hospital expenses available to employees under the Association's group insured health plan. This plan also excludes employee dental expenses and expenses for non-prescription drugs.

EAST DAVIESS COUNTY WATER ASSOCIATION, INC
Notes to the Financial Statements
December 31, 2018 and 2017

NOTE I – MEDICAL EXPENSE REIMBURSEMENT PLAN (continued)

For the years ended December 31, 2018 and 2017, medical reimbursements paid to employees were \$15,980 and \$11,323, respectively. As of December 31, 2018 and 2017, medical reimbursements payable were \$2,709 and \$416.

NOTE J – RETIREMENT PLAN

The Water Association maintains a voluntary Simple IRA Plan for all full-time employees. Employees may elect to participate immediately upon employment. The Association matches the employees' contribution up to 3% of their compensation. Vesting takes place immediately. The Association's contributions were \$11,561 and \$11,125 for the years ended December 31, 2018 and 2017, respectively.

NOTE K – COMMITMENTS AND CONTINGENCIES

The Association purchases water from Owensboro Municipal Utilities (OMU). The amount paid to OMU is for the Association's estimated usage. Since the estimated usage differs from actual usage, the Association has overpaid or underpaid OMU for their water purchases. The difference is applied to future water purchases. OMU calculates the difference as of the end of their fiscal year (May 31st) and the information is not available for the Association's calendar year.

As of May 31, 2018 and 2017, the amount due the Association for excess water charges was \$117,156 and \$124,338 respectively. The Association has not recognized a gain contingency on their records since the amount cannot be reasonably estimated as of December 31, 2018 and 2017.

NOTE L – SUBSEQUENT EVENTS

The Water Association did not have any subsequent events through March 20, 2019, which is the date the financial statements were issued requiring recording or disclosure in the financial statements for the year ended December 31, 2018.

SUPPLEMENTARY INFORMATION

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Schedule of Insurance
December 31, 2018

<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	\$ 3,573,963
Employee Dishonesty	\$ 250,000
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, 2018

Tap-on Fees

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

Charge

\$ 850
 Actual Cost

Monthly rates

5/8" Meter

First 2,000 gallons	\$16.98 (Minimum Bill)
Next 4,000 gallons	5.82 per 1,000 gallons
Next 44,000 gallons	4.73 per 1,000 gallons
Over 50,000 gallons	3.93 per 1,000 gallons

3/4" Meter

First 3,000 gallons	\$22.80 (Minimum Bill)
Next 3,000 gallons	5.82 per 1,000 gallons
Next 44,000 gallons	4.73 per 1,000 gallons
Over 50,000 gallons	3.93 per 1,000 gallons

1" Meter

First 6,000 gallons	\$40.26 (Minimum Bill)
Next 44,000 gallons	4.73 per 1,000 gallons
Over 50,000 gallons	3.93 per 1,000 gallons

1-1/2" Meter

First 10,000 gallons	\$59.18 (Minimum Bill)
Next 40,000 gallons	4.73 per 1,000 gallons
Over 50,000 gallons	3.93 per 1,000 gallons

2" Meter

First 20,000 gallons	\$106.48 (Minimum Bill)
Next 30,000 gallons	4.73 per 1,000 gallons
Over 50,000 gallons	3.93 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, 2018 and the related notes to the financial statements and have issued our report thereon dated March 20, 2019.

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as 2018-001, 2018-002 and 2018-003 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 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 20, 2019

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Schedule of Findings and Responses
Year Ended December 31, 2018

FINDINGS – FINANCIAL STATEMENT AUDIT

2018-001 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.

2018-002 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.

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.

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Schedule of Findings and Responses
Year Ended December 31, 2018

FINDINGS – FINANCIAL STATEMENT AUDIT (continued)

2018-003 Significant Deficiency:

Adjusting Journal Entries

Condition: During the course of our engagement, we proposed audit adjustments that were material, in the aggregate, to the financial statements.

Criteria: The Association should have adequate controls in place over the processing and recording of transactions to ensure that the financial statements are not materially misstated.

Cause: Journal entries to adjust the various liabilities, inventory and meter accounts were not always made.

Effect: Numerous adjusting journal entries affected the financial statements.

Recommendation: We recommend that the Association review the balance sheet to ensure all changes are reflected in the financial statements.

Views of Responsible Officials and Planned Corrective Actions: The Association will ensure they monitor the ending balances on the balance sheet.