

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.

**FINANCIAL STATEMENTS
AND
OTHER INFORMATION**

DECEMBER 31, 2019 AND 2018

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Contents
December 31, 2019 and 2018

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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 statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, changes in net assets, 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, 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.

Emphasis of Matter

As discussed in Note A to the financial statements, during the year ended December 31, 2018, the Organization adopted new accounting guidance, (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. As a result of the ASU, the Organization has updated the terminology for net asset classifications and has provided additional disclosure requirements for expenses, liquidity, and the availability of resources. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2020 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.

Altman & Company CPAs PSC

Owensboro, Kentucky
March 12, 2020

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	\$ 991,823	\$ 955,501
Accounts receivable trade	205,198	171,368
Less: allowance for doubtful accounts	(16,574)	(18,472)
Other receivables	155	155
Inventory	113,415	58,005
Prepaid insurance	19,742	12,404
Other current assets	7,243	7,243
TOTAL CURRENT ASSETS	1,321,002	1,186,203
OTHER ASSETS		
Cash - reserve fund, restricted	40,437	39,686
Cash - security deposit fund, restricted	32,633	30,289
TOTAL OTHER ASSETS	73,070	69,976
CAPITAL ASSETS		
Property and equipment	12,504,218	12,507,768
Less: accumulated depreciation	(5,765,223)	(5,596,265)
TOTAL CAPITAL ASSETS	6,738,995	6,911,503
TOTAL ASSETS	\$ 8,133,067	\$ 8,167,682

See accompanying notes.

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 64,413	\$ 61,955
Accounts payable - RWRA	17,850	15,719
Current portion of long-term debt	147,406	206,390
Accrued taxes	4,281	3,891
Accrued interest	6,984	6,584
Customer deposits	31,207	29,112
Accrued payroll and payroll taxes	25,714	23,204
	297,855	346,855
TOTAL CURRENT LIABILITIES	297,855	346,855
LONG-TERM DEBT, net of current portion	369,535	521,127
TOTAL LIABILITIES	667,390	867,982
NET ASSETS		
Without donor restrictions		
Federal grants	1,807,300	1,807,300
State and local grants	2,343,641	2,343,641
Contributions in aid	3,141,138	3,104,211
Appropriated	73,070	69,925
Unappropriated (deficit)	100,528	(25,377)
	7,465,677	7,299,700
TOTAL NET ASSETS	7,465,677	7,299,700
TOTAL LIABILITIES AND NET ASSETS	\$ 8,133,067	\$ 8,167,682

See accompanying notes.

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.

**Statements of Activities
Years ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
OPERATING REVENUE		
Water sales	\$ 1,751,807	\$ 1,627,647
Miscellaneous service revenue	83,006	75,105
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	<u>1,834,813</u>	<u>1,702,752</u>
 OPERATING EXPENSES		
Bad debts	15,166	16,457
Depreciation	248,144	249,528
Directors' fees	14,750	12,750
Insurance	180,162	159,127
Legal and accounting	28,275	40,996
Miscellaneous	25,383	23,997
Office supplies and postage	49,574	52,232
Payroll taxes and fringe benefits	41,629	41,784
PSC assessment	3,331	3,442
Repairs	119,636	125,424
Salaries and wages	387,936	400,192
Telephone	8,170	11,048
Transportation	28,254	25,171
Utilities	45,988	48,734
Water purchased	482,408	404,408
Water testing	8,958	6,253
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	<u>1,687,764</u>	<u>1,621,543</u>
 INCOME FROM OPERATIONS	<u>147,049</u>	<u>81,209</u>
 OTHER INCOME (EXPENSE)		
Loss on disposal of assets	(1,113)	(9,019)
Interest earned on investments	10,267	4,296
Interest expense	(27,153)	(32,558)
	<hr/>	<hr/>
TOTAL OTHER EXPENSE	<u>(17,999)</u>	<u>(37,281)</u>
 NET INCOME	129,050	43,928
 NET ASSETS (DEFICIT), BEGINNING OF PERIOD	(25,377)	(68,541)
 TRANSFER FROM (TO) RESERVES	<u>(3,145)</u>	<u>(764)</u>
 NET ASSETS (DEFICIT), END OF PERIOD	<u>\$ 100,528</u>	<u>\$ (25,377)</u>

See accompanying notes.

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Statement of Functional Expenses
Year ended December 31, 2019

	<u>Operating</u>	<u>General and Administrative</u>	<u>Total</u>
Bad debts	\$ 15,166	\$ -	\$ 15,166
Depreciation	236,757	11,387	248,144
Directors' fees	-	14,750	14,750
Insurance	174,757	5,405	180,162
Legal and accounting	-	28,275	28,275
Miscellaneous	9,036	16,347	25,383
Office supplies and postage	-	49,574	49,574
Payroll taxes and fringe benefits	32,297	9,332	41,629
PSC assessment	-	3,331	3,331
Repairs	118,440	1,196	119,636
Salaries and wages	300,968	86,968	387,936
Telephone	-	8,170	8,170
Transportation	28,254	-	28,254
Utilities	44,608	1,380	45,988
Water purchased	482,408	-	482,408
Water testing	8,958	-	8,958
Total Expenses	<u>\$ 1,451,649</u>	<u>\$ 236,115</u>	<u>\$ 1,687,764</u>

See accompanying notes.

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Statement of Functional Expenses
Year ended December 31, 2018

	<u>Operating</u>	<u>General and Administrative</u>	<u>Total</u>
Bad debts	\$ 16,457	\$ -	\$ 16,457
Depreciation	238,220	11,308	249,528
Directors' fees	-	12,750	12,750
Insurance	154,353	4,774	159,127
Legal and accounting	-	40,996	40,996
Miscellaneous	7,580	16,417	23,997
Office supplies and postage	-	52,232	52,232
Payroll taxes and fringe benefits	30,806	10,978	41,784
PSC assessment	-	3,442	3,442
Repairs	124,170	1,254	125,424
Salaries and wages	295,052	105,140	400,192
Telephone	-	11,048	11,048
Transportation	25,171	-	25,171
Utilities	47,272	1,462	48,734
Water purchased	404,408	-	404,408
Water testing	6,253	-	6,253
 Total Expenses	 <u>\$ 1,349,742</u>	 <u>\$ 271,801</u>	 <u>\$ 1,621,543</u>

See accompanying notes.

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Statements of Changes in Net Assets
Years ended December 31, 2019 and 2018

	<u>Federal Grants</u>	<u>State and Local Grants</u>	<u>Contributions in Aid</u>	<u>Appropriated</u>	<u>Unappropriated</u>
BALANCES, DECEMBER 31, 2017	\$ 1,807,300	\$ 2,343,641	\$ 3,045,323	\$ 69,161	\$ (68,541)
Net change in unappropriated net assets	-	-	-	-	43,928
Transfer to (from) reserves	-	-	-	764	(764)
Contributions	-	-	58,888	-	-
Change in net assets without donor restrictions	-	-	58,888	764	43,164
BALANCES, DECEMBER 31, 2018	1,807,300	2,343,641	3,104,211	69,925	(25,377)
Net change in unappropriated net assets	-	-	-	-	129,050
Transfer to (from) reserves	-	-	-	3,145	(3,145)
Contributions	-	-	36,927	-	-
Change in net assets without donor restrictions	-	-	36,927	3,145	125,905
BALANCES, DECEMBER 31, 2019	<u>\$ 1,807,300</u>	<u>\$ 2,343,641</u>	<u>\$ 3,141,138</u>	<u>\$ 73,070</u>	<u>\$ 100,528</u>

See accompanying notes.

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.

Statements of Cash Flows

Years ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 129,050	\$ 43,928
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	248,144	249,528
Loss on disposal of assets	1,113	9,019
(Increase) decrease in:		
Accounts receivable	(33,830)	(1,632)
Other receivable	-	-
Reserve for bad debts	(1,898)	6,247
Prepaid insurance	(7,339)	(979)
Inventory	(23,452)	(9,214)
Increase (decrease) in:		
Accounts payable	4,589	15,955
Accrued taxes payable	390	865
Accrued interest	400	(1,837)
Customer deposits	2,095	(201)
Accrued payroll and payroll taxes	2,510	14,927
	321,772	326,606
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for the purchase of property	(108,707)	(246,304)
Decrease in construction in progress	-	9,170
	(108,707)	(237,134)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(210,576)	(202,936)
Contribution in aid of construction	36,927	58,888
	(173,649)	(144,048)
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	39,416	(54,576)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	1,025,477	1,080,053
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR	\$ 1,064,893	\$ 1,025,477
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH CONSISTS OF:		
Cash and cash equivalents	\$ 991,823	\$ 955,501
Cash restricted for loan covenants and customer deposits	73,070	69,976
	\$ 1,064,893	\$ 1,025,477

See accompanying notes.

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Notes to the Financial Statements
December 31, 2019 and 2018

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.

Reporting Entity

East Daviess County Water Association, Inc. was created and organized as a non-profit association and is exempt from income tax under section 501(c)12 of the Internal Revenue Code.

The Water Association files and income tax return in the U.S. federal jurisdiction and the state of Kentucky. The Water Association generally is no longer subject to income tax examinations by tax authorities for years before 2015. Management believes there are no tax positions that meet the more likely than not threshold for disclosure in these financial statements.

Basis of Accounting

The Water Association maintains its accounting records on the accrual basis of accounting.

The Water Association records revenue as billed to its customers based on monthly meter reading cycles. At the end of each year, water service which has been rendered from the latest date of each meter reading to December 31, is unbilled.

The statements of activities report all revenues and expenses as operating, except interest income and interest expense.

Basis of Presentation

The Water Association is required to report information regarding its financial position and activities according to the two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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.

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Revenue from sales of water and tap-on fees for new service addresses are exchange transactions and are recognized in the period in which the water is provided to the customer or meters installed, similar to accounting policies for business enterprises. Customers are billed monthly and payment is expected within 30 days. Revenue from exchange transactions should be recorded as deferred revenue to the extent that it has not been earned, although such instances would be rare for the Water Association.

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.

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.

Property and Equipment

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

Depreciation expense is computed on the straight-line method. Depreciation expense for 2019 and 2018 was \$248,144 and \$249,528 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

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, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2019 and 2018 was \$26,753 and \$34,395, respectively.

Functional Allocation of Expenses

The statements of functional expenses report certain categories of expenses that are partially attributable to Operations (water sales and distribution) as well as General and Administrative. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation and benefits for management and some office personnel, which are allocated based on estimates of time expended for each function. Additionally, some office and general expenses are allocated based on management estimates.

Reclassifications

Certain amounts in 2018 have been reclassified to conform to the 2019 presentation.

New Accounting Implementations

Effective January 1, 2018, the Water Association retroactively changed its accounting methods for revenue recognition and financial instruments as a result of implementing the requirements in the Financial Accounting Standard Board's ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended.

The new revenue recognition guidance requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Water Association expects to be entitled in exchange for those goods or services. The Water Association adopted the requirements of the new revenue recognition guidance as of January 1, 2018, utilizing the full retrospective transition method. A practical expedient was applied for revenue contracts that began and ended in the same year. The Water Association has determined that there are no material differences between the amounts reported for revenue and contract assets and liabilities using topic 605 (previously in effect) and the accounting treatment used in accordance with the new revenue standard.

Effective January 1, 2019, the Water Association adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This amendment required that the statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or cash equivalents. This update was applied retrospectively. The January 1, 2018 beginning cash, cash equivalent, and restricted cash balance was adjusted from \$1,010,892 to \$1,080,053 to reflect \$69,161 in restricted cash and cash equivalents omitted from the statement of cash flows prior to adoption of the new accounting standard.

During the year ended December 31, 2018, the Water Association implemented Account Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are intended to improve financial statement presentation by not-for-profit (NFP) organizations. The ASU requires NFPs to improve their presentation and disclosures to provide more relevant information about their resources (and the changes in those resources) to their users. As a result of the ASU, the Water Association has updated the terminology for net asset classifications and has provided additional disclosure requirements for expenses, liquidity, and the availability of resources.

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Implementations (continued)

The changes have the following effect on net assets at December 31, 2018:

<u>Net Asset Class</u>	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Retained earnings	\$ 44,548	\$ -
Contributions	7,255,152	-
Net assets without donor restrictions	<u>-</u>	<u>7,299,700</u>
Total net assets	<u>\$ 7,299,700</u>	<u>\$ 7,299,700</u>

NOTE B - RESTRICTED CASH

Cash is restricted as follows: (1) Reserve fund cash is restricted pursuant to a loan agreement with the U.S. Department of Agriculture, Rural Development; and (2) Security deposit fund cash consists of security deposits paid by customers.

NOTE C – CONTRACT RECEIVABLES AND SALES

Contract receivables with customers consist of the following as of December 31:

	<u>Water Sales</u>	
	<u>2019</u>	<u>2018</u>
Beginning of year	\$ 171,368	\$ 169,736
End of year	205,198	171,368

Water sales consisted of the following at December 31:

Residential	\$ 1,645,894	\$ 1,535,840
Commercial	63,755	51,720
Industrial	32,367	29,996
Wholesale	8,231	8,531
Fire protection	<u>1,560</u>	<u>1,560</u>
	<u>\$ 1,751,807</u>	<u>\$ 1,627,647</u>

NOTE D - LONG-TERM DEBT

	<u>2019</u>	<u>2018</u>
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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.

	\$ 379,617	\$ 393,624
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EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE D - LONG-TERM DEBT (continued)

	2019	2018
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.	137,737	334,872
	517,354	728,496
Less: Unamortized debt issuance costs	413	979
Less: Current portion	147,406	206,390
	\$ 369,535	\$ 521,127

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.

Maturities of notes payable are as follows:

Year Ended December 31	Amount
2020	\$ 147,406
2021	10,100
2022	10,552
2023	11,023
2024	11,515
Thereafter	326,758
	\$ 517,354

NOTE E – PROPERTY AND EQUIPMENT

The major classes of property and equipment at December 31, 2019 and 2018 consist of the following:

	2019	2018
Pumping system	\$ 991,706	\$ 533,984
Transmission and distribution system	11,047,004	10,992,656
General plant	465,508	981,128
	\$ 12,504,218	\$ 12,507,768

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Notes to the Financial Statements
December 31, 2019 and 2018

NOTE F – 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 2017 through 2019 remain subject to examination by the Internal Revenue Service.

NOTE G – WATER SUPPLY CONTRACT

On May 14, 1992 the Water Association entered into a 50 year water supply contract with the City Utility Commission of the City of Owensboro, Kentucky operating as Owensboro Municipal Utilities (OMU). The primary point of delivery of water to the Water Association occurs at OMU's water plant located near Elmer Smith Power Plant. The rate charged to the Water Association by OMU consists of both fixed and variable cost components. Under certain circumstances the Water Association may be required by OMU to impose usage restrictions on its customer.

The Water Association purchases either directly or indirectly all of its water for resale from OMU. Purchases for the years ended December 31, 2019 and 2018 were \$482,408 and \$404,408, respectively.

NOTE H - CONCENTRATION OF CREDIT RISK

At December 31, 2019 and 2018, the Water Association's bank balance of cash and cash equivalents totaled \$1,097,294 and \$1,061,621, respectively. Of the total cash balance at December 31, 2019, \$983,632 was covered by Federal depository insurance with \$89,935 covered by collateral held by the bank. In 2018, \$700,375 was covered by Federal depository insurance with \$340,905 covered by collateral held by the bank. Of the total bank deposits at December 31, 2019 and 2018, \$23,727 and \$20,341 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.

For the years ended December 31, 2019 and 2018, medical reimbursements paid to employees were \$15,355 and \$15,980, respectively. As of December 31, 2019 and 2018, medical reimbursements payable were \$849 and \$2,709.

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 for the years ended December 31, 2019 and 2018.

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Notes to the Financial Statements
December 31, 2019 and 2018

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, 2019 and 2018, the amount due the Association for excess water charges was \$54,469 and \$117,156 respectively. The Association has not recognized a gain contingency on their records since the amount cannot be reasonably estimated as of December 31, 2019 and 2018.

NOTE L – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Water Associations financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

Financial assets, at year end:

Cash	\$ 1,064,893
Accounts receivable, net	188,624
Other receivables	<u>155</u>

Total financial assets, at year end	<u>1,253,672</u>
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Less those unavailable for general expenditure within one year:

Cash restricted for loan covenants	(40,437)
Cash restricted for customer security deposits	<u>(32,633)</u>

Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,180,602</u>
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The Water Association's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Financial assets, at year end:

Cash	\$ 991,823
Accounts receivable	188,624
Other receivables	<u>155</u>

Total financial assets, at year end	<u>\$ 1,180,602</u>
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NOTE M – SUBSEQUENT EVENTS

The Water Association did not have any subsequent events through March 12, 2020, which is the date the financial statements were issued requiring recording or disclosure in the financial statements for the year ended December 31, 2019.

OTHER INFORMATION

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Schedule of Insurance
December 31, 2019

<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, 2019

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

\$17.14 (Minimum Bill)
 5.90 per 1,000 gallons
 4.81 per 1,000 gallons
 4.01 per 1,000 gallons

3/4" Meter

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

\$23.04 (Minimum Bill)
 5.90 per 1,000 gallons
 4.81 per 1,000 gallons
 4.01 per 1,000 gallons

1" Meter

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

\$40.74 (Minimum Bill)
 4.81 per 1,000 gallons
 4.01 per 1,000 gallons

1-1/2" Meter

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

\$59.98 (Minimum Bill)
 4.81 per 1,000 gallons
 4.01 per 1,000 gallons

2" Meter

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

\$108.08 (Minimum Bill)
 4.81 per 1,000 gallons
 4.01 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, 2019 and the related notes to the financial statements and have issued our report thereon dated March 12, 2020.

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 2019-001 and 2019-002 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 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.

Alvarez & Company CPAs PSC

Owensboro, Kentucky
March 12, 2020

EAST DAVIESS COUNTY WATER ASSOCIATION, INC.
Schedule of Findings and Responses
Year Ended December 31, 2019

FINDINGS – FINANCIAL STATEMENT AUDIT

2019-001 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.

2019-002 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.