

Jackson County Water Association, Incorporated  
Tyner, Kentucky

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Independent Auditors' Report  
And Financial Statements  
For the Years Ended  
December 31, 2019 and 2018

Jackson County Water Associaton, Incorporated  
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## Independent Auditors' Report

To the Commissioners  
Jackson County Water Association, Incorporated  
Tyner, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Jackson County Water Association, Incorporated (a nonprofit organization), which comprise the statements of net position as of December 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Jackson County Water Association, Incorporated's basic 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 audits 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 auditors' 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 Jackson County Water Association, Incorporated, as of December 31, 2019 and 2018, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### Required Supplementary Information

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

### Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Jackson County Water Association, Incorporated's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2020 on our consideration of Jackson 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 Jackson County Water Association's internal control over financial reporting and compliance.

*Christian Sturgeon, PLLC*

Christian Sturgeon, PLLC  
London, Kentucky

March 18, 2020

Jackson County Water Association, Incorporated  
 Statements of Net Position  
 December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,726,441	\$ 1,614,518
Investments	2,410,834	2,410,834
Accounts receivable, less allowance for doubtful accounts	197,055	227,247
Unbilled accounts receivable	164,943	164,943
Interest receivable	1,221	1,221
Reimbursement income receivable	13,262	-
Insurance proceeds receivable	42,562	-
Inventories	180,929	183,937
Prepaid expenses	48,610	47,999
Total Current Assets	4,785,857	4,650,699
Noncurrent Assets		
Restricted Assets		
Restricted cash and cash equivalents	426,671	411,891
Total Restricted Assets	426,671	411,891
Capital Assets		
Land and land rights	349,890	344,890
Source of supply and pumping	1,664,152	1,320,527
Water treatment	6,665,522	6,665,522
Transmission and distribution	24,099,672	21,844,993
General plant and transportation	1,643,652	1,603,924
Construction in progress	-	567,068
Less: accumulated depreciation	(12,969,546)	(12,063,734)
Net Capital Assets	21,453,342	20,283,190
Total Noncurrent Assets	21,880,013	20,695,081
Total Assets	\$ 26,665,870	\$ 25,345,780

Jackson County Water Association, Incorporated  
 Statements of Net Position (Continued)  
 December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Liabilities		
Current Liabilities		
Current portion of long-term debt	\$ 260,357	\$ 183,646
Accounts payable	70,832	155,820
Accrued interest payable	52,945	36,701
Accrued salaries and taxes payable	71,947	46,062
Unearned revenue	-	137,258
Customer deposits	11,800	11,850
Total Current Liabilities	<u>467,881</u>	<u>571,337</u>
Noncurrent Assets		
Long-term debt, less current portion included in current liabilities	<u>9,433,350</u>	<u>8,851,740</u>
Total Noncurrent Liabilities	<u>9,433,350</u>	<u>8,851,740</u>
Total Liabilities	<u>9,901,231</u>	<u>9,423,077</u>
Net Position		
Net investment in capital assets	11,759,635	11,247,804
Restricted for:		
Capital projects	60,694	60,702
Debt service	346,260	331,440
Other purposes	19,717	19,749
Unrestricted	4,578,333	4,263,008
Total Net Position	<u>\$ 16,764,639</u>	<u>\$ 15,922,703</u>

Jackson County Water Association, Incorporated  
Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Water sales	\$ 2,430,193	\$ 2,480,949
Other operating income	164,796	141,110
	<hr/>	<hr/>
Total Operating Revenues	2,594,989	2,622,059
Operating Expenses		
Salaries and benefits	762,516	739,867
Purchased power	174,131	198,160
Contracted services	21,575	17,213
Insurance	203,888	199,944
Transportation	25,681	28,998
Administration and general	126,634	115,250
Maintenance and water treatment	392,030	336,492
Depreciation	905,812	826,826
Bad debt expense	34,933	41,978
Miscellaneous expense	27,351	29,795
	<hr/>	<hr/>
Total Operating Expenses	2,674,551	2,534,523
Operating Income (Loss)	<hr/> <u>(79,562)</u>	<hr/> <u>87,536</u>
Non-operating Revenues (Expenses)		
Interest expense	(213,333)	(223,136)
Interest income	52,183	35,342
Federal and state grants	905,000	-
Reimbursement income	326,219	19,562
Line relocation expense	(326,219)	(19,562)
Insurance proceeds	172,433	-
Miscellaneous non-operating income	5,215	4,618
	<hr/>	<hr/>
Total Non-operating Revenues (Expenses)	921,498	(183,176)
Change in Net Position	841,936	(95,640)
Net Position, Beginning of Year	<hr/> <u>15,922,703</u>	<hr/> <u>16,018,343</u>
Net Position, End of Year	<hr/> <u>\$ 16,764,639</u>	<hr/> <u>\$ 15,922,703</u>

Jackson County Water Association, Incorporated  
 Statements of Cash Flows  
 For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 2,580,628	\$ 2,571,109
Payments to employees	(736,631)	(739,505)
Payments to suppliers	(928,528)	(909,544)
Payments for other activities	(27,351)	(29,795)
Net Cash Provided by Operating Activities	<u>888,118</u>	<u>892,265</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of property and equipment	(2,187,228)	(1,820,829)
Proceeds from advances on long-term debt	845,561	1,529,495
Principal payments on debt	(187,240)	(180,289)
Interest payments on debt	(197,089)	(204,033)
Federal and state grants	905,000	-
Proceeds from disposal of assets	2,183	127,688
Other receipts	5,215	4,618
Net Cash Used by Capital and Related Financing Activities	<u>(813,598)</u>	<u>(543,350)</u>
Cash Flows From Investing Activities		
Interest on investments	52,183	34,811
Net Cash Provided by Investing Activities	<u>52,183</u>	<u>34,811</u>
Net Increase in Cash and Cash Equivalents	126,703	383,726
Cash and Cash Equivalents at Beginning of Year	<u>2,026,409</u>	<u>1,642,683</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,153,112</u>	<u>\$ 2,026,409</u>
Reconciliation of Cash at End of Year		
Cash and cash equivalents	\$ 1,726,441	\$ 1,614,518
Restricted cash and cash equivalents	426,671	411,891
Total Cash at End of Year	<u>\$ 2,153,112</u>	<u>\$ 2,026,409</u>

See accompanying notes to the financial statements.



Jackson County Water Association, Incorporated  
 Statements of Cash Flows (Continued)  
 For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by Operating Activities:		
Operating income (loss)	\$ (79,562)	\$ 87,536
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	905,812	826,826
Changes in operating assets and liabilities		
(Increase) decrease in accounts receivable	30,192	(12,672)
(Increase) decrease in inventories	3,008	(3,096)
(Increase) decrease in prepaid expenses	(611)	(1,871)
Increase (decrease) in accounts payable	13,014	(8,520)
Increase (decrease) in accrued expenses	25,885	362
Increase (decrease) in customer deposits	(50)	1,650
Increase (decrease) in unearned revenue from customers	(9,570)	2,050
	<u>\$ 888,118</u>	<u>\$ 892,265</u>
Net Cash Provided by Operating Activities	<u>\$ 888,118</u>	<u>\$ 892,265</u>

Jackson County Water Association, Incorporated  
Notes to Financial Statements  
December 31, 2019 and 2018

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Jackson County Water Association, Incorporated, of Jackson County, Kentucky (“Association”) was created in 1970 under Chapter 273 of the Kentucky Revised Statutes and is exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code. The Association is governed by seven directors that are elected by members of the Association.

The Association, a nonprofit corporation, is a rural water utility system whose purpose is to establish, develop and operate a water supply and distribution system for its members and customers in Jackson and Rockcastle Counties, Kentucky. The Association’s primary source of revenue is from water sales to its members and customers, including public bodies and local businesses in its service area.

Basis of Accounting, Financial Presentation, and Measurement Focus

Not-for-profit organizations ordinarily present their financial statements in accordance with Accounting Standards Codification (ASC) 958-205. ASC 958-205 requires reporting amounts for a not-for-profit organization’s total assets, liabilities, and net assets in a statement of financial position; reporting the change in an organization’s net assets in a statement of activities; and reporting the change in its cash and cash equivalents in a statement of cash flows. ASC 958-205 also requires net assets be displayed in two classes – with donor restrictions and without donor restrictions.

The Association’s financial position, results of operations and cash flows are presented, along with relevant disclosures, in a format ordinarily used by entities similar to the Association in their organization and purpose. While this format differs in some respects from the guidance of ASC 958-205, management believes the presentation used enhances the relevance, understandability, and comparability of financial statements to those issued by similar organizations. The Association’s financial statements provide the basic information required by ASC 958-205, focus on the entity as a whole, and meet the common needs of external users of the Association’s financial statements.

The basic financial statements of the Association have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position display information about the Association as a whole. These statements include all funds of the Association. The statements distinguish between governmental and business-type activities. The Association does not have any governmental activities.

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Jackson County Water Association, Incorporated  
Notes to Financial Statements (Continued)  
December 31, 2019 and 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

Basis of Accounting, Financial Presentation, and Measurement Focus (Continued)

Operating income reported by the Association includes revenues and expenses related to the continuing operation of water service for its customers. Principal operating revenues are charges to customers for services. Principal operating expenses are the costs of providing the services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Cash and Cash Equivalents

The Association considers demand deposits and certificates of deposits with maturities of 90 days or less to be cash equivalents.

Investments

Investments consist of certificates of deposit with maturity dates of three months or more. Certificates of deposit are carried at fair value on the accompanying financial statements.

Accounts Receivable

Receivables include amounts due from customers for water services. These receivables are due at the time the services are billed. Billing is completed monthly and accounts are considered past due on the twenty first day after the end of each billing period. Accounts receivable are presented net of uncollectible accounts. The allowance amount is estimated using a percentage of accounts past due more than 30 days. At December 31, 2019 and 2018, the allowance for doubtful accounts was \$30,727 and \$36,852, respectively.

Unbilled Accounts Receivable

Estimated unbilled revenues from water sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billing during the month following the close of the fiscal year.

Inventory and Prepaid Expenses

Inventory, consisting primarily of water treatment chemicals, pipe and replacement parts for the water distribution system, is stated at cost on the first-in, first-out basis. Prepaid expenses represent payments to vendors that benefit future reporting periods and are reported on the consumption basis.

Capital Assets

Property and equipment are recorded at cost. Depreciation is provided by the straight-line method over the estimated useful life of the depreciable property. The range of useful lives of assets is as follows:

<u>Asset Classification</u>	<u>Range of Lives</u>
Water purification	20 - 40 years
Transmission mains and accessories	40 years
Buildings	40 years
Equipment and vehicles	5 - 10 years

Jackson County Water Association, Incorporated  
Notes to Financial Statements (Continued)  
December 31, 2019 and 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

Income Taxes

The Association has received notification from the Internal Revenue Service that it qualifies as a 501(c)(4) tax exempt organization and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code and similar provisions of state law.

The Association has adopted Accounting Standards Codification (ASC) 740-10 as it relates to uncertain tax positions and has evaluated its tax positions taken for all open years. Currently, the 2019, 2018, 2017 and 2016 tax years are open and subject to examination by the Internal Revenue Service. However, the Association is not currently under audit nor has the Organization been contacted by any of these jurisdictions.

Any interest and penalties recognized associated with a tax position are classified as current expenses in the Association's financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Position

The Association has adopted accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Net position is comprised of the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted – This component of net position consists of restricted assets less liabilities and deferred inflows of resources related to those assets. Restricted assets are those with limits on their use that are externally imposed constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net amounts of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or the restricted component of net position.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the Association would typically use restricted assets first, but reserves the right to selectively spend unrestricted assets first.

Jackson County Water Association, Incorporated  
Notes to Financial Statements (Continued)  
December 31, 2019 and 2018

Note 2 – Restricted Assets

The Association considers all sinking fund deposits, funds required for other debt service, and funds related to specific projects or customer accounts to be restricted. At December 31, 2019 and 2018 restricted cash amounted to \$426,671 and \$411,891, respectively. This includes restrictions for customer deposits of \$19,717 and \$19,749, respectively, and restrictions for debt service of \$346,260 and \$331,440, respectively. This also includes \$60,694 and \$60,702 restricted for capital projects at December 31, 2019 and 2018, respectively. In addition, revenues from the operations of the Association are pledged as collateral on long-term debt.

Note 3 – Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. The Association does not have a deposit policy for custodial credit risk. As of December 31, 2019 and 2018, \$4,557,895 and \$4,186,464, respectively, of the Association's bank balances of \$4,807,895 and \$4,436,464 were exposed to custodial credit risk as follows:

	<u>2019</u>	<u>2018</u>
Uninsured and uncollateralized	\$ -	\$ -
Uninsured and repurchase agreements held by bank, and sweep account balances secured by collateral held by bank	4,557,895	4,186,464
Uninsured and repurchase agreements held by bank's trust department not in the Association's name	-	-
Total	<u>\$ 4,557,895</u>	<u>\$ 4,186,464</u>

Note 4 – Capital Assets

Below is a summary of capital assets transactions for the year ended December 31, 2019:

	<u>Balance</u> <u>Dec. 31, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>Dec. 31, 2019</u>
Land and land rights	\$ 344,890	\$ 5,000	\$ -	\$ 349,890
Source of supply and pumping	1,320,527	343,625	-	1,664,152
Water treatment	6,665,522	-	-	6,665,522
Transmission and distribution	21,844,993	2,254,679	-	24,099,672
General plant and transportation	1,603,924	39,728	-	1,643,652
Construction in progress	567,068	1,862,182	2,429,250	-
Total at Historical Costs	<u>32,346,924</u>	<u>4,505,214</u>	<u>2,429,250</u>	<u>34,422,888</u>
Less: accumulated depreciation				
Land and land rights	-	-	-	-
Source of supply and pumping	372,355	59,209	-	431,564
Water treatment	2,685,441	166,547	-	2,851,988
Transmission and distribution	8,106,339	564,935	-	8,671,274
General plant and transportation	899,599	115,121	-	1,014,720
Total accumulated depreciation	<u>12,063,734</u>	<u>905,812</u>	<u>-</u>	<u>12,969,546</u>
Property and Equipment - Net	<u>\$ 20,283,190</u>	<u>\$ 3,599,402</u>	<u>\$ 2,429,250</u>	<u>\$ 21,453,342</u>

Jackson County Water Association, Incorporated  
Notes to Financial Statements (Continued)  
December 31, 2019 and 2018

Note 4 – Capital Assets (Continued)

Below is a summary of capital assets transactions for the year ended December 31, 2018:

	Balance Dec. 31, 2017	Additions	Deductions	Balance Dec. 31, 2018
Land and land rights	\$ 344,890	\$ -	\$ -	\$ 344,890
Source of supply and pumping	730,306	590,221	-	1,320,527
Water treatment	6,640,335	25,187	-	6,665,522
Transmission and distribution	19,133,871	2,711,122	-	21,844,993
General plant and transportation	1,574,429	29,495	-	1,603,924
Construction in progress	2,181,171	1,413,322	3,027,425	567,068
Total at Historical Costs	<u>30,605,002</u>	<u>4,769,347</u>	<u>3,027,425</u>	<u>32,346,924</u>
Less: accumulated depreciation				
Land and land rights	-	-	-	-
Source of supply and pumping	347,070	25,285	-	372,355
Water treatment	2,520,567	164,874	-	2,685,441
Transmission and distribution	7,585,379	520,960	-	8,106,339
General plant and transportation	783,892	115,707	-	899,599
Total accumulated depreciation	<u>11,236,908</u>	<u>826,826</u>	<u>-</u>	<u>12,063,734</u>
Property and Equipment - Net	<u>\$ 19,368,094</u>	<u>\$ 3,942,521</u>	<u>\$ 3,027,425</u>	<u>\$ 20,283,190</u>

Note 5 – Long-Term Debt

The following is a summary of long-term debt transactions for the year ended December 31, 2019:

	Balance Dec. 31, 2018	Additions	Payments	Balance Dec. 31, 2019	Due Within One Year
5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through February 2024	\$ 25,242	\$ -	\$ (7,813)	\$ 17,429	\$ 7,412
5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through April 2024	25,663	-	(4,151)	21,512	4,407
5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through January 2030	612,527	-	(42,352)	570,175	44,615

Jackson County Water Association, Incorporated  
Notes to Financial Statements (Continued)  
December 31, 2019 and 2018

Note 5 – Long-Term Debt (Continued)

	<u>Balance</u> <u>Dec. 31, 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2019</u>	<u>Due Within</u> <u>One Year</u>
4.5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through July 2035	651,453	-	(26,641)	624,812	28,103
4.5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through June 2043	907,035	-	(22,255)	884,780	21,786
4.5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through June 2043	549,878	-	(13,488)	536,390	13,206
2.5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through July 2050	3,202,495	-	(70,540)	3,131,955	71,166
2.0% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through June 2057	<u>3,061,093</u>	<u>845,561</u>	<u>-</u>	<u>3,906,654</u>	<u>69,662</u>
	<u>\$ 9,035,386</u>	<u>\$ 845,561</u>	<u>\$ (187,240)</u>	<u>\$ 9,693,707</u>	<u>\$ 260,357</u>

During 2017, the Association began a construction project to expand their current water system. The construction project was completed during 2019. The total estimated cost of the project was \$5,300,000, of which \$488,000 was contributed by the Association, \$905,000 was provided by a grant from the United States Department of Agriculture (USDA), and the remaining \$3,907,000 was financed through USDA. The construction loan will be amortized over 40 years at an interest rate of 2%. At December 31, 2019 and 2018, draws against the loan totaled \$3,907,000 and \$3,061,093, respectively. The provisions of the loan require annual interest payments in 2018 and 2019, with principal and interest payments commencing in 2020. Interest expense of \$58,192 and \$22,185 was capitalized during the years ended December 31, 2019 and 2018, respectively, during the construction phase of the project.

Real estate mortgages on the property of the Association are pledged as collateral on the long-term debt. In addition, revenues from the operations of the Association are pledged as collateral on the long-term debt, as described in Note 2.

Jackson County Water Association, Incorporated  
Notes to Financial Statements (Continued)  
December 31, 2019 and 2018

Note 5 – Long-Term Debt (Continued)

The following is a summary of long-term debt transactions for the year ended December 31, 2018:

	<u>Balance</u> <u>Dec. 31, 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2018</u>	<u>Due Within</u> <u>One Year</u>
5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through February 2024	\$ 32,675	\$ -	\$ (7,433)	\$ 25,242	\$ 7,051
5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through April 2024	29,612	-	(3,949)	25,663	4,193
5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through January 2030	652,818	-	(40,291)	612,527	42,444
4.5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through July 2035	676,924	-	(25,471)	651,453	26,872
4.5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through June 2043	928,312	-	(21,277)	907,035	20,848
4.5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through June 2043	562,774	-	(12,896)	549,878	12,638



Jackson County Water Association, Incorporated  
Notes to Financial Statements (Continued)  
December 31, 2019 and 2018

Note 5 – Long-term Debt (Continued)

	Balance <u>Dec. 31, 2017</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>Dec. 31, 2018</u>	Due Within <u>One Year</u>
2.5% note payable to the United States Department of Agriculture-Rural Development; due in annual installments, including interest, through July 2050	<u>3,271,467</u>	-	<u>(68,972)</u>	<u>3,202,495</u>	<u>69,600</u>
	<u>\$ 6,154,582</u>	<u>\$ -</u>	<u>\$ (180,289)</u>	<u>\$ 5,974,293</u>	<u>\$ 183,646</u>

The annual requirements to retire long-term debt are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 260,357	\$ 272,216	\$ 532,573
2021	269,105	263,427	532,532
2022	272,228	254,402	526,630
2023	279,028	244,988	524,016
2024	285,508	235,444	520,952
2025-2029	1,564,707	1,028,484	2,593,191
2030-2034	1,451,796	788,178	2,239,974
2035-2039	1,414,396	574,666	1,989,062
2040-2044	1,442,957	370,040	1,812,997
2045-2049	1,247,425	204,385	1,451,810
2050-2054	782,056	85,512	867,568
2055-2057	<u>424,144</u>	<u>17,070</u>	<u>441,214</u>
	<u>\$ 9,693,707</u>	<u>\$ 4,338,812</u>	<u>\$ 14,032,519</u>

Note 6 – Retirement Plan

The Association has a retirement plan which covers employees age eighteen or older who have completed twelve months of service. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. The Association makes contributions to the plan on the basis of up to 4% of the participant's compensation. Plan expenses incurred by the Association during 2019, 2018, and 2017 were \$21,801, \$23,067 and \$21,044, respectively.

Note 7 – Risk Management

The Association is exposed to various risks of loss related to limited torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the Association carries commercial insurance. There have been no significant reductions in coverage for the year and settlements have not exceeded coverage in the past three years.

Jackson County Water Association, Incorporated  
Notes to Financial Statements (Continued)  
December 31, 2019 and 2018

Note 8 – Subsequent Events

Date of Management Evaluation

Management of the Association has evaluated subsequent events through March 18, 2020, the date on which the financial statements were available to be issued.

Jackson County Water Association, Incorporated  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2019

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
United States Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.760	<u>\$ 1,808,753</u>
Total Expenditures of Federal Awards		<u><u>\$ 1,808,753</u></u>

Jackson County Water Association, Incorporated  
Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2019

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Jackson County Water Association, Incorporated under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Jackson County Water Association, Incorporated, it is not intended to and does not present the financial position, changes in net position, or cash flows of Jackson County Water Association, Incorporated.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Indirect Cost Rate

Jackson County Water Association, Incorporated has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4 – Outstanding Loan Balance

Jackson County Water Association, Incorporated's federal awards consist of grant and loan funds which were used for a construction project. As of December 31, 2019 and 2018, the outstanding balance of the loan associated with the project was \$3,906,654 and \$3,061,093, respectively.



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 Commissioners  
Jackson County Water Association, Incorporated  
Tyner, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Jackson County Water Association, Incorporated (a nonprofit organization), which comprise the statement of net position as of December 31, 2019, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Jackson County Water Association, Incorporated's basic financial statements, and have issued our report thereon dated March 18, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Jackson County Water Association, Incorporated'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Jackson County Water Association, Incorporated'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses (See items 2019-1 and 2019-2).

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jackson County Water Association, Incorporated'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 and other matters that are required to be reported under *Government Auditing Standards*.

### Jackson County Water Association Incorporated's Response to Findings

Jackson County Water Association, Incorporated's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Jackson County Water Association, Incorporated'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.

*Christian Sturgeon, PLLC*

Christian Sturgeon, PLLC  
London, Kentucky

March 18, 2020



Independent Auditors' Report On Compliance For  
Each Major Program and on Internal Control Over  
Compliance Required by the Uniform Guidance

To the Commissioners  
Jackson County Water Association, Incorporated  
Tyner, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Jackson County Water Association, Incorporated's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Jackson County Water Association, Incorporated's major federal programs for the year ended December 31, 2019. Jackson County Water Association, Incorporated's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Jackson County Water Association, Incorporated's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Jackson County Water Association, Incorporated's compliance.

Opinion on Each Major Federal Program

In our opinion, Jackson County Water Association, Incorporated complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

## Report on Internal Control Over Compliance

Management of Jackson County Water Association, Incorporated is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Jackson County Water Association, Incorporated's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Jackson County Water Association, Incorporated's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Christian Sturgeon, PLLC*

Christian Sturgeon, PLLC  
London, Kentucky

March 18, 2020



Jackson County Water Association, Incorporated  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2019

A. Summary of Auditors' Results

1. The auditors' report expresses an unmodified opinion on whether the financial statements of Jackson County Water Association, Incorporated were prepared in accordance with accounting principles generally accepted in the United States of America.
2. Two instances of material weaknesses relating to the audit of the financial statements are reported in the 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* (See items 2019-1 and 2019-2 in section C of this schedule).
3. No instances of noncompliance material to the financial statements of Jackson County Water Association, Incorporated which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. No significant deficiencies or material weaknesses related to the audit of the major federal award programs were disclosed in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditors' report on compliance for the major federal awards programs for Jackson County Water Association, Incorporated expresses an unmodified opinion on all major federal programs.
6. There were no audit findings relative to the major federal award programs for Jackson County Water Association, Incorporated.
7. The programs tested as major programs included: CFDA #  
10.760  
Water and Waste Disposal Systems for Rural Communities
8. The threshold for distinguishing Type A and B Programs was \$750,000.
9. Jackson County Water Association, Incorporated did not qualify to be a low-risk auditee.

B. Findings and Questioned Costs – Major Federal Award Programs Audit

There were no matters reported.

Jackson County Water Association, Incorporated  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended December 31, 2019

C. Findings – Financial Statement Audit

2019-1

**Criteria:**

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

**Condition:**

During the audit procedures performed, instances of this objective not being completely achieved were noted.

**Cause:**

The Association's limited internal resources prevent the preparation of financial statements and related note disclosures in accordance with generally accepted accounting principles.

**Effect:**

The Association was unable to prepare their financial statements and related note disclosures in accordance with generally accepted accounting principles.

**Views of responsible officials and planned corrective actions:**

The Association understands the responsibility related to financial reporting rests with management. The Association also understands the cost benefit concept with regard to this particular finding. The Association believes it is not cost effective to attempt to overcome this finding. Management has reviewed a draft of the financial statements and accepts responsibility for its contents.

2019-2

**Criteria:**

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

**Condition:**

During the audit procedures performed, instances of this objective not being completely achieved were noted.

**Cause:**

The size of the Association's office staff does not allow for proper segregation of duties in the areas of accounts receivable, cash receipts, and payroll.

**Effect:**

This condition creates a weakness in internal controls that could provide opportunity for misappropriation of funds that may not be detected.

**Views of responsible officials and planned corrective actions:**

The Association does not believe it is cost effective to hire additional staff to overcome this finding. The Association will consider implementing mitigating controls to reduce risk related to lack of segregation of duties.

Jackson County Water Association, Incorporated  
Schedule of Prior Year Audit Findings  
For the Year Ended December 31, 2019

Status of Prior Year Audit Findings

Prior Year Financial Statement Audit Findings

**Finding 2018-1**

**Condition:** This finding was a material weakness indicating that the Association was unable to prepare their financial statements and related note disclosures in accordance with generally accepted accounting principles.

**Recommendation:** Company management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

**Current Status:** As indicated in finding 2019-1, the Association continues to review a draft of the financial statements as prepared during the audit process and accepts responsibility for its contents. The Association believes it is currently not cost effective to hire additional staff to attempt to overcome this finding.

**Finding 2018-2**

**Condition:** This finding was a material weakness indicating that the size of the Association's office staff does not allow for proper segregation of duties in the areas of accounts receivable, cash receipts, and payroll.

**Recommendation:** Company management should consider hiring additional staff or consider implementing mitigating controls to reduce the risk related to lack of segregation of duties.

**Current Status:** As indicated in finding 2019-2, the Association believes it is currently not cost effective to hire additional staff to overcome this finding. The Association will consider implementing mitigating controls to reduce risk related to lack of segregation of duties.

Prior Year Major Federal Award Programs Audit Findings

No audit findings in the prior year.

# Jackson Co. Water Association

P.O. Box 232

Tyner, Ky. 40486

Telephone: (606) 287-7000

Fax: (606) 287-7003

March 18, 2020

U.S. Department of Agriculture/Rural Development

Jackson County Water Association, Inc. respectfully submits the following corrective action plan for the year ended December 31, 2019.

Name and address of independent public accounting firm:

Christian Sturgeon, PLLC  
P.O. Box 901  
London, KY 40741

Audit period:

As of and for the year ended December 31, 2019.

The findings from the December 31, 2019 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

## Findings – Financial Statement Audit

### **Material Weakness 2019-1: Preparation of financial statements and related note disclosures in accordance with generally accepted accounting principles**

*Recommendation:* Management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

*Action Taken:* Due to cost benefit considerations, the Association will continue to outsource the preparation of financial statements and related note disclosures to our auditors. The Association is aware of its role in oversight of this process and will review the financial statements and note disclosures and accept responsibility for them.

### **Material Weakness 2019-2: Lack of segregation of duties**

*Recommendation:* Management should consider hiring additional staff or consider implementing mitigating controls to reduce the risk related to lack of segregation of duties.

*Action Taken:* Currently, the Association does not believe it is cost effective to hire additional staff to overcome this finding. The Association will consider implementing mitigating controls to reduce the risk related to lack of segregation of duties.

If the U.S. Department of Agriculture/Rural Development has questions regarding this plan, please call Sammy Creech at (606) 287-7000.

Sincerely,



Sammy Creech, Manager  
Jackson County Water Association, Inc.