

**WEST LAUREL WATER
ASSOCIATION, INCORPORATED**

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017**

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INDEPENDENT AUDITORS' REPORT

To the Commissioners
West Laurel Water Association, Incorporated
London, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of West Laurel Water Association, Incorporated, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 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 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 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.



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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the West Laurel Water Association, Incorporated, as of December 31, 2018 and 2017, and the respective changes in financial position and, where applicable, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the West Laurel Water Association'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 (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.



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The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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, as required by the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are 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 31, 2019 on our consideration of the West Laurel Water Association, Incorporated'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 the 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 West Laurel Water Association, Incorporated's internal control over financial reporting and compliance.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
Certified Public Accountants
Corbin, Kentucky

March 31, 2019

WEST LAUREL WATER ASSOCIATION, INCORPORATED—CONTINUED

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Years ended December 31, 2018 and 2017

This discussion and analysis are intended to be an easily readable analysis of the West Laurel Water Association, Incorporated's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements and notes that follow. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes.

FINANCIAL HIGHLIGHTS

- In 2018, the Association's net position increased by \$565,820 or 15.66%, compared to a decrease of \$49,319 or 1.34% in 2017.
- In 2018, sales of water increased by \$286,218 or 13.28 %. In 2017, sales increased by \$57,505 or 2.74%.
- Operating expenses increased by \$193,450 or 8.71% in 2018 compared to an increase of \$21,163 or 1.01% in 2017.
- Additions to capital assets in 2018 amounted to \$1,791,870. In 2017, additions to capital assets were \$94,074.
- Principal payments on long-term debt amounted to \$86,331 in 2018, compared to \$79,255 in 2017.

OVERVIEW OF FINANCIAL STATEMENTS

This report consists of the management's discussion and analysis and the basic financial statements. The financial statements include notes that explain information included in the basic financial statements.

FINANCIAL STATEMENTS

The financial statements report information utilizing the full accrual basis of accounting and conform to accounting principles that are generally accepted in the United States of America. The statement of net position presents information on all of the Association's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Association is improving or deteriorating. The statement of revenues, expenses, and changes in net position presents information showing how the Association's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The financial statements also include a statement of cash flows, which presents sources and uses of cash and changes in cash balances during the fiscal year. The MD&A is intended to explain the significant changes in financial position and differences in operation between the current and prior year.

**WEST LAUREL WATER ASSOCIATION, INCORPORATED—CONTINUED
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**

Years ended December 31, 2018 and 2017

NET POSITION

A summary of the Association’s statement of net position as of December 31, 2018 and 2017 is presented below:

	<u>2018 Amount</u>	<u>2017 Amount</u>	<u>Net dollar Change</u>	<u>Net percentage Change</u>
Current and other assets	\$ 988,456	\$ 806,209	\$ 182,247	22.61%
Capital assets, net of accumulated depreciation	6,617,669	5,065,551	\$ 1,552,118	30.64%
Total Assets	<u>7,606,125</u>	<u>5,871,760</u>	<u>1,734,365</u>	29.54%
Long-term liabilities	3,078,719	1,927,111	1,151,608	59.76%
Current portion of long-term debt	109,665	87,604	22,061	25.18%
Other liabilities	240,699	245,823	(5,124)	-2.08%
Total Liabilities	<u>3,429,083</u>	<u>2,260,538</u>	<u>1,168,545</u>	51.69%
Net investment in capital assets	3,429,285	3,050,836	378,449	12.40%
Restricted net positions	234,269	231,168	3,101	1.34%
Unrestricted (deficit) net positions	513,488	329,218	184,270	55.97%
Total Net Position	<u>\$ 4,177,042</u>	<u>\$ 3,611,222</u>	<u>\$ 565,820</u>	15.67%

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

A summary of the Association’s statement of revenues, expenses and changes in net position for the year ended December 31, 2018 and 2017 is presented below:

	<u>2018 Amount</u>	<u>2017 Amount</u>	<u>Net dollar Change</u>	<u>Net percentage Change</u>
Operating revenue	\$ 2,594,451	\$ 2,274,780	\$ 319,671	14.05%
Nonoperating revenue	507,625	2,949	504,676	17113.46%
Total revenue	<u>3,102,076</u>	<u>2,277,729</u>	<u>824,347</u>	36.19%
Depreciation expense	239,752	192,169	47,583	24.76%
Other operating expense	2,173,918	2,028,051	145,867	7.19%
Nonoperating expense	122,586	106,828	15,758	14.75%
Total expense	<u>2,536,256</u>	<u>2,327,048</u>	<u>209,208</u>	8.99%
Changes in net position	565,820	(49,319)	615,139	-1247.27%
Net position, beginning	3,611,222	3,660,541	(49,319)	-1.35%
Net position, ending	<u>\$ 4,177,042</u>	<u>\$ 3,611,222</u>	<u>\$ 565,820</u>	15.67%

**WEST LAUREL WATER ASSOCIATION, INCORPORATED—CONTINUED
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**

Years ended December 31, 2018 and 2017

CAPITAL ASSETS

On December 31, 2018, the Association’s investment in capital assets, net of depreciation, totaled \$6,617,669, which is a increase of \$1,552,118, or 1.89%, over the capital asset balance of \$5,065,551 at December 31, 2017. This attributable to capital projects.

LONG-TERM DEBT

As of December 31, 2018, the Association had long-term debt of \$3,188,384 compared to \$2,014,715 at December 31, 2017, including current portion. During the year ended December 31, 2018, the Association paid \$86,331 of principal payments on the long-term debt compared to \$79,255 in 2017. The increase in long-term debt is attributable to capital project financing.

CONTACT INFORMATION

The Association’s financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the Association’s finances and to demonstrate the Association’s accountability. Questions concerning this report or request for additional information should be addressed to the Office Manager, Dewayne Lewis, at West Laurel Water Association, Incorporated, London, Kentucky, 40741, or by calling (606) 878-9420.

WEST LAUREL WATER ASSOCIATION, INCORPORATED
STATEMENTS OF NET POSITION
December 31, 2018 and 2017

ASSETS	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 366,433	\$ 219,489
Accounts receivable, less allowance for doubtful accounts	233,015	200,813
Unbilled accounts receivable	153,669	153,669
Interest receivable	195	195
Prepaid expense	875	875
Total current assets	<u>754,187</u>	<u>575,041</u>
Noncurrent assets		
Restricted assets		
Restricted cash and cash equivalents	<u>234,269</u>	<u>231,168</u>
Capital assets		
Nondepreciable capital assets		
Construction in progress	599,135	14,180
Land and land structures	67,727	67,727
Total nondepreciable capital assets	<u>666,862</u>	<u>81,907</u>
Depreciable capital assets		
Source of supply and pumping	16,899	16,899
Intangible	7,677	7,677
Pumping plant	626,350	64,848
Transmission and distribution	10,210,422	9,569,639
General plant	45,455	40,825
Less accumulated depreciation	<u>(4,955,996)</u>	<u>(4,716,244)</u>
Total depreciable capital assets	<u>5,950,807</u>	<u>4,983,644</u>
Total capital assets (net of depreciation)	<u>6,617,669</u>	<u>5,065,551</u>
Total noncurrent assets	<u>6,851,938</u>	<u>5,296,719</u>
Total assets	<u>\$ 7,606,125</u>	<u>\$ 5,871,760</u>

The accompanying notes are an integral part of the financial statements.

WEST LAUREL WATER ASSOCIATION, INCORPORATED
STATEMENTS OF NET POSITION
December 31, 2018 and 2017

LIABILITIES	<u>2018</u>	<u>2017</u>
Current liabilities		
Accounts payable	\$ 150,059	\$ 171,963
Accrued expenses	24,183	23,212
Accrued interest	55,387	37,633
Current portion of long-term debt	<u>109,665</u>	<u>87,604</u>
Total current liabilities	<u>339,294</u>	<u>320,412</u>
Noncurrent liabilities		
Customer deposits	11,070	13,015
Long-term debt	<u>3,078,719</u>	<u>1,927,111</u>
Total noncurrent liabilities	<u>3,089,789</u>	<u>1,940,126</u>
Total liabilities	<u>3,429,083</u>	<u>2,260,538</u>
NET POSITION		
Invested in capital assets net of related debt	3,429,285	3,050,836
Restricted for:		
Debt service	213,160	207,880
Other purposes	21,109	23,288
Unrestricted	<u>513,488</u>	<u>329,218</u>
Total net position	<u>\$ 4,177,042</u>	<u>\$ 3,611,222</u>

WEST LAUREL WATER ASSOCIATION, INCORPORATED
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues		
Water sales	\$ 2,441,318	\$ 2,155,100
Tap-on fees	27,310	30,173
Other	<u>125,823</u>	<u>89,507</u>
Total operating revenues	<u>2,594,451</u>	<u>2,274,780</u>
Operating expenses		
Purchased water and power	1,170,231	1,152,146
Water treatment	33,474	30,338
Transmission and distribution	501,126	359,784
Administration of customer accounts	305,387	328,407
Administration and general	163,700	157,376
Depreciation	<u>239,752</u>	<u>192,169</u>
Total operating expenses	<u>2,413,670</u>	<u>2,220,220</u>
Operating income (loss)	<u>180,781</u>	<u>54,560</u>
Nonoperating revenues (expenses)		
Interest income	3,029	2,949
Grant income	504,596	-
Miscellaneous	(6,348)	(6,171)
Interest expense		
Interest on long-term debt	(116,215)	(100,632)
Interest on customer deposits	<u>(23)</u>	<u>(25)</u>
Total nonoperating revenues (expenses)	<u>385,039</u>	<u>(103,879)</u>
Change in net position	565,820	(49,319)
Net position, January 1	<u>3,611,222</u>	<u>3,660,541</u>
Net position, December 31	<u>\$ 4,177,042</u>	<u>\$ 3,611,222</u>

The accompanying notes are an integral part of the financial statements.

WEST LAUREL WATER ASSOCIATION, INCORPORATED
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Receipts from customers	\$ 2,562,249	\$ 2,160,351
Payment for goods and service	<u>(2,196,796)</u>	<u>(1,985,600)</u>
Net cash used in operating activities	<u>365,453</u>	<u>174,751</u>
Cash flows from capital and related activities		
Additions to capital assets	(1,791,870)	(44,654)
Note payable proceeds	1,260,000	-
Principal payments on debt	(86,331)	(78,370)
Grant proceeds	504,596	-
Interest paid on debt	(98,461)	(104,606)
Miscellaneous nonoperating expense	<u>(6,348)</u>	<u>(6,003)</u>
Cash provided (used) in capital and related activities	<u>(218,414)</u>	<u>(233,633)</u>
Cash flows from investing activities		
Interest received on investments	3,029	2,316
Transfer in/(out)	<u>(26,969)</u>	<u>117,247</u>
Cash provided (used) in investing activities	<u>(23,940)</u>	<u>119,563</u>
Net increase in cash and cash equivalents	120,070	58,365
Cash and cash equivalents, January 1	<u>480,632</u>	<u>422,267</u>
Cash and cash equivalents, December 31	<u>\$ 600,702</u>	<u>\$ 480,632</u>
Reconciliation of change in net position to net cash used in operating activities		
Adjustments to reconcile change in net position to net cash used in operating activities:		
Operating income	\$ 180,781	\$ (6,450)
Depreciation	239,752	191,703
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	(32,202)	(32,088)
(Increase) Decrease in interest receivable	-	(168)
(Decrease) Increase in accounts payable	(21,904)	5,606
(Decrease) Increase in accrued expenses	971	17,964
(Decrease) Increase in customer deposits	<u>(1,945)</u>	<u>(1,816)</u>
Net cash provided by operating activities	<u>365,453</u>	<u>174,751</u>
Supplemental disclosures		
Interest paid	<u>116,215</u>	<u>100,632</u>
Reconciliation of cash at end of year		
Cash and cash equivalents	366,433	249,387
Restricted cash and cash equivalents	<u>234,269</u>	<u>231,245</u>
Total cash at end of year	<u>\$ 600,702</u>	<u>\$ 480,632</u>

The accompanying notes are an integral part of the financial statements.

WEST LAUREL WATER ASSOCIATION, INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

West Laurel Water Association, Incorporated, of Laurel County, Kentucky (the Association) was created in 1969 under Chapter 74 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 a three-person board of Commissioners, which is appointed by the Laurel County Fiscal Court. The Association is regulated by the Kentucky Public Service Commission.

West Laurel Water Association, Incorporated 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 the eastern portion of Laurel County, Kentucky. The Association's primary source of revenue is from water sales to its 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 position 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 position be displayed in three classes – permanently restricted, temporarily restricted, and unrestricted.

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. In addition, the Association applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

WEST LAUREL WATER ASSOCIATION, INCORPORATED - CONTINUED

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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.

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 all highly liquid investments (including restricted cash and investments), with maturities of 90 days or less to be cash equivalents. This includes bank certificates of deposit and demand checking accounts.

Investments

The Association's investments include certificates of deposits with maturity dates of three months or more. Certificates of deposits in excess of FDIC insurance are collateralized by securities held by the pledging bank.

Accounts Receivable

Accounts receivable arise as services are rendered for which collections have not been realized and are carried net of a provision for doubtful accounts. The provision for doubtful accounts is estimated using a percentage of accounts more than 90 days past due. At December 31, 2018, and 2017, the provision for doubtful accounts was \$2,698 and \$2,698, respectively.

Unbilled Receivables

The Association estimated unbilled revenues from water sales, on a pro rata basis, at the end of each fiscal year. The estimated amounts are based on amounts billed during the following month after the close of the fiscal year.

Prepaid Assets

Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is

WEST LAUREL WATER ASSOCIATION, INCORPORATED - CONTINUED
NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

recorded at the time of the purchase, and an expenditure/expense is reported in the year in which services are consumed.

Capital Assets

Capital assets include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, and equipment that have a useful life of more than one reporting period based on the Association's capitalization policy. The cost of additions to the utility plant and major replacements of retired property are capitalized, and the cost of repairs, maintenance, and minor replacements are recorded as expense. By Association policy, capital assets are defined as assets with a cost of \$1,000 or more and an estimated useful life in excess of one year. Cost includes direct labor, outside services, materials and transportation employee fringe benefits, and overhead. Interest incurred during construction is capitalized.

The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from disposal is credited or recorded in the non-operating section of the statements of revenues, expenses and changes in net position. Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The range of useful lives of assets is as follows:

<u>Assets Classification</u>	<u>Range of Lives</u>
Intangible	40 years
Transmission and distribution mains	50 years
Structures and improvements	50 years
Pumping and water treatment equipment	25 years
Meters, hydrants and services	20 years
Other equipment	5-10 years

Accounts Payable

Accounts payable represent expenses incurred in the current year to be paid in the subsequent year. The majority of the Association's accounts payable are to vendors or for the purchase of water.

Long-Term Debt

Long-term debt is reported as a liability. Loan discount is amortized over the term of the respective loans outstanding using the straight-line method.

WEST LAUREL WATER ASSOCIATION, INCORPORATED - CONTINUED
NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Customer Deposits

The Association collects and holds in escrow a \$60 deposit from customers to insure collection of its water charges. Interest at an annual rate of 1% is paid on these deposits.

Income Taxes

The Association has received notification from the Internal Revenue Service that it qualifies as a 501(c)(3) 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.

During 2009, the Association adopted Accounting Standards Codification (ACS) 740-10 as it related to uncertain tax positions. Any interest and penalties recognized associated with a tax position are classified as current on 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

Net position comprises 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 and any unamortized debt cost or premium.

Restricted – This component of net position consists of 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 net position – This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

WEST LAUREL WATER ASSOCIATION, INCORPORATED - CONTINUED
NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

NOTE 2 – RESTRICTED CASH

The Association includes all funds required for other debt service, and funds related to specific projects or customer accounts to be restricted. At December 31, 2018, and 2017, restricted cash amounted to \$234,269 and \$231,168, respectively. This includes restrictions for customer deposits of \$21,109 and \$23,288 and restrictions for debt service of \$213,160 and \$207,880, respectively.

NOTE 3 – INVESTMENTS – INTEREST RATE RISK

According to KRS 91A.060, the Association is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The Association classifies only certificates of deposit as investments and does not consider interest rate risk to be significant.

NOTE 4 – CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Association's deposits may not be returned to it. As of December 31, 2018, and 2017, bank balances totaled \$604,151 and \$451,137, respectively. In accordance with Kentucky Revised Statute (KRS) 91A.060, deposits are to be collateralized to the extent uninsured by FDIC. According to KRS 41.240(4), the depository institution shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. The Association's deposits were fully insured or collateralized with securities held by an agent of the Association in the Association's name at December 31, 2018, and 2017.

NOTE 5 – CUSTOMER AND OTHER ACCOUNTS RECEIVABLE

At December 31, 2018, customer and other accounts receivable are as follows:

Due from consumers sale of water	\$ 235,713
Allowance for doubtful accounts	<u>(2,698)</u>
	<u>\$ 233,015</u>

This does not include unbilled receivables of \$153,669.

WEST LAUREL WATER ASSOCIATION, INCORPORATED - CONTINUED
NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 and 2017 was as follows:

	Balance <u>December 31, 2017</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>December 31, 2018</u>
Land and Improvements	\$ 67,727	-	-	67,727
Intangible	7,677	-	-	7,677
Source of Supply and Pumping	16,899	-	-	16,899
Water Treatment Plant	64,848	561,502	-	626,350
Transmission and Distribution Plant	9,569,638	640,784	-	10,210,422
General Plant	40,826	4,629	-	45,455
Construction in progress	14,180	584,955	-	599,135
Total Capital Assets	<u>9,781,795</u>	<u>1,791,870</u>	<u>-</u>	<u>11,573,665</u>
Less: Accumulated depreciation				
Intangible	7,677	-	-	7,677
Source of supply and pumping	9,288	422	-	9,710
Pumping plant	52,189	1,147	-	53,336
Transmission and distribution plant	4,615,207	236,181	-	4,851,388
General plant	31,883	2,002	-	33,885
Total accumulated depreciation	<u>4,716,244</u>	<u>239,752</u>	<u>-</u>	<u>4,955,996</u>
Total Capital Assets, Net	<u>\$ 5,065,551</u>	<u>\$ 1,552,118</u>	<u>\$ -</u>	<u>\$ 6,617,669</u>

	Balance <u>December 31, 2016</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>December 31, 2017</u>
Land and Improvements	\$ 67,727	-	-	67,727
Intangible	7,677	-	-	7,677
Source of Supply and Pumping	16,899	-	-	16,899
Water Treatment Plant	64,848	-	-	64,848
Transmission and Distribution Plant	9,489,744	79,894	-	9,569,638
General Plant	40,826	-	-	40,826
Construction in progress	-	14,180	-	14,180
Total Capital Assets	<u>9,687,721</u>	<u>94,074</u>	<u>-</u>	<u>9,781,795</u>
Less: Accumulated depreciation				
Intangible	7,677	-	-	7,677
Source of supply and pumping	8,866	422	-	9,288
Pumping plant	51,041	1,148	-	52,189
Transmission and distribution plant	4,426,148	189,059	-	4,615,207
General plant	30,343	1,540	-	31,883
Total accumulated depreciation	<u>4,524,075</u>	<u>192,169</u>	<u>-</u>	<u>4,716,244</u>
Total Capital Assets, Net	<u>\$ 5,163,646</u>	<u>\$ (98,095)</u>	<u>\$ -</u>	<u>\$ 5,065,551</u>

**WEST LAUREL WATER ASSOCIATION, INCORPORATED - CONTINUED
NOTES TO THE FINANCIAL STATEMENTS**

Years ended December 31, 2018 and 2017

NOTE 7 – LONG-TERM DEBT

The Association's long-term debt consists of notes payable to Rural Development (RD) which were obtained for various acquisitions of plant and equipment. The notes mature annually in varying series over the period 2018 to 2058. A summary of the notes is presented below:

RURAL DEVELOPMENT									
<u>Date of Issue</u>	<u>Note Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>12/31/17 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/18 Outstanding Balance</u>	<u>Due Within One Year</u>
3/1/1979	91-03	\$ 448,000	2019	5.00%	\$ 61,516	\$ -	\$ 23,324	\$ 38,192	\$ 26,746
9/26/1988	91-04	500,000	2028	5.00%	245,290	-	17,381	227,909	18,157
9/26/1988	91-05	153,000	2028	5.00%	75,025	-	5,321	69,704	5,555
10/11/1995	91-06	516,000	2035	5.00%	361,430	-	12,641	348,789	13,449
7/23/2002	91-07	1,536,000	2042	4.75%	1,271,454	-	27,664	1,243,790	28,078
2/25/2018	91-09	1,260,000	2058	2.75%	-	1,260,000	-	1,260,000	17,680
Total RD Bonds Payable					\$ 2,014,715	\$ 1,260,000	\$ 86,331	\$ 3,188,384	\$ 109,665

Future note principal and interest payment amounts are as follows:

See Table on Next Page

WEST LAUREL WATER ASSOCIATION, INCORPORATED - CONTINUED
NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

NOTE 7 – LONG-TERM DEBT – (continued)

YEAR	LOCAL		TOTAL
	PRINCIPAL	INTEREST	
2019	\$ 109,664	\$ 130,753	\$ 240,417
2020	91,972	125,667	217,640
2021	94,586	121,743	216,329
2022	96,849	117,633	214,482
2023	99,005	113,330	212,334
2024	103,511	108,823	212,334
2025	108,231	104,103	212,334
2026	113,176	99,159	212,335
2027	118,353	93,982	212,334
2028	123,776	88,558	212,334
2029	90,319	82,877	173,196
2030	94,734	78,857	173,591
2031	99,059	74,651	173,710
2032	103,462	70,249	173,710
2033	108,069	65,642	173,710
2034	112,890	60,820	173,710
2035	117,937	55,773	173,710
2036	93,494	50,490	143,984
2037	96,552	46,501	143,053
2038	100,555	42,330	142,885
2039	104,917	37,968	142,885
2040	109,478	33,407	142,885
2041	114,249	28,636	142,885
2042	118,256	23,646	141,902
2043	30,056	18,427	48,483
2044	33,912	17,494	51,406
2045	35,793	16,536	52,330
2046	36,778	15,552	52,330
2047	37,789	14,541	52,330
2048	38,828	13,501	52,330
2049	39,896	12,434	52,330
2050	40,993	11,337	52,330
2051	42,121	10,209	52,330
2052	43,279	9,051	52,330
2053	44,469	7,861	52,330
2054	45,692	6,638	52,330
2055	46,948	5,381	52,330
2056	48,240	4,090	52,330
2057	49,566	2,764	52,330
2058	50,929	1,401	52,330
	<u>\$ 3,188,384</u>	<u>\$ 2,022,813</u>	<u>\$ 5,211,196</u>

WEST LAUREL WATER ASSOCIATION, INCORPORATED - CONTINUED
NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

NOTE 8 – SERVICES PROVIDED BY WOOD CREEK WATER DISTRICT

West Laurel Water Association, Incorporated has no employed personnel with the exception of its board members. The Association obtains all maintenance, construction (including materials), and office services through contractual agreements with Wood Creek Water District. Wood Creek Water District bills, at cost, West Laurel Water District, Incorporated for services and materials on a monthly basis. West Laurel Water Association Incorporated also purchases water for resale from Wood Creek Water District.

At December 31, 2018, and 2017, the Association had accounts payable to Wood Creek Water District as follows:

	<u>2018</u>	<u>2017</u>
<u>Wood Creek Water District</u>		
Accounts Payable	\$ 145,724	\$ 168,812
Accounts Payable - Wastewater	2,224	1,839
	<u>\$ 147,948</u>	<u>\$ 170,651</u>

Amounts paid to Wood Creek Water District for purchased water and for materials and services provided to West Laurel Water Association, Incorporated are as follows:

	<u>2018</u>	<u>2017</u>
<u>West Laurel Water Association, Incorporated</u>		
Purchased water	\$ 1,155,821	\$ 1,135,586
Materials, labor, and other	749,868	835,814
	<u>\$ 1,905,689</u>	<u>\$ 1,971,400</u>

NOTE 9 – INCOME TAX

The Association has adopted ASC 740-10 as it related to uncertain tax positions for the year ended December 31, 2017 and has evaluated its tax positions taken for all open years. Currently, the Association believes the 2014-2018 tax years are open and subject to examination by all relevant jurisdictions. However, the Association is not currently under audit nor has the Organization been contacted by any of these jurisdictions.

NOTE 10 – RISK MANAGEMENT

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the Association carries commercial insurance. The insurance coverage is acquired through Wood Creek Water District which includes coverage for Wood Creek Water District, West Laurel Water Association, Incorporated, and East Laurel Water District. The Association pays for and is entitled to its respective share of coverage. There have been no significant reductions in coverage for the year and settlements have not exceeded coverage in the past three years.

WEST LAUREL WATER ASSOCIATION, INCORPORATED - CONTINUED
NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

NOTE 11 – SUBSEQUENT EVENTS

Management of the Association has evaluated subsequent events through March 31, 2019, the date which the financial statements were available to be issued.

No events have occurred subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

WEST LAUREL WATER ASSOCIATION, INCORPORATED
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended December 31, 2018

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
US Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities Fiscal Year 18	10.760	2018-WL	<u>1,740,366</u>
Total US Department of Agriculture			<u>1,740,366</u>
Total Expenditure of Federal Awards			<u>1,740,366</u>

WEST LAUREL WATER ASSOCIATION, INCORPORATED
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2018

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the West Laurel Water Association and is presented on the accrual basis of accounting. 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. INDIRECT COST RATE

The Association has elected not to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.



Cloyd & Associates, PSC
Certified Public Accountants

**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
West Laurel Water Association, Incorporated
London, 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 the business-type activities of West Laurel Water Association, Incorporated, as of and for the years ended December 31, 2018, and 2017, and the related notes to the financial statements, which collectively comprise West Laurel Water Association, Incorporated basic financial statements, and have issued our report thereon dated March 31, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered West Laurel Water Association, Incorporated's internal control over financial reporting 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 West Laurel Water Association, Incorporated's internal control. Accordingly, we do not express an opinion on the effectiveness of the West Laurel Water Association, Incorporated'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Cloyd & Associates, PSC
Certified Public Accountants

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
Corbin, Kentucky
March 31, 2019



Cloyd & Associates, PSC
Certified Public Accountants

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditor's Report

To the Commissioners
West Laurel Water Association, Incorporated
London, Kentucky

Report on Compliance for Each Major Federal Program

We have audited West Laurel Water Association, Incorporated's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of West Laurel Water Association, Incorporated's major federal programs for the year ended December 31, 2018. The West Laurel Water Association Incorporated's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of West Laurel 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 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 West Laurel Water Association, Incorporated'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 West Laurel Water Association, Incorporated's compliance.

1700 Forest Drive, Corbin, KY 40701
Ph. 606.528.8776 Fax: 606.523.5457

2410 Greatstone Point, Lexington, KY 40504
Ph. 859.223.3318 Fax: 859.223.5875

1301 West 5th Street, London, KY 40741
Ph. 606.864.8110 Fax: 606.864.8471



Cloyd & Associates, PSC
Certified Public Accountants

Opinion on Each Major Federal Program

In our opinion, West Laurel 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, 2018.

Report on Internal Control over Compliance

Management of West Laurel 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 West Laurel 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 West Laurel 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.

Purpose of this Report

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.

Cloyd & Associates, PSC
London, Kentucky
March 31, 2019

1700 Forest Drive, Corbin, KY 40701
Ph. 606.528.8776 Fax: 606.523.5457

2410 Greatstone Point, Lexington, KY 40504
Ph. 859.223.3318 Fax: 859.223.5875

1301 West 5th Street, London, KY 40741
Ph. 606.864.8110 Fax: 606.864.8475



www.cloydcpa.com

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

WEST LAUREL WATER ASSOCIATION, INCORPORATED
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended December 31, 2018

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors' report issued		Unmodified	
Internal control over financial reporting:			
Material weakness identified	_____	Yes	<u> ✓ </u> No
Significant deficiencies identified that are not considered to be material weaknesses reported	_____	Yes	<u> ✓ </u> None
Noncompliance material to financial statement noted	_____	Yes	<u> ✓ </u> No

Federal Awards

Internal control over major programs:			
Material weaknesses identified	_____	Yes	<u> ✓ </u> No
Significant deficiencies identified that are not considered to be material weaknesses reported	_____	Yes	<u> ✓ </u> None
Type of auditors' report issued on compliance for major programs		Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section of 200.516(a)?	_____	Yes	<u> ✓ </u> No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Water and Waste Disposal Systems for Rural Communities	10.760

Dollar threshold used to distinguish between Type A and Type B program	\$750,000
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Auditee qualified as low risk	_____	Yes	<u> ✓ </u> No
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(continued)

WEST LAUREL WATER ASSOCIATION, INCORPORATED
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED
Year ended December 31, 2018

Section II – Financial Statement Findings

None

Section III – Federal Award Findings

None

WEST LAUREL WATER ASSOCIATION, INCORPORATED
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year ended December 31, 2018

Financial Statement Findings

There were no prior year financial statement findings.

Federal Award Findings

There were no prior year federal award findings.