

**WEST LAUREL WATER  
ASSOCIATION, INCORPORATED**

**INDEPENDENT AUDITORS' REPORT  
AND FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2020 AND 2019**

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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, 2020 and 2019, 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. 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.

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, 2020 and 2019, 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2021 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

April 30, 2021

# **WEST LAUREL WATER ASSOCIATION, INCORPORATED—CONTINUED**

## **MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**

### **Years ended December 31, 2020 and 2019**

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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 2020, the Association’s net position decreased by \$154,481 or 3.63%, compared to an increase of \$75,222 or 1.8% in 2019.
- In 2020, sales of water increased by \$10,155 or 0.01%. In 2019, sales increased by \$119,918 or 4.91%.
- Operating expenses increased by \$139,866 or 5.49% in 2020 compared to an increase of \$131,863 or 5.46% in 2019.
- Additions to capital assets in 2020 amounted to \$75,622. In 2019, additions to capital assets were \$93,161.
- Principal payments on long-term debt amounted to \$101,535 in 2020, compared to \$118,071 in 2019.

### **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, 2020 and 2019**

**NET POSITION**

A summary of the Association’s statement of net position as of December 31, 2020 and 2019 is presented below:

	<u>2020 Amount</u>	<u>2019 Amount</u>	<u>Net dollar Change</u>	<u>Net percentage Change</u>
Current and other assets	\$ 1,145,490	\$ 1,179,760	\$ (34,270)	-2.90%
Capital assets, net of accumulated depreciation	6,208,647	6,417,628	\$ (208,981)	-3.26%
<b>Total Assets</b>	<u>7,354,137</u>	<u>7,597,388</u>	<u>(243,251)</u>	-3.20%
Long-term liabilities	2,886,656	2,978,342	(91,686)	-3.08%
Current portion of long-term debt	90,592	91,971	(1,379)	-1.50%
Other liabilities	279,106	274,811	4,295	1.56%
<b>Total Liabilities</b>	<u>3,256,354</u>	<u>3,345,124</u>	<u>(88,770)</u>	-2.65%
Net investment in capital assets	3,239,869	3,347,315	(107,446)	-3.21%
Restricted net positions	242,711	238,553	4,158	1.74%
Unrestricted (deficit) net positions	615,203	666,396	(51,193)	-7.68%
<b>Total Net Position</b>	<u>\$ 4,097,783</u>	<u>\$ 4,252,264</u>	<u>\$ (154,481)</u>	-3.63%

**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, 2020 and 2019 is presented below:

	<u>2020 Amount</u>	<u>2019 Amount</u>	<u>Net dollar Change</u>	<u>Net percentage Change</u>
Operating revenue	\$ 2,649,217	\$ 2,712,543	\$ (63,326)	-2.33%
Nonoperating revenue	10,642	41,440	(30,798)	-74.32%
<b>Total revenue</b>	<u>2,659,859</u>	<u>2,753,983</u>	<u>(94,124)</u>	-3.42%
Depreciation expense	284,602	293,204	(8,602)	-2.93%
Other operating expense	2,400,797	2,252,329	148,468	6.59%
Nonoperating expense	128,941	133,228	(4,287)	-3.22%
<b>Total expense</b>	<u>2,814,340</u>	<u>2,678,761</u>	<u>135,579</u>	5.06%
Changes in net position	(154,481)	75,222	(229,703)	-305.37%
Net position, beginning	4,252,264	4,177,042	75,222	1.80%
Net position, ending	<u>\$ 4,097,783</u>	<u>\$ 4,252,264</u>	<u>\$ (154,481)</u>	-3.63%

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

**Years ended December 31, 2020 and 2019**

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**CAPITAL ASSETS**

On December 31, 2020, the Association’s investment in capital assets, net of depreciation, totaled \$6,208,647, which is a decrease of \$208,981, or 3.26%, over the capital asset balance of \$6,417,628 at December 31, 2019. This attributable to capital projects.

**LONG-TERM DEBT**

As of December 31, 2020, the Association had long-term debt of \$2,968,778 compared to \$3,070,313 at December 31, 2019, including current portion. During the year ended December 31, 2020, the Association paid \$101,535 of principal payments on the long-term debt compared to \$118,071 in 2019.

**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, 2020 and 2019**

ASSETS	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$ 375,181	\$ 456,428
Accounts receivable, less allowance for doubtful accounts	372,861	329,802
Unbilled accounts receivable	153,669	153,669
Interest receivable	193	433
Prepaid expense	875	875
Total current assets	<u>902,779</u>	<u>941,207</u>
Noncurrent assets		
Restricted assets		
Restricted cash and cash equivalents	<u>242,711</u>	<u>238,553</u>
Capital assets		
Nondepreciable capital assets		
Construction in progress	-	-
Land and land structures	<u>67,727</u>	<u>67,727</u>
Total nondepreciable capital assets	<u>67,727</u>	<u>67,727</u>
Depreciable capital assets		
Source of supply and pumping	16,899	16,899
Intangible	7,677	7,677
Pumping plant	651,262	651,262
Transmission and distribution	10,953,431	10,877,808
General plant	45,453	45,455
Less accumulated depreciation	<u>(5,533,802)</u>	<u>(5,249,200)</u>
Total depreciable capital assets	<u>6,140,920</u>	<u>6,349,901</u>
Total capital assets (net of depreciation)	<u>6,208,647</u>	<u>6,417,628</u>
Total noncurrent assets	<u>6,451,358</u>	<u>6,656,181</u>
Total assets	<u>\$ 7,354,137</u>	<u>\$ 7,597,388</u>

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

**WEST LAUREL WATER ASSOCIATION, INCORPORATED**  
**STATEMENTS OF NET POSITION**  
**December 31, 2020 and 2019**

LIABILITIES	<u>2020</u>	<u>2019</u>
Current liabilities		
Accounts payable	\$ 191,670	\$ 174,364
Accrued expenses	27,154	27,353
Accrued interest	60,282	62,414
Current portion of long-term debt	90,592	91,971
Total current liabilities	<u>369,698</u>	<u>356,102</u>
Noncurrent liabilities		
Customer deposits	8,470	10,680
Long-term debt	2,878,186	2,978,342
Total noncurrent liabilities	<u>2,886,656</u>	<u>2,989,022</u>
Total liabilities	<u>3,256,354</u>	<u>3,345,124</u>
NET POSITION		
Invested in capital assets net of related debt	3,239,869	3,347,315
Restricted for:		
Debt service	223,720	218,440
Other purposes	18,991	20,113
Unrestricted	615,203	666,396
Total net position	<u>\$ 4,097,783</u>	<u>\$ 4,252,264</u>

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

**WEST LAUREL WATER ASSOCIATION, INCORPORATED**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**For the years ended December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Operating revenues		
Water sales	\$ 2,571,391	\$ 2,561,236
Tap-on fees	39,360	35,020
Other	<u>38,466</u>	<u>116,287</u>
Total operating revenues	<u>2,649,217</u>	<u>2,712,543</u>
Operating expenses		
Purchased water and power	1,270,080	1,174,899
Water treatment	38,538	45,764
Transmission and distribution	623,978	552,070
Administration of customer accounts	288,830	318,253
Administration and general	179,371	161,343
Depreciation	<u>284,602</u>	<u>293,204</u>
Total operating expenses	<u>2,685,399</u>	<u>2,545,533</u>
Operating income (loss)	<u>(36,182)</u>	<u>167,010</u>
Nonoperating revenues (expenses)		
Interest income	4,122	6,036
Grant income	6,520	35,404
Miscellaneous	(7,489)	(7,139)
Interest expense		
Interest on long-term debt	(121,452)	(126,089)
Interest on customer deposits	<u>-</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(118,299)</u>	<u>(91,788)</u>
Change in net position	(154,481)	75,222
Net position, January 1	<u>4,252,264</u>	<u>4,177,042</u>
Net position, December 31	<u>\$ 4,097,783</u>	<u>\$ 4,252,264</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, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Receipts from customers	\$ 2,606,398	\$ 2,615,994
Payment for goods and service	<u>(2,385,900)</u>	<u>(2,218,217)</u>
Net cash used in operating activities	<u>220,498</u>	<u>397,777</u>
Cash flows from capital and related activities		
Additions to capital assets	(75,622)	(93,161)
Principal payments on debt	(101,535)	(118,071)
Grant proceeds	6,520	35,404
Interest paid on debt	(121,212)	(125,851)
Miscellaneous nonoperating expense	<u>(5,738)</u>	<u>(1,819)</u>
Cash provided (used) in capital and related activities	<u>(297,587)</u>	<u>(303,498)</u>
Cash flows from investing activities		
Interest received on investments	4,122	6,036
Transfer in/(out)	<u>-</u>	<u>-</u>
Cash provided (used) in investing activities	<u>4,122</u>	<u>6,036</u>
Net increase in cash and cash equivalents	(77,089)	94,279
Cash and cash equivalents, January 1	<u>694,981</u>	<u>600,702</u>
Cash and cash equivalents, December 31	<u>\$ 617,892</u>	<u>\$ 694,981</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	\$ (36,182)	\$ 167,010
Depreciation	284,602	293,204
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	(43,059)	(96,787)
(Increase) Decrease in interest receivable	240	238
(Decrease) Increase in accounts payable	17,306	24,305
(Decrease) Increase in accrued expenses	(199)	10,197
(Decrease) Increase in customer deposits	<u>(2,210)</u>	<u>(390)</u>
Net cash provided by operating activities	<u>220,498</u>	<u>397,777</u>
Supplemental disclosures		
Interest paid	<u>121,452</u>	<u>126,089</u>
Reconciliation of cash at end of year		
Cash and cash equivalents	375,181	456,428
Restricted cash and cash equivalents	<u>242,711</u>	<u>238,553</u>
Total cash at end of year	<u>\$ 617,892</u>	<u>\$ 694,981</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, 2020 and 2019

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### 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, 2020 and 2019

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### 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, 2020, and 2019, 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, 2020 and 2019

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### 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, 2020 and 2019

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### 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, 2020 and 2019**

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**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, 2020, and 2019, restricted cash amounted to \$242,711 and \$238,553, respectively. This includes restrictions for customer deposits of \$18,991 and \$20,113 and restrictions for debt service of \$223,720 and \$218,440, respectively.

**NOTE 3 – INVESTMENTS – INTEREST RATE RISK**

According to KRS 91A.060, the Association is permitted 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, 2020, and 2019, bank balances totaled \$62,853 and \$694,981, 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, 2020, and 2019.

**NOTE 5 – CUSTOMER AND OTHER ACCOUNTS RECEIVABLE**

At December 31, 2020, customer and other accounts receivable are as follows:

Due from consumers sale of water	\$ 375,559
Allowance for doubtful accounts	<u>(2,698)</u>
	<u>\$ 372,861</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, 2020 and 2019**

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2020 and 2019 was as follows:

	<u>Balance</u>				<u>Balance</u>
	<u>December 31, 2019</u>	<u>Additions</u>	<u>Deductions</u>		<u>December 31, 2020</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	651,261	-	-		651,261
Transmission and Distribution Plant	10,877,807	75,622	-		10,953,429
General Plant	45,456	-	-		45,456
Construction in progress	-	-	-		-
Total Capital Assets	<u>11,666,827</u>	<u>75,622</u>	<u>-</u>		<u>11,742,449</u>
Less: Accumulated depreciation					
Intangible	7,677	-	-		7,677
Source of supply and pumping	10,133	422	-		10,555
Pumping plant	54,783	1,147	-		55,930
Transmission and distribution plant	5,140,257	280,568	-		5,420,825
General plant	36,350	2,465	-		38,815
Total accumulated depreciation	<u>5,249,200</u>	<u>284,602</u>	<u>-</u>		<u>5,533,802</u>
Total Capital Assets, Net	<u>\$ 6,417,627</u>	<u>\$ (208,980)</u>	<u>\$ -</u>		<u>\$ 6,208,647</u>
	<u>Balance</u>				<u>Balance</u>
	<u>December 31, 2018</u>	<u>Additions</u>	<u>Deductions</u>		<u>December 31, 2019</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	626,350	24,911	-		651,261
Transmission and Distribution Plant	10,210,424	667,385	-		10,877,809
General Plant	45,455	-	-		45,455
Construction in progress	599,135	-	(599,135)		-
Total Capital Assets	<u>11,573,667</u>	<u>692,296</u>	<u>(599,135)</u>		<u>11,666,828</u>
Less: Accumulated depreciation					
Intangible	7,677	-	-		7,677
Source of supply and pumping	9,710	423	-		10,133
Pumping plant	53,336	1,447	-		54,783
Transmission and distribution plant	4,851,388	288,869	-		5,140,257
General plant	33,885	2,465	-		36,350
Total accumulated depreciation	<u>4,955,996</u>	<u>293,204</u>	<u>-</u>		<u>5,249,200</u>
Total Capital Assets, Net	<u>\$ 6,617,671</u>	<u>\$ 399,092</u>	<u>\$ (599,135)</u>		<u>\$ 6,417,628</u>

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

**Years ended December 31, 2020 and 2019**

**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>12/31/19 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/20 Outstanding Balance</u>	<u>Due Within One Year</u>
3/1/1979	91-03	\$ 448,000	2019	5.00%	\$ 13,702	\$ -	\$ 13,702	\$ -	\$ -
9/26/1988	91-04	500,000	2028	5.00%	209,659	-	19,162	190,497	20,018
9/26/1988	91-05	153,000	2028	5.00%	64,117	-	5,867	58,250	6,124
10/11/1995	91-06	516,000	2035	5.00%	335,484	-	14,003	321,481	14,828
7/23/2002	91-07	1,536,000	2042	4.75%	1,214,811	-	30,355	1,184,456	30,956
2/25/2018	91-09	1,260,000	2058	2.75%	1,232,540	-	18,446	1,214,094	18,666
Total RD Bonds Payable					<u>\$ 3,070,313</u>	<u>\$ -</u>	<u>\$ 101,535</u>	<u>\$ 2,968,778</u>	<u>\$ 90,592</u>

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, 2020 and 2019**

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**NOTE 7 – LONG-TERM DEBT – (continued)**

YEAR	LOCAL		TOTAL
	PRINCIPAL	INTEREST	
2021	\$ 90,592	\$ 121,743	\$ 212,335
2022	94,701	117,633	212,334
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	85,698	74,651	160,349
2032	116,567	70,249	186,816
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	100,699	42,330	143,029
2039	105,035	37,968	143,004
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	34,892	16,536	51,429
2046	35,905	15,552	51,457
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	40,869	1,401	42,269
	<u>\$ 2,968,778</u>	<u>\$ 1,766,392</u>	<u>\$ 4,735,170</u>

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

**Years ended December 31, 2020 and 2019**

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**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, 2020, and 2019, the Association had accounts payable to Wood Creek Water District as follows:

	<u>2020</u>	<u>2019</u>
<u>Wood Creek Water District</u>		
Accounts Payable	\$ 184,300	\$ 169,031
Accounts Payable - Wastewater	4,834	3,076
	<u>\$ 189,134</u>	<u>\$ 172,107</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>2020</u>	<u>2019</u>
<u>West Laurel Water Association, Incorporated</u>		
Purchased water	\$ 1,254,926	\$ 1,159,642
Materials, labor, and other	902,516	823,063
	<u>\$ 2,157,442</u>	<u>\$ 1,982,705</u>

**NOTE 9 – INCOME TAX**

The Association has reviewed ASC 740-10 as it related to uncertain tax positions for the year ended December 31, 2020 and has evaluated its tax positions taken for all open years. Currently, the Association believes the 2016-2020 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, 2020 and 2019**

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**NOTE 11 – SUBSEQUENT EVENTS**

Management of the Association has evaluated subsequent events through April 30, 2021, 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**

**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, 2020, and 2019, 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 April 30, 2021.

**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.

### **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  
April 30, 2021