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June 28, 2018


Board of Directors  
Floyds Knobs Water Company, Inc.  
P.O. Box 115  
Floyds Knobs, IN 47119

We have reviewed the report prepared by Floyds Knobs Water Company, Inc. and opined upon by Sherman, Barber & Mullikin, Independent Public Accountants, for the period January 1, 2017 to December 31, 2017. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of Floyds Knobs Water Company, Inc. as of December 31, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the finding in the report on page 26. Please see the Schedule of Findings and Questioned Costs for complete details related to the finding. Management's response and planned corrective action may be found on pages 27 and 28.

In our opinion, Sherman, Barber & Mullikin prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

  
Paul D. Joyce, CPA  
State Examiner

**FLOYDS KNOBS WATER COMPANY, INC.**

AUDITED FINANCIAL STATEMENTS

December 31, 2017  
and  
December 31, 2016

**SHERMAN, BARBER & MULLIKIN**  
— A PROFESSIONAL CORPORATION —  
CERTIFIED PUBLIC ACCOUNTANTS

# FLOYDS KNOBS WATER COMPANY, INC.

December 31, 2017 and December 31, 2016

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SHERMAN, BARBER & MULLIKIN  
A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Floyds Knobs Water Company, Inc.  
Floyds Knobs, Indiana

**Report on the Financial Statements**

We have audited the accompanying financial statements of Floyds Knobs Water Company, Inc. (a nonprofit organization), which comprise the Balance Sheets as of December 31, 2017 and December 31, 2016, and the related Statements of Income, Changes in Equity and Cash Flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Board of Directors of  
Floyds Knobs Water Company, Inc.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Floyds Knobs Water Company, Inc. as of December 31, 2017 and December 31, 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedules of Other Operating Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards, 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*, is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2018, on our consideration of Floyds Knobs Water Company, Inc.'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 effectiveness of the Floyds Knobs Water Company, Inc.'s 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 Floyds Knobs Water Company, Inc.'s internal control over financial reporting and compliance.

***Sherman, Barber & Mullikin***

Sherman, Barber & Mullikin  
Madison, Indiana

April 19, 2018

**FLOYDS KNOBS WATER COMPANY, INC.**

	<b>Balance Sheets</b>	
	<b>December 31,</b>	
	<u><b>2017</b></u>	<u><b>2016</b></u>
<b>Assets</b>		
<b>Utility Plant</b>		
Utility Plant in Service	\$ 11,375,425	\$ 10,226,962
Less: Accumulated Depreciation	<u>(2,479,130)</u>	<u>(2,270,533)</u>
Net Utility Plant in Service	8,896,295	7,956,429
Construction in Progress	<u>-</u>	<u>181,116</u>
Total Utility Plant	8,896,295	8,137,545
<b>Current Assets</b>		
Cash	221,224	337,916
Cash Restricted for Debt Service	170,582	149,003
Accounts Receivable (Net) - Trade	113,397	112,095
Prepaid Expenses	8,867	8,770
Material and Supplies Inventory	<u>49,557</u>	<u>62,978</u>
Total Current Assets	563,627	670,762
<b>Other Assets</b>		
Restricted Cash	<u>270,113</u>	<u>174,415</u>
<b>Total Assets</b>	<u><b>\$ 9,730,035</b></u>	<u><b>\$ 8,982,722</b></u>
<b>Equity and Liabilities</b>		
<b>Equity</b>		
Retained Earnings	\$ 1,780,536	\$ 1,822,339
Membership Fees	193,965	191,665
Contributions-in-Aid of Construction	<u>3,006,533</u>	<u>2,788,103</u>
Total Equity	4,981,034	4,802,107
<b>Current Liabilities</b>		
Accounts Payable	96,964	31,616
Accounts Payable - Construction	160,000	335,002
Accrued Taxes	6,141	6,376
Interest Payable	46,787	39,223
Current Portion of Long Term Debt	<u>192,500</u>	<u>191,900</u>
Total Current Liabilities	502,392	604,117
<b>Long Term Debt</b>		
Notes Payable	4,439,109	3,768,398
Less Current Portion of Long Term Debt	<u>(192,500)</u>	<u>(191,900)</u>
Total Long Term Liabilities	<u>4,246,609</u>	<u>3,576,498</u>
<b>Total Equity and Liabilities</b>	<u><b>\$ 9,730,035</b></u>	<u><b>\$ 8,982,722</b></u>

**FLOYDS KNOBS WATER COMPANY, INC.**

**Statements of Income  
For the Years Ended December 31,**

	<u>2017</u>	<u>2016</u>
<b>Operating Revenue</b>		
Water Sales	\$ 1,442,453	\$ 1,385,448
Other Operating Revenue	5,051	10,466
Total Operating Revenue	<u>1,447,504</u>	<u>1,395,914</u>
<b>Operating Expenses</b>		
Purchased Water	821,569	741,032
Salaries, Wages & Employee Benefits	141,557	125,400
Supplies & Repairs	77,479	19,781
Contractual Services	92,197	80,328
Depreciation Expense	208,597	168,704
Other Operating Expenses	78,425	71,415
Total Operating Expenses	<u>1,419,824</u>	<u>1,206,660</u>
<b>Net Operating Income</b>	27,680	189,254
<b>Other Income (Expenses)</b>		
Gain on Disposition of Assets	500	-
Interest Expense	(71,737)	-
Interest Earned	1,754	529
Total Other Income (Expenses)	<u>(69,483)</u>	<u>529</u>
<b>Net Income (Loss)</b>	<u>\$ (41,803)</u>	<u>\$ 189,783</u>

**FLOYDS KNOBS WATER COMPANY, INC.**

**Statements of Changes in Equity  
For the Years Ended December 31,**

	<b>2017</b>	<b>2016</b>
<b>Retained Earnings</b>		
Balance, January 1	\$ 1,822,339	\$ 1,632,556
Net Income (Loss) for the Year	(41,803)	189,783
Balance, December 31	1,780,536	1,822,339
 <b>Membership Fees</b>		
Balance, January 1	191,665	187,465
Memberships Received	2,300	4,200
Balance, December 31	193,965	191,665
 <b>Contributions-in-Aid of Construction</b>		
Balance, January 1	2,788,103	2,729,572
Tap Fees Collected	34,800	58,531
Line Contributions	183,630	-
Balance, December 31	3,006,533	2,788,103
 <b>Total Equity</b>	 <b>\$ 4,981,034</b>	 <b>\$ 4,802,107</b>

**FLOYDS KNOBS WATER COMPANY, INC.**

**Statements of Cash Flows  
For the Years Ended December 31,**

	<b>2017</b>	<b>2016</b>
<b>Cash Flow from Operations</b>		
Net Income (Loss)	\$ (41,803)	\$ 189,783
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	208,597	168,704
Bad Debt Expense	-	3,219
Interest Earned on Restricted Cash	(1,497)	(176)
Interest Expense Paid from Restricted Cash	81,174	-
(Increase) Decrease in:		
Accounts Receivable	(1,302)	(10,184)
Prepaid Expenses	(97)	(1,640)
Material & Supplies Inventory	13,421	(18,944)
Increase (Decrease) in:		
Accounts Payable	65,348	(41,131)
Accrued Taxes	(235)	384
Accrued Interest Payable	(9,436)	-
Cash Provided by Operations	314,170	290,015
<b>Cash Flow from Investing Activities</b>		
Additions to Utility Plant	(75,578)	(75,164)
Additions to Construction in Progress	(3,530)	(1,848)
Transfer to Restricted Cash	(388,854)	(271,314)
Cash Used in Investing Activities	(467,962)	(348,326)
<b>Cash Flow from Financing Activities</b>		
Memberships Received	2,300	4,200
Tap Fees Collected	34,800	58,531
Cash Provided by Financing Activities	37,100	62,731
<b>Net Increase (Decrease) in Cash</b>	(116,692)	4,420
<b>Cash, Beginning of Period</b>	337,916	333,496
<b>Cash, End of Period</b>	\$ 221,224	\$ 337,916

**FLOYDS KNOBS WATER COMPANY, INC.**

**Statements of Cash Flows  
For the Years Ended December 31,  
(Continued)**

	<u>2017</u>	<u>2016</u>
<b>Supplemental Cash Flow Disclosure</b>		
Interest Paid (Excludes Interest Capitalized)	\$ 64,173	\$ -
Interest Paid - Capitalized	\$ 17,000	\$ 70,454
<b>Supplemental Disclosures of Non-cash Investing and Financing Activities</b>		
Loan Draws Deposited into Restricted Cash	\$ 862,611	\$ 1,282,152
CWIP Paid from Restricted Cash	\$ 862,611	\$ 1,282,152
Utility Plant and Construction in Progress Acquired through Incurrence of Accounts Payable	\$ 160,000	\$ 335,002
Principal Paid from Restricted Cash	\$ 191,900	\$ -
Interest Paid from Restricted Cash	\$ 81,174	\$ -

## FLOYDS KNOBS WATER COMPANY, INC.

### Notes to Financial Statements December 31, 2017 and December 31, 2016

#### NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Organization and Nature of Operations

Floyds Knobs Water Company, Inc. (the "Company") is regulated by the Utility Regulatory Commission of the State of Indiana as a Class B Not-for-Profit Water Utility. The records of the Company are maintained in accordance with the Uniform System of Accounts as prescribed by the National Association of Regulatory Utility Commissioners. Account names and statement format are also prescribed by this Commission and do not, therefore, necessarily agree with the terms and formats used by many non-profit organizations. The Company operates a water distribution system, which provides water to over 2,329 customers in Floyd County.

(2) Income Taxes

The Company has been granted an exemption from federal income taxes under Section 501(c)(12) of the Internal Revenue Code. The Company has also been granted exemption from Indiana Gross Receipts Tax under Indiana Code 6-2.1-3-33. Accordingly, no provision has been made for income taxes in the financial statements.

(3) Utility Plant

Utility Plant assets are recorded at cost. Expenditures which do not materially extend the useful life of or expand the "system" are charged to supplies expense when incurred. Depreciation is computed using the straight-line method. Estimated useful lives range from 10 to 77 years for utility plant in service and 3 to 10 years for equipment, office furniture and leasehold improvements. Depreciation is taken using the half-year convention for the year of acquisition.

(4) Cash and Cash Equivalents

For financial statement purposes, the Company considers unrestricted cash on deposit with financial institutions and investments with original maturities of three months or less to be cash and cash equivalents.

(5) Membership Fees

Each new customer of the water utility is charged a membership fee of \$100. These are not refundable and therefore are included in the equity of the Company.

(6) Contributions-in-Aid of Construction

This account represents a portion of the capital of the Company. The credits to this account cannot be transferred to any other account without the approval of the Indiana Utility Regulatory Commission.

Members are required to pay a tap-in fee of \$1,350 for a standard 3/4" meter when they are connected to the water system. The tap fee for larger meters is actual cost. The tap fee is assessed to cover the cost of the meter, meter installation and the service connecting the meter and the distribution main. All water lines and attachments thereto are the property and responsibility of the Company.

**FLOYDS KNOBS WATER COMPANY, INC.**

**Notes to Financial Statements  
December 31, 2017 and December 31, 2016**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(8) Accounts Receivable/Revenue

The Company sends bills to customers at the beginning of each month for water used during the previous month and accrues that billing as of the end of the usage month. Revenue is therefore recognized in the month the water is used by the customers.

(9) Uncollectible Accounts

Accounts Receivable are considered past due when payment is not received by the due date listed on the customer's bill. The Company uses the allowance method of accounting for bad debts. Accounts written off are charged against the allowance account. An allowance for doubtful accounts is recorded based on a combination of write-off history, aging analysis and any specific known troubled accounts. The allowance is adjusted when appropriate to reflect the accounts believed to be uncollectible.

(10) Inventory

Inventory is recorded at cost on the first-in, first-out basis. It consists of materials to be used in future repairs or additions to Utility Plant.

(11) Sales Tax

The Company collects sales tax on all of its sales to nonexempt customers and remits the entire amount to the state. The net method of recording the collection and remittance of sales tax is reflected in the financial statements.

**FLOYDS KNOBS WATER COMPANY, INC.**

**Notes to Financial Statements  
December 31, 2017 and December 31, 2016**

NOTE B. UTILITY PLANT

The components of Utility Plant in Service were as follows at December 31,

	<u>2017</u>	<u>2016</u>
Land & Land Rights	\$ 290,341	\$ 290,341
Structures & Improvements	602,524	601,438
Leasehold Improvements	7,532	7,532
Electric Pumping Equipment	332,460	332,460
Lake Property	9,084	9,084
Distribution Reservoirs & Standpipes	4,030,887	3,174,462
Transmission & Distribution Mains	4,864,091	4,635,212
Meters & Installations	1,074,387	1,047,428
Hydrants	55,190	18,862
Office Furniture & Fixtures	51,972	53,186
Transportation Equipment	52,749	52,749
Paving	4,208	4,208
Total Utility Plant in Service	<u>\$ 11,375,425</u>	<u>\$ 10,226,962</u>

NOTE C. ACCOUNTS RECEIVABLE

Accounts Receivable - Trade consisted of the following at December 31,

	<u>2017</u>	<u>2016</u>
Customer Accounts Receivable	\$ 114,397	\$ 113,095
Less: Provision for Uncollectible Accounts	<u>(1,000)</u>	<u>(1,000)</u>
Net Customer Accounts Receivable	<u>\$ 113,397</u>	<u>\$ 112,095</u>

**FLOYDS KNOBS WATER COMPANY, INC.**

**Notes to Financial Statements  
December 31, 2017 and December 31, 2016**

NOTE D. NOTES PAYABLE

On February 25, 2015, the Company issued Secured Notes, Series 2015A in the amount of \$3,280,000 and Secured Notes, Series 2015B in the amount of \$1,420,000. The Notes were purchased by the Indiana Finance Authority and financed through the State of Indiana Drinking Water State Revolving Fund loan program.

Series 2015A Notes were issued for the purpose of funding a capital improvements project. The notes mature July 1, 2036, and provide for a 2.0% interest rate with principal and interest payments due on January 1 and July 1. During the construction period, the Company made interest-only payments. Principal payments began January 1, 2017.

Series 2015B Notes were issued for the purpose of funding the second phase of a capital improvements project. The notes mature July 1, 2036, and provide for a 2.85% interest rate with principal and interest payments due on January 1 and July 1. During the construction period, the Company made interest-only payments. Principal payments began January 1, 2017.

Scheduled principal reduction is as follows:

	<u>Series A</u>	<u>Series B</u>	<u>Total</u>
2018	\$ 137,600	\$ 54,900	\$ 192,500
2019	140,300	56,400	196,700
2020	143,200	58,100	201,300
2021	146,100	59,800	205,900
2022	<u>149,000</u>	<u>61,500</u>	<u>210,500</u>
Total	716,200	290,700	1,006,900
Thereafter	<u>2,429,800</u>	<u>1,002,409</u>	<u>3,432,209</u>
Total Series 2015 Notes	<u>\$ 3,146,000</u>	<u>\$ 1,293,109</u>	<u>\$ 4,439,109</u>

At December 31, 2017, the Company had \$116,123 remaining to draw on these notes.

The notes are equally secured by a mortgage on all real and personal property and any accounts receivable and revenues arising from operations.

**FLOYDS KNOBS WATER COMPANY, INC.**

**Notes to Financial Statements  
December 31, 2017 and December 31, 2016**

NOTE E. RESTRICTED DEBT COVENANTS

As of December 31, 2017 the Company was not in compliance with the following debt covenant: Debt Service Coverage Ratio covenant, which stipulates that the Company maintain a Debt Service Coverage of not less than 125%.

As of December 31, 2016 the Company was in compliance with the Debt Service Coverage Ratio.

The Company intends to request a rate increase; the anticipated result of which will include increasing the Company's ratio.

NOTE F. RESTRICTED CASH

The Series 2015 Note Trust Indenture requires the Company to maintain certain accounts with a trustee. The debt service account is to be funded on a monthly basis and is restricted for the purpose of paying the required semi-annual payments for the Series 2015 Notes. The debt service reserve account consists of the required reserve for the 2015 Series A Notes and is funded on a monthly basis.

The Indiana Utility Regulatory Commission requires \$35,000 each year to be set aside for tank painting and maintenance. These funds are held in the Tank Reserve Account.

Restricted cash accounts were maintained as follows at December 31,

	2017	2016
Debt Service Account	\$ 170,582	\$ 149,003
Debt Service Reserve Account	167,613	107,915
Tank Reserve Account	102,500	66,500
Total	440,695	323,418
Cash Restricted for Current Debt Service		
in Current Assets	(170,582)	(149,003)
Cash Restricted for Debt Reserve		
in Other Assets	\$ 270,113	\$ 174,415

The annual funding requirement for restricted cash for the next five years is as follows:

2018	\$ 388,566
2019	\$ 388,572
2020	\$ 339,859
2021	\$ 329,880
2022	\$ 329,976

**FLOYDS KNOBS WATER COMPANY, INC.**

**Notes to Financial Statements  
December 31, 2017 and December 31, 2016**

NOTE G. ECONOMIC DEPENDENCY

Floyds Knobs Water Company, Inc. purchased approximately 97% of the water it sold from Ramsey Water Company. If for some reason Ramsey Water Company could not supply water to the Company, an alternate source of supply would have to be located. The Company purchases approximately 3% of its water from Borden Tri County Water System, a potential source of increased supply if needed.

Past efforts on the part of Floyds Knobs Water Company, Inc. to establish an alternate supply source have been unsuccessful. Certain federal legislation, arguably, precludes the Company from purchasing from another supplier so long as Ramsey Water Company is paying off any federally funded loans serving as a source of capital for its system. The practical reality at the present time is that, so long as Ramsey Water Company can supply sufficient water for Floyds Knobs Water Company, Inc.'s needs, the Company will be obligated to pay Ramsey Water Company's rates.

NOTE H. CONCENTRATION OF CREDIT RISK

Restricted cash accounts are held with the trustee and are 100% invested in United States Treasury funds. The funds are guaranteed as to principal and interest by the United States government or its agencies or instrumentalities.

Due to the nature of the Company's business, its customers are all in a concentrated geographic area. The Company is, therefore, subjected to a concentration of credit risk with respect to its receivables that are solely from these customers.

NOTE I. EMPLOYEE RETIREMENT PLAN

Floyds Knobs Water Company, Inc. has a defined-contribution money purchase pension plan for employees. To qualify for the plan, the employee must be at least 21 years of age and have 36 months of service. Benefits are based solely on total contributions; therefore, there is no unfunded pension liability for prior service. The Company contributed 3% of each qualified employee's gross salary during 2017. The provisions for pension costs for 2017 and 2016 were \$3,124 and \$3,144, respectively.

**FLOYDS KNOBS WATER COMPANY, INC.**

**Notes to Financial Statements  
December 31, 2017 and December 31, 2016**

NOTE J. LEASES

The Company entered into a 5-year lease agreement for office space which expired on September 30, 2008. The lease called for a monthly maintenance fee of \$34, fixed for the term of the lease, and monthly rent of \$659, with a 2% increase each year. The Company has continued to occupy the space without a written extension of the lease. The Company has been advised by counsel that, under these circumstances, the Company is occupying the premises on a year-by-year basis, with all other terms and conditions as in the originally written lease. Lease payments totaled \$10,706 and \$10,554 in 2017 and 2016, respectively.

NOTE K. RECLASSIFICATION

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's financial statements presentation.

NOTE L. SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 19, 2018, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

**FLOYDS KNOBS WATER COMPANY, INC.**

**Schedules of Other Operating Expenses  
For the Years Ended December 31,**

<b>Other Operating Expenses</b>	<u><b>2017</b></u>	<u><b>2016</b></u>
Purchased Power	\$ 15,224	\$ 14,625
Insurance	16,962	11,732
Directors' Compensation	13,600	15,650
Rent	10,706	10,554
Bad Debt Expense	-	3,219
Transportation	11,246	9,157
Bank Fees	877	667
Miscellaneous Expenses	9,810	5,811
Total Other Operating Expenses	<u>\$ 78,425</u>	<u>\$ 71,415</u>

**FLOYDS KNOBS WATER COMPANY, INC.**

**Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2017**

<b>Federal Grantor/Pass-Through Grantor Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
United States Environmental Protection Agency Capitalization Grants for Drinking Water State Revolving Funds	66.468	Indiana Finance Authority FS98548615	\$ <u>862,611</u>
Total Expenditures of Federal Awards			\$ <u>862,611</u>

See Independent Auditor's Report and  
Accompanying Notes to Schedule of  
Expenditures of Federal Awards.

**FLOYDS KNOBS WATER COMPANY, INC.**

**Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2017**

NOTE A. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Floyds Knobs Water Company, Inc. under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Company, it is not intended to and does not present the financial position, changes in equity or cash flows of the Company.

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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



SHERMAN, BARBER & MULLIKIN  
A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of  
Floyds Knobs Water Company, Inc.  
Floyds Knobs, Indiana

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 Floyds Knobs Water Company, Inc., (a nonprofit organization), which comprise the Balance Sheet as of December 31, 2017, and the related Statements of Income, Changes in Equity, and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 19, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Floyds Knobs Water Company, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Floyds Knobs Water Company, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Floyds Knobs Water Company, Inc.'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be a significant deficiency (2017-001).

To the Board of Directors of  
Floyds Knobs Water Company, Inc.

### **Compliance and Other Matters**

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

### **Floyds Knobs Water Company, Inc.'s Response to Findings**

The Company's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Floyds Knobs Water Company, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Sherman, Barber & Mullikin*

Sherman, Barber & Mullikin  
Madison, Indiana

April 19, 2018



SHERMAN, BARBER & MULLIKIN  
A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of  
Floyds Knobs Water Company, Inc.  
Floyds Knobs, Indiana

**Report on Compliance for Each Major Federal Program**

We have audited Floyds Knobs Water Company Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Floyds Knobs Water Company Inc.'s major federal program for the year ended December 31, 2017. Floyds Knobs Water Company Inc.'s major federal program is 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 federal statutes, regulations, contracts and grants applicable to its federal programs.

***Auditor's Responsibility***

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

To the Board of Directors of  
Floyds Knobs Water Company, Inc.

***Opinion on Major Federal Program***

In our opinion, Floyds Knobs Water Company, Inc. 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, 2017.

**Report on Internal Control over Compliance**

Management of Floyds Knobs Water Company, Inc. 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 Floyds Knobs Water Company, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Floyds Knobs Water Company, Inc.'s internal control over compliance.

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

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

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

***Sherman, Barber & Mullikin***

Sherman, Barber & Mullikin  
Madison, Indiana

April 19, 2018

**FLOYDS KNOBS WATER COMPANY, INC.**

**Schedule of Prior Audit Findings  
For the Year Ended December 31, 2017**

FINDING - FINANCIAL STATEMENT AUDIT

FINDING 2016-001

*Condition* : The financial reporting system does not provide for the internal preparation of financial statements and the related footnote disclosures.

*Recommendation*: The outsourcing of this service is not unusual in companies of this size, and is a result of management's cost benefit decision to outsource this service, rather than incur internal resource costs. The auditor recommended, at a minimum, on an annual basis, that board members should review the cost benefit of adding additional staff with the appropriate knowledge, skills, and abilities to prepare financial statements in accordance with generally accepted accounting principles, to further enhance internal control over financial reporting.

*Current Status*: The finding was first reported in the December 31, 2015 Schedule of Findings and Questioned Costs as 2015-001. Management has continued to review the cost benefit of adding additional staff, but at this time they believe the cost of this service would outweigh the benefit.

**FLOYDS KNOBS WATER COMPANY, INC.**

**Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2017**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Floyds Knobs Water Company, Inc.
2. A significant deficiency relating to the audit of the financial statements was reported in the Independent Auditor's 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*. No material weaknesses were reported.
3. No instances of noncompliance material to the financial statements of Floyds Knobs Water Company, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies, or material weaknesses, relating to the audit of the major federal award program were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award program for Floyds Knobs Water Company, Inc. expresses an unqualified opinion on the major federal program.
6. There were no audit findings that are required to be reported in accordance with 2 CFR 200.516(a).
7. The program tested as a major program was CFDA #66.468, Capitalization Grants for Drinking Water State Revolving Funds.
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Floyds Knobs Water Company, Inc. does not qualify as a low-risk auditee.

FLOYDS KNOBS WATER COMPANY, INC.

Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2017  
(Continued)

FINDINGS - FINANCIAL STATEMENT AUDIT

**2017-001**

Significant Deficiency

Repeat Finding: 2015-001, 2016-001

Criteria: A key element of financial reporting is the ability to select and apply the appropriate accounting principles to prepare financial statements in accordance with U.S. generally accepted accounting principles.

Condition: The financial reporting system does not provide for the internal preparation of financial statements and the related footnote disclosures.

Cause of Condition: There was no one on staff with sufficient knowledge to prepare financial statements and the related footnote disclosures in accordance with generally accepted accounting principles.

Effect: This key element of financial reporting is lacking, resulting in management not having the ability to produce the financial statements and related footnote disclosures.

Recommendation: The outsourcing of this service is not unusual in companies of this size, and is a result of management's cost benefit decision to outsource this service, rather than incur internal resource costs. However, at a minimum, on an annual basis, board members should review the cost benefit of adding additional staff with the appropriate knowledge, skills, and abilities to prepare financial statements in accordance with generally accepted accounting principles, to further enhance internal control over financial reporting.

Response: Management will continue to review the cost benefit of adding additional staff, but does not anticipate any changes to this process.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None

**FLOYDS KNOBS WATER COMPANY, INC.**  
**4781 PAOLI PIKE, STE#1**  
**P O BOX 115**  
**FLOYDS KNOBS, IN 47119-0115**  
**812-923-9040, FAX 812-923-9042**

To: United States Environmental Protection Agency

Floyd Knobs Water Company, Inc. submits the following corrective action plan for the year ended December 31, 2017.

Name and address of independent public accounting firm:  
Sherman, Barber & Mullikin  
210 W. Third Street  
Madison, IN 47250

Audit Period: 1/1/17 thru 12/31/17

The pertinent finding from the December 31, 2017 schedule of findings and questioned costs is discussed below. The finding is numbered as set forth in the schedule.

**FINDING – FINANCIAL STATEMENT AUDIT**  
**SIGNIFICANT DEFICIENCY**

2017-001

Recommendation: The outsourcing of this service is not unusual in companies of this size, and is a result of management's cost benefit decision to outsource this service, rather than incur internal resource costs. However, at a minimum, on an annual basis, board members should review the cost benefit of adding additional staff with the appropriate knowledge, skills, and abilities to prepare financial statements in accordance with generally accepted accounting principles, to further enhance internal control over financial reporting.

Action taken: Within six months of the subject FKWC audit, the FKWC Board determined that the cost of employing someone with sufficient expertise to “select and apply the appropriate accounting principles to prepare financial statements in accordance with U.S. generally accepted accounting principles” would outweigh the resulting benefit. (The benefit would not justify the cost.) This determination was made largely because FKWC outsources the task of financial statement preparation to a highly qualified CPA firm. That CPA firm has informed FKWC that it is allowed to perform the financial statement preparation service if adequate safeguards can be applied to remain independent,

and that their quality control system applies several additional safeguards when their client does not have an employee with sufficient financial statement preparation expertise.

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Any questions can be directed to the utility's Board President, Rick Morgan, at 812 923 9040.

Sincerely,

Floyds Knobs Water Company, Inc., by:

  
\_\_\_\_\_  
Rick Morgan, Board President

Date: 4/19/18