

**EAST LAUREL WATER DISTRICT**  
**INDEPENDENT AUDITORS' REPORT**  
**AND FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2016 AND 2015**

## TABLE OF CONTENTS

Independent Auditors' Report .....	1
Management's Discussion and Analysis.....	4
Basic Financial Statements	
Statements of Net Position .....	7
Statements of Revenues, Expenses, and Changes in Net Position .....	8
Statements of Cash Flows .....	9
Notes to Basic Financial Statements .....	10
Schedule of Expenditures of Federal Awards .....	19
Notes to the Schedule of Expenditures of Federal Awards.....	20
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i> .....	21
Report on Compliance for Each Major Federal Program: Report on Internal Control Over Compliance; and Report on the Schedule Of Expenditures of Federal Awards Required by the Uniform Guidance.....	23
Schedule of Findings and Questioned Costs – Major Programs .....	27
Schedule of Prior Year Audit Findings .....	29



**Cloyd & Associates, PSC**  
Certified Public Accountants

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## INDEPENDENT AUDITORS' REPORT

To the Commissioners  
East Laurel Water District  
London, Kentucky

We have audited the accompanying financial statements of the business-type activities of East Laurel Water District as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District'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, 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.



**Cloyd & Associates, PSC**  
*Certified Public Accountants*  
**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 East Laurel Water District as of December 31, 2016 and 2015, 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 East Laurel Water District's basic financial statements as a whole. The 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 basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was 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 *Title 2 U.S. Code of Federal Regulations (CFR) 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.



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**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2016 on our consideration of the East Laurel Water District'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 East Laurel Water District's internal control over financial reporting and compliance.

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
Certified Public Accountants  
Corbin, Kentucky

April 30, 2017

# **EAST LAUREL WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**Years ended December 31, 2016 and 2015**

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This discussion and analysis is intended to be an easily readable analysis of the East Laurel Water District'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 2016, the District's net position increased by \$572,156, or 13.39%, compared to a decrease in 2015 of \$161,891 or 3.65%.
- In 2016, sales of water increased by \$206,258 or 8.57%. In 2015, sales increased by \$217,031 or 9.90%.
- Operating expenses increased by \$89,960 or 3.20% in 2016 compared to an increase of \$197,075, or 8.10% in 2015.
- Additions to capital assets in 2016 were \$936,348. In 2015, additions to capital assets were \$1,122,294. The additions in 2015 and 2016 are mainly related to the Waterline Upgrade Project.
- Principal payments on long-term debt amounted to \$100,000 in 2016, compared to \$83,000 in 2015. Also in 2016, the District retired \$1,293,545 of interim financing with the 2015B Bond Series.

## **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 District'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 District is improving or deteriorating. The statement of revenues, expenses, and changes in net position presents information showing how the District'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.

**EAST LAUREL WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**Years ended December 31, 2016 and 2015**

The MD&A is intended to explain the significant changes in financial position and differences in operation between the current and prior years.

**NET POSITION**

A summary of the District's statement of net position as of December 31, 2016 and 2015 is presented below:

	<b>2016 Amount</b>	<b>2015 Amount</b>	<b>Net dollar Change</b>	<b>Net percentage Change</b>
Current and other assets	\$ 1,232,114	\$ 1,136,912	\$ 95,202	8.37%
Noncurrent assets	153,508	142,783	10,725	7.51%
Capital assets, net of accumulated depreciation	6,623,883	5,881,120	742,763	12.63%
<b>Total Assets</b>	<b>8,009,505</b>	<b>7,160,815</b>	<b>848,690</b>	<b>11.85%</b>
Deferred outflow of resources	316,418	339,162	(22,744)	-6.71%
<b>Total Deferred Outflow of Resources</b>	<b>316,418</b>	<b>339,162</b>	<b>(22,744)</b>	<b>-6.71%</b>
Current liabilities	473,706	1,406,370	(932,664)	-66.32%
Noncurrent liabilities	3,010,168	1,823,714	1,186,454	65.06%
<b>Total Liabilities</b>	<b>3,483,874</b>	<b>3,230,084</b>	<b>253,790</b>	<b>7.86%</b>
Net investment in capital assets	3,516,778	2,988,098	528,680	17.69%
Restricted net positions	153,508	143,359	10,149	7.08%
Unrestricted (deficit) net positions	1,171,763	1,138,435	33,328	2.93%
<b>Total Net Position</b>	<b>\$ 4,842,049</b>	<b>\$ 4,269,893</b>	<b>\$ 572,157</b>	<b>13.40%</b>

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

A summary of the District's statement of revenues, expenses and changes in net position for the year ended December 31, 2016 and 2015 is presented below:

	<b>2016 Amount</b>	<b>2015 Amount</b>	<b>Net dollar Change</b>	<b>Net percentage Change</b>
Operating revenue	\$ 2,816,456	\$ 2,560,737	\$ 255,719	9.99%
Nonoperating revenue	588,243	679	587,564	865.34%
<b>Total revenue</b>	<b>3,404,699</b>	<b>2,561,416</b>	<b>843,283</b>	<b>32.92%</b>
Depreciation expense	193,584	210,758	(17,174)	-8.15%
Other operating expense	2,523,132	2,418,998	104,134	4.30%
Nonoperating expense	115,827	93,551	22,276	23.81%
<b>Total expense</b>	<b>2,832,543</b>	<b>2,723,307</b>	<b>109,236</b>	<b>4.01%</b>
Changes in net position	572,156	(161,891)	734,047	-453.42%
Net position, beginning	4,269,893	4,431,784	(161,891)	-3.65%
<b>Net position, ending</b>	<b>\$ 4,842,049</b>	<b>\$ 4,269,893</b>	<b>\$ 572,156</b>	<b>13.40%</b>

# **EAST LAUREL WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**Years ended December 31, 2016 and 2015**

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## **CAPITAL ASSETS**

On December 31, 2016, the District's investment in capital assets, net of depreciation, totaled \$6,623,883, which is an increase of \$742,763, or 12.63%, over the capital asset balance of \$5,881,120 at December 31, 2015. This increase is attributable to the Waterline Upgrade Project that began in the year ending December 31, 2015.

## **LONG-TERM DEBT**

As of December 31, 2016, the District had long-term debt of \$3,108,000 compared to \$2,905,116 at December 31, 2015, including current portion. During the year ended December 31, 2016, the District paid \$100,000 of principal payments on the long-term debt compared to \$83,000 in 2015. The District also retired the interim financing of \$1,293,545 with the 2015B Bond Series.

## **CONTACT INFORMATION**

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



**EAST LAUREL WATER DISTRICT  
STATEMENTS OF NET POSITION  
December 31, 2016 and 2015**

ASSETS	<u>2016</u>	<u>2015</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 322,086	\$ 287,584
Investments	457,401	457,339
Accounts receivable, less allowance for doubtful accounts	300,237	239,461
Unbilled accounts receivable	151,219	151,219
Interest receivable	295	433
Prepaid expense	876	876
Total current assets	<u>1,232,114</u>	<u>1,136,912</u>
<b>Noncurrent assets</b>		
<b>Restricted assets</b>		
Restricted cash and cash equivalents	<u>153,508</u>	<u>142,783</u>
<b>Capital assets</b>		
<b>Nondepreciable capital assets</b>		
Land and land structures	68,749	45,031
Construction in progress	-	1,070,421
Total nondepreciable capital assets	<u>68,749</u>	<u>1,115,452</u>
<b>Depreciable capital assets</b>		
Source of supply and pumping	394,827	179,037
Intangible	6,608	6,608
Pumping plant	9,385	9,385
Transmission and distribution	10,937,343	9,170,082
General plant	34,245	34,245
Less accumulated depreciation	<u>(4,827,274)</u>	<u>(4,633,689)</u>
Total depreciable capital assets	<u>6,555,134</u>	<u>4,765,668</u>
Total capital assets (net of depreciation)	<u>6,623,883</u>	<u>5,881,120</u>
Total noncurrent assets	<u>6,777,391</u>	<u>6,023,903</u>
Total assets	<u>\$ 8,009,505</u>	<u>\$ 7,160,815</u>

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

**EAST LAUREL WATER DISTRICT  
STATEMENTS OF NET POSITION  
December 31, 2016 and 2015**

DEFERRED OUTFLOW OF RESOURCES	<u>2016</u>	<u>2015</u>
Deferred savings from refunding bonds	\$ 11,893	\$ 23,787
Other deferred costs	304,525	315,375
Total deferred outflow of resources	<u>316,418</u>	<u>339,162</u>
 Total assets and deferred outflow of resources	 <u>\$ 8,325,923</u>	 <u>\$ 7,499,977</u>
 <b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 281,403	\$ 249,856
Accrued expenses	25,500	6,366
Accrued interest	43,803	43,903
Current portion of long-term debt	123,000	1,170,421
Total current liabilities	<u>473,706</u>	<u>1,470,546</u>
 Noncurrent liabilities		
Customer deposits	14,170	13,150
Unamortized premium on debt	10,998	11,693
Long-term debt	2,985,000	1,734,695
Total noncurrent liabilities	<u>3,010,168</u>	<u>1,759,538</u>
 Total liabilities	 <u>3,483,874</u>	 <u>3,230,084</u>
 <b>NET POSITION</b>		
Invested in capital assets net of related debt	3,516,778	2,988,098
Restricted for		
Debt service	141,524	131,260
Other purposes	11,984	12,099
Unrestricted	1,171,763	1,138,435
Total net position	<u>\$ 4,842,049</u>	<u>\$ 4,269,893</u>

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

**EAST LAUREL WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**For the years ended December 31, 2016 and 2015**

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	<u>2016</u>	<u>2015</u>
Operating revenues		
Water sales	\$ 2,614,210	\$ 2,407,952
Tap-on fees	50,490	27,170
Other	<u>151,756</u>	<u>125,615</u>
Total operating revenues	<u>2,816,456</u>	<u>2,560,737</u>
Operating expenses		
Purchased water and power	1,471,038	1,393,271
Water treatment	32,391	34,034
Transmission and distribution	502,318	496,507
Administration of customer accounts	364,349	335,112
Administration and general	153,036	160,074
Depreciation	<u>193,584</u>	<u>210,758</u>
Total operating expenses	<u>2,716,716</u>	<u>2,629,756</u>
Operating income (loss)	<u>99,740</u>	<u>(69,019)</u>
Nonoperating revenues (expenses)		
Interest income	243	679
Grant income	588,000	-
Miscellaneous	(6,163)	(4,941)
Interest expense:		
Interest on long-term debt	(87,616)	(64,901)
Amortization	<u>(22,048)</u>	<u>(23,709)</u>
Total nonoperating revenues (expenses)	<u>472,416</u>	<u>(92,872)</u>
Change in net position	572,156	(161,891)
Net position as of January 1	<u>4,269,893</u>	<u>4,431,784</u>
Net position as of December 31	<u>\$ 4,842,049</u>	<u>\$ 4,269,893</u>

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

**EAST LAUREL WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Receipts from customers	\$ 2,755,680	\$ 2,587,359
Payment for goods and service	<u>(2,471,531)</u>	<u>(2,354,274)</u>
Net cash used in operating activities	<u>284,149</u>	<u>233,085</u>
Cash flows from capital and related activities		
Additions to capital assets	(936,349)	(1,122,294)
Principal payments on debt	(1,393,545)	(1,870,500)
Proceeds from bonds	1,373,000	1,835,000
Proceeds from interim financing	223,429	1,070,421
Proceeds from capital grants	588,000	-
Amortization	22,048	23,709
Interest paid on debt	(87,616)	(64,901)
Miscellaneous nonoperating expense	<u>(28,132)</u>	<u>2,979</u>
Cash provided (used) in capital and related activities	<u>(239,165)</u>	<u>(125,586)</u>
Cash flows from investing activities		
Transfers in from investments	-	58,348
Interest received on investments	<u>243</u>	<u>679</u>
Cash provided (used) in investing activities	<u>243</u>	<u>59,027</u>
Net increase (decrease) in cash and cash equivalents	45,227	166,526
Cash and cash equivalents as of January 1,	<u>430,367</u>	<u>263,841</u>
Cash and cash equivalents as of December 31,	<u>\$ 475,594</u>	<u>\$ 430,367</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	\$ 99,740	\$ (69,019)
Depreciation	193,584	210,758
Changes in assets and liabilities:		
(Increase) Decrease in customer and other accounts receivable	(60,776)	26,622
Increase (Decrease) in deferred outflows	-	-
Increase (Decrease) in customer and other accounts payable	50,581	66,619
Increase (Decrease) in customer deposits	<u>1,020</u>	<u>(1,895)</u>
Net cash provided by operating activities	<u>284,149</u>	<u>233,085</u>
Supplemental disclosures		
Interest paid	<u>87,616</u>	<u>64,901</u>
Reconciliation of cash at end of year		
Cash and cash equivalents	322,086	287,584
Restricted cash and cash equivalents	<u>153,508</u>	<u>142,783</u>
Total cash at end of year	<u>\$ 475,594</u>	<u>\$ 430,367</u>

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

# **EAST LAUREL WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS**

**Years ended December 31, 2016 and 2015**

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## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### Reporting Entity

East Laurel Water District, of Laurel County, Kentucky (the District) 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 District is governed by a three person board of Commissioners, which is appointed by the Laurel County Fiscal Court. The District is regulated by the Kentucky Public Service Commission.

East Laurel Water District 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 District's primary source of revenue is from water sales to its members and customers, including public bodies and local businesses in its service area.

### Basis of Accounting, Financial Presentation and Measurement Focus

The basic financial statements of the District 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 District 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.

The statement of net position and statement of revenues, expenses and changes in net position display information about the District as a whole. These statements include all funds of the District. The statements distinguish between governmental and business-type activities. The District 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 District 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.

**EAST LAUREL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**Years ended December 31, 2016 and 2015**

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

Cash and Cash Equivalents

The District 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 District is authorized by state statute to invest in: 1) obligations of the United States and of its agencies and instrumentalities; 2) bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; 3) shares of any savings and loan insured by an agency of the government of the United States up to the amount so insured; 4) interest bearing deposits in nationally chartered or state banks chartered in Kentucky and insured by an agency of the government of the United States up to the amount so insured, and in larger amounts provided such bank shall pledge, as security, obligations of the United States government, its agencies and instrumentalities.

The District'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, 2016, and 2015, the provision for doubtful accounts was \$3,048 and \$3,048, respectively.

Unbilled Receivables

The District estimated unbilled revenues from water sales, on a pro rata basis, at the end of each fiscal year. The estimated amount is based on amounts billed during the month following 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 recorded at the time of the purchase, and an expenditure/expense is reported in the year in which services are consumed.

**EAST LAUREL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**Years ended December 31, 2016 and 2015**

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

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 District's capitalization policy. The cost of additions to the utility plant and major replacements of retired property is capitalized, and the cost of repairs, maintenance, and minor replacements is recorded as expense. By District 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 assets. 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	40 years
Pumping and water treatment equipment	25 years
Meters, hydrants and services	35-40 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 District's accounts payable are to vendors or for the purchase of water.

Long-Term Debt

Long-term debt is reported as liabilities. Loan discount or premium is amortized over the term of the respective loans outstanding using the straight-line method. At December 31, 2016 unamortized value of loan premium was \$10,998.

Other Deferred Costs

During 1994, East Laurel Water District transferred \$542,500 to Wood Creek Water District for a tap-on fee in accordance with the Water Purchase Contract which was revised on June 1, 1994. The fee is being amortized over a 50-year period as instructed by the Public Service Commission and is recorded by the District as other deferred costs. At December 31, 2016 amortized value of other deferred costs was \$304,525.

**EAST LAUREL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**Years ended December 31, 2016 and 2015**

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

Customer Deposits

The District 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.

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."

**NOTE 2 – RESTRICTED CASH**

The District restricts all sinking fund deposits, funds required for other debt service, and funds related to specific projects or customer accounts. At December 31, 2016, and 2015, restricted cash amounted to \$153,508 and \$142,783, respectively. This includes restrictions for customer deposits of \$11,984 and \$12,099 and restrictions for debt service of \$141,524 and \$131,260, respectively.

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

According to KRS 91A.060, the District 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



**EAST LAUREL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**Years ended December 31, 2016 and 2015**

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**NOTE 3 – INVESTMENTS – INTEREST RATE RISK (continued)**

banks. The District 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 District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2016 and 2015, the District's bank balances were \$887,660 and \$849,131 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), it 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 District's deposits were fully insured or collateralized with securities held by an agent of the District in the District's name at December 31, 2016, and 2015.

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

At December 31, 2016, customer and other accounts receivable are as follows:

Due from consumers for sale of water	\$	303,285
Allowance for doubtful accounts		<u>(3,048)</u>
	\$	300,237

The above accounts receivable does not include unbilled receivables of \$151,219.

*Continued on the next page*

**EAST LAUREL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**Years ended December 31, 2016 and 2015**

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2016 and 2015 was as follows:

	Balance		Balance	
	<u>December 31, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>December 31, 2016</u>
Land and Improvements	\$ 45,031	\$ 23,718	\$ -	\$ 68,749
Construction in progress	1,070,421	-	1,070,421	-
Intangible	6,608	-	-	6,608
Source of Supply and Pumping	179,037	215,790	-	394,827
Water Treatment Plant	9,385	-	-	9,385
Transmission and Distribution Plant	9,170,082	1,767,261	-	10,937,343
General Plant	34,245	-	-	34,245
Total Capital Assets	<u>10,514,809</u>	<u>2,006,769</u>	<u>1,070,421</u>	<u>11,451,157</u>
Less: Accumulated depreciation				
Intangible	6,608	-	-	6,608
Source of supply and pumping	142,663	3,549	-	146,212
Pumping plant	7,492	235	-	7,727
Transmission and distribution plant	4,452,006	187,137	-	4,639,143
General plant	24,920	2,664	-	27,584
Total accumulated depreciation	<u>4,633,689</u>	<u>193,585</u>	<u>-</u>	<u>4,827,274</u>
Total Capital Assets, Net	\$ <u>5,881,120</u>	\$ <u>1,813,184</u>	\$ <u>1,070,421</u>	\$ <u>6,623,883</u>

	Balance		Balance	
	<u>December 31, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>December 31, 2015</u>
Land and Improvements	\$ 45,031	\$ -	\$ -	\$ 45,031
Construction in progress	-	1,070,421	-	1,070,421
Intangible	6,608	-	-	6,608
Source of Supply and Pumping	179,037	-	-	179,037
Water Treatment Plant	9,385	-	-	9,385
Transmission and Distribution Plant	9,118,209	51,873	-	9,170,082
General Plant	34,245	-	-	34,245
Total Capital Assets	<u>9,392,515</u>	<u>1,122,294</u>	<u>-</u>	<u>10,514,809</u>
Less: Accumulated depreciation				
Intangible	6,608	-	-	6,608
Source of supply and pumping	136,985	5,678	-	142,663
Pumping plant	7,304	188	-	7,492
Transmission and distribution plant	4,249,778	202,228	-	4,452,006
General plant	22,256	2,664	-	24,920
Total accumulated depreciation	<u>4,422,931</u>	<u>210,758</u>	<u>-</u>	<u>4,633,689</u>
Total Capital Assets, Net	\$ <u>4,969,584</u>	\$ <u>911,536</u>	\$ <u>-</u>	\$ <u>5,881,120</u>

**EAST LAUREL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**Years ended December 31, 2016 and 2015**

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**NOTE 7 – LONG-TERM DEBT**

The District's long-term debt consists of bonds payable to Rural Development (RD) and Kentucky Rural Water Finance Corporation (KRWFC), which were obtained for various acquisitions of plant and equipment and to refinance a prior issue. The bonds mature annually in varying series over the period 2017 to 2038. A summary of the bonds is presented below:

<u>Date of Issue</u>	<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>12/31/15 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/16 Outstanding Balance</u>	<u>Due Within One Year</u>
2/16/2016	91-15	\$ 1,373,000	2/16/2055	2.50%	\$ -	\$ 1,373,000	\$ -	\$ 1,373,000	\$ 18,000
Total RD Bonds Payable					\$ -	\$ 1,373,000	\$ -	\$ 1,373,000	\$ 18,000
<b>KRWFC</b>									
2/19/2015	2015B	\$ 1,835,000	1/1/2039	2.250-3.50%	1,835,000.00	-	100,000	1,735,000	105,000
7/15/2015	2015-1	\$ 1,070,116	2/29/2016	2.60%	1,070,116.00	223,429	1,293,545	-	-
Total KRWFC Bonds Payable					\$ 2,905,116	\$ 223,429	\$ 1,393,545	\$ 1,735,000	\$ 105,000
Total Outstanding Debt					\$ 2,905,116	\$ 1,596,429	\$ 1,393,545	\$ 3,108,000	

Future bond principal and interest payment amounts are as follows:

*See Table on Next Page*

**EAST LAUREL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**Years ended December 31, 2016 and 2015**

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

YEAR	LOCAL		TOTAL
	PRINCIPAL	INTEREST	
2017	123,000	86,106	209,106
2018	93,500	83,625	177,125
2019	94,000	81,469	175,469
2020	100,000	79,238	179,238
2021	100,500	76,931	177,431
2022	101,000	74,213	175,213
2023	107,000	70,994	177,994
2024	107,500	67,675	175,175
2025	113,000	64,263	177,263
2026	94,000	61,075	155,075
2027	95,000	58,188	153,188
2028	100,500	55,200	155,700
2029	101,500	52,113	153,613
2030	102,500	49,000	151,500
2031	108,000	45,788	153,788
2032	114,000	42,394	156,394
2033	115,000	38,841	153,841
2034	86,000	35,716	121,716
2035	92,000	31,950	123,950
2036	93,000	29,038	122,038
2037	94,000	27,100	121,100
2038	100,000	24,050	124,050
2039	101,500	20,881	122,381
2040	37,500	18,819	56,319
2041	39,000	17,863	56,863
2042	40,000	16,875	56,875
2043	41,500	15,856	57,356
2044	42,500	14,806	57,306
2045	44,000	13,725	57,725
2046	45,500	12,606	58,106
2047	47,000	11,450	58,450
2048	48,500	10,256	58,756
2049	50,000	9,025	59,025
2050	51,500	7,756	59,256
2051	53,500	6,444	59,944
2052	55,000	5,088	60,088
2053	57,000	3,688	60,688
2054	58,500	2,244	60,744
2055	60,500	756	61,256
	\$ 3,108,000	\$ 1,423,100	\$ 4,531,100

**EAST LAUREL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**Years ended December 31, 2016 and 2015**

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**NOTE 8 – SERVICES PROVIDED TO OTHER WATER DISTRICTS**

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

At December 31, 2016 and 2015, the District had accounts payable to Wood Creek Water District as follows:

	<u>2016</u>	<u>2015</u>
<u>Wood Creek Water District</u>		
Accounts Payable	\$ 222,968	\$ 198,304
Accounts Payable - Wastewater	56,516	49,167
	<u>\$ 279,484</u>	<u>\$ 247,471</u>

Amounts paid to Wood Creek Water District for purchased water and for materials and services provided to East Laurel Water District are as follows:

	<u>2016</u>	<u>2015</u>
<u>Wood Creek Water District</u>		
Purchased water	\$ 1,421,731	\$ 1,336,372
Materials, labor, and other	833,360	773,339
	<u>\$ 2,255,091</u>	<u>\$ 2,109,711</u>

**NOTE 9 – RISK MANAGEMENT**

The District 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 District carries commercial insurance. The insurance coverage is acquired through Wood Creek Water District which includes coverage for Wood Creek Water District, East Laurel Water District, and West Laurel Water Association, Incorporated. The District 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.

**NOTE 10 – SUBSEQUENT EVENTS**

We evaluated events and transactions that occurred after the balance sheet date as potential subsequent events. We performed this evaluation through April 30, 2017, the date on 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 the financial statements.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**EAST LAUREL WATER DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year ended December 31, 2016**

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 Year 16	10.760	2016-EL	\$ <u>890,884</u>
Total US Department of Agriculture			<u>890,884</u>
<b>Total Expenditure of Federal Awards</b>			<b>\$ <u>890,884</u></b>

**EAST LAUREL WATER DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Years ended December 31, 2016**

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**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the East Laurel Water District 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 (CFR) 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.





**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  
East Laurel Water District  
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 East Laurel Water District, as of and for the years ended December 31, 2016, and 2015, and the related notes to the financial statements, which collectively comprise East Laurel Water District's basic financial statements, and have issued our report thereon dated April 30, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered East Laurel Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of East Laurel Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the East Laurel Water District'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.



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**Cloyd & Associates, PSC**  
*Certified Public Accountants*

### **Compliance and Other Matters**

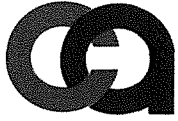
As part of obtaining reasonable assurance about whether East Laurel Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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, 2017



**Cloyd & Associates, PSC**  
Certified Public Accountants

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

Independent Auditor's Report

To the Commissioners  
East Laurel Water District  
London, Kentucky

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

We have audited East Laurel Water District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of East Laurel Water District's major federal programs for the year ended June 30, 2016. The East Laurel Water District'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.

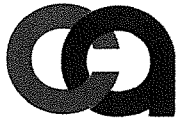
***Auditor's Responsibility***

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

***Opinion on Each Major Federal Program***

In our opinion, East Laurel Water District 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 June 30, 2016.



**Cloyd & Associates, PSC**  
Certified Public Accountants

## Report on Internal Control over Compliance

Management of East Laurel Water District 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 East Laurel Water District'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 East Laurel Water District'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 a significant deficiency in internal control over compliance that we consider to be a material weakness. However material weaknesses may exist that has 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.



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**Cloyd & Associates, PSC**  
*Certified Public Accountants*

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the business-type activities of the East Laurel Water District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise East Laurel's basic financial statements. We issued our report thereon dated April 30, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit 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 schedule of expenditures of federal awards is fairly stated in all material aspects in relation to the basic financial statements as a whole.

Cloyd & Associates, PSC  
London, Kentucky  
April 30, 2017

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**EAST LAUREL WATER DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year ended December 31, 2016**

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**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 notes	_____	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	_____	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 Uniform Guidance?	_____	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		
Auditee qualified as low risk	_____	Yes	<u>  ✓  </u> No

(continued)

**EAST LAUREL WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED  
Year ended December 31, 2016**

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**Section II – Financial Statement Findings**

None

**Section II – Federal Award Findings**

None



**EAST LAUREL WATER DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
Year ended December 31, 2016**

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**Status of Prior Year Findings**

None