

PUBLIC SERVICE COMMISSION  
ANNUAL REPORTS

MAR 31 2017

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**WEST DAVIESS COUNTY WATER DISTRICT**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTAL INFORMATION**

**DECEMBER 31, 2016 AND 2015**

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Contents**  
**December 31, 2016 and 2015**

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2707 Breckenridge St. Suite 1  
Owensboro, KY 42303

☎ 270-684-3237 📠 270-684-3200

✉ info@acocpa.net

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## INDEPENDENT AUDITORS' REPORT

To The Board of Commissioners  
West Daviess County Water District

### Report on the Financial Statements

We have audited the accompanying financial statements of West Daviess County Water District (District), a component unit of the Daviess County Fiscal Court, Kentucky, 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of West Daviess County Water District as of December 31, 2016 and 2015, 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

### Required Supplementary Information

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2017 on our consideration of West Daviess County 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering West Daviess County Water District's internal control over financial reporting and compliance.

*Alitaden & Company CPAS PSC*

Owensboro, Kentucky  
March 28, 2017

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Statements of Net Position**  
**December 31, 2016 and 2015**

	2016	2015
<b>Assets</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 354,701	\$ 545,261
Accounts receivable	282,788	261,511
Investments	2,108,935	1,732,554
Interest receivable	2,641	2,860
Prepaid insurance	6,431	6,405
Inventory	72,354	80,227
	<b>2,827,850</b>	<b>2,628,818</b>
 <b>RESTRICTED FUNDS</b>		
Cash - Meter Setting Fund	111,210	108,398
Cash - Medical Reimbursement Fund	126,027	102,152
Accounts receivable	446	-
Investments - customer deposits	98,495	94,660
Investments - medical reimbursement	242,604	238,359
Interest receivable	624	526
	<b>579,406</b>	<b>544,095</b>
 <b>CAPITAL ASSETS</b>		
Land	38,232	38,232
Water plant	10,483,224	10,256,098
Construction in progress	15,898	10,440
	<b>10,537,354</b>	<b>10,304,770</b>
Less accumulated depreciation	<b>(4,309,483)</b>	<b>(4,043,757)</b>
	<b>6,227,871</b>	<b>6,261,013</b>
<b>NET CAPITAL ASSETS</b>		
	<b>6,227,871</b>	<b>6,261,013</b>
 <b>TOTAL ASSETS</b>		
	<b>\$ 9,635,127</b>	<b>\$ 9,433,926</b>

See accompanying notes.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Statements of Net Position**  
**December 31, 2016 and 2015**

	2016	2015
<b>Liabilities and Net Assets</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 125,294	\$ 122,874
Accrued pension	16,616	15,578
Accrued school and sales taxes	4,848	4,292
Payroll taxes and withholding	5,611	5,174
Accrued payroll	8,475	9,137
Current liabilities payable from restricted assets:		
Accounts payable	3,550	7,518
<b>TOTAL CURRENT LIABILITIES</b>	<b>164,394</b>	<b>164,573</b>
<b>NONCURRENT LIABILITIES</b>		
Customer deposits payable from restricted assets	98,495	94,660
<b>TOTAL LIABILITIES</b>	<b>262,889</b>	<b>259,233</b>
<b>NET POSITION</b>		
Net investment in capital assets	6,227,871	6,261,013
Unrestricted	3,144,367	2,913,680
<b>TOTAL NET POSITION</b>	<b>9,372,238</b>	<b>9,174,693</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 9,635,127</b>	<b>\$ 9,433,926</b>

See accompanying notes.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
<b>OPERATING REVENUES</b>		
Water sales	\$ 1,549,513	\$ 1,564,638
Tap on fees	81,285	110,120
Miscellaneous service revenues	61,785	55,514
	<b>1,692,583</b>	<b>1,730,272</b>
<b>OPERATING EXPENSES</b>		
Audit, accounting and legal	11,295	7,300
Bad debts	3,282	2,511
Depreciation	267,367	266,829
Education and seminars	2,091	225
Employee benefits	120,070	130,811
Engineering	-	269
Insurance	24,409	25,000
Materials, supplies, and repairs	60,938	87,648
Miscellaneous	5,662	6,545
Office supplies and expense	32,906	29,661
Payroll taxes	23,194	22,018
Phone and communication	3,217	3,254
PSC assessment	3,145	3,017
Rent of real estate	4,783	4,783
Salaries and wages	296,446	289,014
Transportation	15,800	16,355
Uniforms	2,034	2,042
Utilities	45,227	40,290
Water purchased	683,038	667,644
Water tests and meter service	8,243	9,671
	<b>1,613,147</b>	<b>1,614,887</b>
<b>INCOME FROM OPERATIONS</b>	<b>79,436</b>	<b>115,385</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	35,073	26,753
Interest expense	(387)	(177)
Gain on disposal of assets	-	6,864
	<b>34,686</b>	<b>33,440</b>
<b>INCOME BEFORE CONTRIBUTIONS</b>	<b>114,122</b>	<b>148,825</b>

See accompanying notes.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>CONTRIBUTED CAPITAL REVENUE</b>		
Contributions in aid of construction	\$ 83,423	\$ 34,134
<b>TOTAL CONTRIBUTED CAPITAL REVENUE</b>	<u>83,423</u>	<u>34,134</u>
<b>CHANGE IN NET POSITION</b>	<u>197,545</u>	<u>182,959</u>
<b>NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED</b>	9,174,693	8,914,930
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>-</u>	<u>76,804</u>
<b>NET POSITION, BEGINNING OF YEAR, RESTATED</b>	<u>9,174,693</u>	<u>8,991,734</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 9,372,238</u>	<u>\$ 9,174,693</u>

See accompanying notes.



**WEST DAVIESS COUNTY WATER DISTRICT**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 1,674,696	\$ 1,721,025
Cash payments to employees for services	(441,005)	(443,502)
Cash payments for goods and services	(897,108)	(886,626)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>336,583</b>	<b>390,897</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(208,523)	(118,488)
Proceeds from sale of assets	-	6,864
Contribution in aid of construction	57,721	-
Interest paid	(387)	(177)
<b>NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(151,189)</b>	<b>(111,801)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Change in investments - net	(384,461)	(25,887)
Interest on investments	35,194	26,704
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(349,267)</b>	<b>817</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(163,873)</b>	<b>279,913</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>755,811</b>	<b>475,898</b>
<b>CASH AT END OF YEAR</b>	<b>\$ 591,938</b>	<b>\$ 755,811</b>

See accompanying notes.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net income from operations	\$ 79,436	\$ 97,207
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation	267,367	266,829
(Increase) decrease in:		
Accounts receivable	(21,723)	(13,047)
Prepaid insurance	(26)	5,886
Inventory	7,873	14,561
Increase (decrease) in:		
Accounts payable	(1,548)	14,956
Accrued pension	1,038	349
Accrued school and sales tax	556	97
Accrued payroll	(662)	145
Payroll taxes and withholding	437	114
Customer deposits	3,835	3,800
Total adjustments	257,147	293,690
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 336,583</b>	<b>\$ 390,897</b>

See accompanying notes.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Business

The West Daviess County Water District (District) is a component unit of the Daviess County Fiscal Court, Kentucky and, therefore, is part of the financial reporting entity of the Daviess County Fiscal Court. The District is a water utility which operates in the rural section of West Daviess County, Kentucky, and its sales are primarily to residential customers.

Proprietary Fund

The District is classified as a proprietary fund type. Proprietary funds are accounted for using the economic resources measurement focus; the accounting objectives are the determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary funds' activities are included on its statement of net position.

Basis of Accounting

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Government Accounting Standards Board (GASB) pronouncements.

The accrual basis of accounting is used for proprietary fund types. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

Regulation

The District's utility operations are subject to regulation with respect to rates, service, maintenance of accounting records and various other matters by the Commonwealth of Kentucky, Public Service Commission. The District's accounting policies recognize the financial effects of the rate making and accounting practices and policies of the Public Service Commission.

Accounts Receivable

The District follows a monthly billing cycle. When meter reading is delayed, estimated bills are rendered based on the average of the three previous bills in order to promote consistency of water revenue.

The District considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established based on a favorable history over a substantial period of time. If an account becomes more than sixty days overdue, it will be charged to operations using the direct write-off method.

Management Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

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

Operating Revenue

Operating revenue is recognized upon completion of monthly meter readings. At the end of each month water service which has been rendered from the latest meter reading to the end of the month is unbilled.

Inventory

Inventory consists of materials and supplies, and is stated at lower of cost (determined on the first-in, first-out basis) or market.

Water Plant

Water plant is stated at original cost (cost of the property to whoever first devoted it to public service). The cost of labor for additions to the water plant constructed by the District's employees is not capitalized.

Capital Assets

Utility plant assets are stated at cost. The cost of current repairs and maintenance is charged to expense, while the cost of replacements or betterments is capitalized.

Depreciation is provided on the basis of the estimated useful lives of assets using the straight-line method. Depreciation expense was \$267,367 and \$266,829 for the years 2016 and 2015, respectively. Estimated useful lives of major class of the water plant in service are as follows:

Pumping system	10-50 years
Transmission and distribution system	30-70 years
General plant	5-30 years

Operating Revenues and Expenses

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering water in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash Flows Information

For the purposes of the Statements of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Noncash financing activities for 2016 and 2015, representing water lines donated to the District, were \$25,702 and \$34,134, respectively.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

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

Cash Flows Information (continued)

Cash at year end consists of:

	2016	2015
Cash	\$ 354,701	\$ 545,261
Cash – Meter Setting Fund	111,210	108,398
Cash – Medical Reimbursement Fund	126,027	102,152
	\$ 591,938	\$ 755,811

**NOTE B – CASH DEPOSITS AND INVESTMENTS**

Custodial Credit Risk – Deposits

Custodial credit risk 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, the District's bank balances were exposed to custodial credit risk as follows:

	2016	2015
Bank balances	\$ 3,042,541	\$ 2,821,787
FDIC insured	(750,000)	(500,000)
Uninsured and covered by collateral held by bank	(2,290,067)	(2,214,023)
Uninsured and not covered by collateral	\$ 2,474	\$ 107,764

Investments

Investments consist of five certificates of deposit at local banks as of December 31, 2016. The first certificate of deposit has a value of \$458,100. This certificate pays an interest rate of 1.59% with a maturity date of February 12, 2019. The second certificate of deposit has a value of \$457,915. This certificate pays an interest rate of 1.35% with a maturity date of November 15, 2019. The third certificate of deposit has a value of \$ 461,509. This certificate pays an interest rate of 1.50% with a maturity date of November 12, 2017. The fourth certificate of deposit has a value of \$465,669. This certificate pays an interest rate of 1.95% with a maturity date of November 12, 2018. The fifth certificate of deposit has a value of \$252,474. This certificate pays an interest rate of .90% with a maturity date of November 13, 2017.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**NOTE B – CASH DEPOSITS AND INVESTMENTS (continued)**

Investments (continued)

Investments consist of five certificates of deposit at local banks as of December 31, 2015. The first certificate of deposit has a value of \$451,244. This certificate pays an interest rate of .75% with a maturity date of February 12, 2016. The second certificate of deposit has a value of \$ 452,597. This certificate pays an interest rate of 1.05% with a maturity date of November 12, 2016. The third certificate of deposit has a value of \$454,632. This certificate pays an interest rate of 1.50% with a maturity date of November 12, 2017. The fourth certificate of deposit has a value of \$456,674. This certificate pays an interest rate of 1.95% with a maturity date of November 12, 2018. The fifth certificate of deposit has a value of \$250,426. This certificate pays an interest rate of .90% with a maturity date of May 13, 2016. Investments are shown on the Statements of Net Position as:

	2016	2015
Investments	\$ 2,108,935	\$ 1,732,554
Investments-customer deposits	98,495	94,660
Investments-medical reimbursement	242,604	238,359
	\$ 2,450,034	\$ 2,065,573

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United State government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds. The District's investment policy only allows investment choices that are in compliance with the state statues. At December 31, 2016, all investments held by the District were insured or collateralized with securities held by the District or by its agent in the District's name, except for \$2,473. At December 31, 2015, all of the investments held by the District were insured or collateralized, except for \$107,764.

Concentration of Credit Risk

The District's investment policy places no limit on the amount the District may invest in any one issuer. The District's investments consist of five certificates of deposit at local banks.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**NOTE C – CAPITAL ASSETS**

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

	Balance Jan. 1, 2016	Additions	Deletions	Balance Dec. 31, 2016
Capital assets not depreciated:				
Land	\$ 38,232	\$ -	\$ -	\$ 38,232
Construction in progress	10,440	81,686	76,228	15,898
Total capital asset not depreciated:	<u>48,672</u>	<u>81,686</u>	<u>76,228</u>	<u>54,130</u>
Capital assets depreciated:				
Buildings	155,964	-	-	155,964
Pumping stations	613,715	-	-	613,715
Equipment	208,590	36,758	-	245,348
Tanks, lines, meters and hydrants	9,277,829	196,930	6,562	9,468,197
Total capital assets depreciated	<u>10,256,098</u>	<u>233,688</u>	<u>6,562</u>	<u>10,483,224</u>
Less accumulated depreciation:				
Buildings	127,589	4,487	-	132,076
Pumping stations	280,649	17,818	-	298,467
Equipment	144,544	23,238	-	167,782
Tanks, lines, meters and hydrants	3,490,975	221,824	1,641	3,711,158
Total accumulated depreciation	<u>4,043,757</u>	<u>267,367</u>	<u>1,641</u>	<u>4,309,483</u>
Total capital assets depreciated, net	<u>6,212,341</u>	<u>(33,679)</u>	<u>4,921</u>	<u>6,173,741</u>
Total capital assets, net	<u>\$ 6,261,013</u>	<u>\$ 48,007</u>	<u>\$ 81,149</u>	<u>\$ 6,227,871</u>

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**NOTE C – CAPITAL ASSETS (continued)**

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

	Balance Jan. 1, 2015	Additions	Deletions	Balance Dec. 31, 2015
<b>Capital assets not depreciated:</b>				
Land	\$ 38,232	\$ -	\$ -	\$ 38,232
Construction in progress	1,220	9,220	-	10,440
<b>Total capital assets not depreciated</b>	<b>39,452</b>	<b>\$ 9,220</b>	<b>-</b>	<b>48,672</b>
<b>Capital assets depreciated:</b>				
Buildings	151,199	4,765	-	155,964
Pumping stations	613,715	-	-	613,715
Equipment	205,423	3,663	496	208,590
Tanks, lines, meters and hydrants	9,145,484	142,861	10,516	9,277,829
<b>Total capital assets depreciated</b>	<b>10,115,821</b>	<b>151,289</b>	<b>11,012</b>	<b>10,256,098</b>
<b>Less accumulated depreciation:</b>				
Buildings	121,522	6,067	-	127,589
Pumping stations	261,123	19,526	-	280,649
Equipment	121,599	23,441	496	144,544
Tanks, lines, meters and hydrants	3,275,809	217,795	2,629	3,490,975
<b>Total accumulated depreciation</b>	<b>3,780,053</b>	<b>266,829</b>	<b>3,125</b>	<b>4,043,757</b>
<b>Total capital assets depreciated, net</b>	<b>6,335,768</b>	<b>(115,540)</b>	<b>7,887</b>	<b>6,212,341</b>
<b>Total capital assets, net</b>	<b>\$ 6,375,220</b>	<b>\$ (106,320)</b>	<b>\$ 7,887</b>	<b>\$ 6,261,013</b>

**NOTE D – RETIREMENT PLANS**

The District has a money-purchase retirement plan (Plan) covering all full-time employees that is a Defined Contribution plan. The fair value of investments is determined by the quoted market prices for each investment at the close of the market.

The District makes a contribution equal to eleven percent of the employee's earned annual base salary. Employees become eligible after reaching the age of twenty and a half and after six months of full time employment. Employees become fully vested after five years of service from enrollment date.

Employer contributions to the Plan for 2016 and 2015 were \$30,202 and \$30,498, respectively. Accrued pension expense for the Plan as of December 31, 2016 and 2015 was \$16,247 and \$15,578, respectively. Pentegra Services, Inc. is the administrator of the funds. Mass Mutual Financial Group is the custodian of the funds.

During 2016 and 2015, there were no forfeitures under this plan.



**WEST DAVIESS COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**NOTE D – RETIREMENT PLANS (continued)**

In addition to the Plan, the District's employees are also eligible to participate in a deferred compensation plan. The plan is organized as a Section 457(b) plan under the Internal Revenue Code. The plan permits employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, age sixty-two if still working or financial hardship. The District's policy is to match the employee's contribution up to three percent of the employee's gross salary.

Employer contributions to the deferred compensation plan for 2016 and 2015 were \$4,302 and \$0, respectively. Employee contributions to the deferred compensation plan for 2016 and 2015 were \$6,375 and \$0, respectively. Accrued pension expense for the deferred compensation plan as of December 31, 2016 and 2015 was \$369 and \$0, respectively. Pentegra Services, Inc. is the administrator of this retirement plan. Mass Mutual Financial Group is the custodian of the fund.

**NOTE E – RESTRICTED FUNDS**

Cash and investments held by fiscal agents or in trusts are classified as restricted funds and liabilities to be paid by the fiscal agents or trusts are classified as liabilities payable from restricted funds.

**NOTE F – CONTRIBUTIONS IN AID OF CONSTRUCTION**

Contributions in aid of construction represent additions to water plant through extensions of the water distribution system. These additions are funded by individual users through payments made directly to the District or to independent contractors. Contributions to the water distribution system amounted to \$83,423 for 2016 and \$34,134 for 2015.

**NOTE G – INCOME TAX STATUS**

The District is exempt from federal and state income taxes and, accordingly, no provision for such taxes has been made.

**NOTE H – OPERATING AND ADMINISTRATION EXPENSES**

The District shares office space and personnel with the Southeast Daviess County Water District. Administrative expenses and operating salaries and wages are allocated between the two water districts based upon management's estimated usage. Currently 45% of those expenses are allocated to the District.

**NOTE I – LEASING ARRANGEMENTS**

The District conducts its operations from facilities which are constructed upon land leased for a period of ten years commencing March 1, 1982. The lease provides that the lessee shall have the right to extend this lease for additional five-year periods. Unless notice is given to cancel this lease sixty (60) days before the end of the original period or any extension thereof, then such extension shall be automatic.

In the event of one or more extensions, the rental shall be increased during such extensions by an amount equal to 10% of the rent set in the preceding period. The District renewed the option to extend the lease in February, 2012. Rental expense was \$4,783 for 2016 and 2015.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**NOTE I – LEASING ARRANGEMENTS (continued)**

The following is a schedule of future minimum rental payments required under the above lease as of December 31, 2016.

Year Ended December 31	Amount
2017	\$ 797

**NOTE J – SUPPLIER**

The District purchases all of its water for resale from the City Utility Commission of the City of Owensboro, Kentucky operating as Owensboro Municipal Utilities (OMU). Total purchases from OMU for 2016 and 2015 were \$683,038 and \$667,644, respectively. Amounts payable to OMU at year end for 2016 and 2015 were \$53,558 and \$49,033, respectively.

**NOTE K – COMPENSATED ABSENCES**

Employees are entitled to paid vacation and paid sick days, depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The District does not accrue compensation for paid vacation because the amount is considered immaterial. The District's policy is to record compensated absences when actually paid to employees.

**NOTE L – NET POSITION**

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets; restricted; and unrestricted net assets. Invested in capital assets consists of all capital assets, net of accumulated depreciation. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net assets not included in the above categories.

Included in restricted net position at December 31,

	2016	2015
Investments – Customer Deposits	\$ 98,495	\$ 94,660
Less: Restricted Liabilities	(98,495)	(94,660)
Restricted Net Position	\$ -	\$ -

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**NOTE M – PRIOR PERIOD ADJUSTMENT**

Net position at the beginning of 2015 have been adjusted to correct water purchases for the previous eight years due to unrecognized Owensboro Municipal Utilities annual rate adjustment and true-up. The cumulative effect increases beginning net position for 2015 by \$76,804. The accompanying comparative financial statement for 2015 has also been adjusted to correct water purchases. The effect of this restatement is to increase accounts receivable and decrease water purchases by \$18,178.

**NOTE N – SUBSEQUENT EVENTS**

The District did not have any subsequent events through March 28, 2017, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended December 31, 2016.

**SUPPLEMENTAL INFORMATION**

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Budgetary Comparison Schedule**  
**Year Ended December 31, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>OPERATING REVENUES</b>	<u>\$ 1,748,000</u>	<u>\$ 1,748,000</u>	<u>\$ 1,692,583</u>	<u>\$ (55,417)</u>
<b>OPERATING EXPENSES</b>				
Operation and maintenance expense	1,394,800	1,394,800	1,342,635	52,165
Depreciation expense	270,000	270,000	267,367	2,633
Taxes other than income	3,200	3,200	3,145	55
<b>TOTAL OPERATING EXPENSES</b>	<u>1,668,000</u>	<u>1,668,000</u>	<u>1,613,147</u>	<u>54,853</u>
<b>INCOME FROM OPERATIONS</b>	<u>80,000</u>	<u>80,000</u>	<u>79,436</u>	<u>(564)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	33,000	33,000	35,073	2,073
Interest expense	(400)	(400)	(387)	13
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>32,600</u>	<u>32,600</u>	<u>34,686</u>	<u>2,086</u>
<b>INCOME BEFORE CONTRIBUTIONS</b>	112,600	112,600	114,122	1,522
<b>CONTRIBUTED CAPITAL REVENUE</b>	<u>80,000</u>	<u>80,000</u>	<u>83,423</u>	<u>3,423</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 192,600</u>	<u>\$ 192,600</u>	<u>\$ 197,545</u>	<u>\$ 4,945</u>

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

To the Board of Commissioners  
West Daviess County Water District

We have audited, 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, the financial statements of West Daviess County Water District (District) as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise the District's basic financial statements. and have issued our report thereon dated March 28, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered West Daviess County 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether West Daviess County 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 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.

*Alexander & Company CPAS PSC*

Owensboro, Kentucky  
March 28, 2017

**WEST DAVIESS COUNTY WATER DISTRICT  
Schedule of Findings and Responses  
Year Ended December 31, 2016**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

None.