

PUBLIC SERVICE COMMISSION
ANNUAL REPORTS

MAR 31 2017

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SOUTHEAST DAVIESS COUNTY WATER DISTRICT

**FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION**

DECEMBER 31, 2016 AND 2015

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
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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
Southeast Daviess County Water District

Report on the Financial Statements

We have audited the accompanying financial statements of Southeast 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.

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 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.

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 Southeast 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 Southeast 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 Southeast Daviess County Water District's internal control over financial reporting and compliance.

Alpanda & Company CPAS PSC

Owensboro, Kentucky
March 28, 2017

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

	2016	2015
Assets		
CURRENT ASSETS		
Cash	\$ 381,148	\$ 599,115
Accounts receivable	559,527	518,551
Investments	2,773,336	2,288,038
Interest receivable	3,465	3,550
Prepaid insurance	7,426	7,234
Inventory	100,216	88,669
TOTAL CURRENT ASSETS	3,825,118	3,505,157
 RESTRICTED FUNDS		
Cash - Meter Setting Fund	184,048	190,139
Cash - Medical Reimbursement Fund	139,015	109,835
Investments - customer deposits	145,475	140,745
Investments - medical reimbursement	312,175	307,336
Interest receivable	595	698
TOTAL RESTRICTED ASSETS	781,308	748,753
 CAPITAL ASSETS		
Land	56,350	56,350
Water plant	11,483,024	11,279,762
Construction in progress	2,037	1,877
	11,541,411	11,337,989
Less accumulated depreciation	(4,482,612)	(4,180,068)
NET CAPITAL ASSETS	7,058,799	7,157,921
TOTAL ASSETS	\$ 11,665,225	\$ 11,411,831

See accompanying notes.

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

	2016	2015
Liabilities and Net Assets		
CURRENT LIABILITIES		
Accounts payable	\$ 284,053	\$ 248,255
Accrued pension	20,309	19,010
Accrued school and sales taxes	6,338	5,854
Payroll taxes and withholding	7,080	6,506
Accrued payroll	10,169	10,728
 Current liabilities payable from restricted assets:		
Accounts payable	5,454	13,708
 TOTAL CURRENT LIABILITIES	333,403	304,061
 NONCURRENT LIABILITIES		
Customer deposits payable from restricted assets	145,475	140,745
 TOTAL LIABILITIES	478,878	444,806
 NET POSITION		
Net investment in capital assets	7,058,799	7,157,921
Unrestricted	4,127,548	3,809,104
 TOTAL NET POSITION	11,186,347	10,967,025
 TOTAL LIABILITIES AND NET POSITION	\$ 11,665,225	\$ 11,411,831

See accompanying notes.

SOUTHEAST 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>
OPERATING REVENUES		
Water sales	\$ 2,070,510	\$ 2,067,947
Tap on fees	161,150	151,000
Miscellaneous service revenues	108,379	108,844
	<u>2,340,039</u>	<u>2,327,791</u>
OPERATING EXPENSES		
Audit, accounting and legal	8,100	7,800
Bad debts	6,416	7,161
Board member fees	8,750	9,000
Depreciation	306,599	304,219
Education and seminars	2,776	1,108
Employee benefits	146,516	159,852
Insurance	29,040	33,209
Materials, supplies, and repairs	107,441	72,910
Miscellaneous	11,310	8,168
Office supplies and expense	42,650	39,999
Payroll taxes	28,197	26,788
Phone and communication	3,886	4,007
PSC assessment	4,225	4,034
Rent of real estate	5,846	5,846
Salaries and wages	351,594	341,969
Transportation	20,464	23,322
Uniforms	2,486	2,496
Utilities	56,161	47,067
Water purchased	1,042,130	945,868
Water tests and meter service	9,398	12,243
	<u>2,193,985</u>	<u>2,057,066</u>
INCOME FROM OPERATIONS	<u>146,054</u>	<u>270,725</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	45,487	39,680
Interest expense	(562)	(265)
	<u>44,925</u>	<u>39,415</u>
INCOME BEFORE CONTRIBUTIONS	<u>190,979</u>	<u>310,140</u>

See accompanying notes.

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

	2016	2015
CONTRIBUTED CAPITAL REVENUE		
Contributions in aid of construction	\$ 28,343	\$ 73,327
TOTAL CONTRIBUTED CAPITAL REVENUE	28,343	73,327
CHANGE IN NET POSITION	219,322	383,467
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	10,967,025	10,468,471
PRIOR PERIOD ADJUSTMENT	-	115,087
NET POSITION, BEGINNING OF YEAR, RESTATED	10,967,025	10,583,558
NET POSITION, END OF YEAR	\$ 11,186,347	\$ 10,967,025

See accompanying notes.

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

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,303,793	\$ 2,283,620
Cash payments to employees for services	(539,005)	(540,792)
Cash payments for goods and services	(1,330,778)	(1,241,802)
NET CASH PROVIDED BY OPERATING ACTIVITIES	434,010	501,026
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(179,134)	(148,692)
Interest paid	(562)	(265)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(179,696)	(148,957)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments - net	(494,867)	(38,983)
Interest on investments	45,675	39,917
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(449,192)	934
NET INCREASE (DECREASE) IN CASH	(194,878)	353,003
CASH AT BEGINNING OF YEAR	899,089	546,086
CASH AT END OF YEAR	\$ 704,211	\$ 899,089

See accompanying notes.

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

	2016	2015
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net income from operations	\$ 146,054	\$ 205,840
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation	306,599	304,219
(Increase) decrease in:		
Accounts receivable	(40,976)	(49,881)
Prepaid insurance	(192)	9,863
Inventory	(11,547)	2,220
Increase (decrease) in:		
Accounts payable	27,544	22,056
Accrued pension	1,299	397
Accrued school and sales tax	484	578
Accrued payroll	(559)	(78)
Payroll taxes and withholding	574	102
Customer deposits	4,730	5,710
Total adjustments	287,956	295,186
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 434,010	\$ 501,026

See accompanying notes.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Southeast 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 Southeast 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.

SOUTHEAST 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 \$ 306,599 and \$ 304,219 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 \$ 28,343 and \$ 73,327 respectively.

SOUTHEAST 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	\$ 381,148	\$ 599,115
Cash – Meter Setting Fund	184,048	190,139
Cash – Medical Reimbursement Fund	139,015	109,835
	\$ 704,211	\$ 899,089

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	\$ 3,935,591	\$ 3,635,761
FDIC insured	(750,000)	(730,213)
Uninsured and covered by collateral	(3,183,117)	(2,905,122)
Uninsured and not covered by collateral	\$ 2,474	\$ 426

Investments

Investments consist of seven certificates of deposit at local banks as of December 31, 2016. The first certificate of deposit has a value of \$569,255. 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 \$569,000. 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 \$573,465. 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 \$578,634. 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 .75% with a maturity date of February 13, 2017. The sixth certificate of deposit has a value of \$232,543. This certificate pays an interest rate of 1.00% with a maturity date of September 26, 2018. The seventh certificate of deposit has a value of \$455,615. This certificate pays an interest rate of 1.49% with a maturity date of February 11, 2018.

SOUTHEAST 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 six certificates of deposit at local banks as of December 31, 2015. The first certificate of deposit has a value of \$560,711. 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 \$562,391. 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 \$564,920. 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 \$567,457. 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 \$250,427. This certificate pays an interest rate of .90% with a maturity date of August 13, 2016. The sixth certificate of deposit has a value of \$230,213. This certificate pays an interest rate of 1.00% with a maturity date of September 21, 2016. Investments are shown on the Statement of Net Position as:

	2016	2015
Investments	\$ 2,773,336	\$ 2,288,038
Investments – customer deposits	145,475	140,745
Investments – medical reimbursement	312,175	307,336
	\$ 3,230,986	\$ 2,736,119

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. Most of the investments (99.9%) held by the District are insured or collateralized with securities held by the District or by its agent in the District's name.

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 collateralized certificate of deposits at three local banks.

SOUTHEAST 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 January 1, 2016	Additions	Deletions	Balance December 31, 2016
Capital assets not depreciated:				
Land	\$ 56,350	\$ -	\$ -	\$ 56,350
Construction in progress	1,877	27,888	27,728	2,037
Total capital assets not depreciated	<u>58,227</u>	<u>27,888</u>	<u>27,728</u>	<u>58,387</u>
Capital assets depreciated:				
Buildings	152,171			152,171
Pumping stations	1,006,796	-	-	1,006,796
Equipment	248,169	10,390	-	258,559
Tanks, lines, meters and hydrants	9,872,626	215,956	23,084	10,065,498
Total capital assets depreciated	<u>11,279,762</u>	<u>226,346</u>	<u>23,084</u>	<u>11,483,024</u>
Less accumulated depreciation:				
Buildings	116,139	5,184	-	121,323
Pumping stations	373,975	31,963	-	405,938
Equipment	156,562	28,676	-	185,238
Tanks, lines, meters and hydrants	3,533,392	240,776	4,055	3,770,113
Total accumulated depreciation	<u>4,180,068</u>	<u>306,599</u>	<u>4,055</u>	<u>4,482,612</u>
Total capital assets depreciated, net	<u>7,099,694</u>	<u>(80,253)</u>	<u>19,029</u>	<u>7,000,412</u>
Total capital assets, net	<u>\$ 7,157,921</u>	<u>\$ (52,365)</u>	<u>\$ 46,757</u>	<u>\$ 7,058,799</u>

SOUTHEAST 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 January 1, 2015	Additions	Deletions	Balance December 31, 2015
Capital assets not depreciated:				
Land	\$ 56,350	\$ -	\$ -	\$ 56,350
Construction in progress	-	1,877	-	1,877
Total capital assets not depreciated	<u>56,350</u>	<u>1,877</u>	<u>-</u>	<u>58,227</u>
Capital assets depreciated:				
Buildings	146,347	5,824	-	152,171
Pumping stations	1,006,796	-	-	1,006,796
Equipment	244,188	4,477	496	248,169
Tanks, lines, meters and hydrants	9,663,760	212,766	3,900	9,872,626
Total capital assets depreciated	<u>11,061,091</u>	<u>223,067</u>	<u>4,396</u>	<u>11,279,762</u>
Less accumulated depreciation:				
Buildings	108,738	7,401	-	116,139
Pumping stations	340,949	33,026	-	373,975
Equipment	127,901	29,157	496	156,562
Tanks, lines, meters and hydrants	3,299,732	234,635	975	3,533,392
Total accumulated depreciation	<u>3,877,320</u>	<u>304,219</u>	<u>1,471</u>	<u>4,180,068</u>
Total capital assets depreciated, net	<u>7,183,771</u>	<u>(81,152)</u>	<u>2,925</u>	<u>7,099,694</u>
Total capital assets, net	<u>\$7,240,121</u>	<u>\$ (79,275)</u>	<u>\$ 2,925</u>	<u>\$ 7,157,921</u>

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 \$36,943 and \$37,245, respectively. Accrued pension expense for the Plan as of December 31, 2016 and 2015 was \$19,857 and \$19,010, 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.

SOUTHEAST 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 contribution to the deferred compensation plan for 2016 and 2015 were \$5,258 and \$0, respectively. Employee contributions to the deferred compensation plan for 2016 and 2015 were \$7,791 and \$0, respectively. Accrued pension expense for the deferred compensation plan as of December 31, 2016 and 2015 was \$452 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 the 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 \$ 28,343 for 2016 and \$ 73,327 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 West 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 55% 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 \$ 5,846 for 2016 and 2015.

SOUTHEAST 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	\$ 487

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). The purchases from OMU for 2016 and 2015 was \$1,042,130 and \$945,868, respectively. Amounts payable to OMU at year end for 2016 and 2015 were \$83,404 and \$74,225, 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	\$ 145,475	\$ 140,745
Less: Restricted Liabilities	145,475	140,745
Restricted Net Position	\$ -	\$ -

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 \$115,087. 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 \$64,885.

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

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

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

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
OPERATING REVENUES	<u>\$ 2,377,500</u>	<u>\$ 2,377,500</u>	<u>\$ 2,340,039</u>	<u>\$ (37,461)</u>
OPERATING EXPENSES				
Operation and maintenance expense	1,852,600	1,852,600	1,883,161	(30,561)
Depreciation expense	305,000	305,000	306,599	(1,599)
Taxes other than income	4,200	4,200	4,225	(25)
TOTAL OPERATING EXPENSES	<u>2,161,800</u>	<u>2,161,800</u>	<u>2,193,985</u>	<u>(32,185)</u>
INCOME FROM OPERATIONS	<u>215,700</u>	<u>215,700</u>	<u>146,054</u>	<u>(69,646)</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	43,000	43,000	45,487	2,487
Interest expense	(600)	(600)	(562)	38
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>42,400</u>	<u>42,400</u>	<u>44,925</u>	<u>2,525</u>
INCOME BEFORE CONTRIBUTIONS	258,100	258,100	190,979	(67,121)
CONTRIBUTED CAPITAL REVENUE	<u>50,000</u>	<u>50,000</u>	<u>28,343</u>	<u>(21,657)</u>
CHANGE IN NET POSITION	<u>\$ 308,100</u>	<u>\$ 308,100</u>	<u>\$ 219,322</u>	<u>\$ (88,778)</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
Southeast 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 Southeast 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 Southeast 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 opinion 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 Southeast 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.

Altitude & Company CPAS PSC

Owensboro, Kentucky
March 28, 2017

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

FINDINGS – FINANCIAL STATEMENT AUDIT

None.