

SOUTHEAST DAVIESS COUNTY WATER DISTRICT

**FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION**

DECEMBER 31, 2017 AND 2016

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Contents
December 31, 2017 and 2016

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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, 2017 and 2016, 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 Southeast Daviess County Water District as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southeast Daviess County Water District's basic financial statements. The Budgetary Comparison Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Budgetary Comparison Schedule is the responsibility of management and is derived from and relates 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the Budgetary Comparison Schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2018 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.

Alexander & Company CPAs PSC

Owensboro, Kentucky
March 22, 2018

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Net Position
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
CURRENT ASSETS		
Cash	\$ 575,045	\$ 381,148
Accounts receivable	396,840	379,555
Investments	2,809,891	2,773,336
Interest receivable	2,828	3,465
Prepaid insurance	7,601	7,426
Inventory	<u>123,735</u>	<u>100,216</u>
TOTAL CURRENT ASSETS	<u>3,915,940</u>	<u>3,645,146</u>
 RESTRICTED FUNDS		
Cash - Meter Setting Fund	179,344	184,048
Cash - Medical Reimbursement Fund	175,659	139,015
Investments - customer deposits	153,781	145,475
Investments - medical reimbursement	317,253	312,175
Interest receivable	<u>504</u>	<u>595</u>
TOTAL RESTRICTED ASSETS	<u>826,541</u>	<u>781,308</u>
 CAPITAL ASSETS		
Land	56,350	56,350
Water plant	11,873,353	11,483,024
Construction in progress	<u>18,845</u>	<u>2,037</u>
	11,948,548	11,541,411
Less accumulated depreciation	<u>(4,788,252)</u>	<u>(4,482,612)</u>
NET CAPITAL ASSETS	<u>7,160,296</u>	<u>7,058,799</u>
TOTAL ASSETS	<u><u>\$ 11,902,777</u></u>	<u><u>\$ 11,485,253</u></u>

See accompanying notes.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Net Position
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Liabilities and Net Assets		
CURRENT LIABILITIES		
Accounts payable	\$ 303,304	\$ 284,053
Accrued pension	20,277	20,309
Accrued school and sales taxes	6,680	6,338
Payroll taxes and withholding	6,924	7,080
Accrued payroll	9,718	10,169
Current liabilities payable from restricted assets:		
Accounts payable	<u>24,854</u>	<u>5,454</u>
TOTAL CURRENT LIABILITIES	<u>371,757</u>	<u>333,403</u>
NONCURRENT LIABILITIES		
Customer deposits payable from restricted assets	<u>153,781</u>	<u>145,475</u>
TOTAL LIABILITIES	<u>525,538</u>	<u>478,878</u>
NET POSITION		
Net investment in capital assets	7,160,296	7,058,799
Unrestricted	<u>4,216,943</u>	<u>3,947,576</u>
TOTAL NET POSITION	<u>11,377,239</u>	<u>11,006,375</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 11,902,777</u></u>	<u><u>\$ 11,485,253</u></u>

See accompanying notes.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Water sales	\$ 2,087,052	\$ 2,070,510
Tap on fees	133,660	161,150
Miscellaneous service revenues	<u>124,611</u>	<u>108,379</u>
TOTAL OPERATING REVENUES	<u>2,345,323</u>	<u>2,340,039</u>
OPERATING EXPENSES		
Audit, accounting and legal	8,500	8,100
Bad debts	6,723	6,416
Depreciation	309,108	306,599
Education and seminars	536	2,776
Employee benefits	168,536	146,517
Engineering	316	-
Insurance	29,554	29,040
Materials, supplies, and repairs	67,531	107,441
Miscellaneous	8,706	11,307
Office supplies and expense	48,006	42,651
Payroll taxes	28,812	28,197
Phone and communication	3,811	3,887
PSC assessment	4,349	4,225
Rent of real estate	6,382	5,846
Salaries and wages	360,145	360,344
Transportation	22,241	20,464
Uniforms	2,621	2,486
Utilities	62,622	56,161
Water purchased	1,077,194	1,042,130
Water tests and meter service	<u>9,519</u>	<u>9,398</u>
TOTAL OPERATING EXPENSES	<u>2,225,212</u>	<u>2,193,985</u>
INCOME FROM OPERATIONS	<u>120,111</u>	<u>146,054</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	50,624	45,487
Interest expense	(1,076)	(562)
Loss on disposal of assets	<u>(276)</u>	<u>-</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>49,272</u>	<u>44,925</u>
INCOME BEFORE CONTRIBUTIONS	<u>169,383</u>	<u>190,979</u>

See accompanying notes.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CONTRIBUTED CAPITAL REVENUE		
Contributions in aid of construction	\$ 201,481	\$ 28,343
TOTAL CONTRIBUTED CAPITAL REVENUE	<u>201,481</u>	<u>28,343</u>
CHANGE IN NET POSITION	<u>370,864</u>	<u>219,322</u>
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	11,006,375	10,967,025
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>(179,972)</u>
NET POSITION, BEGINNING OF YEAR, RESTATED	<u>11,006,375</u>	<u>10,787,053</u>
NET POSITION, END OF YEAR	<u><u>\$ 11,377,239</u></u>	<u><u>\$ 11,006,375</u></u>

See accompanying notes.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,336,344	\$ 2,303,793
Cash payments to employees for services	(561,289)	(539,005)
Cash payments for goods and services	<u>(1,340,155)</u>	<u>(1,330,778)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>434,900</u>	<u>434,010</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(209,400)	(179,134)
Interest paid	<u>(1,076)</u>	<u>(562)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(210,476)</u>	<u>(179,696)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments - net	(49,939)	(494,867)
Interest on investments	<u>51,352</u>	<u>45,675</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>1,413</u>	<u>(449,192)</u>
NET INCREASE (DECREASE) IN CASH	225,837	(194,878)
CASH AT BEGINNING OF YEAR	<u>704,211</u>	<u>899,089</u>
CASH AT END OF YEAR	<u><u>\$ 930,048</u></u>	<u><u>\$ 704,211</u></u>

See accompanying notes.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net income from operations	<u>\$ 120,111</u>	<u>\$ 146,054</u>
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation	309,108	306,599
(Increase) decrease in:		
Accounts receivable	(17,285)	(40,976)
Prepaid insurance	(175)	(192)
Inventory	(23,519)	(11,547)
Increase (decrease) in:		
Accounts payable	38,651	27,544
Accrued pension	(32)	1,299
Accrued school and sales tax	342	484
Accrued payroll	(451)	(559)
Payroll taxes and withholding	(156)	574
Customer deposits	<u>8,306</u>	<u>4,730</u>
Total adjustments	<u>314,789</u>	<u>287,956</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 434,900</u></u>	<u><u>\$ 434,010</u></u>

See accompanying notes.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2017 and 2016

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.

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.

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 2017 and 2016, representing water lines donated to the District, were \$201,481 and \$28,343, respectively.

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.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2017 and 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 \$309,108 and \$306,599 for the years 2017 and 2016, 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 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.

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.

NOTE B – CASH DEPOSITS AND INVESTMENTS

Cash at year end consists of:

	2017	2016
Cash	\$ 575,045	\$ 381,148
Cash - Meter Setting Fund	179,344	184,048
Cash - Medical Reimbursement Fund	175,659	139,015
	<u>\$ 930,048</u>	<u>\$ 704,211</u>

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.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2017 and 2016

NOTE B – CASH DEPOSITS AND INVESTMENTS (continued)

Investments

Investments consist of seven certificates of deposit at local banks as of December 31, 2017. The first certificate of deposit has a value of \$578,372. 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 \$576,733. 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 \$582,980. This certificate pays an interest rate of 1.60% with a maturity date of May 16, 2019. The fourth certificate of deposit has a value of \$590,000. 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 \$255,499. This certificate pays an interest rate of 1.25% with a maturity date of February 18, 2018. The sixth certificate of deposit has a value of \$234,880. 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 \$462,451. This certificate pays an interest rate of 1.49% with a maturity date of February 11, 2018.

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.

Investments are shown on the Statement of Net Position as:

	2017	2016
Investments	\$ 2,809,891	\$ 2,773,336
Investments - customer deposits	153,781	145,475
Investments - medical reimbursements	317,253	312,175
	<u>\$ 3,280,925</u>	<u>\$ 3,230,986</u>

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 statutes. At December 31, 2017, 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 \$347,487. At December 31, 2016, all of the investments held by the District were insured or collateralized, except for \$2,474.

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 two local banks.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2017 and 2016

NOTE C – CAPITAL ASSETS

Capital assets activity for the years ended December 31, 2017 and 2016, was as follows:

	Balance Jan. 1, 2017	Additions	Deletions	Balance Dec. 31, 2017
Capital assets not depreciated:				
Land	\$ 56,350	\$ -	\$ -	\$ 56,350
Construction in progress	2,037	16,808	-	18,845
Total capital assets not depreciated:	<u>58,387</u>	<u>16,808</u>	<u>-</u>	<u>75,195</u>
Capital assets depreciated:				
Buildings	152,171	-	-	152,171
Pumping stations	1,006,796	2,000	-	1,008,796
Equipment	258,559	6,665	829	264,395
Tanks, lines, meters and hydrants	10,065,498	394,155	11,662	10,447,991
Total capital assets depreciated	<u>11,483,024</u>	<u>402,820</u>	<u>12,491</u>	<u>11,873,353</u>
Less accumulated depreciation:				
Buildings	121,323	5,184	-	126,507
Pumping stations	405,938	29,275	-	435,213
Equipment	185,238	25,503	552	210,189
Tanks, lines, meters and hydrants	3,770,113	249,145	2,915	4,016,343
Total accumulated depreciation	<u>4,482,612</u>	<u>309,107</u>	<u>3,467</u>	<u>4,788,252</u>
Total capital assets depreciated, net	<u>7,000,412</u>	<u>93,713</u>	<u>9,024</u>	<u>7,085,101</u>
Total capital assets, net	<u>\$ 7,058,799</u>	<u>\$ 110,521</u>	<u>\$ 9,024</u>	<u>\$ 7,160,296</u>
	Balance Jan. 1, 2016	Additions	Deletions	Balance Dec. 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 the Financial Statements
December 31, 2017 and 2016

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 2017 and 2016 were \$39,734 and \$36,943, respectively. Accrued pension expense for the Plan as of December 31, 2017 and 2016 was \$20,277 and \$20,309, respectively. Pentegra Services, Inc. is the administrator of the funds. Mass Mutual Financial Group is the custodian of the funds.

During 2017 and 2016, there were no forfeitures under this plan.

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 2017 and 2016 were \$10,439 and \$5,258, respectively. Accrued pension expense for the deferred compensation plan as of December 31, 2017 and 2016 was \$434 and \$452 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 \$201,481 for 2017 and \$28,343 for 2016.

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.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2017 and 2016

NOTE I – LEASING ARRANGEMENTS

The District conducts its operations from facilities which are constructed upon land leased for a period of five years commencing March 1, 2017. 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. The monthly rent is \$974, however, the District's share is 55% or \$536 monthly. Rental expense was \$6,382 and \$5,846 for 2017 and 2016.

The following is a schedule of future minimum rental payments required under the above lease as of December 31, 2017:

<u>Year Ended December 31</u>	<u>Amount</u>
2018	\$ 6,432
2019	6,432
2020	6,432
2021	6,432
2022	1,072
	<u>\$ 26,800</u>

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 2017 and 2016 was \$1,068,108 and \$1,042,130, respectively. Amounts payable to OMU at year-end for 2017 and 2016 were \$74,966 and \$83,404, 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.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2017 and 2016

NOTE L – NET POSITION (continued)

Included in restricted net position at December 31,

	2017	2016
Investments - Customer Deposits	\$ 153,781	\$ 145,475
Less: Restricted Liabilities	(153,781)	(145,475)
Restricted Net Position	<u>\$ -</u>	<u>\$ -</u>

NOTE M – COMMITMENTS AND CONTINGENCIES

Medical Expense Reimbursement Plan

The District provides a medical reimbursement plan (MERP) to its employees. The plan reimburses employees for medical and hospital expenses incurred by themselves and their dependents from December 1 to November 30 in any calendar year, but not to exceed \$3,000 for single employee or \$6,000 for family plan (or current health plan's out-of-pocket maximum less \$1,000 for single plan and \$2,000 for family plan) per plan year. The reimbursements exclude insurable and eligible medical and hospital expenses available to employees under the District's group insured health plan. This plan also excludes employee dental expenses and expenses for prescription and non-prescription drugs. The District has established a reserve consisting of cash and cash equivalents to cover future medical reimbursements which as of December 31, 2017 and 2016, totaled \$492,912 and \$451,190.

For the years ended December 31, 2017 and 2016, medical reimbursements paid to employees were \$14,030 and \$14,636, respectively. As of December 31, 2017 and 2016, medical reimbursements payable were \$943 and \$17.

Construction Contracts

As of December 31, 2017 and 2016, the total amount of bids awarded to contractors for construction in process was \$1,097,917 and \$0. For 2017, these bids were for the District's AMI system project, which relates to the installation of antennas on water tanks, computer software, and other equipment to upgrade a portion of the District's distribution system. Projects are required to be approved by the Public Service Commission before the District enters into a formal construction commitment. As of December 31, 2017, these projects were pending the Public Service Commission's approval and no construction contracts were entered into.

Water Purchases

The District purchases water monthly from Owensboro Municipal Utilities. The amount OMU charges the District for water purchases is based on an estimated rate. The supplier will retroactively compare the actual cost and estimated costs charged to the District and the difference (either the amount overpaid or underpaid) is communicated to the District. The District has the option to request a rate change or otherwise the rate remains unchanged.

As of May 31, 2016 and 2015, the total amount overpaid by the District was \$192,503 and \$179,972. The District has not recognized a gain contingency on their records since this amount cannot be reasonably estimated as of December 31, 2017 and 2016.

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Notes to the Financial Statements
December 31, 2017 and 2016

NOTE N – PRIOR PERIOD ADJUSTMENT

In 2016, Management recorded a receivable in the amount of \$179,972 to account for the amount overpaid to OMU as of May 31, 2015.

In 2017, Management determined that as of December 31, 2017, the amount could not be reasonably estimated, therefore, the amount should not be recognized in the financial statements, but should be disclosed as a commitment and contingency. Therefore, the 2016 financial statements were restated. The cumulative effect decreases beginning net position and accounts receivable by \$179,972.

NOTE O – SUBSEQUENT EVENTS

As of December 31, 2017, all deposits and 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 \$347,487. As of the date of this report, management has contacted the financial institution responsible for uncollateralized deposits and investments and has ensured all deposits and investments are either insured or collateralized.

The District did not have any other subsequent events through March 22, 2018, 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, 2017.

SUPPLEMENTARY INFORMATION

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Budgetary Comparison Schedule
Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
OPERATING REVENUES	<u>\$ 2,358,000</u>	<u>\$ 2,358,000</u>	<u>\$ 2,345,323</u>	<u>\$ (12,677)</u>
OPERATING EXPENSES				
Operation and maintenance expense	1,896,200	1,896,200	1,911,755	(15,555)
Depreciation expense	310,000	310,000	309,108	892
Taxes other than income	<u>4,300</u>	<u>4,300</u>	<u>4,349</u>	<u>(49)</u>
TOTAL OPERATING EXPENSES	<u>2,210,500</u>	<u>2,210,500</u>	<u>2,225,212</u>	<u>(14,712)</u>
INCOME FROM OPERATIONS	<u>147,500</u>	<u>147,500</u>	<u>120,111</u>	<u>(27,389)</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	49,000	49,000	50,624	1,624
Interest expense	(1,000)	(1,000)	(1,076)	(76)
Loss on disposal of asset	<u>-</u>	<u>-</u>	<u>(276)</u>	<u>(276)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>49,000</u>	<u>49,000</u>	<u>49,272</u>	<u>272</u>
INCOME BEFORE CONTRIBUTIONS	<u>196,500</u>	<u>196,500</u>	<u>169,383</u>	<u>(27,117)</u>
CONTRIBUTED CAPITAL REVENUE	<u>100,000</u>	<u>100,000</u>	<u>201,481</u>	<u>101,481</u>
CHANGE IN NET POSITION	<u>\$ 296,500</u>	<u>\$ 296,500</u>	<u>\$ 370,864</u>	<u>\$ 74,364</u>



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

To the Board of Commissioners
Southeast Daviess County Water District

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 Southeast Daviess County Water District, as of and for the year ended December 31, 2017, 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 22, 2018.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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 the Southeast Daviess County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 22, 2018

SOUTHEAST DAVIESS COUNTY WATER DISTRICT
Schedule of Findings and Responses
Year Ended December 31, 2017

SUMMARY OF AUDITORS' RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Southeast Daviess County Water District were prepared in accordance with GAAP.
2. The audit did not disclose any deficiencies in internal control during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Southeast Daviess County Water District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.