WEST CARROLL WATER DISTRICT

BASIC FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION, AND INDEPENDENT AUDITOR'S REPORTS

At December 31, 2016 and 2015

WEST CARROLL WATER DISTRICT
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITOR'S REPORTS

Years Ended December 31, 2016 and 2015

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Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
West Carroll Water District
Carrollton, Kentucky 41008

Report on the Financial Statements

We have audited the accompanying financial statements of West Carroll Water District as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the West Carroll Water 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 audit. We conducted our audit 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 the West Carroll Water District, as of December 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2017, on our consideration of the West Carroll 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 Carroll Water District's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

March 29, 2017

Our discussion and analysis of the West Carroll Water District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2016. Please read it in conjunction with the District's financial statements, which begin on page 6.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information about the District's use of accounting methods which are similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The statement of net position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to District creditors (liabilities). It also provides the basis for evaluating the capital of the District and assessing its liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in fund net position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its water rates and other fees.

The final required financial statement is its statement of cash flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reported period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and the change in cash during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

FINANCIAL HIGHLIGHTS

The following are key financial highlights:

- Total assets at year-end were $3,287,037 and exceeded liabilities of $1,270,775 by $2,016,262 (i.e. net position). Of the total net position, $205,318 was unrestricted and available to support short-term operations. Total net position increased from year end 2015 to 2016 in the amount of $19,517.
- Operating revenues decreased by $14,291 from 2015.
- Total operating expenses decreased by $36,173, due primarily to decreased costs in maintenance to the distribution system and purchased water costs.
- The District was not in compliance with all debt covenants in that they did not make timely payments to Carrollton Utilities for the semi-annuals amounts due for the Interconnect and Focus KIA loans.

Balance Sheet, Statement of Net Position

Utility Plant increased by $12,123 in 2016. (See diagram below.) Current assets increased $53,367 representing an increase in cash and accounts receivable. Other non-current assets decreased $84,628 representing a decrease in restricted cash.

Condensed Assets

	2016	2015	Difference
Utility Plant	$ 2,952,238	$ 2,940,115	$ 12,123
Current Assets	246,821	193,454	53,367
Other Non-Current Assets	87,978	172,606	(84,628)
Total Net Assets	$ 3,287,037	$ 3,306,175	$ (19,138)

Balance Sheet, Statement of Net Position, continued

At the end of December 31, 2016, the District had $2,952,238 invested in capital assets (net of depreciation) including buildings, equipment, and water lines. (See table below.)

	2016	2015
Land & Land Rights	$ 18,754	$ 18,754
Organizational Fees	1,477	1,923
Distribution System	2,930,289	2,917,514
Machinery & Equipment	1,718	1,924
Totals	$ 2,952,238	$ 2,940,115

Liability amounts presented in the Statement of Net Position are presented as current (payable within one year) and non-current as of December 31, 2016. A decrease in noncurrent liabilities is a result of the payments being made on various bonds issued to USDA/Rural Development.

Condensed Liabilities

	2016	2015	Difference
Noncurrent Liabilities	$ 1,174,526	$ 1,214,105	$ (39,579)
Current Liabilities	96,249	95,325	924
Total Liabilities	$ 1,270,775	$ 1,309,430	$ (38,655)

Net Position

At December 31, 2016, net position increased $19,517 due to improved operating income and FEMA public assistance funding received by the district.

	2016	2015	Difference
Net Investment in Capital Assets	$ 1,747,533	$ 1,697,772	$ 49,761
Restricted for Debt Service	63,411	147,748	(84,337)
Unrestricted	205,318	151,225	54,093
Total Net Position	$ 2,016,262	$ 1,996,745	$ 19,517

Statement of Revenues, Expenses and Changes in Fund Net Position

Water charges decreased by $14,291 due to decreased customer usage and other charges decreased by $2,848 resulting in revenues decreasing by $17,139 total for the year ending December 31, 2016. Operating expenses decreased by $36,173. The combination of decreased revenue, increase capital contributions and decreased expenses resulted in a net income of $19,517.

Condensed Statement of Revenues and Expenses

	2016	2015	Difference
Operating Revenues	$ 503,638	$ 520,777	$ (17,139)
Operating Expenses	550,908	587,081	36,173
Net Operating Revenue	$ (47,270)	$ (66,304)	$ 19,034
Non-Operating Income (Expense)	(34,525)	(38,744)	4,219
Net Income (Loss) Before Contributions	$ (81,795)	$ (105,048)	$ 23,253
Capital Contributions	101,312	53,483	47,829
Net Income (Loss)	$ 19,517	$ (51,565)	$ 71,082
Net Position Beginning of Year	1,996,745	2,048,310	(51,565)
Net Position End of Year	$ 2,016,262	$ 1,996,745	$ 19,517

Statement of Cash Flows

Cash decreased by $43,768 in 2016 due to cash invested in system improvements.

Condensed Statement of Cash Flows

	2016	2015	Difference
Cash from Operating Activities (Net)	$ 57,862	$ 28,059	$ 29,803
Cash from Capital & Related Financing Activities	(101,982)	(92,499)	(9,483)
Cash from Investing Activities	352	463	(111)
Change in Cash	$ (43,768)	$ (63,977)	$ 20,209
Cash Balance, Beginning of Year	276,316	340,293	(63,977)
Cash Balance, End of Year	$ 232,548	$ 276,316	$ (43,768)

NOTES PAYABLE AND LONG-TERM DEBT

All bond payments have been paid timely. The District does not have any short-term debts at this time.

	2016	2015	Difference
Long Term Debt	$ 1,204,705	$ 1,242,343	$ (37,638)

In February 2017, the District repaid the note payable to Carrollton Utilities associated with the Focus on Core Missions Project in the amount of $15,367.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

During the year ended December 31, 2016, the District received $88,049 for reimbursement from FEMA for damage to its distribution lines due to localized flash flooding in creeks and waterways back in July of 2015. The District applied for funding from the Federal Emergency Management Agency to enable the District to repair washed out lines in creeks and

secure the soil surrounding the lines. The District expects to receive approximately $9,783 from FEMA for final reimbursement for this damage in 2017. The Districts local contribution for damages is $14,618.64. Burkhardt-Crawford Contracting completed the project work during the year ending December 31, 2016.

The District is considering a rate increase to take effect in late 2017.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's office at 225 Sixth Street, Carrollton, KY 41008.

Vickie Edwards
Chairperson

Chastity Robbins
Director of Finance

WEST CARROLL WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2016 and 2015

	2016	2015
ASSETS		
Current Assets:		
Cash, Including Time Deposits	$ 164,368	$ 113,725
Accounts Receivable (Net)	59,130	56,153
Accounts Receivable - Other	406	-
Inventory	19,001	18,986
Prepaid Expense	3,916	4,590
Total Current Assets	$ 246,821	$ 193,454
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	$ 78,180	$ 172,591
Interest Receivable	15	15
Accounts Receivable - FEMA	9,783	-
Capital Assets (Net)	2,952,238	2,940,115
Total Noncurrent Assets	$3,040,216	$3,112,721
Total Assets	$3,287,037	$3,306,175
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 37,545	$ 34,729
Utility Tax Payable	2,468	2,458
Sales Tax Payable	371	224
Accrued Interest - Customer Deposits	35	-
Accrued Interest - Notes Payable	1,084	4,818
Current Portion - Notes Payable	19,716	18,088
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable - Long-Term Debt	13,530	14,008
Revenue Bonds Payable	21,500	21,000
Total Current Liabilities	$ 96,249	$ 95,325
Noncurrent Liabilities:		
Revenue Bonds Payable	$ 594,500	$ 616,000
Notes Payable - Carrollton Utilities	568,989	587,255
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	11,037	10,850
Total Noncurrent Liabilities	$1,174,526	$1,214,105
Total Liabilities	$1,270,775	$1,309,430
NET POSITION		
Net Investment in Capital Assets	$1,747,533	$1,697,772
Restricted for Debt Service	63,411	147,748
Unrestricted	205,318	151,225
Total Net Position	$2,016,262	$1,996,745

See accompanying notes to the basic financial statements.

WEST CARROLL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues:		
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	$ 480,991	$ 495,282
Total Charges for Services	$ 480,991	$ 495,282
Other Charges and Miscellaneous:		
Service Charges	$ 12,789	$ 13,790
Reconnect and Disconnect Charges	7,320	11,560
Miscellaneous	2,538	145
Total Other Charges and Miscellaneous	$ 22,647	$ 25,495
Total Operating Revenues	$ 503,638	$ 520,777
Operating Expenses:		
Commissioner Fees	$ 9,000	$ 9,000
Contractual Service - Sampling	4,708	5,766
Insurance	8,407	8,356
Maintenance Agreement	258,320	252,324
Maintenance of Distribution System	21,046	48,355
Office Supplies and Administrative Expense	1,879	1,542
Other Interest Expense	42	2
Payroll Taxes	689	688
Professional Services	6,058	5,860
Purchased Water	123,517	140,367
Regulatory Fees	1,028	1,025
Utilities - Pumping	11,553	12,391
Depreciation Expense	104,661	101,405
Total Operating Expenses	$ 550,908	$ 587,081
Operating Income (Loss)	$ (47,270)	$ (66,304)
Nonoperating Revenue (Expense):		
Investment Income	$ 352	$ 463
Interest Expense	(34,431)	(35,622)
Amortization Expense - Organization Costs	(446)	(446)
Loss on Abandonment of Assets	-	(3,139)
Total Nonoperating Revenues (Expense)	$ (34,525)	$ (38,744)
Income (Loss) Before Contributions	$ (81,795)	$ (105,048)
Capital Contributions	101,312	53,483
Change in Net Position	$ 19,517	$ (51,565)
Net Position--Beginning of Year	1,996,745	2,048,310
Net Position--End of Year	$ 2,016,262	$ 1,996,745

See accompanying notes to the basic financial statements.

WEST CARROLL WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$ 500,599	$ 523,735
Payments to Suppliers	(141,088)	(198,722)
Other Receipts (Payments)	(301,649)	(296,954)
Net Cash Provided (Used) by Operating Activities	$ 57,862	$ 28,059
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	$ 91,529	$ 27,038
Purchases of Capital Assets	(117,230)	(27,100)
Principal Paid on Capital Debt	(37,638)	(56,477)
Interest Paid on Capital Debt	(38,643)	(35,960)
Net Cash Provided (Used) by Capital and Related Financing Activities	$ (101,982)	$ (92,499)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	$ 352	$ 463
Net Cash Provided (Used) by Investing Activities	$ 352	$ 463
Net Increase (Decrease) in Cash and Cash Equivalents	$ (43,768)	$ (63,977)
Balances-Beginning of the Year	276,316	340,293
Balances-End of the Year	$ 232,548	$ 276,316

	Balances Per December 31, 2016 Statement of Net Position	Balances Per December 31, 2016 Statement of Cash Flows
Cash	$ 164,368	$ 164,368
Restricted Cash	68,180	68,180
Restricted Time Deposits	10,000	-
Total Cash and Cash Equivalents, End of Year	$ 242,548	$ 232,548

	Balances Per December 31, 2015 Statement of Net Position	Balances Per December 31, 2015 Statement of Cash Flows
Cash	$ 113,725	$ 113,725
Restricted Cash	162,591	162,591
Restricted Time Deposits	10,000	-
Total Cash and Cash Equivalents, End of Year	$ 286,316	$ 276,316

See accompanying notes to the basic financial statements.

WEST CARROLL WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	2016	2015
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	$ (47,270)	$ (66,304)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	104,661	101,405
Change in Assets and Liabilities:		
Receivables, Net	(3,383)	3,013
Inventories	(15)	(11,025)
Prepaid Expenses	674	(672)
Accounts and Other Payables	2,816	1,697
Accrued Expenses	192	(30)
Customer Meter Deposits Escrow Payable	187	(25)
Net Cash Provided by Operating Activities	$ 57,862	$ 28,059

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

As of December 31, 2016, the District had grant (FEMA) receivables of $9,783. There were no outstanding capital expenditures at December 31, 2015.

Additional Non-Cash Transactions:

In 2015, increases of $75,045 were added to the District's capital assets through the Focus on Core Mission and Infrastructure Project and Carroll County Interconnect Project. The debt associated with financing these improvements is included in the financial statements as Notes Payable - Carrollton Utilities. The gross amount of the debt (note payable) was reduced by the amounts provided for debt forgiveness due to federal and state funding ($26,445). West Carroll has included the debt reduction as a capital contribution in its statement of revenues, expenses and changes in fund net position for the year ended December 31, 2015.

See accompanying notes to the basic financial statements.

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The West Carroll Water District is a rural water company serving approximately 1000 customers in Carroll, Trimble and Henry Counties, Kentucky, and is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water company was formed under the laws of the above-mentioned counties through their Fiscal Courts and began operations in July, 1960.

In evaluating how to define West Carroll Water District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

A summary of the District's significant accounting policies follows:

Basis of presentation and accounting: As stated in Kentucky Revised Statutes (KRS) 278.015, "any water district shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission." In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets plus deferred outflows, net of total liabilities and deferred inflows) is segregated into net investment in capital assets, restricted; and unrestricted components.

Revenues and expenses: Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

The District adheres to the use restrictions established by Bond Agreements when expenses are incurred for which both restricted and unrestricted net position is available. The District has no policy defining which resources (restricted or unrestricted) to use first.

Bond Issuance Costs: Bond Issuance Costs are expensed as incurred.

Organization Costs: Organization costs are amortized over forty (40) years.

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment: Property and equipment purchased or constructed is stated at cost. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Costs associated with hook-up fees are capitalized as meters, installations, and services. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives by type of asset is as follows:

- Distribution System	10-50 years
- Machinery & Equipment	5-20 years

Inventory: Inventories are stated at latest cost.

Income Taxes: The West Carroll Water District is not subject to income taxes.

Deferred Outflows and Deferred Inflows: Deferred Outflows and Deferred Inflows are not assets or liabilities; revenues or expenses. Rather, they represent resources of the use of resources related to future periods.

Contributed capital: Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues in the statement of revenues, expenses and changes in fund net position. Capital contributions of $97,832 from FEMA Public Assistance Awards were recognized in the year ended December 31, 2016. Grant revenues in the form of debt forgiveness in the amount of $26,445 were recognized at the conclusion of construction of the Focus on Core Mission and Infrastructure Project and Carroll County Interconnect Project in the year ended December 31, 2015. Tap-on fees of $3,480 and $2,320 were received by the District for the years ended December 31, 2016 and 2015.

Additionally, a contribution of $24,718 was made by the City of Prestonville in the year ended December 31, 2015 for new hydrants.

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: net investment in capital assets; restricted; and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. 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 position not included in the above categories.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statement of Cash Flows: For the purpose of the Statement of Cash Flows, West Carroll Water District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS

The Bond and Interest Sinking Account was established with the original RECD bond issue, and is to be continued to be maintained as long as any of the 1975, 1981, 1994 or 2005 issues are outstanding. Under the bond resolution which established this account, it was provided that a minimum balance be maintained in this account as security to the bondholders. In order to attain the minimum balance, a monthly transfer must be made as follows:

	one sixth (1/6) of the next semiannual interest payment
+	one twelfth (1/12) of next annual principal payment
=	monthly transfer

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS (Continued)

Transfers sufficient to meet the total obligation outstanding on all issues were made timely during the years ended December 31, 2016 and 2015.

Under the bond resolution of the original 1975 bonds, a Depreciation Account was to be established to provide funds for extraordinary repairs and extensions to the system, and to make up any deficiency in the Bond and Interest Sinking Fund Account. Under the provisions of the 2005 Bond Resolution, it was determined that the monthly transfer required to be made to the Depreciation Account would be a minimum of $435 each month until a balance of $73,200 (increased from $52,200) is accumulated. When the required balance of $73,200 is attained, the monthly transfers may be discontinued, but are subject to resumption if the depreciation account is depleted below the required balance. The Depreciation Account is to be maintained as long as any of the bonds are outstanding.

Although the depreciation account was fully funded in 2015, funds continued to be transferred monthly. In 2016, $100,000 was withdrawn from the depreciation account to finance line replacements. $10,097 was transferred in excess of the approved withdrawal. This amount will be returned to the depreciation account when final reimbursements from FEMA are received. Monthly transfers will be continued in accordance with the above requirements.

NOTE 3 – CASH AND INVESTMENTS

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2016 and 2015, in accordance with the District's policy, $193,568 and $284,745 respectively, of the District's deposits were covered by federal depository insurance. Thus the District had no deposits that were exposed to custodial credit risk.

At December 31, 2016 and 2015, the District's deposits were as follows:

December 31, 2016

Type of Deposits	Total Bank Balance	Total Carrying Value
Demand Deposits	$ 57,183	$ 106,113
Time/Savings Deposits	136,385	136,385
Total Deposits	$ 193,568	$ 242,498

December 31, 2015

Type of Deposits	Total Bank Balance	Total Carrying Value
Demand Deposits	$ 79,259	$ 80,780
Time/Savings Deposits	205,486	205,486
Total Deposits	$ 284,745	$ 286,266

NOTE 3 – CASH AND INVESTMENTS (Continued)

Reconciliation to Statement of Net Position:

	December 31, 2016	December 31, 2015
Unrestricted Cash, Including Time Deposits	$ 164,368	$ 113,725
Restricted Cash, Including Time Deposits	78,180	172,591
Less Cash on Hand	(50)	(50)
	$ 242,498	$ 286,266

NOTE 4 – RESTRICTED ASSETS

Restricted cash and investments consist of the following:

	December 31, 2016	December 31, 2015
Bond and Interest Sinking Account	$ 38,315	$ 38,253
Depreciation Account	28,828	123,488
Customer Deposits	11,037	10,850
Total	$ 78,180	$ 172,591

Restricted receivables consist of the following:

	December 31, 2016	December 31, 2015
Interest Receivable	$ 15	$ 15
Total	$ 15	$ 15

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of $5,264 and $5,402 at December 31, 2016 and 2015, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

NOTE 6 – CAPITAL ASSETS

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

	Balance at January 1, 2016	Additions	Disposals	Balance at December 31, 2016
Land & Land Rights	$ 18,754	$ -	$ -	$ 18,754
Organizational Fees	17,854	-	-	17,854
Distribution System	5,394,864	117,230	-	5,512,094
Machinery & Equipment	12,482	-	-	12,482
Totals at Historical Cost	$ 5,443,954	$ 117,230	$ -	$ 5,561,184
Less: Accumulated Depreciation				
Organizational Fees	$ (15,931)	$ (446)	$ -	$ (16,377)
Distribution System	(2,477,350)	(104,455)	-	(2,581,805)
Machinery & Equipment	(10,558)	(206)	-	(10,764)
Total Accumulated Depreciation	$ (2,503,839)	$ (105,107)	$ -	$ (2,608,946)
Capital Assets, Net	$ 2,940,115	$ 12,123	$ -	$ 2,952,238

NOTE 6 – CAPITAL ASSETS (Continued)

	Balance at January 1, 2015	Additions	Disposals	Balance at December 31, 2015
Land & Land Rights	$ 18,754	$ -	$ -	$ 18,754
Organizational Fees	17,854	-	-	17,854
Distribution System	5,300,914	102,145	(8,195)	5,394,864
Machinery & Equipment	12,482	-	-	12,482
Totals at Historical Cost	$ 5,350,004	$ 102,145	$ (8,195)	$ 5,443,954
Less: Accumulated Depreciation				
Organizational Fees	$ (15,485)	$ (446)	$ -	$ (15,931)
Distribution System	(2,381,227)	(101,179)	5,056	(2,477,350)
Machinery & Equipment	(10,332)	(226)	-	(10,558)
Total Accumulated Depreciation	$ (2,407,044)	$ (101,851)	$ 5,056	$ (2,503,839)
Capital Assets, Net	$ 2,942,960	$ 294	$ (3,139)	$ 2,940,115

Included under the District's Plant Assets were $136,355 and $121,646 of fully depreciated assets, at December 31, 2016 and 2015, respectively. Land and land rights and construction in process are capital assets not being depreciated.

Amortization expense on organizational fees and depreciation expense aggregated $105,107 and $101,851 in 2016 and 2015, respectively.

NOTE 7 – CUSTOMER DEPOSITS/ESCROW

Customer deposits are collected upon installation of water service. This amount is to be refunded to the customer upon discontinuation of service (after the customer's bill has been paid in full). Records were maintained which detailed the accrued interest on each customer's deposit based on a one-quarter (.25) of a percent annual rate for the years ended December 31, 2016 and 2015. Accrued interest is paid when the deposit is refunded or credited to the customer's account annually. At December 31, 2016, $35 of interest was accrued on customer deposits. None was accrued at December 31, 2015.

NOTE 8 – LONG-TERM DEBT

As of December 31, 2016 and 2015, the long-term debt payable consisted of the following:

Bonds Payable:

	December 31, 2016	December 31, 2015
RECD Revenue Bonds of 1981 Series B, original issue amount of $114,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Final maturity is January 1, 2021.	$ 29,500	$ 34,500
RECD Revenue Bonds of 1994, original issue amount of $395,000, secured by water revenues. Interest is charged at the rate of 4.5% per annum. Final maturity is January 1, 2033.	263,500	273,500

Note 8 – LONG-TERM DEBT (Continued)

	December 31, 2016	December 31, 2015
RECD Revenue Bonds of 2005, original issue amount of $369,000, secured by water revenues. Interest is charged at the rate of 4.25% per annum. Final maturity is January 1, 2044.	323,000	329,000
Total Bonds Payable	$ 616,000	$ 637,000
Current Portion	$ 21,500	$ 21,000
Noncurrent Portion	594,500	616,000
Total Bonds Payable	$ 616,000	$ 637,000

Notes Payable:

The West Carroll Water District has entered into interlocal agreements under which it is the subrecipient of loan proceeds from the Kentucky Infrastructure Authority funding the Countywide Underserved Project, the Focus on Core Mission and Infrastructure Project and the Carroll County Interconnect Project. The City of Carrollton f/b/o Carrollton Utilities is the recipient of the loan proceeds. It is also the entity that provided oversight for the engineering and construction contracts, and other general costs associated with the projects. West Carroll Water District, under interlocal agreements with the City of Carrollton/Carrollton Utilities, agreed to pay Carrollton Utilities for the portion of the debt associated with improvements made to its distribution system. At December 31, 2015, West Carroll Water District's portion of the construction projects was complete.

	December 31, 2016	December 31, 2015
Carrollton Utilities (Countywide Underserved Project) represents a 30 year loan as stipulated in an interlocal agreement. Interest is charged at 1.00% per annum. In addition, a loan servicing fee of .25% of the annual outstanding loan balance will be payable as part of each interest payment. The original principal balance was $573,220 after the note was reduced by 35% principal forgiveness of $308,657. Semi-annual payments with final maturity December 1, 2044.	$ 540,105	$ 556,743
Carrollton Utilities (Carroll County Interconnect Project) represents a 30 year loan as stipulated in an interlocal agreement. Interest is charged at .75% per annum. In addition, a loan servicing fee of .25% of the annual outstanding loan balance will be payable as a part of each interest payment. The original principal balance was $33,233 after the note was reduced by 25% principal forgiveness of $11,077. Semi-annual payments with final maturity December 1, 2045.	33,233	33,233
Carrollton Utilities (Focus on Core Mission and Infrastructure Project) represents a 30 year loan as stipulated in an interlocal agreement. Interest is charged at .75% per annum. In addition, a loan servicing fee of .20% of the annual outstanding loan balance will be payable as part of each interest payment. The original principal balance was $15,367 after the note was reduced by 50% principal forgiveness of $15,367. Semi-annual payments with final maturity December 1, 2045.	15,367	15,367
Total Notes Payable	$ 588,705	$ 605,343

Note 8 – LONG-TERM DEBT (Continued)

Notes Payable: (Continued)

	December 31, 2016	December 31, 2015
Current Portion	$ 19,716	$ 18,088
Noncurrent Portion	568,989	587,255
Total Notes Payable	$ 588,705	$ 605,343

As indicated above, the construction associated with the District's portion of the projects was complete at December 31, 2015. Principal forgiveness (grant income) in the amount of $26,444 was recognized in the year ended December 31, 2015. The KIA loans associated with the Carroll County Interconnect Project and Focus on Core Mission and Infrastructure Project were closed during the year ended December 31, 2016.

Payments due during 2016 of $611 and $1,322 were not paid on the Focus on Core Mission and Carroll County Interconnect Project notes, respectively.

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the years ended December 31, 2016 and 2015.

December 31, 2016

	Balance at January 1, 2016	Additions	Retirements	Balance at December 31, 2016	Current Portion
Note Payable	$ 605,343	$ -	$ (16,638)	$ 588,705	$ 19,716
Bonds Payable	637,000	-	(21,000)	616,000	21,500
	$ 1,242,343	$ -	$ (37,638)	$ 1,204,705	$ 41,216

December 31, 2015

	Balance at January 1, 2015	Additions	Retirements	Balance at December 31, 2015	Current Portion
Note Payable	$ 573,220	$ 75,044	$ (42,921) *	$ 605,343	$ 18,088
Bonds Payable	677,000	-	(40,000)	637,000	21,000
	$ 1,250,220	$ 75,044	$ (82,921)	$ 1,242,343	$ 39,088

*Includes loan forgiveness (grant)

The annual requirements for all notes and bonds payable at December 31, 2016 are as follows:

	Note Payable			Bonds Payable		
	Principal	Interest	Service Fee	Principal	Interest	Total
2017	$ 19,716	$ 6,072	$ 1,577	$ 21,500	$ 26,080	$ 74,945
2018	18,445	5,531	1,411	22,500	25,055	72,942
2019	18,626	5,349	1,365	23,000	24,005	72,345
2020	18,809	5,166	1,318	25,000	22,868	73,161
2021	18,994	4,982	1,271	26,000	21,683	72,930
2022-2026	97,808	22,071	5,631	112,500	94,010	332,020
2027-2031	102,710	17,169	4,381	143,000	65,295	332,555
2032-2036	107,859	12,021	3,069	106,500	35,498	264,947
2037-2041	113,267	6,613	1,690	80,000	18,955	220,525
2042-2044	72,471	1,268	328	56,000	2,423	132,490
	$ 588,705	$ 86,242	$ 22,041	$ 616,000	$ 335,872	$ 1,648,860

NOTE 8 – LONG-TERM DEBT (Continued)

The annual requirements for all notes and bonds payable at December 31, 2015 are as follows:

	Note Payable			Bonds Payable		
	Principal	Interest	Service Fee	Principal	Interest	Total
2016	$ 18,088	$ 5,888	$ 1,502	$ 21,000	$ 27,060	$ 73,538
2017	18,266	5,710	1,457	21,500	26,080	73,013
2018	18,445	5,531	1,411	22,500	25,055	72,942
2019	18,626	5,349	1,365	23,000	24,005	72,345
2020	18,810	5,166	1,318	25,000	22,868	73,162
2021-2025	96,856	23,023	5,874	113,500	98,973	338,226
2026-2030	101,710	18,169	4,636	137,000	71,603	333,118
2031-2035	106,808	13,071	3,336	123,500	40,130	286,845
2036-2040	112,164	7,716	1,971	77,000	22,355	221,206
2041-2044	95,570	2,146	552	73,000	4,803	176,071
	$ 605,343	$ 91,769	$ 23,422	$ 637,000	$ 362,932	$ 1,720,466

NOTE 9 – INTEREST EXPENSE

Interest expense incurred for the years ended December 31, 2016 and 2015 was $34,473 and $35,624, respectively. No interest was capitalized in 2016 or 2015.

NOTE 10 – FUND EQUITY-RESTRICTED NET POSITION

	December 31, 2016	December 31, 2015
Restricted for Debt Service:		
RECD Revenue Bonds of 1975, 1981, 1994, and 2005		
Cash	$ 67,143	$ 161,741
Add: Accrued Interest and Public Assistance Funds Receivable	9,798	15
Less: Accrued Interest Payable	(13,530)	(14,008)
Total Restricted for Debt Service	$ 63,411	$ 147,748

NOTE 11 – BAD DEBT EXPENSE

Water revenue charges have been netted with an estimated bad debt expense of $5,492 and $8,592 at December 31, 2016 and 2015, respectively.

NOTE 12 – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks is covered through the contributions, premiums and assessments to the Kentucky Association of Counties All Lines Fund (KALF).

NOTE 13 – ECONOMIC DEPENDENCY

The Water District purchases 100% of the water it sells from the following entities: Carrollton Utilities (97.3%), the Henry County Water District (0.7%), the Trimble County Water District (0.1%), and the City of Milton Water and Sewer Utility (1.9%).

NOTE 14 – OPERATION AND MAINTENANCE CONTRACT

Effective April 1, 1998, the District entered into an agreement with Carrollton Utilities under which Carrollton Utilities agreed to provide the operation and maintenance of the District's facilities, customer billing services, accounting functions, and related services. Effective July 1, 2016 and 2015, the annual fee for these services was $263,178 and $255,513, respectively. Effective January 1, 2017, the annual fee was reduced by $15,000 to $248,178.

NOTE 15 – CONTINGENCIES

During the year ended December 31, 2015, the District experienced significant damage to its distribution lines due to inclement weather. The District applied for funding from the Federal Emergency Management Agency to enable the District to repair washed out lines and secure the soil surrounding the lines. FEMA approved funding required for 75% of the project. A bid was accepted on November 30, 2015 from Burkhardt-Crawford Contracting for $113,505 to complete the project. Work was completed in 2016. At December 31, 2016, the District was awaiting FEMA's final review of the project for release of retained funds. A receivable of $9,783 has been recorded in the financial statements for these funds.

NOTE 16 – SUBSEQUENT EVENTS

In February, 2017, the District repaid the note payable to Carrollton Utilities associated with the Focus on Core Mission and Infrastructure Project of $15,367.

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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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 Commissioners of the
West Carroll Water District
Carrollton, KY 41008

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 Carroll Water District as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise West Carroll Water District's basic financial statements and have issued our report thereon dated March 29, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered West Carroll 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 West Carroll Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of West Carroll 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 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies (Items 2016-001 and 2016-002).

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether West Carroll 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.*

WEST CARROLL WATER DISTRICT'S RESPONSE TO FINDINGS

West Carroll Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. West Carroll Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

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

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP, & WOODS P.S.C
Certified Public Accountants
Carrollton, Kentucky

March 29, 2017

WEST CARROLL WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2016

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the West Carroll Water District were prepared in accordance with GAAP.

2. Two deficiencies in internal control related to the audit of the financial statements is reported in the 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*. Item 2016-001 and 2016-002 are reported as significant deficiencies.

3. No instances of noncompliance material to the financial statements of West Carroll Water District were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL

2016-001 CHECKING PROCEDURES

CONDITION:

Reconciliation procedures have not been performed on all accounts. This limits internal control.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and allow timely preparation of financial data consistent with management assertions.

CAUSE:

Time constraints and responsibilities associated with individual positions limit the availability of individuals to perform checking procedures.

EFFECT:

This limitation may allow transactions to be recorded incorrectly.

RECOMMENDATION:

Management should strive to perform checking processes timely to insure the accuracy and consistency of the financial information prepared.

RESPONSE:

We concur with the recommendation. Management will enhance the monthly review and checking procedures associated with its financial information.

2016-002 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CONDITION:

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was cited as a significant deficiency in the schedule of findings and responses for the year ended December 31, 2015 as Item 2015-001.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

GOVERNMENT AUDITING STANDARDS (CONTINUED)

DEFICIENCIES IN INTERNAL CONTROL (CONTINUED)

2016-002 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES (CONTINUED)

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

CAUSE:

The draft financial statements and disclosures are prepared during the audit process.

EFFECT:

Management engaged the auditor to prepare the draft of the financial statements, including the related notes to the financial statements. Management reviewed, approved, and accepted responsibility for the financial statements prior to their issuance.

RECOMMENDATION:

District management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

RESPONSE:

The outsourcing of this service is a result of management's cost benefit decision to avoid incurring internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities. We are aware of our responsibilities for the financial statements. We have reviewed and accepted the financial statements as presented.

COMPLIANCE AND OTHER MATTERS

NONE