

**WEST DAVIESS COUNTY WATER DISTRICT**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2018 AND 2017**

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Contents**  
**December 31, 2018 and 2017**

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## INDEPENDENT AUDITORS' REPORT

To The Board of Commissioners  
West Daviess County Water District

### Report on the Financial Statements

We have audited the accompanying financial statements of West Daviess County Water District (District), a component unit of the Daviess County Fiscal Court, Kentucky, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of West Daviess County Water District as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Required Supplementary Information**

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

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the West 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 25, 2019 on our consideration of West Daviess County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering West Daviess County Water District's internal control over financial reporting and compliance.



Owensboro, Kentucky  
March 25, 2019

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Statements of Net Position**  
**December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 408,114	\$ 543,940
Accounts receivable	211,620	193,811
Investments	1,798,986	2,139,706
Interest receivable	1,678	2,296
Prepaid insurance	5,106	6,574
Inventory	<u>123,745</u>	<u>103,364</u>
<b>TOTAL CURRENT ASSETS</b>	<u>2,549,249</u>	<u>2,989,691</u>
 <b>RESTRICTED FUNDS</b>		
Cash - Meter Setting Fund	98,974	89,390
Cash - Medical Reimbursement Fund	20,685	156,027
Accounts receivable	657	1,695
Investments - customer deposits	106,340	102,995
Investments - medical reimbursement	171,070	246,048
Interest receivable	<u>70</u>	<u>372</u>
<b>TOTAL RESTRICTED ASSETS</b>	<u>397,796</u>	<u>596,527</u>
 <b>CAPITAL ASSETS</b>		
Land	38,232	38,232
Water plant	11,081,430	10,723,218
Construction in progress	<u>892,587</u>	<u>16,844</u>
	12,012,249	10,778,294
Less accumulated depreciation	<u>(4,838,250)</u>	<u>(4,566,163)</u>
<b>NET CAPITAL ASSETS</b>	<u>7,173,999</u>	<u>6,212,131</u>
 <b>TOTAL ASSETS</b>	<u><u>\$ 10,121,044</u></u>	<u><u>\$ 9,798,349</u></u>

See accompanying notes.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Statements of Net Position**  
**December 31, 2018 and 2017**

<b>Liabilities and Net Assets</b>	<u>2018</u>	<u>2017</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 165,933	\$ 153,645
Accrued pension	17,125	16,590
Accrued school and sales taxes	5,238	4,565
Payroll taxes and withholding	5,803	5,481
Accrued payroll	9,482	8,106
 Current liabilities payable from restricted assets:		
Accounts payable	<u>31,400</u>	<u>13,715</u>
 <b>TOTAL CURRENT LIABILITIES</b>	<u>234,981</u>	<u>202,102</u>
 <b>NONCURRENT LIABILITIES</b>		
Customer deposits payable from restricted assets	<u>106,340</u>	<u>102,995</u>
 <b>TOTAL LIABILITIES</b>	<u>341,321</u>	<u>305,097</u>
 <b>NET POSITION</b>		
Net investment in capital assets	7,173,999	6,212,131
Unrestricted	<u>2,605,724</u>	<u>3,281,121</u>
 <b>TOTAL NET POSITION</b>	<u>9,779,723</u>	<u>9,493,252</u>
 <b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 10,121,044</u></u>	<u><u>\$ 9,798,349</u></u>

See accompanying notes.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES</b>		
Water sales	\$ 1,598,735	\$ 1,593,306
Tap on fees	99,685	93,150
Miscellaneous service revenues	<u>71,460</u>	<u>59,901</u>
<b>TOTAL OPERATING REVENUES</b>	<u>1,769,880</u>	<u>1,746,357</u>
<b>OPERATING EXPENSES</b>		
Audit, accounting and legal	15,366	9,668
Bad debts	3,095	3,280
Depreciation	274,374	272,221
Education and seminars	1,360	999
Employee benefits	145,327	137,894
Engineering	-	432
Insurance	23,227	24,655
Materials, supplies, and repairs	60,721	33,813
Miscellaneous	6,029	5,548
Office supplies and expense	41,091	35,521
Payroll taxes	24,899	23,698
Phone and communication	4,197	3,542
PSC assessment	3,306	3,216
Rent of real estate	5,261	5,222
Salaries and wages	313,743	296,301
Transportation	22,687	18,198
Uniforms	2,395	2,145
Utilities	51,126	48,212
Water purchased	740,183	713,273
Water tests and meter service	<u>9,925</u>	<u>8,269</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>1,748,312</u>	<u>1,646,107</u>
<b>INCOME FROM OPERATIONS</b>	<u>21,568</u>	<u>100,250</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	41,729	39,351
Interest expense	(1,562)	(712)
Gain on disposal of assets	<u>-</u>	<u>10,441</u>
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>40,167</u>	<u>49,080</u>
<b>INCOME BEFORE CONTRIBUTIONS</b>	<u>61,735</u>	<u>149,330</u>

See accompanying notes.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>CONTRIBUTED CAPITAL REVENUE</b>		
Contributions in aid of construction	<u>\$ 224,736</u>	<u>\$ 66,667</u>
<b>TOTAL CONTRIBUTED CAPITAL REVENUE</b>	<u>224,736</u>	<u>66,667</u>
<b>CHANGE IN NET POSITION</b>	<u>286,471</u>	<u>215,997</u>
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>9,493,252</u>	<u>9,277,255</u>
<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 9,779,723</u></u>	<u><u>\$ 9,493,252</u></u>

See accompanying notes.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 1,756,454	\$ 1,743,602
Cash payments to employees for services	(485,491)	(461,562)
Cash payments for goods and services	<u>(974,481)</u>	<u>(905,769)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>296,482</u>	<u>376,271</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(1,011,506)	(197,623)
Proceeds from sale of assets	-	18,250
Interest paid	<u>(1,562)</u>	<u>(712)</u>
<b>NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(1,013,068)</u>	<u>(180,085)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Change in investments - net	412,353	(38,715)
Interest on investments	<u>42,649</u>	<u>39,948</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>455,002</u>	<u>1,233</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(261,584)	197,419
<b>CASH AT BEGINNING OF YEAR</b>	<u>789,357</u>	<u>591,938</u>
<b>CASH AT END OF YEAR</b>	<u><u>\$ 527,773</u></u>	<u><u>\$ 789,357</u></u>

See accompanying notes.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net income from operations	<u>\$ 21,568</u>	<u>\$ 100,250</u>
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation	274,374	272,221
(Increase) decrease in:		
Accounts receivable	(16,771)	(7,255)
Prepaid insurance	1,468	(143)
Inventory	(20,381)	(31,010)
Increase (decrease) in:		
Accounts payable	29,973	38,516
Accrued pension	535	(26)
Accrued school and sales tax	673	(283)
Accrued payroll	1,376	(369)
Payroll taxes and withholding	322	(130)
Customer deposits	<u>3,345</u>	<u>4,500</u>
Total adjustments	<u>274,914</u>	<u>276,021</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 296,482</u></u>	<u><u>\$ 376,271</u></u>

See accompanying notes.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

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

Nature of Business

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

Proprietary Fund

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

Basis of Accounting

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

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

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

Regulation

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

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 2018 and 2017, representing water lines donated to the District, were \$167,119 and \$66,667, 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.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

**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 net realizable value.

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 \$274,374 and \$272,221 for the years 2018 and 2017, 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:

	2018	2017
Cash	\$ 408,114	\$ 543,940
Cash - Meter Setting Fund	98,974	89,390
Cash - Medical Reimbursement Fund	20,685	156,027
	<u>\$ 527,773</u>	<u>\$ 789,357</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.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

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

Investments

Investments consist of five certificates of deposit at local banks as of December 31, 2018. The first certificate of deposit has a value of \$472,892. 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 \$470,447. This certificate pays an interest rate of 1.36% with a maturity date of November 15, 2019. The third certificate of deposit has a value of \$476,736. 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 \$485,251. This certificate pays an interest rate of 2.72% with a maturity date of January 13, 2020. The fifth certificate of deposit has a value of \$171,070. This certificate pays an interest rate of 2.52% with a maturity date of October 26, 2019.

Investments consist of six certificates of deposit at local banks as of December 31, 2017. The first certificate of deposit has a value of \$465,437. 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 \$464,139. This certificate pays an interest rate of 1.36% with a maturity date of November 15, 2019. The third certificate of deposit has a value of \$ 469,174. 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 \$474,816. 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 November 18, 2018. The sixth certificate of deposit has value of \$359,684. This certificate pays an interest rate of 1.49% with a maturity date of November 12, 2018.

Investments are shown on the Statements of Net Position as:

	2018	2017
Investments	\$ 1,798,986	\$ 2,139,706
Investments - customer deposits	106,340	102,995
Investments - medical reimbursements	171,070	246,048
	<u>\$ 2,076,396</u>	<u>\$ 2,488,749</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 statues. At December 31, 2018, 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. 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 \$345,013.

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 six certificates of deposit at local banks.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

**NOTE C – CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2018 and 2017 as follows:

	Balance Dec. 31, 2017	Additions	Deletions	Balance Dec. 31, 2018
Capital assets not depreciated:				
Land	\$ 38,232	\$ -	\$ -	\$ 38,232
Construction in progress	16,844	910,654	34,911	892,587
Total capital assets not depreciated:	<u>55,076</u>	<u>910,654</u>	<u>34,911</u>	<u>930,819</u>
Capital assets depreciated:				
Buildings	155,964	-	-	155,964
Pumping stations	614,715	-	-	614,715
Equipment	237,815	39,097	-	276,912
Tanks, lines, meters and hydrants	9,714,724	326,540	7,425	10,033,839
Total capital assets depreciated	<u>10,723,218</u>	<u>365,637</u>	<u>7,425</u>	<u>11,081,430</u>
Less accumulated depreciation:				
Buildings	135,267	3,191	-	138,458
Pumping stations	315,657	17,198	-	332,855
Equipment	179,970	17,732	-	197,702
Tanks, lines, meters and hydrants	3,935,269	236,253	2,287	4,169,235
Total accumulated depreciation	<u>4,566,163</u>	<u>274,374</u>	<u>2,287</u>	<u>4,838,250</u>
Total capital assets depreciated, net	<u>6,157,055</u>	<u>91,263</u>	<u>5,138</u>	<u>6,243,180</u>
Total capital assets, net	<u>\$ 6,212,131</u>	<u>\$ 1,001,917</u>	<u>\$ 40,049</u>	<u>\$ 7,173,999</u>
	Balance Dec. 31, 2016	Additions	Deletions	Balance Dec. 31, 2017
Capital assets not depreciated:				
Land	\$ 38,232	\$ -	\$ -	\$ 38,232
Construction in progress	15,898	52,038	51,092	16,844
Total capital assets not depreciated:	<u>54,130</u>	<u>52,038</u>	<u>51,092</u>	<u>55,076</u>
Capital assets depreciated:				
Buildings	155,964	-	-	155,964
Pumping stations	613,715	1,000	-	614,715
Equipment	245,348	12,953	20,486	237,815
Tanks, lines, meters and hydrants	9,468,197	261,988	15,461	9,714,724
Total capital assets depreciated	<u>10,483,224</u>	<u>275,941</u>	<u>35,947</u>	<u>10,723,218</u>
Less accumulated depreciation:				
Buildings	132,076	3,191	-	135,267
Pumping stations	298,467	17,190	-	315,657
Equipment	167,782	23,864	11,676	179,970
Tanks, lines, meters and hydrants	3,711,158	227,976	3,865	3,935,269
Total accumulated depreciation	<u>4,309,483</u>	<u>272,221</u>	<u>15,541</u>	<u>4,566,163</u>
Total capital assets depreciated, net	<u>6,173,741</u>	<u>3,720</u>	<u>20,406</u>	<u>6,157,055</u>
Total capital assets, net	<u>\$ 6,227,871</u>	<u>\$ 55,758</u>	<u>\$ 71,498</u>	<u>\$ 6,212,131</u>

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

**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 2018 and 2017 were \$33,767 and \$32,510, respectively. Accrued pension expense for the Plan as of December 31, 2018 and 2017 was \$17,125 and \$16,590, respectively. Pentegra Services, Inc. is the administrator of the funds. Mass Mutual Financial Group is the custodian of the funds.

During 2018 and 2017, 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 contributions to the deferred compensation plan for 2018 and 2017 were \$8,941 and \$8,541, respectively. Accrued pension expense for the deferred compensation plan as of December 31, 2018 and 2017 was \$382 and \$355, 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 for the purpose of medical reimbursement and meter setting deposits are classified as restricted funds and liabilities to be paid by the District are classified as liabilities payable from restricted funds.

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

Contributions in aid of construction represent additions to water plant through extensions of the water distribution system. These additions are funded by individual users through payments made directly to the District or to independent contractors. Contributions to the water distribution system amounted to \$224,736 for 2018 and \$66,667 for 2017.

**NOTE G – INCOME TAX STATUS**

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

**NOTE H – OPERATING AND ADMINISTRATION EXPENSES**

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

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

**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 with a 10% adjustment to the monthly rent. 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 45% or \$438 monthly. Rental expense was \$5,261 and \$5,222 for 2018 and 2017.

The following is a schedule of future minimum rental payments required under the above lease as of December 31, 2018.

<u>Year Ended December 31</u>	<u>Amount</u>
2019	\$ 5,256
2020	5,256
2021	5,256
2022	5,256
2023	-
	<u>\$ 21,024</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). Total purchases from OMU for 2018 and 2017 were \$739,236 and \$713,273, respectively. Amounts payable to OMU at year-end for 2018 and 2017 were \$65,805 and \$49,267, 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.

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Notes to the Financial Statements**  
**December 31, 2018 and 2017**

**NOTE L – NET POSITION (continued)**

Included in restricted net position at December 31,

	<u>2018</u>	<u>2017</u>
Investments - Customer Deposits	\$ 106,340	\$ 102,995
Less: Restricted Liabilities	<u>(106,340)</u>	<u>(102,995)</u>
Restricted Net Position	<u><u>\$ -</u></u>	<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, 2018 and 2017, totaled \$191,755 and \$402,075.

For the years ended December 31, 2018 and 2017 medical reimbursements paid to employees were \$10,123 and \$11,479, respectively. As of December 31, 2018 and 2017, medical reimbursements payable were \$282 and \$772.

Water Purchases

The District purchases water monthly from Owensboro Municipal Utilities (OMU). 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, 2018 and 2017, the total amount underpaid by the District was \$110,698 and \$25,818. The District did not request a rate change for either 2018 or 2017. The District has not recognized a contingency on their records since this amount cannot be reasonably estimated as of December 31, 2018 and 2017.

**NOTE N – SUBSEQUENT EVENTS**

The District did not have subsequent events through March 25, 2019, 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, 2018.

## **SUPPLEMENTARY INFORMATION**

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Budgetary Comparison Schedule**  
**Year Ended December 31, 2018**

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
<b>OPERATING REVENUES</b>	<u>\$ 1,728,500</u>	<u>\$ 1,728,500</u>	<u>\$ 1,769,880</u>	<u>\$ 41,380</u>
<b>OPERATING EXPENSES</b>				
Operation and maintenance expense	1,421,500	1,421,500	1,470,632	(49,132)
Depreciation expense	272,000	272,000	274,374	(2,374)
Taxes other than income	<u>3,300</u>	<u>3,300</u>	<u>3,306</u>	<u>(6)</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>1,696,800</u>	<u>1,696,800</u>	<u>1,748,312</u>	<u>(51,512)</u>
<b>INCOME FROM OPERATIONS</b>	<u>31,700</u>	<u>31,700</u>	<u>21,568</u>	<u>(10,132)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	37,000	37,000	41,729	4,729
Interest expense	<u>(1,000)</u>	<u>(1,000)</u>	<u>(1,562)</u>	<u>(562)</u>
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>36,000</u>	<u>36,000</u>	<u>40,167</u>	<u>4,167</u>
<b>INCOME BEFORE CONTRIBUTIONS</b>	<u>67,700</u>	<u>67,700</u>	<u>61,735</u>	<u>(5,965)</u>
<b>CONTRIBUTED CAPITAL REVENUE</b>	<u>30,000</u>	<u>30,000</u>	<u>224,736</u>	<u>194,736</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 97,700</u>	<u>\$ 97,700</u>	<u>\$ 286,471</u>	<u>\$ 188,771</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  
West 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 West Daviess County Water District, as of and for the year ended December 31, 2018, 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 25, 2019.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the West Daviess County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the West Daviess County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the West 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 West 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 25, 2019

**WEST DAVIESS COUNTY WATER DISTRICT**  
**Schedule of Findings and Responses**  
**Year Ended December 31, 2018**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

NONE