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Public Service
Commission

Western Lewis Rectorville Water & Gas District

Maysville, Kentucky

Regular Audit

January 1, 2015 through December 31, 2015

Fiscal Years Audited Under GAGAS: 2015



CAUDILL & ASSOCIATES, CPA, PLLC

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Table of Contents

Independent Auditor’s Report	1
Financial Statements	
Statement of Net Position.....	3
Statement of Revenues, Expenses and Changes in Net Position.....	4
Statement of Cash Flows	5
Notes to Financial Statements	6-14
Supplemental Information	
Statement of Revenues and Expenses – Gas and Water Division.....	15
Supplemental Information Required by Rural Development.....	16
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>.....	17-18
Schedule of Findings and Responses.....	19



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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Western Lewis-Rectorville Water & Gas District
Maysville, KY 41056

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Western Lewis-Rectorville Water & Gas District of Maysville, Kentucky, (the "District"), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 respective financial position of the business-type activities of the Western Lewis-Rectorville Water & Gas District of Maysville, Kentucky, as of December 31, 2015 and 2014 and the changes in financial position and cash flows, thereon for the years ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Management has omitted a 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 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 Western Lewis-Rectorville Water & Gas District's basic financial statements. The accompanying supplemental information on pages 15 and 16 are presented for purposes of additional analysis and is not required part of the basic financial statements. The 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. In my opinion, the information 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 April 8, 2016, on our consideration of Western Lewis-Rectorville Water & Gas 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 the District's internal control over financial reporting and compliance.

Caudill & Associates, CPA

Caudill & Associates, CPA, PLLC
April 8, 2016

Western Lewis-Rectorville Water and Gas District
Statement of Net Position
December 31, 2015 and 2014

<u>ASSETS:</u>	<u>2015</u>	<u>2014</u>
Current Assets:		
Cash and Cash Equivalents - unrestricted	\$ 327,306	\$ 216,276
Accounts receivable (Less Allowance for Doubtful Accounts of \$6,300)	105,759	127,227
Inventory	41,695	35,698
Unbilled Receivables	58,040	72,949
Prepaid Expense	<u>9,743</u>	<u>8,777</u>
<u>Total Current Assets</u>	<u>542,543</u>	<u>460,927</u>
Noncurrent Assets:		
Cash and Cash Equivalents - restricted	342,988	338,758
Nondepreciated Capital Assets:		
Land	47,914	47,914
Depreciated Capital Assets:		
Utility Plant and Equipment	11,882,705	11,764,069
Less: accumulated depreciation	<u>(4,700,196)</u>	<u>(4,384,824)</u>
<u>Total Noncurrent Assets</u>	<u>7,573,411</u>	<u>7,765,917</u>
<u>Deferred Outflows of Resources</u>		
Deferred outflows - pension resources	<u>32,532</u>	<u>-</u>
<u>Total Assets and deferred outflows</u>	<u>\$ 8,148,486</u>	<u>\$ 8,226,844</u>
<u>LIABILITIES AND NET POSITION:</u>		
Current Liabilities:		
Accounts payable	\$ 34,660	\$ 54,257
Accrued Taxes and Retirement	7,272	7,495
Accrued Interest Payable	17,964	18,418
Accrued Wages and Sick Leave	9,060	9,270
Customer Deposits and Budget Billing	113,841	108,385
Net Pension Liability	244,000	-
Current portion of long-term debt	<u>62,500</u>	<u>59,500</u>
<u>Total Current Liabilities</u>	<u>489,297</u>	<u>257,325</u>
Long-Term Liabilities:		
Bonds payable, less current portion	<u>2,316,000</u>	<u>2,378,500</u>
<u>Total Long-Term Liabilities</u>	<u>2,316,000</u>	<u>2,378,500</u>
<u>Total Liabilities</u>	<u>2,805,297</u>	<u>2,635,825</u>
<u>Deferred Inflows of Resources</u>		
Deferred Inflows - pension resources	<u>27,000</u>	<u>-</u>
Net Position		
Net Investment in capital assets	4,851,923	4,989,159
Restricted	342,988	338,758
Unrestricted	<u>121,278</u>	<u>263,102</u>
<u>Tota Net Position</u>	<u>5,316,189</u>	<u>5,591,019</u>
<u>Total Liabilites, deferred inflows and Net Position</u>	<u>\$ 8,148,486</u>	<u>\$ 8,226,844</u>

The accompanying notes are an integral part of these financial statements

Western Lewis-Rectorville Water and Gas District
Statement of Revenues, Expenses and
Changes in Net Position
For the Years Ended December 31, 2015 and 2014

<u>OPERATING REVENUE:</u>	<u>2015</u>	<u>2014</u>
Water and Gas Sales:		
Residential	\$ 1,070,558	\$ 1,099,959
Commerical	132,316	135,950
Service Charges and Other Revenues	<u>96,343</u>	<u>63,156</u>
<u>Total Operating Revenues</u>	<u>1,299,217</u>	<u>1,299,065</u>
 <u>OPERATING EXPENSES:</u>		
Salaries & Wages - Employees	257,990	189,134
Salaries & Wages - Officers & Directors	20,000	14,400
Retirement Expense	17,875	32,577
Purchased Water and Gas	252,676	377,698
Purchased Power	53,120	49,988
Chemicals and Salt	9,683	16,856
Materials and Supplies	21,215	14,999
Professional Fees	25,901	17,860
Maintenance Expense	76,888	99,711
Rental Expense	1,775	5,133
Insurance	91,642	85,556
Regulatory Commission Expense	-	3,889
Depreciation and Amortization	316,777	311,021
Utilities and Telephone	5,006	5,945
Office and Program Expense	67,790	97,492
Taxes Other Than Income	<u>23,775</u>	<u>17,666</u>
<u>Total Operating Expense</u>	<u>1,242,113</u>	<u>1,339,925</u>
 <u>OPERATING INCOME/ (LOSS):</u>	 57,104	 (40,860)
Non-operating income (expenses)		
Interest income	628	457
Gain on Sale of Assets	(6,402)	1,587
Tollesboro Sanitation District No.1 Fee	10,877	17,422
Insurance Recoveries	-	40,000
Interest expense	(109,222)	(111,817)
<u>Total Nonoperating Revenues/(Expenses)</u>	<u>(104,119)</u>	<u>(52,351)</u>
 <u>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</u>	 (47,015)	 (93,211)
Capital Grants	-	-
Customer Tap Fees	<u>24,185</u>	<u>11,250</u>
Change in net position	(22,830)	(81,961)
Net position, beginning of year - restated	<u>5,339,019</u>	<u>5,672,980</u>
 <u>NET POSITION, END OF YEAR</u>	 <u>\$ 5,316,189</u>	 <u>\$ 5,591,019</u>

The accompanying notes are an integral part of these financial statements

Western Lewis-Rectorville Water Gas District
Statement of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Receipts from customers	1,341,050	1,267,123
Payments to suppliers	(688,115)	(817,020)
Payments of employees	(278,200)	(202,212)
	374,735	247,891
Cash flows from capital and related financing activities:		
Principal paid on Debt	(59,500)	(56,500)
Interest paid on Debt	(109,222)	(111,817)
Purchases of Capital Assets	(126,443)	(26,040)
Proceeds from disposal of assets	-	1,587
Insurance recoveries	-	40,000
Contributed Capital-Tap Fees	24,185	11,250
Contributed Capital-Grants	-	-
Net Receipts from Sanitation District No. 1	10,877	17,422
	(260,103)	(124,098)
Cash flows from investing activities:		
Interest Income	628	457
	628	457
Net increase/ (decrease) in cash	115,260	124,250
Cash, beginning of year	555,034	430,784
	670,294	555,034
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating Income/ (loss)	57,104	(40,860)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	316,777	311,021
Restatement of Net Position	(252,000)	-
Change in assets and liabilities:		
(Increase) decrease in receivables, net	21,468	(12,061)
(Increase) decrease in inventory	(5,997)	3,271
(Increase) decrease in unbilled receivables	14,909	(17,352)
(Increase) decrease in other prepaid expenses	(966)	166
Increase (decrease) in accounts payable	(20,274)	4,913
Increase (decrease) in deferred outflows - pension resources	(32,532)	-
Increase (decrease) in deferred inflows - pension related	27,000	-
Increase (decrease) in net pension liability	244,000	-
Increase (decrease) in customer deposits and budget billings	5,456	(2,529)
Increase (decrease) in accrued wages and sick leave	(210)	1,322
	374,735	247,891

The accompanying notes are an integral part of these financial statements

Western Lewis-Rectorville Water Gas District
Statement of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Receipts from customers	1,341,050	1,267,123
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Net cash provided (used) by operating activities	374,735	247,891

The accompanying notes are an integral part of these financial statements

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

Note 1 – Summary of Significant Accounting Policies

Nature of Operations

The Western Lewis-Rectorville Water & Gas District (the District), was incorporated as a public body in 1961 under Chapter 74 of Kentucky Revised Statutes. The Kentucky Public Service Commission presently regulates the District. A description of the District's significant accounting policies follows:

Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Western Lewis-Rectorville Water & Gas District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of government authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service and financing relations. The entities included in the financial statements are the general operations of the District.

Based on the foregoing criteria there are no other organizations included in these financial statements.

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (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.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The financial statements of the District are prepared using the economic resources measurement focus for the proprietary fund financial statements. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. With the measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet.

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Basic of Accounting

The accounts of the District are maintained on the accrual basis of accounting. The District's financial statements include the operation of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of the governing authority, designation management, ability to significantly influence operations, and accountability for fiscal matters.

Inventory

Inventory is valued at the lower of cost or market.

Fixed Assets

Fixed assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Depreciation is applied on the straight-line method over estimated useful life of the asset, using rates determined by reference to Utility Standards Rates (NARUC). The District's capitalization policy is to capitalize expenditures costing \$5,000 or more with an estimated useful life of one year or more.

Unbilled Revenue

The District records revenue as billed to its customers on a monthly meter reading cycle. At the end of each year, water service that has been rendered from the latest date of each meter reading to the year-end is unbilled.

Power Costs

The cost of power purchases for pumping water is charged to expenses as used.

Income Tax Status

The District is a political subdivision created under Kentucky Revised Statutes 76.020, and as such, is exempt from federal and state income taxes. Accordingly, the financial statements include no provision for income taxes.

Cash Flows

For purposes of the statement of cash flows, the District uses the direct method of reporting net cash flow from operating activities, and considers certificates of deposit with a maturity of six months or less to be cash equivalents.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of the revenues and expenditures during the reporting period. Actual results could differ from estimated amounts.

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when there are legal limitations imposed on their use either through the enabling legislation adopted by the District or through external restriction imposed by creditors, grantors, laws or regulation of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Note 2 - Cash and Investments

The cash balances at December 31, 2015 were comprised of the following:

Working Funds - Checking	\$153,415
Unrestricted Funds - Savings	<u>173,891</u>
	<u>\$327,306</u>

The District is required to maintain special deposit accounts for customer deposits and long-term debt obligations that restrict use of debt amortization and capital improvements as follows:

Customer Deposits	\$85,419
Bond and Interest Sinking Fund	101,980
Depreciation Fund	154,853
Construction Fund	736
	<u>\$342,988</u>

Note 3 - Custodial Credit Risk

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's cash and cash equivalents consist of checking and savings accounts with local banks. The District does not have a deposit policy for custodial credit risk. As of December 31, 2015, \$430,724 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank	\$430,724.
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WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

Note 4 - Capital Assets

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

Business Activities	Balance 12/31/2014	Additions	Deductions	Balance 12/31/2015
Cost:				
Land	\$ 47,914	\$ -	\$ -	\$ 47,914
Plant in Service:				
Water	11,082,832	51,052	(7,807)	11,126,077
Gas	489,710			489,710
Other Depreciable Assets	191,527	75,391		266,918
Totals at historical costs	<u>11,811,983</u>	<u>126,443</u>	<u>(7,807)</u>	<u>11,930,619</u>
Less Accumulated Depreciation:				
Plant in Service:				
Water	3,957,963	300,537	(1,405)	4,257,095
Gas	317,990	7,854		325,844
Other Depreciable Assets	108,871	8,386		117,257
Total Accumulated Depreciation	<u>4,384,824</u>	<u>316,777</u>	<u>(1,405)</u>	<u>4,700,196</u>
Business Activities Capital Assets -Net	<u>\$ 7,427,159</u>	<u>\$ (190,334)</u>	<u>\$ (6,402)</u>	<u>\$ 7,230,423</u>

Capital asset activity for the year ended December 31, 2014 was as follows:

Business Activities	Balance 12/31/2013	Additions	Deductions	Balance 12/31/2014
Cost:				
Land	\$ 47,914	\$ -	\$ -	\$ 47,914
Plant in Service:				
Water	11,056,792	26,040		11,082,832
Gas	489,710			489,710
Other Depreciable Assets	220,174		(28,647)	191,527
Totals at historical costs	<u>11,814,590</u>	<u>26,040</u>	<u>(28,647)</u>	<u>11,811,983</u>
Less Accumulated Depreciation:				
Plant in Service:				
Water	3,667,692	290,271		3,957,963
Gas	306,726	11,264		317,990
Other Depreciable Assets	128,032	9,486	(28,647)	108,871
Total Accumulated Depreciation	<u>4,102,450</u>	<u>311,021</u>	<u>(28,647)</u>	<u>4,384,824</u>
Business Activities Capital Assets -Net	<u>\$ 7,712,140</u>	<u>\$ (284,981)</u>	<u>\$ -</u>	<u>\$ 7,427,159</u>

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

Note 5 - Long Term Debt

The Following is a summary of changes in long-term debt for the year ended December 31, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$150,000, 1988 Series A Rural Development Bonds, payable in semi-annual installments plus interest at 5.00%, due November 1, 2027	\$ 86,000	\$ -	\$ 5,000	\$ 81,000
\$130,000, 1988 Series B Rural Development Bonds, payable in semi-annual installments plus interest at 5.00%, due November 1, 2027	73,000	-	4,000	69,000
\$971,000 1996 Series A Rural Development Bonds, payable in semi-annual installments plus interest at 4.5%, due November 1, 2036	759,000	-	19,000	740,000
\$750,000, 1996 Series B Rural Development Bonds, payable in semi-annual installments plus interest at 4.50%, due November 1, 2036	572,000	-	16,000	556,000
\$333,000, 2001 Rural Development Bonds, payable in semi-annual installments plus interest at 4.50% due November 1, 2041	285,000	-	5,500	279,500
\$712,000, 2007 Rural Development Bonds, payable in semi-annual installments plus interest at 4.37% due November 1, 2046	<u>663,000</u>	<u>-</u>	<u>10,000</u>	<u>653,000</u>
	\$ 2,438,000	\$ -	\$ 59,500	\$ 2,378,500
Less: Current Maturities	<u>59,500</u>			<u>62,500</u>
Totals	<u>\$ 2,378,500</u>			<u>\$ 2,316,000</u>

The following is a schedule of long-term debt maturities:

	<u>Principle</u>	<u>Interest</u>
2016	\$ 62,500	\$ 109,676
2017	65,500	106,967
2018	69,500	104,119
2019	72,500	101,138
2020	75,000	97,969
2021-2025	432,500	437,490
2026-2030	493,500	354,123
2031-2035	582,500	221,626
2036-2040	304,500	98,588
2041-2045	183,500	39,835
2046	37,000	4,813
	<u>\$ 2,378,500</u>	<u>\$ 1,676,344</u>

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

Note 6 - Reserves

The Western Lewis-Rectorville Water & Gas District is required to comply with the bond agreement of the 2007, 2001, 1988 and 1996 bond issues as follows:

A. Sinking Fund

On a monthly basis, the district is required to set aside an amount into a special account known as the "Western Lewis-Rectorville Water & Gas District System Bond and Interest Sinking Fund". The amount to be set aside each month shall be sums not less than the following respective amounts:

- (1) A sum equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date, with respect to the Bond Issues.
- (2) A sum equal to one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding January 1.

The required balance of the sinking fund reserve was \$101,980 at December 31, 2015 after payment of the November 1 debt service. Deposits were made to the Sinking fund on a monthly basis as required in (1) and (2).

B. Depreciation Fund

The District is required to deposit \$320 each month into the Depreciation Fund Account as well as the proceed from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of extensions, additions and/or improvements to the project, plus the proceeds of any property damage insurance not immediately used to replace damaged or destroyed property. Monies in the Depreciation Fund shall be available and shall be withdrawn or used, upon appropriate certification to Rural Development, for the purpose of paying the cost of construction replacements, extensions, additions and/or improvements to the project. The District had set aside \$154,853. The required depreciation reserve was \$150,000 and the District had resumed the monthly deposits to meet this requirement.

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

Note 7 – Recently Issued Accounting Pronouncements

GASB Statement 65, implemented during the 2013-14 reporting year, establishes accounting and financial reporting standards that reclassify certain assets and liabilities as deferred outflows of resources or deferred inflows of resources, provides changes in the determination of the major fund calculations and limiting the use of “deferred” in financial statement presentations.

GASB Statement No. 66, *Technical Corrections—2012; an Amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012, resolves conflicting accounting and reporting guidance that could diminish consistent financial reporting and enhance the usefulness of financial reports. The District implemented the new requirements for fiscal year 2013-2014 financial statements.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27* improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014.

Note 8 - Pension Plan

The District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions - For the year ended December 31, 2015, plan members were required to contribute 5.00% of wages. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

Note 8 - Pension Plan (Continued)

determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2015, participating employers contributed 17.67% for January to June and 17.06% for July through December of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution (employee and employer) and the actual percentage contributed for the District for the current and previous two years are as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2015	\$40,278	100%
2014	\$32,532	100%
2013	\$45,792	100%

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions:

At December 31, 2015, the Organization reported a net pension liability of \$244,000 from its participation in the CERS non-hazardous plan. The District does not participate in the CERS hazardous plan. The liabilities were measured at June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Organization's proportion of the net pension liability was based on a projection of the Organization's long-term share of contributions to the pension plans relative to the projected contributions of all participating members, actuarially determined.

For the year ended December 31, 2015, the Organization's reported CERS non-hazardous pension expense of \$17,875. For the year ended December 31, 2015, the District recognized deferred outflows of resources, CERS non-hazardous, \$32,532, and deferred inflows of resources, CERS non-hazardous, \$27,000.

WESTERN LEWIS-RECTORVILLE WATER & GAS DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

Note 9 – Restatement of Net Position

The Organization restated net position for recognition of GASB 68 as follows:

	<u>December 31, 2014</u>
Previously reported net position	\$ 5,591,019
Adjustment for recognition of GASB 68	<u>(252,000)</u>
Beginning net position, as restated	<u>\$ 5,339,019</u>

Note 10 – Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The District carries commercial insurance coverage of risks to the extent deemed prudent by District's management.

Supplemental Schedules –



Western Lewis-Rectorville Water and Gas District
Statement of Revenues and Expenses
For the Year Ended December 31, 2015

<u>OPERATING REVENUE:</u>	<u>Water</u>	<u>Gas</u>	<u>Total</u>
Water and Gas Sales:			
Residential	\$ 695,863	\$ 374,695	\$ 1,070,558
Commerical	86,005	46,311	132,316
Service Charges and Other Revenues	<u>62,623</u>	<u>33,720</u>	<u>96,343</u>
<u>Total Operating Revenues</u>	<u>844,491</u>	<u>454,726</u>	<u>1,299,217</u>
 <u>OPERATING EXPENSES:</u>			
Salaries & Wages - Employees	167,693	90,297	257,990
Salaries & Wages - Officers & Directors	13,000	7,000	20,000
Retirement Expense	11,619	6,256	17,875
Purchased Water and Gas	78,528	174,148	252,676
Purchased Power	34,528	18,592	53,120
Chemicals and Salt	6,294	3,389	9,683
Materials and Supplies	14,228	6,987	21,215
Professional Fees	16,836	9,065	25,901
Maintenance Expense	68,778	8,110	76,888
Rental Expense	1,154	621	1,775
Insurance	59,567	32,075	91,642
Depreciation and Amortization	299,757	17,020	316,777
Utilities and Telephone	3,254	1,752	5,006
Office and Program Expense	44,063	23,727	67,790
Taxes Other Than Income	<u>15,454</u>	<u>8,321</u>	<u>23,775</u>
<u>Total Operating Expense</u>	<u>834,753</u>	<u>407,360</u>	<u>1,242,113</u>
 <u>OPERATING INCOME/ (LOSS):</u>	9,738	47,366	57,104
 Non-operating income (expenses)			
Interest income	628	-	628
Gain on Sale of Assets	(6,402)	-	(6,402)
Tollesboro Sanitation District No.1 Fee	10,877	-	10,877
Interest expense	<u>(109,222)</u>	<u>-</u>	<u>(109,222)</u>
<u>Total Nonoperating Revenues/(Expenses)</u>	<u>(104,119)</u>	<u>-</u>	<u>(104,119)</u>
 <u>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</u>	(94,381)	47,366	(47,015)
 Capital Grants	-	-	-
Customer Tap Fees	<u>21,375</u>	<u>2,810</u>	<u>24,185</u>
 Change in net position	<u>\$ (73,006)</u>	<u>\$ 50,176</u>	<u>\$ (22,830)</u>

Western Lewis-Rectorville Water Gas District
 Supplemental Information Required by Rural Development
 December 31, 2015

Schedule of Insurance in Force

<u>Insurance Coverage</u>	<u>Policy No.</u>	<u>Amount of Coverage</u>	<u>Expiration Date of Policy</u>
General Liability			
Ky League of Cities Ins.	L5715-2015-13049	\$3,000,000	7/1/2016
Public Officials			
Ky League of Cities Ins	L5715-2015-13049	\$3,000,000	7/1/2016
Automobile			
Ky League of Cities Ins	L5715-2015-13049	\$3,000,000	7/1/2016
Commerical Property			
Buildings & Personal	P5715-2015-13050	\$4,746,013	7/1/2016
Equipment	P5715-2015-13050	\$89,761	7/1/2016
Equipment	P5715-2015-13050	\$44,688	7/1/2016
Surety Bond			
CAN Surety	69852281	\$950,000	7/1/2016
Encroachment Bond			
Ohio Casulaty Ins	2610369	\$25,000	12/15/2016
Worker's Comp			
Ky League of Cities Ins	W5715-2015-12755	\$4,000,000	7/1/2016

Aged Accounts Receivable

A detailed schedule of aged accounts receivable is prepared on a monthly basis. At December 31, 2015, accounts receivable were aged as follows:

	<u>Amount</u>
Current	\$ 108,955
Over 30 days	597
Over 60 days	842
Over 90 days	1,665
Total	<u>\$ 112,059</u>

During 2015, the District wrote off no accounts as uncollectable, but carried a reserve for possible uncollectable accounts of \$6,300. Accounts in arrears have been collected or are covered by Deposits.

The District had a total of 3,101 customers at December 31, 2015. Of these customers, 2,843 were Residential and 258 were commercial.

Commissioners:

John Thomas, Chairman
 Terry Thomas, Secretary
 Robert Applegate, Treasurer
 Robbie Joe Gantley
 Gerald Johnson



Caudill & Associates, CPA, PLLC

P.O. Box 751, South Shore, KY 41175

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants

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
Western Lewis-Rectorville Water & Gas District
Maysville, KY 41056

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 business-type activities of Western Lewis-Rectorville Water & Gas District as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Western Lewis-Rectorville Water & Gas District's basic financial statements, and have issued our report thereon dated April 8, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Western Lewis-Rectorville Water & Gas 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 Western Lewis-Rectorville Water & Gas District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Western Lewis-Rectorville Water & Gas 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Caudill & Associates, CPA

Caudill & Associates, CPA, PLLC

April 8, 2016

**Western Lewis-Rectorville Water and Gas District
Mason County, Kentucky**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2015 AND 2014**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

No Matters Reportable

Western Lewis-Rectorville Water & Gas



OFFICE
8044 KY 3161
Maysville, KY 41056
(606) 742-0014
(606) 742-0015
1-800-230-5740
(606) 742-0016 Fax

TTD/DEAF, HARD OF HEARING
SPEECH IMPAIRED PERSONS
CALL 711
TTY USERS CALL
1-800-648-6056
NON-TTY USERS CALL
1-800-648-6057

WATER
TREATMENT PLANT
8012 Kennedy Creek Rd
Maysville, KY 41056
(606) 564-4449
(606) 564-4414 Fax



Thursday September 24, 2015

Jeff Schumacher
Schumacher Law Office
217 Wall St,
Maysville, KY 41056

Dear Sir:

In connection with an examination of our financial statements at December 31, 2014 and for the year then ended, Caudill & Associates, CPA, has requested us to furnish a description and evaluation of any pending contingent liabilities involving matters with respect to which you have been engaged, statutorily or contractually, and to which you have devoted substantive attention on behalf of the Western Lewis Rectorville Water and Gas District in the form of legal consultation or representation. Your response should include matters that existed at December 31, 2014, and during the period from that date to the date of your response.

Your attention is directed to ABA Statement of Policy Regarding Lawyers' Responses to Auditor's Requests for Information (December, 1975) to which you may wish to refer in preparing your response to this request.

Pending or Threatened Litigation

Please furnish the following information:

1. The nature of the litigation;
2. The progress of the case to date;
3. The planned response to the litigation (such as, out-of-court settlement, contest the case vigorously, etc.)
4. An evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss.

Contractually Assumed Obligations

Please disclose the items representing obligations which have been contractually assumed by the Western Lewis Rectorville Water and Gas District and furnish the following information with regard to such items.

1. The nature of the matter.
2. The planned response to the claim, if asserted.
3. An evaluation of the likelihood of any unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss.

Unasserted Claims and Assessments

Please list such items which represent unasserted claims and assessments considered probable of assertion, which, if asserted, would have at least a reasonable possibility of an unfavorable outcome with a material effect upon the financial condition of one or more funds of the Western Lewis Rectorville Water and Gas District, and furnish the following information with regard to such items:

1. The nature of the matter.
2. The planned response to the claim, if asserted.
3. An evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss.

We understand that whenever, in the course of performing legal services for us with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, if you have formed a professional conclusion that we should disclose or consider disclosure concerning such possible claim or assessment, as a matter of professional responsibility to us, you will so advise us and will consult with us concerning the question of such disclosure and the applicable requirements of Statement of Financial Accounting Standards No. 5. Please specifically confirm to our auditors that our understanding is correct.

Please specifically identify the nature of and reasons for any limitations on your response.

Thank you for your cooperation.

Sincerely,



Western Lewis Rectorville Water and Gas District

Please return to:

Caudill & Associates, CPA

P.O. Box 751

South Shore, Kentucky 41175

sperkins@cgacpas.com