

WEST MCCRACKEN COUNTY WATER DISTRICT
FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2016

TABLE OF CONTENTS

	Page
INDEPENT AUDITOR’S REPORT	1-2
REQUIRED SUPPLEMENTAL INFORMATION	
Management’s Discussion and Analysis.....	3-5
FINANCIAL STATEMENTS	
Statement of Net Position.....	6-7
Statement of Revenues, Expenses and Changes in Net Position.....	8
Statement of Cash Flows.....	9-10
Notes to Financial Statements.....	11-21
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of District’s Proportionate Share of the Net Pension Liability.....	22
Schedule of District’s Contributions to County Employee’s Retirement System.....	23
OTHER SUPPLEMENTAL INFORMATION	
Schedule of Insurance in Force.....	24
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25-26
Schedule of Findings and Questioned Costs.....	27-28
Summary Schedule of Prior Audit Findings.....	29

DAVID M. ANDERSON
CERTIFIED PUBLIC ACCOUNTANT
1250 US HWY 60 WEST
LEDBETTER, KENTUCKY 42058
(270)703-7392 (270)703-3819

Member of
American Institute of CPA's

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
West McCracken County Water District
West Paducah, KY

Report on the Financial Statements

We have audited the accompanying financial statements of West McCracken County Water District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the West McCracken County Water District, as of December 31, 2016, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United State 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 and pension trust fund schedules on pages 3-5 and 22-23 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 inquires 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 Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the West McCracken County Water District's basic financial statements. The supplemental schedule of insurance in force on page 22 is presented for purposes of additional analysis and is not a required part of the financial statements of basic financial statements. The schedule of insurance in force has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2017, on our consideration of the West McCracken 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 McCracken County Water District's internal control over financial reporting and compliance.



David M. Anderson, CPA
Ledbetter, Kentucky
March 28, 2017

WEST MCCRACKEN COUNTY WATER DISTRICT

West Paducah, Ky.

MANAGEMENT'S DISCUSSION and ANALYSIS

For the year ended December 31, 2016

(Unaudited)

As management of the District we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2016.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the District exceeded its liabilities and deferred inflows at the close of the calendar year ended December 31, 2016 by \$3,990,979.41 (net position). The District's investment in capital assets \$3,998,621.01 exceeded its total net position by \$7,641.60. The District's total net position decreased by \$177,664.01.
- At December 31, 2016, even though the District had a decrease in Cash and Cash Equivalents of \$85,362.45, it still had a balance of \$171,321.01 remaining.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's financial statements are those required for a government's proprietary type fund and notes to the financial statements.

PROPRIETARY FUND – The District's financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business. The statement of net position presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed during the calendar year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

NOTES TO BASIC FINANCIAL STATEMENTS – The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS

The District's net position, the amount that assets and deferred outflows exceeded liabilities and deferred inflows, was \$3,990,979.41 at the close of the most recent year.

CONDENSED NET POSITION

	2016	2015
Current Assets	\$ 115,462	\$ 128,393
Restricted Assets	157,760	233,190
Non-current Assets	4,436,025	4,526,128
Total Assets	4,709,247	4,887,711
Deferred Outflows	57,100	52,882
Total Assets and Deferred Outflows	4,766,347	4,940,593
Current Liabilities	129,752	91,237
Non-current Liabilities	632,019	680,713
Total Liabilities	761,771	771,950
Deferred Inflows	13,597	-
Total Liabilities and Deferred Inflows	775,368	771,950
Net Position		
Net Investment in Capital Assets	3,998,521	4,044,281
Restricted for Debt Service and Construction	157,759	233,190
Unrestricted	(165,301)	(108,828)
Total Net Position	\$ 3,990,979	\$ 4,168,643

The largest portion of the District's combined net position reflects its investment in capital assets (e.g. land, buildings, water lines and meters), less any debt, used to acquire those assets, that is still outstanding. The District uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending.

CHANGES IN NET POSITION

	2016	2015
Operating Revenues	\$ 660,976	\$ 701,578
Operating Expenses	(834,306)	(780,673)
Non-Operating Revenues(Expenses)	(4,334)	18,723
Decrease in net position	\$ (177,664)	\$ (60,372)

CAPITAL ASSETS

The District's investment in capital assets amounts to \$4,436,025 (net of accumulated depreciation). Capital assets costing less than \$750 are expensed in the current year.

Capital assets at year end net of accumulated depreciation:

Land & Land Rights	\$	19,479
Structures and Improvements		35,959
Pumping Plant		24,244
Reservoir & Standpipes		845,933
Trans, and Dist. Mains		3,077,099
Service Lines		300,326
Meters		134,399
Hydrants		27,937
Office Equipment		976
Transportation Equipment		32,369
Tools and Equipment		7,304

ECONOMIC FACTORS

The economy in West McCracken County is relatively stable. Our water district has approximately 1,400 residential customers and 70 commercial and industrial customers. Those numbers are not expected to change extremely in the near future.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances. If you have any questions about this report or need additional information, contact Sheila Mansfield at 8020 Ogdon Landing Road, West Paducah, Ky. 42086 or call 270-442-3337.

WEST MCCrackEN COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2016

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 13,561.32
Accounts receivable, less allowance for doubtful accounts of \$401	72,204.77
Prepaid expenses	8,301.41
Inventory, at cost	<u>21,394.85</u>
 Total current assets	 <u>115,462.35</u>

RESTRICTED ASSETS

Checking and Cash Management Accounts	
Depreciation and sinking funds held by District	100,575.31
Construction and sinking funds held in trust	<u>57,184.38</u>
 Total restricted assets	 <u>157,759.69</u>

NON-CURRENT ASSETS

Capital Assets	
Capital assets, not being depreciated	19,479.50
Capital assets, being depreciated, net	<u>4,416,545.29</u>
 Total non-current assets	 <u>4,436,024.79</u>
 Total assets	 <u>4,709,246.83</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred charges - pensions	49,442.00
Deferred charges on refunding	<u>7,658.27</u>
 Total deferred outflows of resources	 <u>\$ 57,100.27</u>

The notes to financial statements are an integral part of this statement

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$ 57,383.56
Accrued interest payable	7,506.25
Bonds payable - current	45,000.00
Accrued and withheld payroll taxes	5,801.58
Customer advances for construction	1,500.00
Retainage payable	2,686.50
Other current liabilities	<u>9,874.52</u>
Total current liabilities	<u>129,752.41</u>

NON-CURRENT LIABILITIES

Bonds payable, non-current	388,317.28
Pension obligation	<u>243,701.00</u>
Total non-current liabilities	<u>632,018.28</u>
Total Liabilities	<u>761,770.69</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows - pensions	<u>13,597.00</u>
Total deferred inflows of resources	<u>13,597.00</u>

NET POSITION

Net investment in capital assets	3,998,521.01
Restricted for debt service and construction	157,759.69
Unrestricted	<u>(165,301.29)</u>
Total Net Position	<u>\$ 3,990,979.41</u>

The notes to financial statements are an integral part of this statement

WEST MCCrackEN COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2016

OPERATING REVENUE

Sales of water, net of refunds	\$ 634,044.87
Penalties	11,482.29
Other	15,449.41
Total operating revenues	<u>660,976.57</u>

OPERATING EXPENSES

Depreciation	200,611.20
Utility regulation assessment fee	1,359.14
Salaries	139,492.76
Employee pension and benefits	33,089.77
Purchased water	263,356.20
Purchased power	11,951.20
Chemicals	3,752.00
Materials and supplies	29,083.79
Contractual services	37,948.13
Transportation expense	7,846.71
Insurance	33,919.01
Payroll Taxes	10,166.73
Utilities and Telephone	8,741.79
Maintenance	40,943.75
Miscellaneous	12,044.10
Total operating expenses	<u>834,306.28</u>

Operating income (loss) (173,329.71)

NON-OPERATING REVENUES (EXPENSES)

Interest income	283.31
Interest expense	(11,351.26)
Non-utility income - other	14.53
Tap-on fees	6,719.12
Total non-operating revenues (expenses)	<u>(4,334.30)</u>

Change in net position (177,664.01)

TOTAL NET POSITION - BEGINNING 4,168,643.48

TOTAL NET POSITION - ENDING \$ 3,990,979.47

The notes to financial statements are an integral part of this statement

WEST MCCrackEN COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Collections from customers	\$ 672,067.11
Cash paid to suppliers	(423,824.97)
Cash paid to employees for salaries and benefits	(172,579.53)
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	<u>75,662.61</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of property, plant and equipment	(110,508.02)
Payments on bonds payable	(40,000.00)
Interest payments on notes and bonds payable	(11,351.26)
Decrease (increase) in deferred charges	(6,182.74)
Contributed capital - tao-on fees	6,719.12
Non-utility income	14.53
CASH FLOWS USED BY CAPITAL ACTIVITIES	<u>(161,308.37)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	283.31
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES	<u>283.31</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(85,362.45)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>256,683.46</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 171,321.01</u>

The notes to financial statements are an integral part of this statement

WEST MCCRACKEN COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating (loss)	\$ (173,329.71)
Adjustments to reconcile net income (loss) to net cash provided by operations:	
Depreciation and amortization	200,611.20
Changes in operating assets and liabilities:	
Decrease in Accounts receivable	11,090.54
Increase in Prepaid expenses	(593.69)
Increase in Inventory	(7,498.40)
Increase in Accounts payable	26,949.07
Decrease in Accrued interest payable	(450.00)
Increase in Accrued and withheld payroll taxes	1,020.58
Increase in Pension and related deferrals	11,868.00
Increase in Customer Advances for construction	1,000.00
Increase in Retainage Payable	2,686.50
Increase in Other current liabilities	2,308.52
	<u>75,662.61</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 75,662.61</u>

The notes to financial statements are an integral part of this statement

**WEST MCCRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Entity

The West McCracken County Water District (the District) is incorporated as a non-profit corporation formed under the provisions of Chapter 273 of the Kentucky Revised Statutes. The District began operations in 1968. The District provides water service to consumers in Western McCracken County, Kentucky.

The District follows the standards promulgated by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, to define the reporting entity. The financial statements include all operations over which the District is financially accountable. The District is not a participant in any joint venture and has not identified any entities which would be component units of the District.

Fund Accounting

The District maintains its accounts under the fund method of accounting, and utilizes the chart of accounts established by the Kentucky Public Service Commission. The District's one fund is classified as a business-type fund under the category of Proprietary Fund Type.

Proprietary funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises 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.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net position. Fund equity (i.e., total net position) is segregated into three components – 1) Invested in capital assets, net of related debt; 2) Restricted; and 3) Unrestricted. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

The accrual basis of accounting is utilized by the proprietary fund type. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the System are charges for water service. Operating expenses for proprietary funds 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.

**WEST MCCRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Credit Policies

Accounts receivable are uncollateralized customer obligation due under normal trade terms requiring payment within 15 days from the invoice date. Unpaid accounts receivable with invoice mailing dates over 15 days old are subject to a 10% penalty on the outstanding balance. Customers are subject to disconnection after 20 days past invoice date. Reconnections are subject to reconnect fees which are recognized as income when received.

Accounts receivable are stated at amounts billed to the customer plus any accrued penalties. Customer account balances with invoices dated over 90 days old are considered delinquent.

Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amounts of accounts receivable is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews accounts receivable balances that exceed 90 days from invoice date and based on an assessment of current credit worthiness, estimates the portion, if any, of the balance that will not be collected. Additionally, for the remaining aggregate accounts, management establishes a general allowance based on historical averages.

Inventory

Inventory is stated at the lower of cost, on a first-in, first-out basis, or market.

Property, Plant and Equipment

Property and equipment are recorded at cost with depreciation provided by the straight-line method over the estimated useful life of the depreciable property. Land and construction in progress are not depreciated. Estimated useful lives are generally those established by the Public Service Commission of the Commonwealth of Kentucky as the following:

<u>Capital asset classes</u>	<u>Lives</u>
Water System	10-50
Vehicles	5-10
Equipment & Furniture	5-10

Donated assets are stated at fair value on the date donated. The District generally capitalizes assets which cost \$750 or more. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded.

**WEST MCCRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until then. The District has two items that qualify for reporting in this category. The first is deferred charges-pensions which is a combination of the District's proportional share of outflows related to changes and differences reported in the County Employees Retirement System (see Note H). The second is the deferred charge on refunding which results from the difference in carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt as a component of interest expense.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until then. The District has only one item that qualifies for reporting in this category. Deferred inflows-pensions are the District's proportional share of inflows related to changes and differences reported in the County Employees Retirement System (see Note H).

Sales of Water

Charges to customers for the sale of water are based on rates approved by the Kentucky Public Service Commission (PSC).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising

The District expenses advertising costs as they are incurred. Such expenses primarily relate to advertising in local directories and requests for invitations to bid on contractual services or construction projects.

NOTE B – DEPOSITS WITH FINANCIAL INSTITUTIONS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. The District maintains collateral agreements with its financial institutions. Deposits are 100% secured with collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). The District does not have a deposit policy for custodial risk.

Cash deposits and investments are carried at cost, which approximates market value. The District's deposit reporting entity are insured and collateralized with securities held by the District, its agent, or by the pledging financial institution's trust department or agent in the name of the District. During the year ended December 31, 2016, the District's only cash and cash equivalents were demand deposits.

For the year ended December 31, 2016, the carrying amounts of the District's cash and cash equivalents, including restricted cash, were \$171,321.01. The bank balances of the District's cash and cash equivalents, excluding Cash On Hand, were \$170,452.52. As of December 31, 2016, the District's bank balances did not exceed federally insured limits.

**WEST MCCrackEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE C – UTILITY PLANT IN SERVICE

The major classifications and related costs of utility plant assets as of December 31 are as follows:

	<u>Balance as of Dec. 31, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance as of Dec. 31, 2016</u>
<u>Capital assets, not being depreciated:</u>				
Land	\$ 19,479	\$ --	\$ --	\$ 19,479
Total capital assets, not being depreciated:	<u>19,479</u>	<u>--</u>	<u>--</u>	<u>19,479</u>
<u>Capital assets, being depreciated</u>				
Water system	7,703,715	84,908	--	7,788,624
Vehicles	62,355	25,600	--	87,955
Equipment & furniture	<u>94,439</u>	<u>--</u>	<u>--</u>	<u>94,439</u>
	7,860,509	110,508	--	7,971,018
Less accumulated depreciation	<u>(3,353,860)</u>	<u>(200,612)</u>	<u>--</u>	<u>(3,554,472)</u>
Total capital assets, being depreciated, net:	<u>4,506,649</u>	<u>(90,103)</u>	<u>--</u>	<u>4,416,546</u>
Total District capital assets – net:	<u>\$ 4,526,128</u>	<u>\$ (90,103)</u>	<u>\$ --</u>	<u>\$ 4,436,025</u>

NOTE D – RESTRICTED ASSETS

The District is required to maintain separate funds to meet their obligations on their revenue bonds as described in Note F. These funds have been classified as restricted assets in the statements of net assets. In addition, funds contributed from developers and grants for future construction have been classified as restricted assets in the statements of net position.

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted as needed.

NOTE E – LONG-TERM LIABILITIES

On March 27, 2013, the District issued \$525,000 in Series 2013 revenue bonds with interest rates of 2.30% to 4.80% with annual principal payments and semi-annual interest payments. The proceeds were used to refund \$576,000 of outstanding Series 2004D revenue bonds which had interest rates ranging from 3.89% to 4.56%. The net proceeds of \$587,713 (including \$62,287 premium on the new bonds; available cash of \$15,412 from the prior issue sinking fund; and payment of \$14,976 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the April 1, 2013 current refunding of the 2004D outstanding bonds, accrued interest and call premium. As a result, the 2004D Series revenue bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net position. The 2013 series bonds are required to be fully paid by February 1, 2024.

The reacquisition price exceeded the net carrying amount of the old debt by \$14,317. This amount, reported as a *deferred outflow of resources* in the statement of net position, is being amortized over the remaining life of the refunding debt as a component of interest expense. The District refunded the 2004D series bonds to reduce its total debt service payments over 12 years by \$67,439 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$50,255.

**WEST MCCRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE E – LONG-TERM LIABILITIES (Continued)

The 2004D bond agreement, as amended by the 2013 bond agreement, requires the following monthly distribution from the revenue fund:

- First: One-sixth of the next semi-annual interest payment is to be transferred to the bond and interest redemption fund.
- Second: One-twelfth of the succeeding bond maturity is to be transferred to the bond and interest redemption fund.
- Third: Transfer to the operating and maintenance account funds sufficient to meet the current expenses not to exceed amount required to cover anticipated expenditures for a two-month period.
- Fourth: Within 60 days of fiscal year end, the balance of excess funds is to be transferred to a depreciation fund for extensions or to a sinking fund for purchase or redemption of outstanding bonds.

The following is a summary of long-term debt for the year ended December 31, 2016:

<u>Description</u>	
Kentucky Rural Water Finance Corp Multimodal Public Projects revenue bonds --2013; maturing February 1, 2024 with interest rates of 3.30%-4.80%	\$ 400,000
Less current maturities	<u>45,000</u>
	<u>\$ 355,000</u>

The annual debt service requirements to maturity for long-term debt as of December 31, 2016, are as follows:

<u>Years Ending December 31,</u>	<u>Interest And Fees</u>	<u>Principal</u>	<u>Total</u>
2017	\$ 17,258	\$ 45,000	\$ 62,258
2018	15,323	45,000	60,323
2019	13,387	45,000	58,387
2020	11,345	50,000	61,345
2021	8,745	50,000	58,745
2022-2025	<u>13,585</u>	<u>165,000</u>	<u>178,585</u>
	<u>\$ 79,643</u>	<u>\$ 400,000</u>	<u>\$ 479,643</u>

The following is a summary of changes in long-term debt for the year ended December 31, 2016:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-Term Payable:					
Kentucky Rural Water Finance Corp Multimodal Public Projects Revenue bonds --2013	440,000	-	(40,000)	\$ 400,000	45,000
Premium	41,347	-	(8,030)	33,317	-
Pension Obligation	<u>239,366</u>	<u>32,074</u>	<u>(27,739)</u>	<u>243,701</u>	-
Total Long-Term Payables	<u>\$ 720,713</u>	<u>\$ 32,074</u>	<u>(75,769)</u>	<u>\$ 677,018</u>	<u>\$ 45,000</u>

**WEST MCCRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE F – CUSTOMER ADVANCES FOR CONSTRUCTION

The District records contributions in aid of construction from developers net of amounts due to developers for potential tap-on additions. As additional tap-ons are requested, developers are reimbursed an amount determined according to PSC guidelines per tap-on. The reimbursement period is for ten years. At the end of the ten-year period, any advances remaining are recorded as non-operating revenues.

For the period ended December 31, 2016, the District’s customer advances for construction were \$1,500.

NOTE G – EMPLOYEE RETIREMENT SYSTEM

The District provides retirement benefits to its employees through a multi-employer public employee retirement fund administered by the Kentucky County Employees Retirement System (CERS). Information regarding this plan is as follows:

County Employees’ Retirement System

Plan description – The District is a participant in the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years’ of service. For retirement purposes, non-hazardous and hazardous employees are grouped into three tiers, based on hire date:

Non-hazardous members:

Tier 1	Participation date Unreduced retirement Reduced retirement	Prior to September 1, 2008 27 years of service or 65 years old Minimum 5 years of service and 55 years old Minimum 25 years of service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 to December 31, 2013 Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87 Minimum 10 years of service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87 Not available

**WEST MCCRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE G – EMPLOYE RETIREMENT SYSTEM (Continued)

Hazardous members:

Tier 1	Participation date Unreduced retirement Reduced retirement	Prior to September 1, 2008 20 years of service and any age Minimum 5 years of service and 55 years old Minimum 15 years of service and 50 years old
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 to December 31, 2013 Minimum 5 years of service and 60 years old 25 years of service and any age Minimum 15 years of service and 50 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 Minimum 5 years of service and 60 years old 25 years of service and any age Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirements are based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for non-service related disability benefits.

Plan Funding – State statute required active members to contribute % of creditable compensation based on the tier:

	<u>Non-hazardous</u> <u>Required Contribution</u>
Tier 1	5%
Tier 2	5% plus 1% for insurance
Tier 3	5% plus 1% for insurance

Employers contribute at the rate determined by the CERS Board to be necessary for the actuarial soundness of the system, as required by KRS 61.565 and 61.752. The District's required contribution rate for non-hazardous employees was 18.89% for the period January 1, 2014 to June 30, 2014; 17.67% for the period July 1, 2014 to June 30, 2015; 17.06% for the period July 1, 2015 to June 30, 2016 and 18.68% from July 1, 2016 to December 31, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2016 and 2015, the District reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the District as its proportionate share of the net pension liability that was associated with the District was as follows:

	<u>2016</u>	<u>2015</u>
CERS net pension liability associated with the District	\$ 243,701	\$ 239,366

**WEST MCCRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE G – EMPLOYEE RETIREMENT SYSTEM (Continued)

The net pension liability for the plan was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the District as determined by the actuary. At June 30, 2016, the District's non-hazardous proportion was .00495%.

For the year ended December 31, 2016 the District recognized pension expense of \$32,593 related to the CERS pension plan. At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to the CERS pension plans from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
---Difference between expected and actual experience	\$ 1,064	\$ --
---Changes in assumptions	12,910	--
---Net difference between projected and actual earnings on pension plan investments	22,910	--
---Changes in proportion and differences between District contributions and proportionate share of contributions	740	--
---District contributions subsequent to the measurement date	11,818	--
---Changes in proportion and differences between employer contributions and proportionate share of contributions	--	13,597
Total	<u>\$ 49,442</u>	<u>\$ 13,597</u>

The District reported \$11,818 as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the plan year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

	<u>Plan Year Ending June 30</u>
	Non- <u>Hazardous</u>
2017	\$ 9,389
2018	\$ 5,787
2019	\$ 5,635
2020	\$ 3,216

Actuarial assumptions – The total pension liability in the Jun 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2016</u>
Inflation	3.25%
Projected salary increases	4.00%
Investment rate of return, net of investment expense & inflation	7.50%

**WEST MCCRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE G – EMPLOYEE RETIREMENT SYSTEM (Continued)

For CERS plan year ending June 30, 2016, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the mortality table used is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males). The actuarial assumptions used were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified)		
Inflation Strategies	10.0%	3.50%
Private Equity	10.0%	8.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified		
Hedge Funds)	10.0%	4.25%
Cash Equivalent	2.0%	(0.25%)
Total	<u>100.0%</u>	

Discount rate – For the plan year ended June 30, 2016, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

**WEST MCCRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE G – EMPLOYEE RETIREMENT SYSTEM (Continued)

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate – The following table presents the net pension liability of the System calculated using the discount rates selected by the pension system, as well as what the System’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

For plan year ended June 30, 2016	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.50%	7.50%	8.50%
Non-hazardous’ proportionate share of net pension liability	\$ 303,713	\$ 243,701	\$ 192,292

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial report of the CERS.

NOTE H – SUPPLEMENTAL DISCLOSURES REGARDING STATEMENTS OF CASH FLOWS

Accounting policy

For purposes of the statements of cash flows, cash and cash equivalents include all highly liquid debt instruments with maturities of three months or less.

Cash and cash equivalents include all restricted and unrestricted demand and savings accounts of the District and reported in the statement of net position as follows:

Cash and cash equivalents	\$ 13,561.32
Restricted cash	<u>157,759.69</u>
Total cash and cash equivalents	<u>\$ 171,321.01</u>

Supplemental Disclosure of Cash Flow Information

Cash paid for interest expense in 2016 totaled \$11,801.

Non-cash Capital and Financing

During the year December 31, 2016, the District did not incur any noncash capital and financing transactions.

**WEST MCCRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE I – RISK MANAGEMENT

West McCracken County Water District is exposed to various risks of loss including, but not limited to property, casualty, general liability, auto liability, public officials' liability, worker's compensation, and employee health and life.

To limit exposure to these risks, West McCracken County Water District contracts for insurance coverage. During the year December 31, 2016, there were no significant reductions in insurance coverage. There have been no significant settlement amounts, which exceed insurance coverage in the past three years. The District is not aware of any claims owed as of December 31, 2016.

NOTE J – CONCENTRATION

The District purchases all water from the City of Paducah Water Works. Loss of this supplier would significantly affect the District's ability to supply water to its customers. The organization is currently developing contingency plans with other suppliers should the need arise.

The District has one industrial customer which provided \$55,000 (9%) of revenue for the year ended December 31, 2016. Loss of this customer would significantly affect the District's revenues.

NOTE K – RESTATEMENT OF BEGINNING NET POSITION

Beginning Net Position was increased because accounts receivable and accounts payable at December 31, 2015 were understated.

Beginning net position-as previously state	\$ 4,153,291.62
Increase due to additional accounts receivable	20,865.21
Decrease due to additional accounts payable	<u>(5,513.40)</u>
	<u>\$ 4,168,643.43</u>

NOTE L – SUBSEQUENT EVENT

Management has evaluated subsequent events through March 27, 2017, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

**WEST MCCRACKEN COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION**

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY TO COUNTY EMPLOYEE'S RETIREMENT SYSTEM
LAST FOUR FISCAL YEARS***

<u>Year ended June 30</u>	<u>District's proportion of the net pension liability</u>	<u>District's proportionate share of the net pension liability (asset)</u>	<u>District's covered employee payroll</u>	<u>District's share of the net position liability (asset) as a percentage of its covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
<u>CERS Nonhazardous</u>					
2016	0.00495%	\$ 243,701	\$ 140,871	172.9959%	55.50%
2015	0.00560%	\$ 239,366	\$ 145,067	165.0038%	59.97%
2014	0.00540%	\$ 175,500	\$ 124,099	141.4194%	66.80%
2013	0.00540%	\$ 198,582	\$ 118,887	167.0342%	61.22%

* The amounts presented were determined as of the measurement date June 30 of the prior year.

* Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

**WEST MCCrackEN COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION**

**SCHEDULE OF DISTRICT'S CONTRIBUTIONS
TO COUNTY EMPLOYEE'S RETIREMENT SYSTEM
LAST FOUR FISCAL YEARS***

<u>Year Ended June 30</u>	<u>Contractually required contribution</u>	<u>Contributions relative to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered employee payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
<u>CERS Nonhazardous</u>					
2016	\$ 27,739	\$ 27,739	\$ --	\$ 140,871	19.6911%
2015	\$ 25,783	\$ 25,783	\$ --	\$ 145,067	17.7732%
2014	\$ 23,442	\$ 23,442	\$ --	\$ 124,099	18.8898%
2013	\$ 22,891	\$ 22,891	\$ --	\$ 118,887	19.2544%

* The amounts presented for each fiscal year were determined as of the measurement date June 30 of the prior year.

* Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2016**

Changes of Benefit Terms:

A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

Changes of assumptions:

The assumed investment rate of return was 7.50%.

The assumed rate of inflation was 3.25%.

The assumed rate of wage inflation was 0.75%.

Payroll growth assumption was 4.00%.

The assumptions were updated as of result of an experience study for the five year period ending June 30, 2013.

The amortization period of the unfunded accrued liability was reset to a closed 30 year period for the year ended June 30, 2013.

The mortality tables used was updated to RP-2000 Combined Mortality Table projected with Scale BB to 2013.

OTHER SUPPLEMENTAL INFORMATION

**WEST MCCRACKEN COUNTY WATER DISTRICT
SCHEDULE OF INSURANCE IN FORCE
December 31, 2016**

Multiple Peril Policy	
Property including equipment	\$2,525,165 less \$1,000 deductible
General Liability	\$1,000,000 aggregate of \$3,000,000
Business Income	\$250,000
Employee Dishonesty	\$250,000 less \$1,000 deductible
Employee Benefits Liability	\$10,000 aggregate of \$3,000,000
Professional Liability	\$1,000,000 aggregate of \$3,000,000
Public Official Liability	\$1,000,000 aggregate of \$3,000,000
Workman's Compensation	\$500/\$500/\$500
Automobile	
Liability	\$1,000,000
PIP	\$10,000
Uninsured and underinsured motorist	\$1,000,000
Comprehensive	ACV, less \$1,000 deductible
Collision	ACV, less \$1,000 deductible
Equipment/Item	
Owned	\$43,000 less \$1,000
Non-Owned Contractors Equipment/Tools	\$10,000 less \$1,000

See independent auditor's report on pages 1 and 2.

DAVID M. ANDERSON
CERTIFIED PUBLIC ACCOUNTANT
1250 US HWY 60 WEST
LEDBETTER, KENTUCKY 42058
(270)703-7392 (270)703-3819 Fax (270)252-9198

Member of
American Institute of CPA's

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*

Board of Commissioners
West McCracken County Water District
West Paducah, Kentucky

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 West McCracken County Water District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the West McCracken County Water District's basic financial statements and have issued our report thereon dated March 28, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered West McCracken 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 West McCracken County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of West McCracken 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, (pages 28 & 29) as Condition 1 and Condition 2.

Compliance and Other Matters

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

West McCracken County Water District's Response to Findings

West McCracken County Water District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. West McCracken County Water District's responses were 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.



David M. Anderson, CPA
Ledbetter, Kentucky
March 28, 2017

**WEST MCCrackEN COUNTY WATER DISTRICT
WEST PADUCAH, KENTUCKY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2016**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 yes

 X no

Significant deficiency(ies) identified?

 X yes

 none reported

Noncompliance material to financial statements noted?

 yes

 X no

FINANCIAL STATEMENT FINDINGS

FINDINGS

Condition 1:

The District does not have adequate segregation of duties over receipts and disbursements. The basic premise in a good system of internal control is that an employee should not have access to assets and responsibility for the related accounting records.

Cause:

This is due to inadequate number of personnel to achieve true segregation of duties.

Effect:

The District is at risk of misappropriation of assets.

Recommendation:

Unless the District hires additional personnel, we recommend the District consider using a lockbox system for receipts. Under such a system, remitters are requested, via notations, to send their payment to a post office box which is accessible only to the District's bank. Each day, the bank collects receipts from the box, credits the receipts to the District's account, and sends copies of all check stubs, remittance advices, and other communications to the District for processing. Since employees have no direct contact with remittances from the District's customers, the risk of mishandling or misappropriation is virtually eliminated. With regard to disbursements, segregation could be improved by limiting check signing to the District's board members only. This would achieve oversight of disbursements by someone outside the function of recording transactions.

**WEST MCCrackEN COUNTY WATER DISTRICT
WEST PADUCAH, KENTUCKY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2016

Management's Response:

The District agrees with the auditors' comments. We do not have adequate segregation of duties. The District strives to provide safe, clean drinking water to their customers at a competitive price and in order to have adequate segregation of duties it would require additional personnel, which would increase our operation expenses. The District's Board of Commissioners scrutinizes a profit and loss statement, payroll check register, accounts payable register that include GL detail, bank reconciliation reports, and invoices at monthly board meetings. The District is going to implement unannounced rotation of duties as part of its internal control. It will not only be an effective internal check but it will provide valuable training for the employees.

Condition 2:

The District does not have employees with the necessary accounting expertise or knowledge to properly prepare financial statements and related disclosures in accordance with the generally accepted accounting principles. Accordingly, the District relies on its auditors to prepare year-end financial statements and related disclosures in accordance with generally accepted accounting principles.

Cause:

The District's personnel have not received training in areas of preparation of financial statements and the related required disclosures in accordance with generally accepted accounting principles.

Effect:

In absence of the necessary knowledge and expertise, the District cannot properly prepare financial statements and the related required disclosures in accordance with generally accepted accounting principles. Accordingly, the District requested its independent auditors to assist in the preparation of such statements and disclosures.

Recommendation:

We recommend the District consider additional training of personnel in the area of financial statement preparation in accordance with generally accepted accounting principles.

Management's Response:

We do not have employees with the necessary accounting expertise to prepare financial statements and the related required disclosures. To employ someone with that expertise would not be feasible for the District.

**WEST MCCRACKEN COUNTY WATER DISTRICT
WEST PADUCAH, KENTUCKY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2015**

Reference# 2015-1

The District does not have adequate segregation of duties over cash receipts and disbursements. The basic premise in a good system of internal control is that an employee should not have access to assets and responsibility for the related accounting records.

Status

This finding is still present

Reference# 2015-2

The District does not have employees with the necessary accounting expertise or knowledge to properly prepare financial statements and related disclosures in accordance with the generally accepted accounting principles. Accordingly, the District relies on its auditors to prepare year-end financial statements in accordance with generally accepted accounting principles.

Status

This finding is still present.

Board Members of West McCracken County Water District

Gary Jackson, Chairman
Term expires 11-30-2017

Benny Heady, Secretary
Term expires 11-30-2018

Keith Anderson, Treasurer
Term expires 11-30-2019