

**WHITLEY COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
FISCAL YEAR ENDED
DECEMBER 31, 2017 AND 2016**

CONTENTS

INDEPENDENT AUDITORS' REPORT	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	
Statements of Net Position – Proprietary Fund	7
Statements of Revenues, Expenditures and Changes in Fund Net Position – Proprietary Fund	8
Statements of Cash Flows – Proprietary Fund	9
Notes to Financial Statements	10
REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	
	15
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULARA133	
	17
SCHEDULE OF AUDIT RESULTS	19

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Whitley County Water District
Williamsburg, Kentucky

I have audited the accompanying financial statements of the governmental activities and the business-type activities each major fund Whitley County Water District as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents."

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Whitley County Water District, as of December 31, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis pages 5 - 9 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Whitley County Water District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget

Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards and the financial data schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Darryl R. Williams CPA

Harrogate, Tennessee
March 22, 2018

WHITLEY COUNTY WATER DISTRICT

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MANAGEMENT'S DISCUSSION AND ANALYSIS ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

The financial management team of the Whitley County Water District: Andrew D. Meadors, Chairman, Peggy Byrd, Treasurer presents this narrative to help those who review these financial statements to better understand them, their schedules, and notes. It is our intent that this discussion provide all parties interested in the District's financial condition, especially the citizens of Whitley County, Kentucky, a better understanding of the District's operations and financial status.

The District reports its annual financial statements in a required model format issued by the Governmental Accounting Standards Board.

Should any of reader of these statements have any questions or desire additional information, please contact Andrew D. Meadors, Chairman.

Financial Highlights

- As of December 31, 2017, the District's assets \$15,532,136 exceeded liabilities \$4,721,592 by \$10,810,544. This excess includes the net value of capital assets \$9,613,538 plus resources restricted to specific projects by law, regulation, or contractual agreement \$1,236,404 and unrestricted resources \$(39-398).
- Unrestricted cash balance as of December 31, 2017 was \$42,052, receivables of \$36,897, and provision for uncollectible accounts of \$(10,648), for a total current assets of \$68,301 and current liabilities payable from those funds were \$146,986. Net assets, decreased in the proprietary fund by \$181,619, to a December 31 balance of \$10,810,544. The District anticipated this decrease in the net assets of the proprietary fund, and which was primarily due to depreciation charges.
- The District's total long-term debt increased net by \$682,406 due to normal debt service payments and loan activity of \$751,074 for line renovations.

Overview of the Financial Statements

The District provides one major category of services one major activity: business-type activity, which is funded with user fees and charges. The business-type activity is water services.

The statements report separately on the detail of business activity. The financial statements include two major sections: 1) fund financial statements, and 2) notes to the financial statements.

The first two statements, the Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position present an overview of the District's business-type service. The former reports the financial condition of the District as of December 31. It reports all of the District's short-term and long-term assets and liabilities. The latter reports how the District's net position changed during the 2017 fiscal year, it summarizes the revenues and expenditures of the past year and shows there was a reasonable decrease in net position. User fees and charges are evaluated yearly to insure coverage of expenses.

Proprietary Fund Statements

**The three primary statements reporting on the proprietary of business-type activities are:
Statement of Net Position-Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Position-Proprietary Funds
Statement of Cash Flows-Proprietary Funds**

The three Proprietary Fund Statements demonstrate that the utility operations continue to grow and to be financially sound. Net assets decreased by less than 1% this year, primarily due depreciation charges.

Proprietary Fund current liabilities exceed current assets by \$78,765, management anticipated this deficit and will use available restricted funds to pay required debt service which are set aside for this purpose.

Each of the reserve funds (Depreciation, Debt Service, Operations and Maintenance) required under contractual agreements with the District's debt holders is being funded to levels required.

The Proprietary Fund operation is currently producing sufficient revenue to fund payments for past capital improvements, maintenance and operating expenses, and minor on-going additions to the infrastructure.

**STATEMENTS OF NET ASSETS - PROPRIETARY FUND
WHITLEY COUNTY WATER DISTRICT
DECEMBER 31, 2017 and 2016**

ASSETS		<u>2017</u>	<u>2016</u>
Current assets:			
Cash and cash equivalents		\$ 42,052	\$ 269
Accounts receivable - customers		36,897	52,841
Provision for uncollectible accounts		(10,648)	(10,648)
	Total current assets	<u>68,301</u>	<u>42,462</u>
Non-current assets:			
Restricted assets -			
Cash and cash equivalents		1,289,174	1,195,957
Investments - CD		18,157	18,085
	Total restricted assets	<u>1,307,331</u>	<u>1,214,042</u>
Capital assets:			
Land		48,638	48,638
Equipment, structures, vehicles		827,737	752,765
Distribution system		18,864,499	18,070,321
Accumulated depreciation		(5,587,347)	(5,094,700)
	Capital assets, net of	<u>14,163,527</u>	<u>13,777,024</u>
Other assets:			
Miscellaneous other assets			
Bond related costs		9,665	9,665
Accumulated amortization bond costs		(6,688)	(5,721)
	Total other assets	<u>2,977</u>	<u>3,944</u>
	Total non-current assets	<u>15,463,835</u>	<u>14,995,010</u>
	Total assets	<u>15,532,136</u>	<u>15,037,472</u>
LIABILITIES			
Current liabilities:			
Accounts payable/accrued liabilities		17,955	24,078
Note payable - current portion		45,236	44,430
Current bonds payable		80,300	77,100
	Total current liabilities	<u>143,491</u>	<u>145,608</u>
Non-current liabilities:			
Customer deposits		163,648	162,110
Note payable - KIA		1,442,693	733,091
Bonds payable		2,919,900	3,004,500
	Total non-current liabilities	<u>4,526,241</u>	<u>3,899,701</u>
	Total liabilities	<u>4,669,732</u>	<u>4,045,309</u>
NET POSITION			
Invested in capital assets, net of		9,665,398	9,917,903
Restricted for:			
Deposits		211,723	162,110
Capital projects		502,017	502,017
Debt service		522,664	550,184
Unreserved		(91,258)	(140,051)
	Total net position	<u>\$ 10,810,544</u>	<u>\$ 10,992,163</u>

See accompanying notes to the financial statements.

STATEMENTS OF REVENUE, EXPENSE AND CHANGES IN FUND NET ASSETS
- PROPRIETARY FUND
WHITLEY COUNTY WATER DISTRICT
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Water sales	\$ 1,654,059	\$ 1,653,409
Other operating revenue	50,946	143,556
	<u>1,705,005</u>	<u>1,796,965</u>
Total operating revenues		
Operating expense:		
Salaries and wages	222,555	218,148
Employee benefits	101,660	72,093
Purchased water	589,725	609,845
Repairs, maintenance, and supplies	80,108	56,240
Contracted services	162,069	98,467
Rental	3,507	40
Transportation	49,340	41,452
Insurance	22,608	26,358
Miscellaneous	760	971
Taxes	26,405	30,097
Depreciation and amortization	493,614	514,157
	<u>1,752,351</u>	<u>1,667,868</u>
Total operating expense		
Income from operations	<u>(47,346)</u>	<u>129,097</u>
Non-operating revenues (expenses):		
Interest income	9,626	5,267
Other non-operating revenue (expense)	(968)	4,791
Interest expense	(142,931)	(144,488)
	<u>(134,273)</u>	<u>(134,430)</u>
Total non-operating revenues (expenses)		
Change in net assets	<u>(181,619)</u>	<u>(5,333)</u>
Net position, beginning of year	<u>10,992,163</u>	<u>10,997,496</u>
Net position, end of year	<u>\$ 10,810,544</u>	<u>\$ 10,992,163</u>

See accompanying notes to the financial statements.

**STATEMENTS OF CASH FLOWS - PROPRIETARY FUND
WHITLEY COUNTY WATER DISTRICT
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and others	\$ 1,720,949	\$ 1,788,255
Cash payments to suppliers for goods and services	(1,042,305)	(915,307)
Cash payments to employees for services	<u>(222,555)</u>	<u>(218,148)</u>
Net cash provided by operating activities	<u>456,089</u>	<u>654,800</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(816,719)	(115,040)
Principal paid on capital debt	(122,067)	(117,598)
Interest paid on capital debt	(142,931)	(146,893)
Capital loan proceeds	<u>751,074</u>	<u></u>
Net cash provided from capital and related financing activities	<u>(330,643)</u>	<u>(379,531)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	<u>9,626</u>	<u>5,267</u>
Net cash provided by investing activities	<u>9,626</u>	<u>5,267</u>
Net increase (decrease) in cash and cash equivalents	135,072	280,536
Cash and cash equivalents, beginning of year	<u>1,214,311</u>	<u>933,775</u>
Cash and cash equivalents, end of year	<u>\$ 1,349,383</u>	<u>\$ 1,214,311</u>
Reconciliation of (loss) from operations to net cash provided by operating activities		
Income from operations	\$ (47,346)	\$ 129,097
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	493,614	514,157
(Increase) decrease in receivables	15,944	(8,710)
Increase (decrease) in accounts payable and accrued expenses	<u>(6,123)</u>	<u>20,256</u>
Net cash provided by operating activities	<u>\$ 456,089</u>	<u>\$ 654,800</u>

See accompanying notes to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
WHITLEY COUNTY WATER DISTRICT
DECEMBER 31, 2017 AND 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A – REPORTING ENTITY

Whitley County Water District was created pursuant to Kentucky Revised Statute 74 through the Whitley County Fiscal Court, September 13, 1960. The District is operated under the direction of three commissioners. The District provides water service to customers within its service area.

The criteria used to determine which accounting entities, agencies, commissions, boards, and authorities are part of the District's operations include how the budget is adopted, whether debt is secured by general obligation of the District, the District's duty to cover and deficits that may occur and supervision over the accounting functions.

The District does not have any blended or discretely present component units.

B – GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (the statement of net position and the statement of activities) report information on all the activities of the primary government and its component units. There are not governmental activities, only a business-type activity is reported. Business-type activities rely mostly on fees and charges that are designed to recover the costs of operations, including the cost of capital.

The statement of activities outlines the direct expenses of the District's major function and the program revenues generated by that program. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The fund statements include separate statements for the proprietary fund and the enterprise fund is reported as separate columns in the financial statements.

C – MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Commercial accounting standards of accounting and financial reporting issued on or before December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

**NOTES TO THE FINANCIAL STATEMENTS
WHITLEY COUNTY WATER DISTRICT (CONTINUED)
DECEMBER 31, 2017 AND 2016**

C – MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Governments also have the option of following subsequent commercial accounting guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

D – ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

Cash and investments

Unrestricted Cash and Investments - Unrestricted operating cash funds are classified as cash and cash equivalents in the Financial Statements.

Restricted Cash and Investments - Restricted cash is set apart to satisfy debt service and reserve requirements defined in bonding ordinances and long term notes.

Receivables

Accounts receivable recorded in the Enterprise fund are net of an allowance for uncollectible accounts receivable of \$10,648.

Inventories

The District does not stock an inventory, items are ordered as needed.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure, are reported in the applicable business-type activities columns in the government-wide financial statements.

The District has established a capitalization policy to recognize capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical costs if purchased or constructed. The costs or normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Fixed assets are recorded in the respective funds and depreciated using the straight-line method. Major additions are recorded in the respective property accounts; replacements, maintenance, and repairs, which do not materially improve or extend the life of the respective assets, are charged to earnings. Distribution system assets and buildings are depreciated on the straight-line basis with an estimated useful life of 40 - 50 years. Other equipment is depreciated on a straight-line basis with an estimated useful life of 5 – 7 years.

Compensated Absences

It is the District's policy to grant paid leave to employees. The District allows a limited carryover each year which is not material. As of December 31, 2017 no provision has been made for compensating balances for accumulated absences.

NOTES TO THE FINANCIAL STATEMENTS
WHITLEY COUNTY WATER DISTRICT (CONTINUED)
DECEMBER 31, 2017 AND 2016

D – ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (CONTINUED)

Long-Term Obligation

In the government-wide financial statements, and proprietary fund types, long-term debt is reported as liabilities in the applicable business-type activities and proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable unamortized issuance costs.

E - ESTIMATES

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

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY
BUDGETARY INFORMATION**

The budget is only for planning purposes and is not an ordinance.

NOTE 3 - DEPOSITS AND INVESTMENTS

The District reporting entity considers highly liquid investments (including restricted assets) to be cash and cash equivalents. *Deposits* – At year-end, the carrying amount of the District's deposits were \$1,349,383. The bank balances were covered by federal deposit insurance and are secured by pledged securities. The District's deposits are Category 1 credit risk.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, is as follows:

Business-type Activities	Balance 1/1/17	Additons/ Completions	Retirements/ Adjustments	Balance 12/31/17
Capital assets at historical cost				
Land	\$ 48,638	\$	\$	\$ 48,638
Equipment/vehicles	752,765	74,972		827,737
Distribution system	18,070,321	794,178		18,864,499
Total capital assets at historical cost	18,871,724	869,150		19,740,874
Less accumulated depreciation	5,094,700	493,614	(967)	5,587,347
Business-type activities				
Capital assets, net	\$ 13,777,024	\$ 375,536	\$ 967	\$ 14,153,527

**NOTES TO THE FINANCIAL STATEMENTS
WHITLEY COUNTY WATER DISTRICT (CONTINUED)
DECEMBER 31, 2017 and 2016**

NOTE 5 - LONG-TERM LIABILITIES

The Kentucky Retirement System has informed the Whitley County Water District of a pension liability share assigned to them due to lack of funding at the state level and actuarial under assessments over the years. As of December 31, 2016 (when the latest data is available, is \$344,425. This is the maximum as of that date, however legislative action is in progress at this date. No liability has been set up on the balance sheet due to uncertainty of the actual liability. A long-term payment increase is being proposed.

Revenue Bonds - Revenue bonds outstanding consist of debt issued by the District for water infrastructure acquisitions. Bond indentures contain significant requirements for annual debt service and flow of funds through various restricted accounts. The District is in compliance with all significant requirements of the bond covenants.

Long-term Note - The District entered into a long-term note with Kentucky Infrastructure Authority for infrastructure acquisitions. The term of the note is for twenty (20) years, with a 0.60 % interest rate. The note terms require principal and interest payments twice per year on June 1 and December 1, and payments into a replacement and maintenance reserve of \$2,350 each year till a balance of \$23,500 is available.

The following is a summary of the scheduled changes in long-term debt for the year ended December 31, 2017:

Rural Development Agency is the holder of all the outstanding bonds.

As of December 31, 2017 the District was current on all bonds and the note.

The following is a summary of scheduled debt service requirements to retire the District's long-term debt:

	Balance			Balance	Due
	January 1,			December 31,	Within
Bonds	2017	Additions	Deductions	2017	One Year
Series 1994	\$ 501,500	\$	\$ (19,500)	\$ 482,000	\$ 20,500
Series 1998	456,000		(13,000)	443,000	13,000
Series 2000	302,000		(7,000)	295,000	8,000
Series 2003	1,561,000		(33,000)	1,528,000	34,000
Series 2006	261,100		(4,600)	256,500	4,800
Long-term note					
F15-030		751,074		751,074	
KIA B08-03	777,522		(44,967)	732,555	45,236
Total	\$ 3,859,122	\$	\$ (122,067)	\$ 4,488,129	\$ 125,536

Rural Development Agency is the holder of all the outstanding bonds.

As of December 31, 2016 the District was current on all bonds and the notes.

**NOTES TO THE FINANCIAL STATEMENTS
WHITLEY COUNTY WATER DISTRICT (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

The following is a summary of scheduled debt service requirements to retire the District's long-term debt (the KIA note F15-030 has not closed as of the date of this report and has not been amortized, it is not included in this schedule, the total to be amortized as of the date of this report is \$751,074 and needs to be considered in the totals below):

Year	Interest	Principal	Total
2018	139,257	125,537	264,794
2019	135,184	130,108	265,292
2020	130,963	132,582	263,545
2021	126,574	138,057	264,631
2022	121,969	143,034	265,003
2023 - 2027	533,123	790,078	1,323,201
2028 - 2032	383,993	934,952	1,318,945
2033 - 2037	220,415	694,906	915,321
2038 - 2042	75,077	605,200	680,277
2043 - 2047	3,088	42,601	45,689
Total	\$ 1,869,643	\$ 3,737,055	\$ 5,606,698
KIA F15-030		751,074	
Grand total		\$ 4,488,129	

Other information on the District's long-term indebtedness is summarized below:

Obligation	Interest Rate	Final Maturity	Principal Original Amount	Security
Series 1994 Bonds	4.50%	1/1/2033	750,000	Water revenues
Series 1998 Bonds	4.50%	1/1/2038	600,000	Water revenues
Series 2000 Bonds	4.50%	1/1/2040	377,000	Water revenues
Series 2003 Bonds	4.50%	1/1/2042	1,860,000	Water revenues
Series 2006 Bonds	4.125%	1/1/2045	295,000	Water revenues
KIA Note B08-03	0.06%	6/1/1933	932,800	Water revenues
KIA Note F15-030			751,074	Water revenues

NOTE 6 - MAJOR SUPPLIER/CONTRACT

The District has entered into contracts to purchase water for resale from the City of Williamsburg, City of Corbin City Utilities Commission, and the City of Jellico Municipal Board of Public Utilities. For the period ended December 31, 2017, the District paid \$589,725 for these services.

NOTE 7 - SUBSEQUENT EVENTS

There have been no subsequent events that are likely to have a material adverse impact on the affected funds of the District.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
WHITLEY COUNTY WATER DISTRICT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017**

<u>Federal Program Information</u>	<u>Grant ID Number</u>	<u>Federal CFDA Number</u>	<u>Total Expended</u>
PASSED THRU THE STATE OF KENTUCKY			
U.S. Enviromental Protrction Agency Capitalization Grant for Clean Water		66.468	\$ <u>751,074</u>
TOTAL FEDERAL FUNDS			\$ <u><u>751,074</u></u>

4

**WHITLEY COUNTY WATER DISTRICT
SCHEDULE OF AUDIT RESULTS
DECEMBER 31, 2017**

NOTE A - Basis of Presentation

Whitley County Water District complies with OMB Circular A-133 minimum requirements for the schedule of expenditures of federal awards. Federal programs are listed individually by federal awarding agency. Federal awards expended are identified by catalog of domestic assistance numbers or other identifying numbers.

The schedule of expenditures of federal awards is prepared on the same fiscal year as Whitley County Water District.

Expenditures for direct costs are recognized as incurred using cost accounting principles contained in OMB Circular A-87, Cost Principles For State, Local, and Indian Tribal Governments.

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

To the Commissioners
Whitley County Water District
Williamsburg, Kentucky

I 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 governmental activities, the business-type activities, and each major fund Whitley County Water District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Whitley County Water District's basic financial statements, and have issued my report thereon dated March 22, 2018.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Whitley 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Whitley County Water District's internal control. Accordingly, I do not express an opinion on the effectiveness of Whitley 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.

My 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 my audit I did not identify any deficiencies in internal control that I 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 Whitley County Water District's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my 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.

Harrogate, Tennessee
March 22, 2018

Gary R. Williams CPA

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My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Randy R. Webb CPA

March 22, 2018
Harrogate, Tennessee

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Gary R. Williams,

Certified Public Accountant

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Commissioners
Whitley County Water District
Williamsburg, Kentucky

Report on Compliance for Each Major Federal Program

I have audited Whitley County Water District compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Whitley County Water District's major federal programs for the year ended December 31, 2017. Whitley County Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Whitley County Water District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Whitley County Water District compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Whitley County Water District's compliance.

Opinion on Each Major Federal Program

In my opinion, Whitley County Water District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of Whitley County Water District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Whitley County Water District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Whitley County Water District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

**WHITLEY COUNTY WATER DISTRICT
SCHEDULE OF AUDIT RESULTS
DECEMBER 31, 2017**

SUMMARY OF AUDIT RESULTS

- 1. The auditor's report expresses an unqualified opinion on the financial statements of Whitley County Water District.**
- 2. No significant deficiencies or material weaknesses were disclosed during the audit of the general purpose financial statements and reported in the 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**
- 3. No instances of noncompliance material to the basic financial statements of Whitley County Water District were disclosed during the audit.**
- 4. No significant deficiencies or material weakness were disclosed during the audit of internal control over major federal awards programs**
- 5. The auditor's report on compliance for the audit of the major federal award program for Whitley County Water District expresses an unqualified opinion on all major federal programs.**
- 6. There are no audit findings relative to the major federal award programs for Whitley County Water District reported in this schedule.**
- 7. The program tested as a major program was: U.S. EPA Capitalization Grant for Clean Water (CFDA #66.468).**
- 8. The threshold for distinguishing Type A and Type B programs was \$300,000.**
- 9. Whitley County Water District was determined to be a low-risk auditee.**

CURRENT YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITIONS

None.

NON COMPLIANCES

None.

MATERIAL WEAKNESS

None.

PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None.