

**WHITLEY COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
FISCAL YEAR ENDED
DECEMBER 31, 2013 AND 2012**

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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 year ended December 31, 2013 and 2012, 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 we 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 governmental activities, the business-type activities and each major fund of the Whitley County Water District, as of December 31, 2013 and 2012, 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 information on pages 5 - 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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.



Harrogate, Tennessee
February 27, 2014

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WHITLEY COUNTY WATER DISTRICT

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MANAGEMENT'S DISCUSSION AND ANALYSIS ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

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, 2013, the District's assets (\$15,563,268) exceeded liabilities (\$4,368,957) by \$11,194,271. This excess includes the value of capital assets \$10,360,601 plus resources restricted to specific projects by law, regulation, or contractual agreement \$839,234 and unrestricted resources \$(5,624).
- Unrestricted cash balances as of December 31, 2013 was \$73,923, receivables of \$57,339, and provision for uncollectible accounts of \$(10,648), for a total current assets of \$120,314 and current liabilities payable from those funds were \$138,867. Net assets, decreased in the proprietary fund by \$187,286, to a December 31 balance of \$11,194,271. 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 decreased by \$85,894 due to normal debt service payments.

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 Assets and Statement of Revenues, Expenses, and Changes in Net Assets 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 assets changed during the 2013 fiscal year, it summarizes the revenues and expenditures of the past year and shows there was a reasonable increase in net assets. 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 3% this year, primarily due depreciation charges.

Proprietary Fund current liabilities exceed current assets by than \$18,555, management has planned for this in the current year.

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.

STATEMENT OF NET ASSETS - PROPRIETARY FUND
WHITLEY COUNTY WATER DISTRICT
DECEMBER 31, 2013 and 2012

ASSETS		2013	2012
Current assets:			
Cash and cash equivalents		\$ 73,623	\$ 26,282
Accounts receivable - customers		57,339	117,978
Provision for uncollectible accounts		(10,648)	(10,648)
Prepaid debt service			63,900
	Total current assets	<u>120,314</u>	<u>197,512</u>
Non-current assets:			
Restricted assets -			
Cash and cash equivalents		821,442	848,935
Investments - CD		17,852	17,745
	Total restricted assets	<u>839,294</u>	<u>866,680</u>
Capital assets:			
Land		48,263	48,263
Equipment, structures, vehicles		647,982	555,789
Distribution system		17,075,124	17,062,117
Accumulated depreciation		(3,581,445)	(3,109,859)
Construction in-progress		375,393	130,007
	Capital assets, net of	<u>14,565,317</u>	<u>14,686,317</u>
Other assets:			
Miscellaneous other assets		31,459	31,442
Bond related costs		9,665	9,665
Accumulated amortization bond costs		(2,821)	(1,855)
	Total other assets	<u>38,303</u>	<u>39,252</u>
	Total non-current assets	<u>15,442,914</u>	<u>15,592,249</u>
	Total assets	<u>15,563,228</u>	<u>15,789,761</u>
LIABILITIES			
Current liabilities:			
Accounts payable/accrued liabilities		27,990	74,747
Accrued taxes		91	
Note payable - current portion		44,186	
Current bonds payable		66,600	63,900
	Total current liabilities	<u>138,867</u>	<u>138,647</u>
Non-current liabilities:			
Customer deposits		136,160	148,850
Note payable - KIA		866,630	826,807
Bonds payable		✓ 3,227,300	3,293,900
	Total non-current liabilities	<u>4,230,090</u>	<u>4,269,557</u>
	Total liabilities	<u>4,368,957</u>	<u>4,408,204</u>
NET POSITION			
Invested in capital assets, net of		10,360,601	10,501,710
Restricted for:			
Deposits		211,403	233,606
Capital projects		422,755	162,211
Debt service		205,136	470,946
Unreserved		(5,624)	13,084
	Total net position	<u>\$ 11,194,271</u>	<u>\$ 11,381,557</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 YEAR ENDED DECEMBER 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Water sales	\$ 1,525,563	\$ 1,528,773
Other operating revenue	128,611	71,747
Total operating revenues	<u>1,654,174</u>	<u>1,600,520</u>
Operating expense:		
Salaries and wages	227,989	231,504
Employee benefits	99,500	91,027
Purchased water	557,137	617,065
Repairs, maintenance, and supplies	62,050	47,704
Contracted services	101,677	104,775
Rental	3,192	2,977
Transportation	37,497	34,139
Insurance	23,406	22,134
Miscellaneous	7,862	48
Taxes	103,367	122,990
Depreciation and amortization	472,552	466,350
Total operating expense	<u>1,696,228</u>	<u>1,740,713</u>
Income from operations	<u>(42,054)</u>	<u>(140,193)</u>
Non-operating revenues (expenses):		
Interest income	6,835	7,693
Other non-operating revenue	700	143,851
Interest expense	(152,767)	(118,639)
Total non-operating revenues (expenses)	<u>(145,232)</u>	<u>32,905</u>
Change in net assets	<u>(187,286)</u>	<u>(107,288)</u>
Net position, beginning of year	<u>11,381,557</u>	<u>11,488,845</u>
Net position, end of year	<u>\$ 11,194,271</u>	<u>\$ 11,381,557</u>

See accompanying notes to the financial statements.

**STATEMENT OF CASH FLOWS - PROPRIETARY FUND
WHITLEY COUNTY WATER DISTRICT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and others	\$ 1,714,813	\$ 1,744,371
Cash payments to suppliers for goods and services	(1,042,353)	(1,305,521)
Cash payments to employees for services	(227,989)	(231,504)
Net cash provided by operating activities	<u>444,471</u>	<u>207,346</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(696,799)	
Principal paid on capital debt	(90,584)	(124,600)
Interest paid on capital debt	(152,767)	(127,616)
Capital grant proceeds	508,799	
Net cash provided from capital and related financing activities	<u>(431,351)</u>	<u>(252,115)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	6,835	7,693
Net cash provided by investing activities	<u>6,835</u>	<u>7,693</u>
Net increase (decrease) in cash and cash equivalents	<u>19,955</u>	<u>(37,076)</u>
Cash and cash equivalents, beginning of year	<u>892,962</u>	<u>930,038</u>
Cash and cash equivalents, end of year	<u>\$ 912,917</u>	<u>\$ 892,962</u>
Reconciliation of (loss) from operations to net cash provided by operating activities		
Income from operations	\$ (42,054)	\$ (140,193)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	472,552	466,350
(Increase) decrease in receivables	60,639	(42,036)
Increase (decrease) in other liabilities		(76,917)
Increase (decrease) in accounts payable and accrued expenses	(46,666)	142
Net cash provided by operating activities	<u>\$ 444,471</u>	<u>\$ 207,346</u>

See accompanying notes to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
WHITLEY COUNTY WATER DISTRICT
DECEMBER 31, 2013 AND 2012**

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 discreetly 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, 2013 AND 2012**

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. At December 31, 2013 no provision has been made for compensating balances for accumulated absences.

NOTES TO THE FINANCIAL STATEMENTS
WHITLEY COUNTY WATER DISTRICT (CONTINUED)
DECEMBER 31, 2013 AND 2012

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 \$912,917. 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, 2013, is as follows:

Business-type Activities	Balance 1/1/13	Additions/ Completions	Retirements/ Adjustments	Balance 12/31/13
Capital assets at historical cost				
Land	\$ 48,263	\$	\$	\$ 48,263
Equipment/vehicles	555,789	92,193		647,982
Distribution system	17,062,117	13,007		17,075,124
Total capital assets at historical cost	17,666,169	105,200		17,771,369
Less accumulated depreciation	3,109,859		471,586	3,581,445
Construction in progress	130,007	245,386		375,393
Business-type activities Capital assets, net	\$ 14,686,317	\$ 350,586	\$ (471,586)	\$ 14,565,317

**NOTES TO THE FINANCIAL STATEMENTS
WHITLEY COUNTY WATER DISTRICT (CONTINUED)
DECEMBER 31, 2013**

NOTE 5 - LONG-TERM LIABILITIES

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, 2013:

Bonds	Balance January 1, 2013	Additions	Deductions	Balance December 31, 2013	Due Within One Year
Series 1984	\$ 570,000	\$	\$ (16,000)	\$ 554,000	\$ 16,500
Series 1988	502,000		(11,000)	491,000	11,000
Series 2000	328,000		(6,000)	322,000	6,000
Series 2003	1,680,000		(27,000)	1,653,000	29,000
Series 2006	277,800		(3,900)	273,900	4,100
Long-term note					
KIA B08-03		932,800	(21,984)	910,816	44,186
Total	\$ 3,357,800	\$	\$ (85,884)	\$ 4,204,716	\$ 110,786

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

At December 31, 2013 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:

Year	Interest	Principal	Total
2014	\$ 153,926	\$ 110,766	\$ 264,692
2015	150,480	115,231	265,711
2016	146,893	117,598	264,491
2017	143,159	122,067	265,226
2018	139,257	125,537	264,794
2019 - 2023	631,829	691,393	1,323,222
2024 - 2028	505,723	816,896	1,322,619
2029 - 2033	350,218	942,428	1,292,646
2034 - 2038	190,445	657,400	847,845
2039 - 2043	50,773	474,900	525,673
2044 - 2045	1,398	30,500	31,898
Total	\$ 2,454,101	\$ 4,204,716	\$ 6,668,817

**NOTES TO THE FINANCIAL STATEMENTS
WHITLEY COUNTY WATER DISTRICT (CONTINUED)
DECEMBER 31, 2013 AND 2012**

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

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

<u>Obligation</u>	<u>Rate</u>	<u>Maturity</u>	<u>Original Amount</u>	<u>Security</u>
Series 1994 Bonds	4.50%	01/01/33	750,000	Water revenues
Series 1998 Bonds	4.50%	01/01/38	600,000	Water revenues
Series 2000 Bonds	4.50%	01/01/40	377,000	Water revenues
Series 2003 Bonds	4.50%	01/01/42	1,860,000	Water revenues
Series 2006 Bonds	4.125%	01/01/45	295,000	Water revenues
KIA Note B08-03	0.06%	06/01/33	932,800	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, 2013, the District paid \$557,137 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.

**WHITLEY COUNTY WATER DISTRICT
SCHEDULE OF AUDIT RESULTS
DECEMBER 31, 2013**

- 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. 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.