

**REPORT OF THE AUDIT OF THE  
BREATHITT COUNTY  
WATER DISTRICT BOARD OF COMMISSIONERS**

**For The Year Ended  
December 31, 2017**

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS  
REPORT OF THE AUDIT  
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR'S REPORT .....	1
BREATHITT COUNTY WATER DISTRICT COMMISSION OFFICIALS .....	3
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	4
STATEMENT OF NET POSITION .....	8
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION .....	10
STATEMENT OF CASH FLOWS .....	12
NOTES TO FINANCIAL STATEMENTS .....	13
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND SCHEDULE OF EMPLOYER'S CONTRIBUTIONS.....	27
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	29
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS .....	31
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	33
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 .....	35
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE .....	38

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Independent Auditor's Report

To the Board of Commissioners  
Breathitt County Water District

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Breathitt County Water District as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Breathitt County Water District 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 respective financial position of the business-type activities of the Breathitt County Water District, as of December 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year 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 and pension supplemental reporting on pages 4-6 and 27 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 inquiries 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Breathitt County Water District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was 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 our opinion, schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2018, on our consideration of the Breathitt 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 the Breathitt County Water District's internal control over financial reporting and compliance.



Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

May 11, 2018

**BREATHITT COUNTY WATER DISTRICT COMMISSION OFFICIALS**

**For The Year Ended December 31, 2017**

**Water District Board Members:**

Bobby Thorpe	Chairman
Sammie Turner	Vice Chairman
Cheryl S. Campbell	Treasurer
Eva Fugate	Secretary
David Ingram	Board Member

**Appointed Personnel:**

Estill McIntosh	Superintendent
Wanda Kaye Barnett	Recorder
Cheryl Campbell	Office Clerk

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

As management of the Breathitt County Water 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, 2017. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

**FINANCIAL HIGHLIGHTS**

- The beginning cash balance for the District was \$197,115. The ending cash balance for the District was \$254,035.
- The District continued water line extensions to various locations in Breathitt County.
- The District had the following ongoing and planned projects at various stages: Frozen Creek, Airport Road Ext., Elk View Ext., Stray Branch/ Fire Trail and KY 542.
- As of December 31, 2017 the District had 1,878 customers, up from 1,782 the previous year.
- The Breathitt County Water District adopted GASB 68 for the year ended December 31, 2015 recognizing the District's actuarially calculated net pension liability related to its participation in County Employee's Retirement System. The net pension liability reported at December 31, 2017 and 2016 was \$256,687 and \$267,500, respectively.

Management's Discussion and Analysis (MD & A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their *Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999.

Our discussion and analysis of the Breathitt County Water District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2017. Please read the MD & A in conjunction with the District's financial statements.

For accounting purposes, the District is classified as an enterprise fund: Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indicator.

**Overview of the Financial Statements**

This annual report includes this Management Discussion and Analysis report, the Basic Financial Statements and the Notes to the Financial Statements. The District's financial statements are presented as fund level financial statements because the District only has proprietary funds. In addition, reports and schedules required by Government Auditing Standards are included.

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about the District's activities.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to the District's creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Fund Net Position. The statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operation, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**Financial Analysis**

The District's basic financial statements are the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position. The Statement of Net Position provides a summary of the District's assets and liabilities as of the close of business on December 31, 2017. The Statement of Changes in Fund Net Position summarizes the revenues and sources of those revenues generated during the year ended December 31, 2017 and the expenses incurred in operating the District for the year ended December 31, 2017.

Our analysis below focuses on the net position and the change in net position of the District as a whole and not the individual operations or projects.

	<u>12/31/2017</u>	<u>12/31/2016</u>
<b>Net Position:</b>		
Current Assets	\$ 468,072	\$ 364,564
Noncurrent Assets	37,369,543	34,669,003
Deferred Outflows of Resources	<u>39,674</u>	<u>51,609</u>
<u>Total Assets and Deferred Outflows of Resources</u>	<u>37,877,289</u>	<u>35,085,176</u>
Current Liabilities	162,902	165,633
Noncurrent Liabilities	2,010,772	2,110,462
Deferred Inflows of Resources	<u>27,018</u>	<u>29,666</u>
<u>Total Liabilities and Deferred Inflows of Resources</u>	<u>2,200,692</u>	<u>2,305,761</u>
- Net Position -		
Net Investment in Capital Assets	35,526,581	32,737,982
Restricted	166,557	140,155
Unrestricted	<u>(16,541)</u>	<u>(98,722)</u>
<u>Total Net Position</u>	<u>35,676,597</u>	<u>32,779,415</u>
<u>Total Liabilities, Deferred Inflows of Resources and Net Position</u>	<u>\$ 37,877,289</u>	<u>\$ 35,085,176</u>

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

- Increase in current assets results from an increase in cash and receivables.
- Increase in non-current assets is due to ongoing completion of water infrastructure projects.

<b>Changes in Fund Net Position</b>	<u><b>12/31/2017</b></u>	<u><b>12/31/2016</b></u>
Revenues	\$ 951,480	\$ 933,454
Operating Expenses:		
General	823,734	851,514
Depreciation Expense	<u>1,036,967</u>	<u>994,419</u>
Total Operating Expenses	<u>1,860,701</u>	<u>1,845,933</u>
Other Income (Expenses)	<u>33,216</u>	<u>30,551</u>
Increase (Decrease) in Net Position	<u><u>\$ (876,005)</u></u>	<u><u>\$ (881,928)</u></u>

- Increases in revenues due to the increase in customers.
- Decrease in several General Operating expenses that included retirement expense and repairs and maintenance.
- Increase in depreciation is related to recognition of ongoing infrastructure projects.
- Other income increased due to liquidated damages from construction project.

Questions regarding this report should be directed to the District Office at (606) 666-3800.



**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS  
STATEMENT OF NET POSITION**

**DECEMBER 31, 2017**

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS**  
**STATEMENT OF NET POSITION**  
**December 31, 2017**

<u>ASSETS:</u>	<u>Totals</u>
Current Assets:	
Cash and cash equivalents	\$ 254,035
Accounts Receivable (net of allowance for doubtful accounts)	106,700
Inventory	43,107
Notes Receivable	52,109
Prepaid Expense	10,129
Construction Related Receivables	1,992
<u>Total Current Assets</u>	<u>468,072</u>
Noncurrent Assets:	
Capital Assets:	
Capital Assets, not being depreciated	307,376
Capital Assets, net of accumulated depreciation	37,062,167
<u>Total Noncurrent Assets</u>	<u>37,369,543</u>
 <b><u>DEFERRED OUTFLOWS - PENSION RESOURCES:</u></b>	
Deferred outflows - pension resources	39,674
 <u>Total assets and deferred outflows of resources</u>	 <u>\$ 37,877,289</u>
 <b><u>LIABILITIES:</u></b>	
Current Liabilities:	
Accounts Payable	48,381
Accrued Payroll and Withheld Taxes Payable	14,828
Accrued Vacation Payable	6,510
Sales and Utility Taxes Payable	2,314
Construction Related Payables	1,992
Current Portion of Long-Term Debt	88,877
<u>Total Current Liabilities</u>	<u>162,902</u>
Long-term Liabilities:	
Revenue Bonds	309,000
Net Pension Liability	256,687
Notes Payable	1,533,962
Less: Current portion	(88,877)
<u>Total Long-Term Liabilities</u>	<u>2,010,772</u>
<u>Total Liabilities</u>	<u>2,173,674</u>
 <b><u>DEFERRED INFLOWS - PENSION RELATED:</u></b>	
Deferred inflows - pension related	27,018
 <b><u>NET POSITION:</u></b>	
Net Investment in Capital Assets	35,526,581
Restricted	166,557
Unrestricted(deficit)	
Pension resources	(244,031)
Unrestricted-other	227,490
<u>Total Net Position</u>	<u>35,676,597</u>
 <u>Total liabilities, deferred inflows of resources and net position</u>	 <u>\$37,877,289</u>

The accompanying notes are an integral part of this financial statement.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Operating Revenues:</u>	
Water Sales	\$ 919,869
Tap Fees	<u>31,611</u>
<u>Total Operating Revenues</u>	<u>951,480</u>
<u>Operating Expenses:</u>	
Cost of Goods Sold	281,810
Salaries	178,136
Payroll Taxes	14,097
Retirement Expense	28,995
Repairs and Maintenance	2,267
Auto and Truck Expense	28,118
Small Equipment	1,750
Dues and Subscriptions	983
Insurance	61,237
Professional Fees	13,200
Office Expense	6,977
Postage	7,377
Rents	4,200
Supplies	50,945
Telephone	7,234
Utilities	68,141
Other Taxes	27,807
Miscellaneous Operating Expenses	4,039
Contract Labor	8,285
Interest Expense	28,136
Depreciation Expense	<u>1,036,967</u>
<u>Total Operating Expense</u>	<u>1,860,701</u>
<u>Net Operating Income (Loss)</u>	<u>(909,221)</u>
<u>Non-Operating Revenues (Expenses):</u>	
Interest Income	647
Other Income	<u>32,569</u>
<u>Total Non-Operating Revenues (Expenses)</u>	<u>33,216</u>
Net Income (Loss)	(876,005)
Net Position, Beginning of Year	32,779,415
Add: Capital Contribution	<u>3,773,187</u>
Net Position, End of Year	<u>\$35,676,597</u>

The accompanying notes are an integral part of this financial statement.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS  
STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Cash Flows from Operating Activities:</u>	
Receipts from Customers	\$ 927,033
Other Income	32,569
Payments to Suppliers	(662,605)
Payments to Employees	<u>(188,345)</u>
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>108,652</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Capital Contributions	3,773,187
Purchase of Capital Assets	(3,737,507)
Long-term Debt Proceeds	-
Payment on Long-term Debt	<u>(88,059)</u>
<u>Net Cash Provided (Used) for Capital and Related Financing Activities</u>	<u>(52,379)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest revenue	<u>647</u>
Net Increase (Decrease) in Cash	56,920
Cash and restricted cash, Beginning of Year	<u>197,115</u>
Cash and restricted cash, End of Year	<u><u>254,035</u></u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</u>	
Operating Income (Loss)	(909,221)
Other Income	32,569
Adjustments to reconcile operating net cash provided by operating activities:	
Depreciation	1,036,967
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(17,223)
(Increase) decrease in construction related receivables	(1,992)
(Increase) decrease in notes receivable	(7,224)
(Increase) decrease in inventories	(19,779)
(Increase) decrease in prepaid insurance	(370)
(Increase) decrease in deferred outflows - pension resources	11,935
Increase (decrease) in accounts payable	16,353
Increase (decrease) in accrued payroll and withheld taxes payable	4,534
Increase (decrease) in accrued vacation payable	880
Increase (decrease) in sales and utility taxes payable	152
Increase (decrease) in construction related payables	(25,468)
Increase (decrease) in deferred inflows - pension related	(2,648)
Increase (decrease) in net pension liability	<u>(10,813)</u>
<u>Net Cash Provided (Used) by Operations</u>	<u>\$ 108,652</u>

The accompanying notes are an integral part of this financial statement.

**INDEX FOR NOTES  
TO FINANCIAL STATEMENTS**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	14
NOTE 2 DEPOSITS AND INVESTMENTS ... ..	17
NOTE 3 CAPITAL ASSETS.....	19
NOTE 4 LONG-TERM DEBT .....	19
NOTE 5 EMPLOYEE RETIREMENT SYSTEM.....	21
NOTE 6 INSURANCE .....	25
NOTE 7 CONTINGENCIES .....	25

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The financial statements of the Breathitt County Water District Board of Commissioners (the "Commission") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below.

**B. Reporting Entity**

The Breathitt County Water District was formed pursuant to KRS 74.010 et. seq. by the formal vote of the Breathitt County Fiscal Court on August 28, 2003 adopting ordinance 8-21-23A. The governing body of the Breathitt County Water District is a Board of Commissioners that is appointed pursuant to KRS 74.020.

The Commission shall be governed by and have all the powers listed in KRS 74.010 et. seq. and have full and complete supervision, management, and control of the sources of supply of water as provided in the ordinances of resolutions for acquiring and operating them and in their maintenance, operation, and extension.

The accompanying financial statements comply with the provisions of GASB Statement 14, the Financial Reporting Entity, in that the financial statements include all organizations, activities, and functions for which the Commission is financially accountable. This report includes all activities considered by management to be part of the Commission by virtue of Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of a) the primary government, b) organizations for which the primary government is financially accountable, and c) other organizations for which the nature and significance of their relationship with the primary government are such, that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's government body and whether it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent upon it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government a) is entitled to the organization's resources, b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or c) is obligated in some manner for the debt of the organization. Based on the application of these criteria, the Commission has no component units.



BREATHITT COUNTY WATER DISTRICT  
BOARD OF COMMISSIONERS  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017  
(Continued)

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation**

The Commission's basic financial statements consist of a statement of net position, a statement of revenue, expenses and changes in fund net position, and a statement of cash flows.

**D. Fund Accounting**

The Commission uses the proprietary fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Funds are classified into three categories: governmental, proprietary and fiduciary. The Commission uses the proprietary category for its programs.

**E. Proprietary Fund Types**

Proprietary funds are used to account for the Commission's ongoing activities, which are similar to those found in the private sector. The following is the proprietary fund type:

Enterprise Fund – This fund is used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent 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 where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**F. Measurement Focus/Basis of Accounting**

The proprietary funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period incurred. Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

**G. Allowance for Doubtful Accounts**

Breathitt County Water District's financial statements reflect an allowance account for its customer accounts receivable based on management's estimate of probable losses. An allowance expense in the amount of \$107,762 was recognized in the financial statements for the year ended December 31, 2017. All receivables are considered short term and collectible in less than one year.

BREATHITT COUNTY WATER DISTRICT  
BOARD OF COMMISSIONERS  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017  
(Continued)

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Description of Program**

The Commission is designed to construct waterlines, and supporting infrastructure for those waterlines, that will provide clean water to the citizens of Breathitt County.

**I. Capital Assets**

Capital assets are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of three years to forty years. Expenditures for repairs and maintenance are charged directly to expenses as they are incurred. Expenditures determined to represent additions or betterments and have a cost in excess of \$500 are capitalized.

**J. Net Position**

GASB 63, implemented for fiscal year 2013, has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources. Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations on its use either through the enabling legislation adopted by the District or through external restrictions imposed by the creditors, grantors or laws or regulations of other governments.

**K. Operating Revenues and Expenses**

Operating revenues and expenses are those revenues that are generated directly from the primary activities of the proprietary fund and expenses incurred for the day to day operation. For the Commission, operating revenues are water sales and tap-on fees and other miscellaneous revenues.

**L. Capital Contributions**

This represents contributions made available from a variety of sources including but not limited to Community Development Block Grants, Kentucky Infrastructure Authority Grants, Coal Severance Tax Funds, Abandoned Mine Lands Grants, U.S. Department of Agriculture Grants, and contributions from the Breathitt County Fiscal Court.

BREATHITT COUNTY WATER DISTRICT  
BOARD OF COMMISSIONERS  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017  
(Continued)

**Note 1. Summary of Significant Accounting Policies (Continued)**

**M. Budgetary Accounting**

The Treasurer/Superintendent shall prepare and submit to the Commission's Budget Committee proposals for the annual Commission budget based on a Calendar Year. The proposed budget will be reviewed and passed to the Commission for tentative adoption. Following this action, the budget will be submitted to the Kentucky Department for Local Government in accordance with KRS 65A.

**N. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

**O. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the Commission to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for the future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposits issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**Note 2. Deposits and Investments**

The Commission maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the District and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and (c) an official record of the depository institution. These requirements were met.

BREATHITT COUNTY WATER DISTRICT  
 BOARD OF COMMISSIONERS  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2017  
 (Continued)

**Note 2. Deposits and Investments (Continued)**

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. Breathitt County Water District does not have any investments other than its interest bearing checking accounts. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District's investments in a single issuer. All of the District's cash at December 31, 2017 is held at Citizens Bank & Trust of Jackson. Foreign currency risk is the risk of changes in exchange rates effecting foreign investments. The District does not hold any foreign investments.

Cash consisted of the following at December 31, 2017:

	<u>Book Balance</u>	<u>Bank Balance</u>	<u>Interest Rate</u>
Sinking Fund	71,487	60,943	0.20%
Short Lived Assets	54,557	55,267	0.20%
Reserve Account	34,946	34,952	0.20%
Operations & Maintenance	70,624	85,474	0.02%
Repair & Maintenance	(9)	(9)	0.00%
Frozen Phase II	182	182	0.00%
Hwy 315/28 Project	308	308	0.00%
2436 Airport Rd Project	10	37,908	0.20%
30 W Waterline Relocation	5,001	5,001	0.20%
Frozen Phase IV	75	75	0.00%
Water Assistance Fund	<u>16,854</u>	<u>19,557</u>	0.20%
<u>Totals</u>	<u>\$ 254,035</u>	<u>\$ 299,658</u>	

BREATHITT COUNTY WATER DISTRICT  
 BOARD OF COMMISSIONERS  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2017  
 (Continued)

**Note 3. Capital Assets**

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

<u>Primary Government</u>	<u>1/1/2017 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2017 Balance</u>
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 47,581	\$ -	\$ -	\$ 47,581
Construction in Progress	<u>1,155,255</u>	<u>3,737,507</u>	<u>(4,632,967)</u>	<u>259,795</u>
Total Capital Assets Not Being Depreciated	<u>1,202,836</u>	<u>3,737,507</u>	<u>(4,632,967)</u>	<u>307,376</u>
Capital Assets Being Depreciated:				
Vehicles	159,285	-	-	159,285
Office Equipment	8,699	-	-	8,699
Other Equipment	110,232	-	-	110,232
Water Improvements	<u>39,307,542</u>	<u>4,632,967</u>	<u>-</u>	<u>43,940,509</u>
Total Capital Assets Being Depreciated:	<u>39,585,758</u>	<u>4,632,967</u>	<u>-</u>	<u>44,218,725</u>
Less Accumulated Depreciation For:				
Vehicles	(133,917)	(7,300)	-	(141,217)
Office Equipment	(5,819)	(631)	-	(6,450)
Other Equipment	(94,428)	(4,125)	-	(98,553)
Water Improvements	<u>(5,885,427)</u>	<u>(1,024,911)</u>	<u>-</u>	<u>(6,910,338)</u>
Total Accumulated Depreciation	<u>(6,119,591)</u>	<u>(1,036,967)</u>	<u>-</u>	<u>(7,156,558)</u>
Total Capital Assets Being Depreciated, Net	<u>33,466,167</u>	<u>3,596,000</u>	<u>-</u>	<u>37,062,167</u>
Total Capital Assets, Net	<u>\$ 34,669,003</u>	<u>\$ 7,333,507</u>	<u>\$ (4,632,967)</u>	<u>\$ 37,369,543</u>

Total depreciation expense for the year ended December 31, 2017 was \$1,036,967.

**Note 4. Long-Term Debt**

**A. Waterworks Revenue Bonds, Series 2009**

On September 24, 2009, the Breathitt County Water District issued \$350,000 in Waterworks Revenue Bonds, Series 2009. The bonds were sold at par to the U.S. Department of Agriculture, acting through Rural Development. The proceeds from these bonds were used for the construction of water lines.

BREATHITT COUNTY WATER DISTRICT  
 BOARD OF COMMISSIONERS  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2017  
 (Continued)

**Note 4. Long-Term Debt (Continued)**

**A. Waterworks Revenue Bonds, Series 2009 (Continued)**

The bonds are scheduled to mature in 2048 and carry an interest rate of 2.625%. Annual interest payments are required with annual principal payments beginning in 2011. As of December 31, 2017, the principal balance outstanding on these bonds was \$309,000. Debt service requirements for the remaining years are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance</u>
				\$ 309,000
2018	6,500	8,099	14,599	302,500
2019	6,500	7,928	14,428	296,000
2020	7,000	7,757	14,757	289,000
2021	7,000	7,574	14,574	282,000
2022	7,000	7,390	14,390	275,000
2023-2027	39,500	33,956	73,456	235,500
2028-2032	44,500	28,510	73,010	191,000
2033-2037	51,000	22,355	73,355	140,000
2038-2042	58,500	15,333	73,833	81,500
2043-2047	67,000	7,326	74,326	14,500
2048	<u>14,500</u>	<u>407</u>	<u>14,907</u>	-
<u>Total</u>	<u>\$ 309,000</u>	<u>\$ 146,635</u>	<u>\$ 455,635</u>	

**B. Kentucky Infrastructure Authority**

In December 2009 the Breathitt County Water District requested \$572,000 from the Kentucky Infrastructure Authority's Drinking Water State Revolving Fund Loan Program. During 2010 the District received the funds and made the first payment on the loan balance. The loan was funded by the American Recovery and Reinvestment Act. As part of the agreement \$309,452 was forgiven. Semi-annual principal and interest payments are due in June and December of each year. The debt is scheduled to mature in 2030 and carry an interest rate of 1%. The agreement calls for the District to deposit \$1,000 per year into a reserve account until a balance of \$10,000 is reached.

Debt service requirements for the remaining years are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance</u>
				\$ 170,857
2018	12,898	1,676	14,574	157,959
2019	13,028	1,547	14,575	144,931
2020	13,158	1,416	14,574	131,773
2021	13,290	1,285	14,575	118,483
2022	13,423	1,151	14,574	105,060
2023-2027	69,163	3,712	72,875	35,897
2028-2030	<u>35,897</u>	<u>541</u>	<u>36,438</u>	-
<u>Total</u>	<u>\$ 170,857</u>	<u>\$ 11,328</u>	<u>\$ 182,185</u>	

BREATHITT COUNTY WATER DISTRICT  
 BOARD OF COMMISSIONERS  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2017  
 (Continued)

**Note 4. Long-Term Debt (Continued)**

**C. Kentucky Infrastructure Authority**

In April 2012 the Breathitt County Water District began drawing down funds from the Kentucky Infrastructure Authority's (KIA) Drinking Water State Revolving Fund Loan Program in relation to waterline projects. Total loan approved for the project is \$2,500,000. As part of the agreement \$1,000,000 will be forgiven. Interest payments began six months after the first draw of funds. Full principal and interest payments started in June 2016. Semi-annual principal and interest payments will be due in June and December of each year. The debt has a term of 20 years and carries an interest rate of 1%. The agreement calls for the District to deposit \$6,250 per year into a reserve account until a balance of \$62,500 is reached.

Debt service requirements for the remaining years are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Balance</u>
				\$ 1,363,105
2018	69,479	16,823	86,302	1,293,626
2019	70,175	15,951	86,126	1,223,451
2020	70,879	15,072	85,951	1,152,572
2021	71,589	14,184	85,773	1,080,983
2022	72,307	13,287	85,594	1,008,676
2023-2027	372,555	52,659	425,214	636,121
2028-2032	391,607	28,844	420,451	244,514
2033-2035	<u>244,514</u>	<u>5,372</u>	<u>249,886</u>	-
<b>Total</b>	<b><u>\$ 1,363,105</u></b>	<b><u>\$ 162,192</u></b>	<b><u>\$ 1,525,297</u></b>	

**D. Changes in long-term debt**

Changes in long-term debt for the District are as follows:

	<u>1/1/2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2017</u>	<u>Current</u>
	<u>Balance</u>			<u>Balance</u>	<u>Portion</u>
Rural Development Revenue Bonds	\$ 315,500	\$ -	\$ (6,500)	\$ 309,000	\$ 6,500
Kentucky Infrastructure Authority	1,431,894	-	(68,789)	1,363,105	69,479
Kentucky Infrastructure Authority	<u>183,627</u>	<u>-</u>	<u>(12,770)</u>	<u>170,857</u>	<u>12,898</u>
<b>Total</b>	<b><u>\$ 1,931,021</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (88,059)</u></b>	<b><u>\$ 1,842,962</u></b>	<b><u>\$ 88,877</u></b>

**Note 5. Employee Retirement System**

*Plan Description:* Substantially all full-time employees of the District participate in the County Employees Retirement System (CERS). CERS is a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

BREATHITT COUNTY WATER DISTRICT  
 BOARD OF COMMISSIONERS  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2017  
 (Continued)

**Note 5. Employee Retirement System (Continued)**

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

*Benefits Provided* - Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

*Contributions* - Funding for the plan is provided through payroll withholdings of 5.00% except for new hires on or after September 1, 2008 with payroll withholding of 6.00% and a District contribution of 18.68% for the first half of the year and 19.18% for the second half of the year of the employee's total compensation subject to contributions.

At December 31, 2017, the District reported the following for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used was based on an actuarial valuation as of June 30, 2016. At June 30, 2017 the District's proportion of the net pension liability based on contributions to CERS during fiscal year ended June 30, 2016 was .00521% for nonhazardous.

District's proportionate share of the net	
CERS nonhazardous pension liability	<u>\$ 256,687</u>

For the year ended June 30, 2017, the District's government-wide financial statements reflect CERS pension expense of \$30,305 for nonhazardous. For the year ended December 31, 2017 the District recognized deferred outflows of resources for nonhazardous of \$39,674 and deferred inflows of resources for nonhazardous of \$27,018. These contributions will be recognized as a reduction of the net pension liability in the year ended December 31, 2017.

The District previously reported deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$17,600. This will be recognized as pension expense as follows:

<u>Year</u>	<u>Total</u>
2018	4,400
2019	4,400
2020	4,400
2021	<u>4,400</u>
	<u>\$ 17,600</u>



BREATHITT COUNTY WATER DISTRICT  
 BOARD OF COMMISSIONERS  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2017  
 (Continued)

**Note 5. Employee Retirement System (Continued)**

	<u>Nonhazardous</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,121	\$ -
Changes of assumptions	13,598	-
Net difference between projected and actual earnings on pension plan investments	24,131	-
Changes in proportion and differences between District contributions and proportionate share of contributions	824	27,018
District contributions subsequent to the measurement date	-	-
Total	<u>\$ 39,674</u>	<u>\$ 27,018</u>

*Actuarial Methods and Assumptions* - The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2016. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

- Valuation date, June 30, 2016
- Experience study – July 1, 2008 – June 30, 2013
- Actuarial Cost method – Entry Age Normal
- Amortization Method – Level percentage of payroll, closed
- Remaining Amortization Period – 27 years
- Asset Valuation method – 5-year smoothed market
- Inflation – 3.25%
- Salary increases, 4.00% including .75% wage inflation.
- Investment rate of return – 7.50%

The rates of mortality for the period after service retirement are according to the RP-2000 Combined Mortality Table with Scale BB to 2013.

BREATHITT COUNTY WATER DISTRICT  
 BOARD OF COMMISSIONERS  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2017  
 (Continued)

**Note 5. Employee Retirement System (Continued)**

The target asset allocation and best estimates of arithmetic real rate of return for each major asset class, as provided by CERS's investment consultant, are summarized as follows:

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

*Discount Rate* – 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 contributions from plan members 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 assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Deferred inflows and outflows and pension expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability is based on the June 30, 2016 actuarial valuations. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a five year period.

The following presents the District's proportionate share of net pension liability calculated using the discount rate of 7.50% as well as the District's share if calculated using a rate 1% higher and 1% lower:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of net nonhazardous pension liability	\$ 322,433	\$ 256,687	\$ 202,429

BREATHITT COUNTY WATER DISTRICT  
BOARD OF COMMISSIONERS  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017  
(Continued)

**Note 5. Employee Retirement System (Continued)**

*Pension plan fiduciary net position* – Detailed information about the pension plan’s fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

There were no payables to the pension plan at December 31, 2017.

**Note 6. Insurance**

For the year ended December 31, 2017, the Commission was a member of the Kentucky Association of Counties’ All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials’ errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 7. Contingencies**

The District receives funding from local, state, and federal government agencies. These funds are to be used for designated purposes only. For government agency grants, if the grantor’s review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District’s grant programs is predicated upon the grantor’s satisfaction that the funds provided are being spent as intended and the grantors’ intent to continue their programs.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS  
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY  
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**For The Year Ended December 31, 2017**

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS  
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY  
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**For The Year Ended December 31, 2017**

**Employer's Proportionate Share of Net Pension Liability**

	<u>2017</u> CERS <u>Nonhazardous</u>	<u>2016</u> CERS <u>Nonhazardous</u>	<u>2015</u> CERS <u>Nonhazardous</u>
Employer's proportion of the net pension liability	0.00521%	0.00622%	0.00617%
Employer's proportionate share of the net pension liability	256,687	267,500	200,000
Employer's covered employee payroll	163,404	122,824	132,927
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	157%	218%	150%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	62.6%

**Employer's Contributions**

	<u>2017</u> CERS <u>Nonhazardous</u>	<u>2016</u> CERS <u>Nonhazardous</u>	<u>2015</u> CERS <u>Nonhazardous</u>
Contractually required contribution	\$ 14,812	\$ 18,576	\$ 16,000
Contributions in relation to the contractually required contribution	15,446	18,508	16,000
Contribution deficiency (excess)	(634)	68	-
District's covered employee payroll	\$ 163,404	\$ 122,824	\$ 148,094
Contributions as a percentage of covered employee payroll	9.45%	15.07%	10.80%

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For The Year Ended December 31, 2017**

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For The Year Ended December 31, 2017**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Pass-Through to Subrecipients</u>	<u>Program Expenditures</u>
US Department of Interior				
Passed through Kentucky Natural Resources and Environmental Protection Cabinet				
Abandoned Mines Land - Frozen Water Project IV	15.252	N/A	N/A	\$ 94,802
Abandoned Mines Land - HWY 315-28 Project	15.252	N/A	N/A	<u>3,379,403</u>
Total US Department of Interior				<u>3,474,205</u>
Appalachian Regional Commission				
Passed through Rural Development				
Appalachian Regional Development	23.002	N/A	N/A	<u>257,804</u>
Total Appalachian Regional Commission				<u>257,804</u>
US Department of Homeland Security				
Passed through Kentucky Natural Resources and Environmental Protection Cabinet				
Federal Emergency Management Agency-Public Assistance Grant	97.036	4239-DR-KY	N/A	<u>11,727</u>
Total US Department of Homeland Security				<u>11,727</u>
<u>Total Federal Awards Expenditures</u>				<u>\$ 3,743,736</u>

See independent auditor's report

**Note 1—Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal award activity of Breathitt County Water District, under programs of the federal government for the year ended December 31, 2017 in accordance with the requirements of Title 2 U.S. code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Breathitt County Water District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Breathitt County Water District.

**Note 2—Summary of Significant Accounting Policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance\*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Breathitt County Water District has not elected to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.

\*Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87 Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**For the Year Ended December 31, 2017**



**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**For the Year Ended December 31, 2017**

NONE

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended December 31, 2017**

**BREATHITT COUNTY WATER DISTRICT BOARD OF COMMISSIONERS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended December 31, 2017**

- SUMMARY OF AUDIT RESULTS -

1. We have issued an unmodified opinion on the financial statements.
2. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit in internal control over major programs.
5. We have issued an unmodified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under section 200.516 of Title 2 U.S. Code of Federal Regulations Part 200.
7. Breathitt County Water District had the following major programs:
  - US Department of Interior
    - Passed through Kentucky Environmental and Public Protection Cabinet Abandoned Mine Lands Reclamation (AMLR) Program 15.252
8. The dollar threshold used to distinguish between major and non-major programs was \$750,000.
9. The auditee did not qualify as a low-risk auditee under section 200.520 of Title 2 U.S. Code of Federal Regulations Part 200.

Findings Related to the Financial Statements

- NONE -

Findings and Questioned Costs for Federal Awards

- NONE -

**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**

## Chris Gooch

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

To the Board of Commissioners  
Breathitt County Water District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Breathitt County Water District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Breathitt County Water District's basic financial statements, and have issued our report thereon dated May 11, 2018.

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Breathitt 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*.

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  
(Continued)

**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.



Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

May 11, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY UNIFORM GUIDANCE**

## **Chris Gooch**

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### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

To the Board of Commissioners  
Breathitt County Water District

#### **Report on Compliance for Each Major Federal Program**

We have audited the Breathitt County Water District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Breathitt County Water District's major federal programs for the year ended December 31, 2017. Breathitt 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Breathitt County Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we 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 the Breathitt County Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

#### ***Opinion on Each Major Federal Program***

In our opinion, the Breathitt 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.



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY UNIFORM GUIDANCE  
(Continued)

**Report on Internal Control over Compliance**

Management of the Breathitt 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 our audit of compliance, we considered the Breathitt 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Breathitt 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.

Our 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. We did not identify any deficiencies in internal control over compliance that we 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 our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

May 11, 2018