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**WHITLEY COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
FISCAL YEAR ENDED
DECEMBER 31, 2008**

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Whitley County Water District
Williamsburg, Kentucky

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate fund information of Whitley County Water District, as of and for the year ended December 31, 2008, which collectively comprise Whitley County Water District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Whitley County Water District's management. Our responsibility is to express an opinion on these basic 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Whitley County Water District, as of December 31, 2008, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2009, on our test 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 - 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Barnett & Williams CPAs, PLLC

Harrogate, Tennessee
March 25, 2009

WHITLEY COUNTY WATER DISTRICT

**19 S Hwy. 25W
Williamsburg, KY 40769
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MANAGEMENT'S DISCUSSION AND ANALYSIS ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

The financial management team of the Whitley County Water District: Walter B. Estes, Chairperson, Andrew D. Meadors, 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, Treasurer.

Financial Highlights

- As of December 31, 2008, the District's assets (\$14,842,915) exceeded liabilities (\$3,744,684) by \$10,404,493. This excess includes the value of capital assets plus resources restricted to specific projects by law, regulation, or contractual agreement (\$10,283,789) and unrestricted resources available to continue District operations in the next fiscal year (\$120,704).
- Unrestricted cash balances as of December 31, 2008 was \$217,602, receivables of \$258,078, and provision for uncollectible accounts of \$(10,648) for a total current assets of \$456,032 and current liabilities payable from those funds were \$693,738. The difference is payable from restricted cash and cash equivalents, the balance after using restricted cash for the construction payable would finance operations for more than one month. This is a reasonable operating cushion that the District attempts to maintain.
- Net assets, increased in the proprietary fund by \$1,189,222, to a December 31 balance of \$910,404,493. \$120,704 of this amount is unrestricted and available to continue operations into the next fiscal year. The District anticipated this increase in the net assets of the proprietary fund, primarily due to construction grant receipts.
- The District's total bonded debt decreased by \$51,703 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 2008 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 Assets-Proprietary Funds

Statement of Revenues, Expenses, and Changes in Net Assets-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 increased by 11% this year, primarily due construction grant activity.

Proprietary Fund current assets exceed current liabilities by more than \$269,000. This amount is unrestricted and available to fund future operations.

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, 2008 and 2007

ASSETS		2008	2007
Current assets:			
Cash and cash equivalents		\$ 217,602	\$ 116,120
Accounts receivable - customers		258,078	253,432
Provision for uncollectible accounts		(10,648)	(10,648)
Prepaid insurance			5,588
	Total current assets	<u>465,032</u>	<u>364,492</u>
Non-current assets:			
Restricted assets -			
Cash and cash equivalents		1,358,861	514,485
	Total restricted assets	<u>1,358,861</u>	<u>514,485</u>
Capital assets:			
Land		14,013	14,013
Equipment, structures, vehicles		434,075	397,758
Distribution system		10,253,020	10,253,020
Accumulated depreciation		(1,925,822)	(1,801,118)
Construction in-progress		4,234,005	3,304,395
	Capital assets, net of	<u>13,009,291</u>	<u>12,168,068</u>
Other assets:			
Deposits - utility		2,000	2,000
Prepaid debt service			133,005
Miscellaneous other assets		50	50
Bond related costs		9,665	9,665
Accumulated amortization bond costs		(1,984)	(1,710)
	Total other assets	<u>9,731</u>	<u>143,010</u>
	Total non-current assets	<u>14,377,883</u>	<u>12,825,563</u>
	Total assets	<u>\$ 14,842,915</u>	<u>\$ 13,190,055</u>
LIABILITIES			
Current liabilities:			
Accounts payable/accrued liabilities		\$ 108,595	\$ 109,316
Accrued taxes		12,768	14,922
Accrued interest payable		21,012	14,933
Construction payable		498,063	
Current bonds payable		53,300	48,500
	Total current liabilities	<u>693,738</u>	<u>187,671</u>
Non-current liabilities:			
Customer deposits		209,151	195,080
Escrow charges		2,533	2,533
Bonds payable		3,533,000	3,589,500
	Total non-current liabilities	<u>3,744,684</u>	<u>3,787,113</u>
	Total liabilities	<u>4,438,422</u>	<u>3,974,784</u>
NET ASSETS			
Net assets:			
Invested in capital assets, net of		8,924,928	8,578,568
Restricted for:			
Deposits		159,083	153,478
Capital projects		528,709	37,030
Debt service		671,069	304,426
Unreserved		120,704	141,769
	Total net assets	<u>10,404,493</u>	<u>9,215,271</u>
	Total liabilities and net assets	<u>\$ 14,842,915</u>	<u>\$ 13,190,055</u>

See accompanying notes to the basic financial statements.

STATEMENTS OF REVENUE, EXPENSE AND CHANGES IN FUND NET ASSETS
 - PROPRIETARY FUND
 WHITLEY COUNTY WATER DISTRICT
 FOR THE YEAR ENDED DECEMBER 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Water sales	\$ 1,449,664	\$ 1,383,464
Other operating revenue	37,535	38,011
	<u>1,487,199</u>	<u>1,421,475</u>
Operating expense:		
Salaries and wages	204,234	165,341
Employee benefits	71,036	53,034
Purchased water	588,966	540,305
Fuel	22,519	17,242
Chemicals and lab	621	284
Repairs, maintenance, and supplies	50,006	51,360
Contracted services	73,081	78,573
Rental	2,564	8
Transportation	14,982	7,054
Insurance	19,879	20,087
Miscellaneous	773	411
Taxes	17,021	16,057
Depreciation and amortization	124,704	124,704
	<u>1,190,386</u>	<u>1,074,460</u>
Income from operations	<u>296,813</u>	<u>347,015</u>
Non-operating revenues (expenses):		
Interest income	8,518	29,106
Grant revenue	1,031,049	866,178
Other non-operating revenue	14,289	4,181
Interest expense	(161,447)	(159,761)
	<u>892,409</u>	<u>739,704</u>
Change in net assets	1,189,222	1,086,719
Net assets, beginning of year	<u>9,215,271</u>	<u>8,128,552</u>
Net assets, end of year	<u>\$ 10,404,493</u>	<u>\$ 9,215,271</u>

See accompanying notes to the basic financial statements.

STATEMENT OF CASH FLOWS - PROPRIETARY FUND
WHITLEY COUNTY WATER DISTRICT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008 and 2007

		2008	2007
	CASH FLOWS FROM OPERATING ACTIVITIES:		
	Cash received from customers and others	\$ 1,476,965	\$ 1,388,528
13,464	Cash payments to suppliers for goods and services	(832,997)	(828,080)
18,011	Cash payments to employees for services	(204,234)	(165,341)
	Net cash provided by operating activities	439,734	395,107
	CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
5,341	Acquisition of capital assets	(334,582)	(1,442,998)
3,034	Principal paid on capital debt	(51,703)	(48,500)
0,305	Interest paid on capital debt	(161,447)	(244,266)
7,242	Proceeds from short-term note - interim financing		147,961
284	Repayment short-term note - interim financing		(271,200)
1,360	Bond proceeds		295,000
8,573	Grants received	1,031,049	830,290
8	Other receipts	14,289	4,181
	Net cash provided from capital and related financing activities	497,606	(729,532)
	CASH FLOWS FROM INVESTING ACTIVITIES		
	Interest earned	8,518	20,446
	Net cash provided by investing activities	8,518	20,446
	Net increase (decrease) in cash and cash equivalents	945,858	(313,979)
	Cash and cash equivalents, beginning of year	630,605	944,584
	Cash and cash equivalents, end of year	\$ 1,576,463	\$ 630,605
	Reconciliation of (loss) from operations to net cash provided by operating activities		
	Income from operations	\$ 296,813	\$ 347,015
	Adjustments to reconcile net loss to net cash provided by operating activities:		
	Depreciation	124,704	124,704
	(Increase) decrease in receivables	(4,646)	(32,957)
	(Increase) decrease in prepaid assets	5,588	(88,059)
	Increase in other liabilities	14,071	26,499
	Increase (decrease) in accounts payable and accrued expenses	3,204	17,905
	Net cash provided by operating activities	\$ 439,734	\$ 395,107

See accompanying notes to the basic financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
WHITLEY COUNTY WATER DISTRICT
DECEMBER 31, 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A – REPORTING ENTITY

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

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

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

B – GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (the statement of net assets 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, 2008

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, 2008 no provision has been made for compensating balances for accumulated absences.

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NOTES TO THE FINANCIAL STATEMENTS
WHITLEY COUNTY WATER DISTRICT (CONTINUED)
DECEMBER 31, 2008

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 in 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 \$630,605. The bank balances were covered by \$200,000 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, 2008, is as follows:

Business-type Activities	Balance 1/1/08	Additons/ Completions	Retirements/ Adjustments	Balance 12/31/08
Capital assets at historical cost				
Land	\$ 14,013	\$	\$	\$ 14,013
Equipment/vehicles	397,758	36,317		434,075
Distribution system	10,253,020			10,253,020
Total capital assets at historical cost	10,664,791	36,317		10,701,108
Less accumulated depreciation for:				
Equipment/vehicles	124,001			124,001
Distribution system	1,677,117	124,704		1,801,821
Total accumulated depreciation	1,801,118	124,704		1,925,822
Construction in progress	3,304,395	929,610		4,234,005
Business-type activities				
Capital assets, net	<u>\$ 12,168,068</u>	<u>\$ 841,223</u>	<u>\$</u>	<u>\$ 13,009,291</u>

**NOTES TO THE FINANCIAL STATEMENTS
WHITLEY COUNTY WATER DISTRICT (CONTINUED)
DECEMBER 31, 2008**

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, 2008, the District paid \$588,966 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.

BW Barnett & Williams, CPAs, PLLC

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

To the Commissioners
Whitley County Water District
Williamsburg, Kentucky

We have audited the financial statements of Whitley County Water District as of and for the year ended December 31, 2008, and have issued our report thereon dated March 25, 2009. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Whitley County Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Whitley County Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Whitley County Water District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Whitley County Water District's financial statements are free of 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*.

We noted certain matters that we reported to management of Whitley County Water District in a separate letter dated March 25, 2009.

This report is intended solely for the information and use of the audit committee, management, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Harrogate, Tennessee
March 25, 2009

Barnett & Williams, CPAs, PLLC

Kimberly Barnett, CPA

Gary Williams, CPA

**WHITLEY COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS
DECEMBER 31, 2008**

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Whitley County Water District.
2. No significant deficiencies or material weaknesses were disclosed during the audit of the general purpose financial statements and reported in the Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*.
3. No instances of noncompliance material to the basic financial statements of Whitley County Water District were disclosed during the audit.
4. 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

Inadequate segregation of duties.