

Cumberland County Water District
Burkesville, Kentucky

Independent Auditors' Report
And Financial Statements
For the Years Ended
December 31, 2013 and 2012

Cumberland County Water District
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Independent Auditors' Report

To the Commissioners
Cumberland County Water District
Burkesville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Cumberland County Water District (the District), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Cumberland County Water District, as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2014 on our consideration of Cumberland 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 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* in considering Cumberland County Water District's internal control over financial reporting and compliance.

Christian Sturgeon & Associates, PSC

Christian Sturgeon & Associates, PSC
London, Kentucky

March 31, 2014

Cumberland County Water District
 Statements of Net Position
 December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 27,039	\$ 28,784
Receivables, less allowance for doubtful accounts of \$49,110 and \$43,021, respectively	75,758	61,937
Unbilled accounts receivable	34,521	28,037
Inventories	18,121	22,971
Total Current Assets	155,439	141,729
Noncurrent Assets		
Restricted Assets		
Customer deposits	26,151	22,874
Depreciation reserves	84,521	71,857
Debt and interest funds	251,521	172,002
Total Restricted Assets	362,193	266,733
Capital Assets		
Land and improvements	55,313	55,313
Buildings and improvements	165,511	165,511
Equipment	302,411	302,411
Other water system assets	7,252,820	7,252,820
Transportation	153,503	153,503
Office furniture and equipment	54,531	54,531
Construction in progress	303,445	-
Less: accumulated depreciation	(2,560,564)	(2,346,205)
Net Capital Assets	5,726,970	5,637,884
Total Noncurrent Assets	6,089,163	5,904,617
Total Assets	6,244,602	6,046,346
Deferred Outflows of Resources		
Prepaid expenses	5,740	7,962
Total Deferred Outflow of Resources	5,740	7,962

See accompanying notes to financial statements.

Cumberland County Water District
 Statements of Net Position (Continued)
 December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 66,946	\$ 53,793
Accrued interest payable	85,911	89,503
Accrued salaries and taxes payable	20,231	13,261
Current portion of long-term debt	100,000	167,290
Other current liabilities	23,839	20,685
Total Current Liabilities	<u>296,926</u>	<u>344,532</u>
Noncurrent Liabilities		
Construction loan	226,644	-
Long-term debt, less current portion included in current liabilities	3,198,201	3,298,200
Total Noncurrent Liabilities	<u>3,424,845</u>	<u>3,298,200</u>
Total Liabilities	<u>3,721,771</u>	<u>3,642,732</u>
Net Position		
Net investment in capital assets	2,202,125	2,172,394
Restricted	362,193	266,733
Unrestricted	(35,748)	(27,551)
Total Net Position	<u>\$ 2,528,570</u>	<u>\$ 2,411,576</u>

See accompanying notes to financial statements.

Cumberland County Water District
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Water sales	\$ 1,117,022	\$ 1,030,705
Service charges	14,952	14,009
Other revenues	<u>27,749</u>	<u>33,159</u>
Total Operating Revenues	<u>1,159,723</u>	<u>1,077,873</u>
Operating Expenses		
Salaries and wages	200,773	220,780
Employee benefits	80,052	76,469
Purchased water	340,986	417,986
Utilities	40,014	42,387
Chemicals	-	1,901
Materials and supplies	31,541	36,656
Contracted services	33,540	16,401
Vehicle and equipment expenses	22,792	23,749
Insurance	17,338	21,522
Office expenses	31,743	29,850
Directors fees	8,737	6,550
Bad debt expense, net of recoveries	6,089	-
Depreciation	214,359	208,262
Other operating expenses	<u>9,947</u>	<u>9,791</u>
Total Operating Expenses	<u>1,037,911</u>	<u>1,112,304</u>
Operating Income (Loss)	<u>121,811</u>	<u>(34,431)</u>
Non-operating Revenues (Expenses)		
Interest income	595	704
Grant revenue	115,700	234,108
Gain/loss on assets	-	(1,479,799)
Interest expense	<u>(121,112)</u>	<u>(128,484)</u>
Total Non-operating Revenues (Expenses)	<u>(4,817)</u>	<u>(1,373,471)</u>
Change in Net Position	116,994	(1,407,902)
Net Position, Beginning of Year	<u>2,411,576</u>	<u>3,819,478</u>
Net Position, End of Year	<u>\$ 2,528,570</u>	<u>\$ 2,411,576</u>

See accompanying notes to financial statements.

Cumberland County Water District
 Statements of Cash Flows
 For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,145,507	\$ 1,040,465
Payments to employees	(193,803)	(221,034)
Payments to suppliers	(614,757)	(718,910)
Payments for other activities	(8,737)	(6,550)
Net Cash Provided by Operating Activities	328,210	93,971
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(285,440)	(202,490)
Proceeds from disposal of property, plant and equipment	-	35,809
Principal payments on debt	(167,290)	(76,600)
Interest payments on debt	(124,704)	(123,408)
Proceeds from debt	226,644	53,095
Grants	115,700	234,108
Net Cash Used by Capital and Related Financing Activities	(235,090)	(79,486)
Cash Flows From Investing Activities		
Interest on investments	595	704
Net Cash Provided by Investing Activities	595	704
Net Increase in Cash and Cash Equivalents	93,715	15,189
Cash and Cash Equivalents at Beginning of Year	295,517	280,328
Cash and Cash Equivalents at End of Year	<u>\$ 389,232</u>	<u>\$ 295,517</u>
Reconciliation of cash per Statement of Net Assets to cash per Statement of Cash Flows:		
Cash and cash equivalents	\$ 27,039	\$ 28,784
Customer deposits	26,151	22,874
Depreciation reserves	84,521	71,857
Debt and interest funds	251,521	172,002
Cash and cash equivalents per Statement of Cash Flows	<u>\$ 389,232</u>	<u>\$ 295,517</u>

See accompanying notes to financial statements.

Cumberland County Water District
 Statements of Cash Flows (Continued)
 For the Years Ended December 31, 2013 and 2012

	2013	2012
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 121,811	\$ (34,431)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	214,359	208,262
(Increase) Decrease in operating assets		
Accounts receivable	(13,821)	(9,371)
Unbilled receivables	(6,484)	(28,037)
Inventory	4,850	8,731
Prepaid expenses	2,222	3,916
Increase (Decrease) in operating liabilities		
Accounts payable	(4,851)	(47,316)
Accrued salaries and taxes payable	6,970	(254)
Other current liabilities	3,154	(7,529)
Net Cash Provided by Operating Activities	<u>\$ 328,210</u>	<u>\$ 93,971</u>

Cumberland County Water District
Notes to Financial Statements
December 31, 2013 and 2012

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Cumberland County Water District (the District) was organized on November 29, 1995, from the merger of Marrowbone Water District and South Cumberland Water District. The merger was carried out in accordance with a Merger Agreement authorized by respective Resolutions of the Board of Water Commissioners of South Cumberland and Marrowbone, approved by Order of the Public Service Commission of Kentucky entered on February 24, 1995 under the provisions of Section 74.363 of the Kentucky Revised Statutes (“KRS”) and approved by an Ordinance passed and adopted by the Fiscal Court of Cumberland County, Kentucky on May 9, 1995, and is exempt from federal income tax under 501(c)(6) of the Internal Revenue Code. The District is governed by a five person board of Commissioners appointed by the Cumberland County Fiscal Court. The District is regulated by the Kentucky Public Service Commission.

The District is a rural water utility system whose purpose is to establish, develop and operate a water supply and distribution system for its members and customers in Cumberland County, Kentucky. The District’s primary source of revenue is from water sales to its customers, including public bodies and local businesses in its service area.

Basis of Accounting, Financial Presentation and Measurement Focus

The basic financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The District applies all relevant Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails. In addition, the District applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position display information about the District as a whole. These statements include all funds of the District.

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported by the District includes revenues and expenses related to the continuing operation of water service for its customers. Principal operating revenues are charges to customers for services. Principal operating expenses are the costs of providing the services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Cash and Cash Equivalents

The District considers demand deposits and certificates of deposit with maturities of less than three months to be cash equivalents.

Cumberland County Water District
Notes to Financial Statements
December 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

Investments

Investments include certificates of deposits with maturity dates of three months or more. Certificates of deposit in excess of FDIC insurance coverage are collateralized by securities held by the pledging institution.

Accounts Receivable

Receivables include amounts due from customers for water services. These receivables are due at the time the services are billed and are considered past due on the first day of the following month. Accounts receivable are presented net of uncollectible accounts. The allowance amount is estimated using a percentage of accounts past due more than 30 days. At December 31, 2013 and 2012, the allowance for doubtful accounts was \$49,110 and \$43,021, respectively.

Unbilled Accounts Receivable

Estimated unbilled revenues from water sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billing during the month following the close of the fiscal year.

Inventories and Prepaid Expenses

Inventories consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost and are recorded as an expense at the time individual items are used. Prepaid expenses represent payments to vendors that benefit future reporting periods and are reported on the consumption basis.

Capital Assets

The District's property, plant and equipment with useful lives of more than one year are stated at historical cost. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives for depreciable assets are as follows:

Asset Classification	Range of Lives
Water and sewer system utility plants	20-40 years
Buildings and improvements	10-40 years
Trucks and equipment	3-10 years
Office equipment	3-10 years

Customer Deposits

The District collects and holds in escrow a \$50 deposit from customers to ensure collection of its water charges. Interest at an annual rate of 0.4% is paid on these deposits.

Cumberland County Water District
Notes to Financial Statements
December 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences

Full-time employees receive vacation leave based on their years of continuous service. The District allows employees to accumulate and carry over a maximum of 40 hours of vacation time. Unused vacation time earned in excess of 40 hours will generally be lost at the end of the calendar year. Full-time employees receive 6 days of sick leave per year. Up to 20 days of sick leave may be accrued. Upon termination, accumulated vacation leave will be paid to the employee. Sick leave is not paid upon termination, but will be paid only upon illness while in the employment of the District.

Net Position

In 2012, the District adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Net position is comprised of the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted – This component of net position consists of restricted assets less liabilities and deferred inflows of resources related to those assets. Restricted assets are those with limits on their use that are externally imposed constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net amounts of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or the restricted component of net position.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Restricted Assets

Under the terms of all loan resolutions, the District is required to maintain certain accounts and funds for the benefit and protection of the creditors. The balance of these accounts at December 31, 2013 was \$290,630. In addition, the District is also required to collect reasonable and sufficient rates and charges for services rendered, prohibited from selling, leasing or mortgaging any part of the system without prior approval, required to maintain the operating system in good condition and to carry adequate insurance on all properties to protect against loss or damage.

Cumberland County Water District
Notes to Financial Statements
December 31, 2013 and 2012

Note 2 – Restricted Assets (Continued)

The resolutions require the District to establish a depreciation fund or reserve to be used to finance the cost of unusual repairs, renewals and replacements not included in the annual budget and to pay for future system extensions. The balance of these accounts at December 31, 2013 and 2012 was \$84,521 and \$71,857, respectively.

Note 3 – Kentucky Revised Statute

At December 31, 2013, 100% of the cash of the District was covered by federal depository insurance and securities pledged as collateral on behalf of the District. In accordance with Kentucky Revised Statute (KRS) 91A.060, the deposits are to be insured by the Federal Depository Insurance Corporation or collateralized to the extent uninsured by any obligations permitted by KRS 41.240(4). According to KRS 41.240(4), the financial institution shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. According to KRS 66.480, the District is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, interest bearing deposits of insured savings and loans, or interest bearing deposits of insured national or state banks. For additional cash descriptive information, see Note 1.

Note 4 – Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2013 and 2012, the District's total deposits at banks of \$390,114 and \$300,244, respectively, were exposed to custodial credit risk as follows:

	<u>2013</u>	<u>2012</u>
Uninsured and uncollateralized	\$ -	\$ -
Uninsured and collateral held by pledging bank	86,374	6,542
Uninsured and collateral held by pledging bank's trust department not in the District's name	-	-
Total	\$ 86,374	\$ 6,542

Note 5 – Investments

As of December 31, 2013 and 2012, the District had the following investments which are included in restricted assets in the statements of net position:

	<u>Rating</u>	<u>Fair Value</u> <u>2013</u>	<u>Fair Value</u> <u>2012</u>
Certificate of Deposit	Not Rated	\$ 66,862	\$ 66,496

Interest Rate Risk – Investments. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value arising from increasing interest rates.

Concentration of Credit Risk – Investments. The District places no limit on the amount the District may invest in any one type of investment.

Risks and Uncertainties – Investments. The District's only investments are in certificates of deposit with local banks, with limited risks, such as interest rate, credit, and market risks.

Cumberland County Water District
Notes to Financial Statements
December 31, 2013 and 2012

Note 6 – Capital Assets

The following is a summary of capital asset transactions for the year ended December 31, 2013:

	Balance Dec. 31, 2012	Additions	Dispositions	Balance Dec. 31, 2013
Land and improvements	\$ 55,313	\$ -	\$ -	\$ 55,313
Building and improvements	165,511	-	-	165,511
Equipment	302,411	-	-	302,411
Other water system assets	7,252,820	-	-	7,252,820
Transportation	153,503	-	-	153,503
Office furniture and equipment	54,531	-	-	54,531
Construction in process	-	303,445	-	303,445
Totals at historical cost	<u>7,984,089</u>	<u>303,445</u>	<u>-</u>	<u>8,287,534</u>
Less accumulated depreciation for:				
Building and improvements	52,852	12,273	-	65,125
Equipment	220,740	14,027	-	234,767
Other water system assets	1,916,202	177,112	-	2,093,314
Transportation	102,266	10,561	-	112,827
Office furniture and equipment	54,145	386	-	54,531
Total accumulated depreciation	<u>2,346,205</u>	<u>214,359</u>	<u>-</u>	<u>2,560,564</u>
Capital assets - net	<u>\$ 5,637,884</u>	<u>\$ 89,086</u>	<u>\$ -</u>	<u>\$ 5,726,970</u>

Cumberland County Water District
Notes to Financial Statements
December 31, 2013 and 2012

Note 6 – Capital Assets (continued)

The following is a summary of capital asset transactions for the year ended December 31, 2012:

	Balance Dec. 31, 2011	Additions	Dispositions	Balance Dec. 31, 2012
Land and improvements	\$ 45,313	\$ 10,000	\$ -	\$ 55,313
Building and improvements	177,235	-	11,724	165,511
Utility plant in service	3,193,016	-	3,193,016	-
Equipment	628,357	-	325,946	302,411
Other water system assets	6,513,297	1,455,562	716,039	7,252,820
Transportation	259,952	-	106,449	153,503
Office furniture and equipment	58,571	-	4,040	54,531
Construction in process	1,263,072	192,490	1,455,562	-
Totals at historical cost	<u>12,138,813</u>	<u>1,658,052</u>	<u>5,812,776</u>	<u>7,984,089</u>
Less accumulated depreciation for:				
Building and improvements	51,990	12,587	11,725	52,852
Utility plant in service	2,112,878	-	2,112,878	-
Equipment	508,354	23,676	311,290	220,740
Other water system assets	2,050,884	160,542	295,224	1,916,202
Transportation	198,154	10,561	106,449	102,266
Office furniture and equipment	57,289	896	4,040	54,145
Total accumulated depreciation	<u>4,979,549</u>	<u>208,262</u>	<u>2,841,606</u>	<u>2,346,205</u>
Capital assets - net	<u>\$ 7,159,264</u>	<u>\$ 1,449,790</u>	<u>\$ 2,971,170</u>	<u>\$ 5,637,884</u>

The District's water plant was shut down and the related assets were taken out of service in 2012, resulting in a loss on retirement of the assets of approximately \$1,500,000. The District now purchases its water from nearby water plants.

Cumberland County Water District
Notes to Financial Statements
December 31, 2013 and 2012

Note 7 – Long-Term Debt

The following is a summary of long-term debt transactions for the year ended December 31, 2013:

	<u>Balance</u> <u>Dec. 31, 2012</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2013</u>
Loan payable to Kentucky Rural Water Finance Corporation, principal and interest, at the rate of 4% to 4.5%, payable on a semi-annual basis, with final payment due January 1, 2031	\$ 89,000	\$ -	\$ 3,000	\$ 86,000
Loan payable to First & Farmers Bank, principal and interest, at a rate of 2.75%, payable at maturity on September 23, 2013	34,190	-	34,190	-
Loan payable to First & Farmers Bank, principal and interest, at a rate of 2.55%, payable at maturity on June 17, 2013, secured by certificate of deposit	53,000	-	53,000	-
Various bond issues payable to United States Department of Agriculture, principal and interest payable annually in varying amounts, interest rates ranging from 2.25% to 5.0%, with final payment due in 2051, secured by utility plant and water distribution system	3,289,300	-	77,100	3,212,200
	<u>\$ 3,465,490</u>	<u>\$ -</u>	<u>\$ 167,290</u>	<u>\$ 3,298,200</u>

During 2013, the District entered into a loan agreement with Kentucky Rural Water Finance Corporation for interim financing for construction of a water tank. The total amount of the loan is \$487,000 with an interest rate of 2.5%. At December 31, 2013 draws against the loan totaled \$226,644. The loan matures on August 1, 2014, at such time the loan will be refinanced on a long-term basis with a loan from United States Department of Agriculture. At December 31, 2013, the terms of the loan for permanent financing are not known. However, there should be no principal payments due within one year of the financial statement date that would require any portion of the loan to be classified as short-term debt.

Cumberland County Water District
Notes to Financial Statements
December 31, 2013 and 2012

Note 7 – Long-Term Debt

The following is a summary of long-term debt transactions for the year ended December 31, 2012::

	<u>Balance</u> <u>Dec. 31, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2012</u>
Loan payable to Kentucky Rural Water Finance Corporation, principal and interest, at the rate of 4% to 4.5%, payable on a semi-annual basis, with final payment due January 1, 2031	\$ 92,000	\$ -	\$ 3,000	\$ 89,000
Loan payable to First & Farmers Bank, principal and interest, at a rate of 2.75%, payable at maturity on September 23, 2013	34,095	95	-	34,190
Loan payable to First & Farmers Bank, principal and interest, at a rate of 2.55%, payable at maturity on June 17, 2013, secured by certificate of deposit	-	53,000	-	53,000
Various bond issues payable to United States Department of Agriculture, principal and interest payable annually in varying amounts, interest rates ranging from 2.25% to 5.0%, with final payment due in 2051, secured by utility plant and water distribution system	3,362,900	-	73,600	3,289,300
	<u>\$ 3,488,995</u>	<u>\$ 53,095</u>	<u>\$ 76,600</u>	<u>\$ 3,465,490</u>

Cumberland County Water District
Notes to Financial Statements
December 31, 2013 and 2012

Note 7 – Long-Term Debt (Continued)

The aggregate annual principal repayments on long-term debt are summarized as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 100,000	\$ 126,353	\$ 226,353
2015	103,600	121,940	225,540
2016	92,600	117,831	210,431
2017	96,100	114,261	210,361
2018	100,200	110,543	210,743
2019-2023	537,000	493,507	1,030,507
2024-2028	542,500	385,800	928,300
2029-2033	456,700	301,814	758,514
2034-2038	422,000	230,724	652,724
2039-2043	394,000	172,865	566,865
2044-2048	319,000	128,609	447,609
2049-2051	134,500	65,841	200,341
	<u>\$ 3,298,200</u>	<u>\$ 2,370,088</u>	<u>\$ 5,668,288</u>

Note 8 – Retirement Plan

The District participates in a retirement plan through Kentucky Public Employees & Deferred Compensation Authority. During the first year of employment, the District contributes 1% adding 1% each year up to a maximum of 5%. Retirement plan expense for 2013, 2012 and 2011 was \$9,996, \$10,547, and \$12,090, respectively.

Note 9 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage for the year and settlements have not exceeded coverage in the past three years.

Note 10 - Subsequent Events

Date of Management Evaluation

Management of the District has evaluated subsequent events through March 31, 2014, the date on which the financial statements were available to be issued.



Independent Auditors' 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*

Commissioners
Cumberland County Water District
Burkesville, Kentucky

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 Cumberland County Water District, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Cumberland County Water District's basic financial statements, and have issued our report thereon dated March 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cumberland 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. (See items 2013-1, 2013-2, and 2013-3)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cumberland 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*.

Cumberland County Water District's Response to Findings

Cumberland County Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Cumberland County Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Christian Sturgeon & Associates, PSC

Christian Sturgeon & Associates, PSC
London, Kentucky

March 31, 2014

Cumberland County Water District
Schedule of Findings and Responses
December 31, 2013

2013-1

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

The District's limited internal resources prevents the preparation of financial statements and related note disclosures in accordance with generally accepted accounting principles.

Effect:

The District was unable to prepare their financial statements and related note disclosures in accordance with generally accepted accounting principles.

Views of responsible officials and planned corrective actions:

The District feels that it would not be cost beneficial to hire the personnel required to complete these tasks.

2013-2

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

The size of the Water District's office staff does not allow proper segregation of duties in the areas of cash receipts, billing, accounts receivable, and payroll.

Effect:

This condition creates a weakness in internal controls which could result in unauthorized transactions being processed.

Views of responsible officials and planned corrective actions:

The District feels that it would not be cost beneficial to hire the personnel required to complete these tasks.

Cumberland County Water District
Schedule of Findings and Responses
December 31, 2013

2013-3

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

Due to limited internal resources, the District's general ledger accounts are not being reviewed and adjusted to supporting detail on a regular monthly basis to ensure that all transactions are being recorded and account balances are accurate.

Effect:

This condition prevents management and the Board from having accurate, reliable financial information on an ongoing basis in order to make informed decisions about the financial affairs of the District.

Views of responsible officials and planned corrective actions:

The District agrees that improvements need to be made in financial accounting and reporting and will hire someone to review the general ledger balances on a quarterly basis and provide training to the current staff until they can maintain the general ledger accurately on their own.