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Certified Public Accountants

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April 10, 2017

Commonwealth of Kentucky
Public Service Commission
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Public Service
Commission

To whom it may concern:

Please accept the following report on behalf of our client, Cumberland County Water District (Utility ID 20150):

- 2016 Independent Auditors' Report and Audited Financial Statements

The UFR report was submitted online via the Public Service Commission's e-filing system on March 31, 2017. The notarized Report of Gross Operating Revenues and notarized UFR oath page were mailed to you separately on March 31, 2017.

Please contact us if you need any additional information.

Sincerely,

Christian Sturgeon & Associates, PSC

Christian Sturgeon & Associates, PSC

Cumberland County Water District
Burkesville, Kentucky

Independent Auditors' Report
And Financial Statements
For the Years Ended
December 31, 2016 and 2015

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, 2016 and 2015, 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 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 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, 2016 and 2015, 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

Required Supplementary Information

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 April 3, 2017 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

April 3, 2017

Cumberland County Water District
 Statements of Net Position
 December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 143,091	\$ 33,947
Receivables, less allowance for doubtful accounts of \$52,415 and \$47,800, respectively	89,847	89,171
Unbilled accounts receivable	43,320	43,320
Inventories	26,610	26,949
Prepaid expenses	6,968	6,712
Total Current Assets	<u>309,836</u>	<u>200,099</u>
Noncurrent Assets		
Restricted Assets		
Customer deposits	20,074	32,854
Depreciation reserves	163,543	214,182
Debt and interest funds	292,635	265,704
Total Restricted Assets	<u>476,252</u>	<u>512,740</u>
Capital Assets		
Land and improvements	55,313	55,313
Buildings and improvements	204,437	179,437
Equipment	328,770	311,010
Other water system assets	9,491,293	8,271,793
Transportation	265,325	193,903
Office furniture and equipment	62,445	62,445
Construction in progress	-	850,162
Less: accumulated depreciation	(3,319,015)	(3,045,054)
Net Capital Assets	<u>7,088,568</u>	<u>6,879,009</u>
Total Noncurrent Assets	<u>7,564,820</u>	<u>7,391,749</u>
Total Assets	<u>\$ 7,874,656</u>	<u>\$ 7,591,848</u>

Cumberland County Water District
 Statements of Net Position (Continued)
 December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 57,884	\$ 416,685
Accrued interest payable	81,939	85,236
Accrued salaries and taxes payable	29,586	18,845
Current portion of long-term debt	103,600	109,885
Other current liabilities	<u>28,430</u>	<u>36,645</u>
Total Current Liabilities	<u>301,439</u>	<u>667,296</u>
Noncurrent Liabilities		
Construction loan	887,600	386,224
Long-term debt, less current portion included in current liabilities	<u>3,377,900</u>	<u>3,481,500</u>
Total Noncurrent Liabilities	<u>4,265,500</u>	<u>3,867,724</u>
Total Liabilities	<u>4,566,939</u>	<u>4,535,020</u>
Net Position		
Net investment in capital assets	2,719,468	2,901,400
Restricted	476,252	512,740
Unrestricted	<u>111,997</u>	<u>(357,312)</u>
Total Net Position	<u>\$ 3,307,717</u>	<u>\$ 3,056,828</u>

Cumberland County Water District
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Water sales	\$ 1,288,739	\$ 1,258,589
Service charges	18,799	20,028
Other revenues	57,602	53,488
	1,365,140	1,332,105
Total Operating Revenues		
Operating Expenses		
Salaries and wages	247,858	230,674
Employee benefits	69,391	76,966
Purchased water	366,296	403,515
Utilities	41,154	43,677
Materials and supplies	55,970	65,794
Contracted services	35,678	31,715
Vehicle and equipment expenses	19,656	16,535
Insurance	18,346	16,758
Office expenses	43,462	52,247
Directors fees	8,375	8,450
Bad debt expense, net of recoveries	4,615	-
Depreciation	273,961	264,059
Other operating expenses	11,246	8,115
	1,196,008	1,218,505
Total Operating Expenses		
Operating Income	169,132	113,600
Non-operating Revenues (Expenses)		
Interest income	2,128	580
Grant revenue	214,875	165,525
Interest expense	(135,246)	(131,578)
	81,757	34,527
Total Non-operating Revenues (Expenses)		
Change in Net Position	250,889	148,127
Net Position, Beginning of Year	3,056,828	2,908,701
Net Position, End of Year	\$ 3,307,717	\$ 3,056,828

Cumberland County Water District
 Statements of Cash Flows
 For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,351,634	\$ 1,328,248
Payments to employees	(237,117)	(229,808)
Payments to suppliers	(653,589)	(744,807)
Payments for other activities	(8,375)	(8,450)
	<u>452,553</u>	<u>345,183</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(849,848)	(642,042)
Principal payments on debt	(109,885)	(113,815)
Interest payments on debt	(138,543)	(135,367)
Proceeds from debt	501,376	406,224
Grants	214,875	210,384
	<u>(382,025)</u>	<u>(274,616)</u>
Cash Flows From Investing Activities		
Interest income	2,128	580
	<u>2,128</u>	<u>580</u>
Net Increase in Cash and Cash Equivalents	72,656	71,147
Cash and Cash Equivalents at Beginning of Year	<u>546,687</u>	<u>475,540</u>
Cash and Cash Equivalents at End of Year	<u>\$ 619,343</u>	<u>\$ 546,687</u>
Reconciliation of cash per Statement of Net Position to cash per Statement of Cash Flows:		
Cash and cash equivalents	\$ 143,091	\$ 33,947
Customer deposits	20,074	32,854
Depreciation reserves	163,543	214,182
Debt and interest funds	292,635	265,704
	<u>\$ 619,343</u>	<u>\$ 546,687</u>
Cash and cash equivalents per Statement of Cash Flows	<u>\$ 619,343</u>	<u>\$ 546,687</u>

Cumberland County Water District
 Statements of Cash Flows (Continued)
 For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating Income	\$ 169,132	\$ 113,600
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	273,961	264,059
(Increase) Decrease in operating assets		
Accounts receivable	(676)	(10,689)
Unbilled receivables	-	(8,233)
Inventory	339	(14,211)
Prepaid expenses	(256)	(228)
Increase (Decrease) in operating liabilities		
Accounts payable	7,527	(15,046)
Accrued salaries and taxes payable	10,741	866
Other current liabilities	(8,215)	15,065
	<u>\$ 452,553</u>	<u>\$ 345,183</u>
Net Cash Provided by Operating Activities	<u>\$ 452,553</u>	<u>\$ 345,183</u>

Cumberland County Water District
Notes to Financial Statements
December 31, 2016 and 2015

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 to be cash equivalents.

Cumberland County Water District
Notes to Financial Statements
December 31, 2016 and 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

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, 2016 and 2015, the allowance for doubtful accounts was \$52,415 and \$47,800, 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 \$75 deposit from customers to ensure collection of its water charges. Interest at an annual rate of 0.37% is paid on these deposits.

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 30 days of vacation time. Employees are paid for any unused vacation time earned in excess of 30 days 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.

Cumberland County Water District
Notes to Financial Statements
December 31, 2016 and 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the Commission would typically use restricted assets first, but reserves the right to selectively spend unrestricted assets first.

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, 2016 and 2015 was \$292,635 and \$265,704, respectively. 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.

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, 2016 and 2015 was \$163,543 and \$214,182, respectively.

The balances of customer deposits held at December 31, 2016 and 2015 were \$20,074 and \$32,854, respectively.

Cumberland County Water District
Notes to Financial Statements
December 31, 2016 and 2015

Note 3 – Kentucky Revised Statute

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, 2016 and 2015, the District's total deposits at banks of \$625,903 and \$551,055, respectively, were exposed to custodial credit risk as follows:

	<u>2016</u>	<u>2015</u>
Uninsured and uncollateralized	\$ -	\$ -
Uninsured and collateral held by pledging bank	275,904	238,536
Uninsured and collateral held by pledging bank's trust department not in the District's name	-	-
Total	\$ 275,904	\$ 238,536

Note 5 – Capital Assets

The following is a summary of capital asset transactions for the year ended December 31, 2016:

	<u>Balance</u> <u>Dec. 31, 2015</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>Dec. 31, 2016</u>
Land and improvements	\$ 55,313	\$ -	\$ -	\$ 55,313
Building and improvements	179,437	25,000	-	204,437
Equipment	311,010	17,760	-	328,770
Other water system assets	8,271,793	1,219,500	-	9,491,293
Transportation	193,903	71,422	-	265,325
Office furniture and equipment	62,445	-	-	62,445
Construction in progress	850,162	349,923	1,200,085	-
Totals at historical cost	9,924,063	1,683,605	1,200,085	10,407,583
Less accumulated depreciation for:				
Building and improvements	90,149	12,797	-	102,946
Equipment	261,530	9,936	-	271,466
Other water system assets	2,491,674	229,685	-	2,721,359
Transportation	144,239	19,961	-	164,200
Office furniture and equipment	57,462	1,582	-	59,044
Total accumulated depreciation	3,045,054	273,961	-	3,319,015
Capital assets - net	\$ 6,879,009	\$ 1,409,644	\$ 1,200,085	\$ 7,088,568

Cumberland County Water District
Notes to Financial Statements
December 31, 2016 and 2015

Note 5 – Capital Assets (Continued)

The following is a summary of capital asset transactions for the year ended December 31, 2015:

	Balance Dec. 31, 2014	Additions	Dispositions	Balance Dec. 31, 2015
Land and improvements	\$ 55,313	\$ -	\$ -	\$ 55,313
Building and improvements	179,437	-	-	179,437
Equipment	307,110	3,900	-	311,010
Other water system assets	8,203,878	67,915	-	8,271,793
Transportation	193,903	-	-	193,903
Office furniture and equipment	62,445	-	-	62,445
Construction in progress	-	850,162	-	850,162
Totals at historical cost	<u>9,002,086</u>	<u>921,977</u>	<u>-</u>	<u>9,924,063</u>
Less accumulated depreciation for:				
Building and improvements	77,436	12,713	-	90,149
Equipment	248,548	12,982	-	261,530
Other water system assets	2,273,534	218,140	-	2,491,674
Transportation	125,598	18,641	-	144,239
Office furniture and equipment	55,879	1,583	-	57,462
Total accumulated depreciation	<u>2,780,995</u>	<u>264,059</u>	<u>-</u>	<u>3,045,054</u>
Capital assets - net	<u>\$ 6,221,091</u>	<u>\$ 657,918</u>	<u>\$ -</u>	<u>\$ 6,879,009</u>

Cumberland County Water District
Notes to Financial Statements
December 31, 2016 and 2015

Note 6 – Long-Term Debt

The following is a summary of long-term debt transactions for the year ended December 31, 2016:

	Balance <u>Dec. 31, 2015</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>Dec. 31, 2016</u>	Due Within <u>One Year</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	\$ 80,000	\$ -	\$ 3,000	\$ 77,000	\$ 4,000
Loan payable to First & Farmers Bank, principal and interest, at a rate of 2.3%, payable at maturity on June 15, 2016	9,785	-	9,785	-	-
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 2053, secured by water distribution system	<u>3,501,600</u>	<u>-</u>	<u>97,100</u>	<u>3,404,500</u>	<u>99,600</u>
	<u>\$ 3,591,385</u>	<u>\$ -</u>	<u>\$ 109,885</u>	<u>\$ 3,481,500</u>	<u>\$ 103,600</u>

Cumberland County Water District
Notes to Financial Statements
December 31, 2016 and 2015

Note 6 – Long-Term Debt (Continued)

The following is a summary of long-term debt transactions for the year ended December 31, 2015:

	Balance <u>Dec. 31, 2014</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>Dec. 31, 2015</u>	<u>Due Within One Year</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	\$ 83,000	\$ -	\$ 3,000	\$ 80,000	\$ 3,000
Loan payable to First & Farmers Bank, principal and interest, at a rate of 2.3%, payable at maturity on June 15, 2016	-	20,000	10,215	9,785	9,785
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 2053, secured by water distribution system	3,602,200	-	100,600	3,501,600	97,100
	<u>\$ 3,685,200</u>	<u>\$ 20,000</u>	<u>\$ 113,815</u>	<u>\$ 3,591,385</u>	<u>\$ 109,885</u>

During 2015, the District entered into a loan agreement with Kentucky Infrastructure Authority (KIA) for financing to upgrade or rehabilitate various aging, undersized and inadequate infrastructure components of the District. Project components include waterline replacements, elevated storage tank and pump station rehabilitation, new telemetry communications system and installation of radio read meters. The total amount of the project is \$1,368,000, with \$1,268,000 from KIA and \$100,000 from the United States Department of Agriculture (USDA). Of the KIA construction loan, 30% of the principal is to be forgiven and the remaining loan amount is to be amortized over 20 years at an interest rate of 0.75%. At December 31, 2016, draws against the loan totaled \$1,268,000, with \$380,400 (30%) recognized as grant income (\$165,525 recognized during 2015 and \$214,875 recognized during 2016), reflecting a loan balance of \$887,600. Interest payments commenced within six months from the first draw of funds and full principal and interest payments will commence within one year of initiation of operation.

Cumberland County Water District
Notes to Financial Statements
December 31, 2016 and 2015

Note 6 – 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>
2017	\$ 103,600	\$ 127,241	\$ 230,841
2018	108,200	123,303	231,503
2019	106,800	119,183	225,983
2020	111,600	115,147	226,747
2021	114,600	110,960	225,560
2022-2026	630,500	485,610	1,116,110
2027-2031	514,200	381,654	895,854
2032-2036	510,000	299,889	809,889
2037-2041	478,000	227,978	705,978
2042-2046	426,500	165,783	592,283
2047-2051	337,000	124,215	461,215
2052-2056	40,500	1,156	41,656
	<u>\$ 3,481,500</u>	<u>\$ 2,282,119</u>	<u>\$ 5,763,619</u>

Note 7 – Retirement Plan

The District participates in a defined contribution retirement plan through Kentucky Public Employees & Deferred Compensation Authority. Prior to 2015, the District contributed 1% during the first year of employment, adding 1% each year up to a maximum of 5%. Starting in 2015, the District no longer contributes to the employees' plan. Retirement plan expense for 2016, 2015 and 2014 was \$0, \$1,224, and \$10,482, respectively.

Note 8 – 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 9 - Subsequent Events

Date of Management Evaluation

Management of the District has evaluated subsequent events through April 3, 2017, 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*

To the 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, 2016, 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 April 3, 2017.

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.

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. 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 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 (See items 2016-1, 2016-2, and 2016-3).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cumberland 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*.

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

April 3, 2017

Cumberland County Water District
Schedule of Findings and Responses
December 31, 2016

A. Findings -- Financial Statement Audit

2016-1

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.

2016-2

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 (Continued)
December 31, 2016

2016-3

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 consider hiring 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.