

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

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PUBLIC SERVICE  
COMMISSION

**IN THE MATTER OF:**

**JOINT APPLICATION OF  
EDMONSON COUNTY WATER  
DISTRICT AND CAVELAND  
SANITATION AUTHORITY, INC. d/b/a  
CAVELAND ENVIRONMENTAL  
AUTHORITY FOR THE APPROVAL  
OF THE TRANSFER OF THE SEWER  
SYSTEM IN THE CHALYBEATE  
AREA EAST OF THE GREEN RIVER**

**CASE NO. 2018-00127**

**JOINT APPLICATION OF EDMONSON COUNTY WATER DISTRICT AND  
CAVELAND SANITATION AUTHORITY, INC. d/b/a CAVELAND ENVIRONMENTAL  
AUTHORITY FOR THE APPROVAL OF THE TRANSFER OF THE SEWER SYSTEM  
IN THE CHALYBEATE AREA EAST OF THE GREEN RIVER**

Pursuant to KRS 278.020(6), Edmonson County Water District (“Edmonson County Water”) and Caveland Sanitation Authority, Inc. d/b/a Caveland Environmental Authority (“Caveland Environmental Authority”) hereby submit to the Public Service Commission of Kentucky (“Commission”) this Application for the transfer of the sewer system serving the Chalybeate area in Edmonson County, Kentucky east of the Green River to Caveland Environmental Authority in accordance with the Assets Purchase Agreement (“Agreement”) executed by the Joint Applicants, a copy of which is attached hereto as Exhibit A. In support of their Application, Edmonson County Water and Caveland Environmental Authority state the following:

1. That the post office address of Edmonson County Water is:

Edmonson County Water District  
c/o Jimmy Mills, Board Chairman  
PO Box 208  
Brownsville, KY 42210  
Phone: (270) 597-2165  
Fax: (270) 597-2166

2. Edmonson County Water is a water district created and existing under and by virtue of Chapter 74 of the Kentucky Revised Statutes. Edmonson County Water authorized the execution and delivery to transfer its assets associated with the operation of its sewer lines in the Chalybeate area of Edmonson County on the east side of the Green River to Caveland Environmental Authority in a Resolution that is attached hereto as Exhibit B. Also see the Resolution of the Edmonson County Fiscal Court authorizing the execution of the Asset Acquisition and Operations Agreement to Caveland Environmental Authority is attached hereto as Exhibit C.

3. Caveland Environmental Authority is the purchaser of the sewer system from Edmonson County Water District, pursuant to the Agreement. Caveland Environmental Authority, the Buyer under the Agreement, is a Kentucky corporation organized the 27<sup>th</sup> day of May, 1987 and is in good standing, with its principal place of business at:

Caveland Environmental Authority  
c/o Joe Gardner, Board Chairman  
508 South Dixie Highway  
PO Box 463  
Cave City, Kentucky 42127  
Phone: (270) 773-2887

A copy of the Articles of Incorporation of Caveland Environmental Authority is attached hereto as Exhibit D. Joe Gardner is the Board Chairman of Caveland Environmental Authority and has

been duly authorized to execute this Joint Application on behalf of Caveland Environmental Authority. A copy of the Resolution of Caveland Environmental Authority's Board of Directors authorizing the acquisition and transfer is attached hereto as Exhibit E. A copy of Caveland Environmental Authority's Financial Statements from an Independent Auditor's Report from June 30, 2017 is attached hereto as Exhibit F.

4. Under the Agreement, Edmonson County Water will sell to Caveland Environmental Authority all the assets associated with the sewer system in the Chalybeate area in Edmonson County, Kentucky east of the Green River. The assets purchased by Caveland Environmental Authority are described more fully in the Agreement but include easements, right of ways, with all structures, improvements, fixtures and fittings. Caveland Environmental Authority will have the obligation to provide sewer services to its customers after the closing. The closing under the Agreement will occur within thirty (30) days after receipt of the approval of this Application for Transfer by the Commission.

5. Caveland Environmental Authority has the requisite financial, technical and managerial ability to operate the sewage services and to provide reasonable service to its customers.

6. The property transfer of the assets of Edmonson County Water to Caveland Environmental Authority will be accomplished in accordance with law, for a proper purpose and, consistent with the public interest. The public interest would be served by the transfer of the assets to Caveland Environmental Authority. As stated in paragraph 5 above, Caveland Environmental Authority has the requisite abilities to provide adequate sewer services to the

Chalybeate area in Edmonson County, Kentucky east of the Green River consistent with the public interest.

7. Caveland Environmental Authority is not under the jurisdiction of the Commission and therefore has not filed a Notice of Adoption as described in 807 KAR 5:011.

**WHEREFORE**, the undersigned Applicants respectfully request the Commission to issue an Order finding that Caveland Environmental Authority has the financial, technical, and managerial abilities to provide reasonable service to the residents of the Chalybeate area of Edmonson County on the east side of the Green River; that the proposed transaction is in accordance with law, is for a proper purpose, and is consistent with the public interest; and, that the proposed transfer of the subject assets by Edmonson County Water to Caveland Environmental Authority is authorized and approved.

Respectfully submitted,

EDMONSON COUNTY WATER DISTRICT

BY:  \_\_\_\_\_  
JIMMY MILLS, Chairman

COMMONWEALTH OF KENTUCKY

COUNTY OF EDMONSON

The foregoing instrument was subscribed, sworn to and acknowledged before me this 3 day of April, 2018, by JIMMY MILLS, Chairman, Edmonson County Water District.

 \_\_\_\_\_  
NOTARY PUBLIC  
MY COMMISSION EXPIRES: 5/27/18

CAVELAND SANITATION AUTHORITY, INC.  
d/b/a CAVELAND ENVIRONMENTAL  
AUTHORITY

BY: Joe Gardner  
JOE GARDNER, Board Chairman

COMMONWEALTH OF KENTUCKY

COUNTY OF EDMONSON

The foregoing instrument was subscribed, sworn to and acknowledged before me this 3 day of March, 2018, by JOE GARDNER, Board Chairman, Caveland Sanitation Authority, Inc. d/b/a Caveland Environmental Authority.

David Stewart  
NOTARY PUBLIC  
MY COMMISSION EXPIRES: 2-24-2020

Respectfully submitted,

Thomas H. Goff  
Thomas H. Goff  
Goff & Goff, PSC  
Attorneys at Law  
53 Public Square  
Leitchfield, KY 42754  
Phone: (270) 259 9237  
Fax: (270) 259-0060  
Email: goffandgoff2@gmail.com  
COUNSEL FOR EDMONSON COUNTY  
WATER DISTRICT

# **EXHIBIT**

**A**

## ASSET ACQUISITION AND OPERATIONS AGREEMENT

This **ASSET ACQUISITION AND OPERATIONS AGREEMENT** (“Agreement”), effective this \_\_\_\_ day of \_\_\_\_\_ 20\_\_\_\_, by and between **EDMONSON COUNTY WATER DISTRICT** (“Seller”) and **CAVELAND SANITATION AUTHORITY, INC. d/b/a CAVELAND ENVIRONMENTAL AUTHORITY**, (“Buyer”);

**WHEREAS**, Seller owns and operates a water utility in Edmonson County, Kentucky, which provides sewer service to certain customers; and

**WHEREAS**, Seller desires to sell and transfer assets associated with Seller’s sewer system east of the Green River, and Buyer agrees to acquire such assets in accordance with and subject to the terms and conditions of this Agreement; and

**WHEREAS**, Buyer agrees to acquire Seller’s sewer system and continue to operate same for the benefit of Seller’s sewer service customers;

**NOW, THEREFORE**, in consideration of the premises and the mutual covenants, representations and warranties herein contained, and intending to be legally bound, Seller and Buyer agree as follows:

### 1. **PURCHASE AND SALE OF ASSETS**

On and subject to the terms and conditions of this Agreement, Buyer agrees to purchase from Seller and Seller agrees to sell, transfer, convey, and deliver to Buyer, all right, title and interest in the following assets of Seller (the “Assets”):

a. The real property, including, but not limited to all easements and rights of way, together with all structures, improvements, fixtures and fittings thereon and other appurtenances thereto, consisting of the Edmonson County sewer system located on the East side of the Green River, all as more particularly described on **SCHEDULE 1 (Map A)** to this Agreement;

b. All tangible and intangible personal property used in conjunction with that portion of the Seller's sewer system conveyed hereunder, including but not limited to items more particularly described on **SCHEDULE 2** to this Agreement, subject to disposal and consumption thereof in the ordinary course of business between the date of this Agreement and the Closing Date or replacements thereof and alterations thereto in the ordinary course of business between the date of this Agreement and the Closing Date;

c. All contracts, agreements, leases and other similar arrangements and rights thereunder, whether written or oral, relating to the Edmonson County Water District sewer system being conveyed hereunder, including, but not limited to those listed on **SCHEDULE 3** to this Agreement (collectively, the "Contracts");

d. All customers of the Edmonson County Water District sewer system east of the Green River;

e. All manufacturers', vendors' and suppliers' warranties, if any, to the extent assignable, in respect of any item of property falling within the scope of the Assets, as of the date of Closing;

f. To the extent transferable, all governmental authorizations, permits and licenses held by Seller together with any renewals, extensions, or modifications thereof and applications therefore as of the date of Closing;

g. All operating records, including, but not limited to, books, ledgers, files, documents, correspondence, written contracts, agreements, commitments, understandings, financial information, lists and records, including specifically all applicable customer records, of Seller relating to the Assets and the Edmonson County Water District sewer system; and



## 2. ASSUMPTION OF LIABILITIES

a. Buyer shall not be obligated to pay, perform, assume or discharge any liability or obligation of the Seller other than (i) the obligation to perform all contracts, agreements, equipment leases or other similar arrangements and rights thereto, whether written or oral, which have been assigned to or assumed by the Buyer pursuant to the terms of this Agreement; and (ii) customer accounts incurred in the ordinary course of business as of the Closing Date.

b. Buyer shall not be obligated to pay, perform, assume or discharge any other liability or obligation of the Seller including, but not limited to, bank lines of credit, promissory notes, guaranties, or taxes, including all employee or payroll withholding taxes, through the Closing Date, and any and all other taxes.

## 3. INDEMNIFICATION

a. **Seller's Indemnification.** Seller shall indemnify, defend and hold the Buyer and its assigns harmless, from and against and with respect to any claim, liability, obligation, loss, damage, assessment, judgment, cost and expense of any kind or character arising out of or in any manner incident, relating or attributable to:

i. liabilities or obligations of or claims against the Seller, whether absolute, accrued, contingent, or otherwise, relating to or arising out of the operation of the Edmonson County Water District sewer system prior to the Closing Date whether or not such liabilities or obligations were known on such date, except as same have been specifically assumed in accordance with Section 2 above; and

ii. any breach or noncompliance of Seller with any covenant or agreement of the Seller contained in this Agreement.

b. **Buyer's Indemnification.** Buyer shall indemnify and reimburse Seller, its successors and assigns, harmless from and against and with respect to any claim, liability, obligation, loss, damage, assessment, judgment, cost and expense of any kind or character incurred by Seller arising out of or in any manner incident, relating or attributable to:

- i. any breach or noncompliance of Buyer arising after the Closing Date with any covenant or agreement of the Buyer contained in this Agreement; and
- ii. the obligations which have been assigned to or assumed by the Buyer pursuant to the terms of this Agreement, as of the Closing Date, in accordance with Section 2.

#### 4. **ACQUISITION PRICE/ALLOCATION**

The consideration payable for the acquisition of Seller's property and Assets shall be the agreement of the Buyer to assume responsibility for continued operation of the Seller's sewer system being conveyed hereunder in the ordinary course of business as of the date of Closing.

#### 5. **CLOSING; BEST EFFORTS**

The closing of the transactions contemplated by this Agreement (the "Closing") shall take place at the law offices of English, Lucas, Priest and Owsley, LLP, 1101 College Street, Bowling Green, Kentucky, on or prior to \_\_\_\_\_, 20\_\_\_\_, or at such other time, date, or place upon which Buyer and Seller shall agree in writing (the "Closing Date").

#### 6. **REPRESENTATIONS AND WARRANTIES OF SELLER**

Seller hereby represents and warrants to Buyer as follows:

- a. **Power and Authority of Seller; Authorization.** Seller has obtained, or will obtain prior to the Closing Date, all requisite power and authority to enter into and to consummate the transactions contemplated by this Agreement from the Edmonson County Fiscal Court, which, at a regular or special meeting and when a legal quorum was present, approved this Agreement.

b. **Property.**

i. Seller (i) has good, valid and marketable title to all the real, personal and mixed, tangible and intangible properties and assets which it purports to own as reflected on **SCHEDULE 1** and **SCHEDULE 2** (except for inventory sold in the ordinary course of business consistent with past practice and supplies consumed in the ordinary course of business), (ii) except for Permitted Liens (as hereinafter defined), owns such personal property free and clear of all title defects or objections, liens, restrictions, claims, charges, security interests, easements or other encumbrances of any nature whatsoever, including any leases, chattel mortgages, conditional sales contracts, collateral security arrangements and other title or interest retention arrangements. "Permitted Liens" shall mean (i) liens for taxes not yet due and payable; and (ii) statutory liens of landlords and liens of carriers, warehousemen, mechanics, materialmen and repairmen incurred in the ordinary course of business for sums not yet delinquent. All properties and assets of Seller are in the possession or control of Seller, and no other person is entitled to possession of any such properties and assets.

ii. The rights, properties and other assets presently owned, leased or licensed by Seller include all rights, properties and other assets necessary to permit Seller to operate the Edmonson County Water District sewer system.

c. **Authority to Operate Edmonson County Water District sewer system.**

The Seller is duly authorized to operate the Edmonson County Water District sewer system and is in compliance with all applicable provisions of laws, including any rule, regulation, policy or procedure of any governmental authority relating to the provision of sanitary sewer services.

d. **Legal Proceedings.** To the best of Seller's knowledge, there are no claims of any kind or any actions, suits, proceedings, arbitrations or investigations pending or, to the

knowledge of Seller, threatened against or affecting the Edmonson County Water District sewer system or against any asset, interest or right of such company. Further, there are no judgments, orders, injunctions, decrees, stipulations or awards (whether rendered by a court, administrative agency, or by arbitration, pursuant to a grievance or other procedure) against or relating to the Edmonson County Water District sewer system.

e. **Operation of the Edmonson County Water District sewer system.** To the best of Seller's knowledge, all equipment, including but not limited to pumping stations and sewer lines, used in conjunction with the operation of the Edmonson County Water District sewer system are in good working order. Seller is not aware of any tampering with the equipment, and there are no unresolved disputes with any sewer system customers over the amount of the applicable sewer service bill, quality of service, rates charged, or any other matter.

f. **Environmental Matters.** Seller and the Edmonson County Water District sewer system are in material compliance with all applicable federal, state and local laws, rules, regulations, ordinances and requirements relating to the environment on any properties owned by Seller which are to be transferred to Buyer hereunder. Seller expressly warrants that if any violations of any applicable federal, state and local laws, rules, regulations, ordinances and requirements relating to the environment are discovered or exist on any properties to be transferred under this Agreement as of the Closing Date, that same will be remediated at the cost of the Seller.

g. **Good Standing of Contracts.** No event or condition has occurred or exists, or, to the knowledge of Seller, is alleged by any of the other parties thereto to have occurred or existed, which constitutes, or with lapse of time or giving of notice or both might constitute, a default or breach under any of the leases, contracts or agreements, whether written or oral, to which the Edmonson County Water District sewer system is a party, which default is reasonably likely to

result in a material adverse change in the financial condition, results of operation or business of the Edmonson County Water District sewer system on a consolidated basis.

h. **Tax Matters.** The Seller has withheld and paid all taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other third party. No material deficiencies for any taxes have been proposed, asserted or assessed against the Edmonson County Water District sewer system that are not adequately reserved for. No audit, examination or investigation is presently being conducted or, to the knowledge of Seller, threatened by any taxing authority; no unpaid tax deficiencies or additional liabilities of any sort have been proposed by any governmental representative; and no agreements for the extension of time for the assessment of any amounts of tax have been entered into by or on behalf of the Edmonson County Water District sewer system.

i. **Full Disclosure.** To the best of Seller's knowledge, no representation or warranty of Seller contained in this Agreement and no statement contained in this Agreement or in any certificate or other instrument furnished or to be furnished to Buyer hereunder contains or will contain any untrue statement of a material fact or omits or will omit to state any material fact necessary to make the statements contained herein or therein not misleading.

j. **Brokers and Finders' Fees.** Seller represent that they have employed no broker in this transaction and Buyer shall in no event be liable for any fees or commissions payable to any broker or agent in connection with the negotiations relating to or the transactions contemplated by this Agreement.

k. **Required Approvals.** Seller, at a duly called meeting of Seller's Board of Directors, with a legal quorum being present, approved this Agreement and the transfer of assets to Buyer. Seller has received approval from the Public Service Commission for the transfer of the

sewer system to Seller. Edmonson Fiscal Court has approved the transfer of the service area and Seller's assets and has approved Buyer's sewer use resolutions.

**7. REPRESENTATIONS AND WARRANTIES OF BUYER**

a. Buyer hereby represents and warrants to Seller that it will at all times, for so long as it remains owner of the subject sewer system, provide to customers of the sewer system continued operation of the sewer system in ordinary course of business.

b. Upon completion of the asset transfer, Seller shall send appropriate notification to the Kentucky Division of Water of the ownership change requesting that the sewer system be transferred to Buyer's Permit No. KY 0091561.

**8. CIRCUMSTANCES PRIOR TO CLOSING**

a. **Conditions to Buyer's Obligations.** The obligation of Buyer to consummate on the Closing Date the transactions contemplated by this Agreement will be subject to the satisfaction of each of the following conditions on or prior to the Closing Date, unless expressly waived, in writing, by Buyer:

i. The representations and warranties of Seller contained in Section 6 of this Agreement shall be true and correct in all material respects on and as of the Closing Date as if made on and as of the Closing Date, except for changes contemplated by this Agreement. Seller shall give Buyer prompt written notification upon receipt or knowledge of any fact which would make any representation or warranty contained in this Agreement untrue in any material respect.

ii. Seller shall have performed and observed in all material respects its covenants and obligations as set forth in this Agreement prior to or on the Closing Date.

iii. A material portion of the Assets shall not have been damaged or destroyed by fire, flood, or other casualty which is not covered by Seller's insurance. In the event of

a hazard loss or other destruction or damage to the Assets prior to closing, Buyer shall have the election to either terminate this Agreement or close the transaction and thereby be entitled to receive all insurance proceeds payable by reason of such damages.

iv. There shall not have been any material and adverse change in the financial condition, the Edmonson County Water District sewer system or Assets of Seller, considered as a whole from the date of Seller's most recent financial statements provided to Buyer to the Closing Date.

v. Seller shall operate the Edmonson County Water District sewer system only in the usual, regular and ordinary course, preserve the organizational structure of the Edmonson County Water District sewer system, and preserve intact for Buyer the goodwill of the Edmonson County Water District sewer system and the present relationship between the Business and the employees, suppliers, clients, customers and others having business relations with Seller.

vi. Seller shall further not incur any liability other than in the normal course of business and take all action and to do all things necessary, proper, or advisable in order to consummate and make effective the transactions contemplated by this Agreement.

vii. Seller shall continue in force each of the policies of insurance which insure the Assets and the Edmonson County Water District sewer system with such amounts of coverage as are reasonably available, and continue in force all bonds, surety contracts, or guaranties relating to the Edmonson County Water District sewer system set forth in any Schedule to this Agreement.

viii. Seller shall not knowingly take any action or omit to take any action which will result in the violation by Seller of any law applicable to this transaction or cause a

material breach by Seller of any of the representations and warranties of Seller set forth in this Agreement or any lease, agreement, contract, or commitment to which Seller is a party.

ix. Seller shall give Buyer prompt written notification of any material changes taking place after the delivery of any Schedules and other documents which would have been reflected in such documents had such changes occurred prior to the time such documents were first delivered. Seller agrees not to enter into any other contracts or leases except in the ordinary course of business until Closing Date.

x. Seller shall pay, perform, assume or discharge any other liability or obligation of the Seller including, but not limited to, bank lines of credit, promissory notes, guaranties, or taxes, including all employee or payroll withholding taxes, through the Closing Date, and any and all other taxes.

xi. Seller shall afford Buyer and its representatives free and reasonable access during normal business hours to enter any property to be transferred pursuant to this Agreement to conduct such investigations, tests and surveys, including environmental assessments, to determine suitability of the Property for the intended use by Buyer. Seller shall further provide to Buyer and its representatives free and reasonable access during normal business hours to observe the operations of the Seller and to inspect the assets to be purchased pursuant to the terms of this Agreement and the books and records of the Seller related to the business transaction utilizing said assets.

xii. Buyer's obligations to consummate the transactions contemplated hereby are subject to a satisfactory review of the books, records and operations of the Business by the Buyer. In order to facilitate Buyer's review, Seller shall provide access to Buyer during normal business hours from date of execution of this Agreement until date of closing in order that Buyer can



complete its due diligence evaluation. Should Buyer, in its sole discretion, determine after the review of the books, records and operation of the Business by Buyer that Buyer does not wish to go forward to consummate the transaction contemplated by this Agreement, then, and in that event, it shall give Seller notice of same, and this Agreement shall terminate upon the giving of such notice. If Buyer does not give such notice to Seller on or before the close of business the day prior to closing, then, and in that event, Buyer shall be deemed to have waived this contingency.

xiii. Seller shall have duly adopted all resolutions required for legislative bodies of Seller's statutory class and otherwise met all statutory requirements for sale of the assets to Buyer.

b. **Conditions to Seller's Obligation.** The obligation of Seller to consummate, on the Closing Date, the transactions contemplated by this Agreement will be subject to the satisfaction of each of the following conditions on or prior to the Closing Date, unless expressly waived, in writing, by Seller:

i. Buyer shall have performed and observed in all material respects his covenants and obligations under this Agreement prior to or on the Closing Date.

ii. There shall be no injunction, decree, or order issued by any court, governmental agency, or authority, or any litigation instituted by any governmental agency or authority, challenging or seeking to prohibit or enjoin any of the transactions contemplated by this Agreement.

iii. Approval of the transfer of the Edmonson County Water District sewer system east of the Green River, as may be required by any governmental agency.

## 9. CONTINUED OPERATIONS

Following Closing and transfer of all sewer system assets, Buyer and Seller agree to the following continued operations, terms and conditions:

a. Seller agrees to collect sewer charges from all sewer system customers on Seller's monthly water bill and transfer all amounts so collected to Buyer on a monthly basis. Buyer agrees to pay Seller a \$1.00 per customer monthly collection fee. Following two years from the effective date of this Agreement, Buyer and Seller shall confer and mutually agree to any adjustment in the monthly collection fee

b. Seller agrees that all residential and business sewer system customers shall pay the same sewer rates, no matter where located, with the initial rate being \$11.20 for the first 2,000 gallons of water and \$5.60 for each 1,000 gallons used thereafter. Buyer agrees not to pass on rate increases for a period of at least two years after Closing.

c. Buyer agrees to assume maintenance of the E-One grinder pumping stations located at each home and business and prepare or replace pumps or controls in the ordinary course of business on an as-needed basis.

d. Buyer agrees to allow two sewer charge adjustments per customer on a case-by-case basis should customer experience a water leak, subject to satisfactory evidence, including but not limited to a signed invoice from a licensed plumber or receipt for plumbing supplies for repairs made by the customer.

e. Buyer shall mail or deliver information packets to each customer containing all necessary information, including emergency and other telephone numbers, rate charges and other customer information normally provided in the ordinary course of business.

## **10. CLOSING DELIVERIES**

### **a. Seller's Obligations**

At the Closing, Seller shall deliver to Buyer the following:

- i. Bills of sale and assignments, duly executed by Seller, in form and substance reasonably satisfactory to Buyer and, such other documents as Buyer may reasonably request in order to accomplish the sale of the Assets to Buyer;
- ii. Deeds and assignments of Seller's real property and easements and rights of way owned and used in the operation of the Edmonson County Water District sewer system duly executed by Seller in favor of Buyer;
- iii. Attornment and non-disturbance agreements executed by any mortgage holder on the any of the properties to be transferred to Buyer under this Agreement;
- iv. Appropriate releases or other documentation eliminating the existence of any mortgages, liens or security interests asserted against any of the assets of the Edmonson County Water District sewer system to be conveyed to Buyer; and
- v. Such other documents as are reasonably requested by counsel for Buyer.

### **b. Buyer's Obligations**

At the Closing, Buyer shall deliver to Seller all documents as are reasonably requested by counsel for Seller.

## **11. TAX**

Seller shall pay all applicable transfer taxes and sales and use taxes, if any, related to the consummation of the transactions contemplated hereby.

## **12. SURVIVAL OF REPRESENTATIONS, WARRANTIES, AND COVENANTS**

All representations, warranties, covenants, and agreements contained herein shall survive without limitation as to time, provided, however, that Seller's covenant and warranty regarding environmental matters shall survive the closing for a period of five years.

## **13. PRORATIONS AND ADJUSTMENTS**

a. **Expenses.** All property taxes, assessments and utility charges, advance payments, payroll taxes, insurance premiums, and any other prepaid or deferred expenses relating to the operation of the Edmonson County Water District sewer system shall be prorated or reimbursed, as the case may be, as of the Closing Date. Seller shall receive all revenues and shall be responsible for all expenses and liabilities allocable to the period prior to the Closing Date, including payments due prior to the Closing Date under such prorated contracts, and Buyer shall receive all revenues and shall, only to the extent agreed hereunder, be responsible for all expenses and liabilities allocable to the period subsequent to the Closing Date.

### **b. Time of Prorations and Adjustments**

The prorations and adjustments contemplated by this Section, to the extent practicable, shall be made on the Closing Date. As to those prorations and adjustments not capable of being ascertained on the Closing Date, any adjustment and proration shall be made within thirty (30) calendar days of the Closing Date.

## **14. PUBLIC STATEMENTS**

On or immediately prior to Closing, Seller and Buyer shall jointly notify all customers, vendors and suppliers of Seller of the acquisition of the Business assets by Buyer, including the business name of Seller, and further advising all said customers, vendors and suppliers

that Seller shall not be liable for any indebtedness incurred by Buyer, whether or not under the business name to be conveyed pursuant to this Agreement, following Closing.

**15. RECORDS**

After the Closing, Seller and Buyer shall make available to the other on reasonable request such books and records of that party as may be appropriate for use in connection with their respective tax returns, including any review thereof, and for any other reasonable purpose. Such books and records shall be retained for a period of ten (10) years; provided, however, that after five (5) years any portion of such books and records may be destroyed in whole or in part, by the party in possession thereof upon thirty (30) days' notice to the other party, unless the party to whom such notice is given shall object, in which event the objecting party shall be given such records in lieu of destruction thereof.

**16. SELLER'S CESSATION OF BUSINESS**

On the Closing Date, the Seller shall cease engaging in the operation of the Edmonson County Water District sewer system and offer for employment by Buyer all individuals who are employees of Seller employed in the Business on the Closing Date. Buyer shall have no obligation to accept any such individuals as employees. Seller shall terminate all employees of Seller as of the Closing Date and shall be responsible for paying to or for such employees' benefit any unpaid wages owed employees, including accrued vacation or sick pay to which such employees are entitled.

**17. CONFIDENTIALITY**

Unless and until the Closing of the transactions contemplated by this Agreement shall have occurred, and except as may be otherwise required by applicable law, Buyer shall, and shall cause its employees, agents, and representatives to, maintain in confidence and not otherwise use

information, documents, and data furnished to it, or to any person or entity on its behalf, by Seller in connection herewith.

**18. FAILURE TO CLOSE**

If the Closing of the transactions contemplated by this Agreement does not occur on the Closing Date, Buyer shall return all written information, documents, and data furnished to Buyer or to any person or entity on his behalf and all copies thereof. Notwithstanding anything else in this Agreement to the contrary, if the transactions contemplated by this Agreement are not closed, Buyer's agreement to maintain in confidence all information received by him shall continue in perpetuity and none of such information shall be used by Buyer, his employees, agents, or representatives in the business operations of any such person, except to the extent that such information was: (i) possessed by Buyer prior to the disclosure thereof by Seller; (ii) disclosed to Buyer by an independent third party without a violation of any obligation of confidentiality on the part of such third party to Seller; or (iii) ascertainable from public or published information or trade sources.

**19. SELLER'S FAILURE TO CLOSE**

- a. **Specific Performance.** Buyer shall in all events have the right of specific performance.
- b. **Damages in the Event of Seller's Breach.** In the event that the sale provided for hereunder does not take place by reason of a default by Seller under this Agreement and provided Buyer has complied with the terms and conditions of this Agreement, then, in such event, all rights and obligations of the parties under this Agreement shall terminate. In addition to all of his other legal remedies, Buyer shall be entitled to recover from Seller any and all actual, consequential, and incidental damages suffered by Buyer arising from such default by Seller including, but not

limited to, lost profits, any and all fees, costs and expenses associated with the transactions contemplated hereby and attorneys' fees. Default shall be defined as Seller's failure to consummate the purchase contemplated by this Agreement to the extent such failure is not excused by another provision of this Agreement.

## **20. NOTICES**

All notices, requests, consents, and other communications under this Agreement shall be in writing and shall be mailed by first class, registered, or certified mail, postage prepaid, or sent via overnight courier service, or delivered personally:

If to **Buyer**, to:

Mr. David Peterson  
Caveland Environmental Authority  
508 South Dixie Highway  
P.O. Box 463  
Cave City, Kentucky 42127

If to **Seller**, to:

Board Chairman  
Edmonson County Water District  
P. O. Box 208  
Brownsville, KY 42210

or to such other address of which the addressee shall have notified the sender in writing. Notices mailed in accordance with this section shall be deemed given when mailed, and notices sent by overnight courier service shall be deemed given when placed in the hands or a representative of such service.

## **21. THIRD PARTY RIGHTS**

It is the intention of the parties that nothing in this Agreement shall be deemed to create any right with respect to any person or entity not a party to this Agreement.

**22. CONSTRUCTION; GOVERNING LAW**

The section headings contained in this Agreement are inserted as a matter of convenience and shall not affect in any way the construction of the terms of this Agreement. This Agreement shall be governed by and interpreted in accordance with the laws of the Commonwealth of Kentucky.

**23. ENTIRE AGREEMENT; AMENDMENT AND WAIVER**

This Agreement, including the schedules hereto, constitutes and contains the entire Agreement between the parties hereto with respect to the transactions contemplated hereby and supersedes any prior writing by the parties. The parties may, by mutual agreement in writing, amend this Agreement in any respect, and any party, as to such party, may in writing (a) extend the time for the performance of any obligations of any other party; (b) waive any inaccuracies in representations and warranties by any other party; (c) waive performance of any obligations by any other party; and (d) waive the fulfillment of any condition that is precedent to the performance by such party or any of its obligations hereunder. No such waiver shall be deemed to constitute the waiver of any other breach of the same or of any other term or condition of this Agreement. Any such amendment or waiver must be signed by an officer of the parties or party to such amendment or waiver.

**24. SEVERABILITY**

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of the remaining provisions.

**25. SCHEDULES**

The schedules attached to this Agreement constitute a part of this Agreement and are incorporated herein by reference in their entirety as if fully set forth in this Agreement at the point where first mentioned.



**26. TIME OF ESSENCE**

Time is of the essence to the performance of the obligations set forth in this Agreement.

**27. TERMINATION**

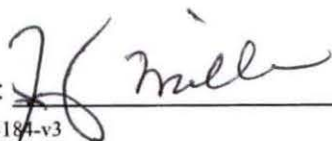
Anything contained in this Agreement to the contrary notwithstanding, this Agreement may be terminated at any time prior to the Closing Date:

- a. By the mutual written consent of Seller and Buyer;
- b. By the Seller or Buyer if the other party to this Agreement shall have materially breached any of his representations and warranties set forth in this Agreement and such other party shall have failed to cure such breach within a cure time mutually agreeable to the parties.
- c. Hazard loss or destruction or damage to the assets and an election by the Buyer to terminate this Agreement.

**IN WITNESS WHEREOF**, Seller and Buyer have caused this Asset Purchase Agreement to be executed by their duly authorized officers as of the day and year first written above.

**SELLER:**

EDMONSON COUNTY WATER DISTRICT

By:   
2623184-v3

**BUYER:**

CAVELAND SANITATION AUTHORITY, INC.  
d/b/a CAVELAND ENVIRONMENTAL AUTHORITY

By:   
David Peterson, Chief Executive Officer

# **EXHIBIT**

## **B**

**EDMONSON COUNTY WATER DISTRICT  
EDMONSON COUNTY, KENTUCKY**

**RESOLUTION**

**WHEREAS**, the Edmonson County Water District currently lay, operate and maintain the sewer lines in the Chalybeate area of Edmonson County on the east side of the Green River.

**WHEREAS**, the Caveland Sanitation Authority, Inc. d/b/a Caveland Environmental Authority treats the raw sewage generated by the said sewage lines.

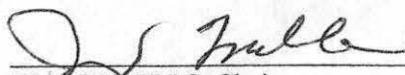
**WHEREAS**, after careful study and review by the Edmonson County Water District, it has been determined that Caveland Sanitation Authority, Inc. d/b/a Caveland Environmental Authority can more efficiently operated and maintain the sewer lines and facilities presently owned by the Edmonson County Water District.

**WHEREAS**, the residents of the Chalybeate area of Edmonson County on the east side of the Green River would realize a cost savings if the sewer lines and facility of the Edmonson County Water District is transferred to Caveland Sanitation Authority, Inc. d/b/a Caveland Environmental Authority.

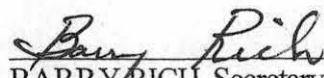
**NOW THEREFORE, BE IT RESOLVED**, by that the Edmonson County Water District, subject to the approval of the Public Service Commission, shall be and hereby is authorized to transfer its assets associated with the operation of its sewer lines in the Chalybeate area of Edmonson County on the east side of the Green River to the Caveland Sanitation Authority, Inc. d/b/a Caveland Environmental Authority pursuant to the Asset Acquisition and Operations Agreement attached hereto and made a part hereof.

**BE IT FURTHER RESOLVED**, that the Chairman and the Secretary of Edmonson County Water District shall be and hereby is authorized to sign any and all documents required by the Kentucky Public Service Commission to effectuate the sale and transfer of its operation and sewer lines to Caveland Sanitation Authority, Inc. d/b/a Caveland Environmental Authority.

**THIS RESOLUTION** duly made and adopted on this the 27 day of March, 2018, by the Edmonson County Water District.

  
\_\_\_\_\_  
JIMMY MILLS, Chairman  
Edmonson County Water District

ATTESTED BY:

  
\_\_\_\_\_  
BARRY RICH, Secretary  
Edmonson County Water District

# **EXHIBIT**

**C**

2/345

Rec'd \_\_\_\_\_  
Ex. Pg \_\_\_\_\_  
Date 3/14/18

COMMONWEALTH OF KENTUCKY  
EDMONSON COUNTY FISCAL COURT  
EDMONSON COUNTY, KENTUCKY

RESOLUTION EC.18-12

WHEREAS, the Edmonson County Fiscal Court has authorized the Edmonson County Water District currently lay, operate and maintain the sewer lines in the Chalybeate area of Edmonson County on the east side of the Green River.

WHEREAS, the Caveland Sanitation Authority, Inc. d/b/a Caveland Environmental Authority treats the raw sewage generated by the said sewage lines.

WHEREAS, after careful study and review by the Edmonson County Water District, it has been determined that Caveland Sanitation Authority, Inc. d/b/a Caveland Environmental Authority can more efficiently operated and maintain the sewer lines and facilities presently owned by the Edmonson County Water District.

WHEREAS, the residents of the Chalybeate area of Edmonson County on the east side of the Green River would realize a cost savings if the sewer lines and facility of the Edmonson County Water District is transferred to Caveland Sanitation Authority, Inc. d/b/a Caveland Environmental Authority.

NOW THEREFORE, BE IT RESOLVED, by the Edmonson County Fiscal Court that the Edmonson County Water District, subject to the approval of the Public Service Commission, shall be and hereby is authorized to transfer its assets associated with the operator of it's sewer lines in the Chalybeate area of Edmonson County on the east side of the Green River to the Caveland Sanitation Authority, Inc. d/b/a Caveland Environmental Authority pursuant to the Asset Acquisition and Operations Agreement attached hereto and made a part of hereof.

THIS RESOLUTION duly made and adopted on this the 12 day of March, 2018, by the Edmonson County Fiscal Court, Commonwealth of Kentucky.

WIL S. CANNON  
WIL S. CANNON  
EDMONSON COUNTY JUDGE/EXECUTIVE

ATTESTED BY:  
[Signature]  
KEVIN ALEXANDER, Clerk  
Edmonson County

State of Kentucky, County of Edmonson, 607  
This instrument was filed for record on the  
14 day of March 2018  
at 10:41 o'clock A M and duly recorded in  
RES Book 2 Page 345  
of the records of this office.  
Att. Kevin M. Alexander, Clerk  
By [Signature] Deputy Clerk

# **EXHIBIT**

**D**

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89-38-1-1-70

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# Commonwealth of Kentucky

OFFICE OF  
SECRETARY OF STATE

DREXELL R. DAVIS  
*Secretary*



FRANKFORT,  
KENTUCKY

## CERTIFICATE OF INCORPORATION OF NON-STOCK, NON-PROFIT CORPORATION

*I, DREXELL R. DAVIS, Secretary of State of the Commonwealth of Kentucky, certify that there has been delivered to my office articles of incorporation of*

CAVELAND SANITATION AUTHORITY INC.

*The name and address of the registered agent of this corporation is*

CAROLYN BROWN

NAME

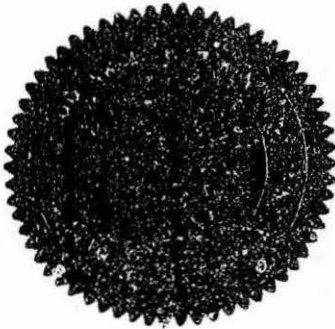
OFFICE OF THE CITY CLERK, CITY HALL, DUKE AND FIRST STREETS

STREET ADDRESS

CAVE CITY, KENTUCKY 42127

CITY, STATE

*NOW, THEREFORE, finding that these articles of incorporation conform to law and that all fees therefore having been paid as prescribed by law, I, DREXELL R. DAVIS, Secretary of State, issue this Certificate of Incorporation.*



SECRETARY OF STATE

Issued this 27TH day of MAY, 19 87,  
at Frankfort, Kentucky.

*Drexell R. Davis*

SECRETARY OF STATE

ASSISTANT SECRETARY OF STATE

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ARTICLES OF INCORPORATION  
OF  
CAVELAND SANITATION AUTHORITY INC.

ORIGINAL COPY FILED  
SECRETARY OF STATE OF KENTUCKY

(FRANKFORT, KENTUCKY)  
MAY 27 1987

*D. R. Dennis*  
H. S. O'D  
SECRETARY OF STATE

KNOW ALL MEN BY THESE PRESENTS:

That we, the undersigned Incorporators, as the Mayors of the Cities of Horse Cave, Cave City and Park City, Kentucky, respectively (the "Cities"), do hereby associate to form a corporation for public, municipal, civic and governmental purposes pursuant to the provisions of Sections 273.161 to 273.390, inclusive, 58.180 and 65.210 to 65.300, inclusive, of the Kentucky Revised Statutes ("KRS"), and do declare and certify as follows:

Article I

**479764**

The name of the corporation shall be "Caveland Sanitation Authority Inc." (the "Authority"). The Authority shall be at all times a nonprofit, no-stock public corporation pursuant to the provisions of KRS 273.161 to 273.390, inclusive, and KRS 58.180 for the performance of public, municipal, civic and governmental purposes pursuant to Kentucky law. The Authority shall be an agency, instrumentality and constituted authority of the Cities created and organized pursuant to, inter alia, KRS 58.180 and an Amended Interlocal Cooperation Agreement entered into by the Cities under authority of KRS 65.210 to 65.300, inclusive.

Article II

The duration of the Authority shall be perpetual. The Authority may be dissolved at any time by joint action of the

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Cities, acting by and through their respective legislative bodies; provided that, if at the time of such dissolution there is outstanding any indebtedness or obligations of the Authority, such indebtedness or obligations shall be properly discharged or proper provision therefor shall be made by the Authority. In the event the Authority is dissolved, title to all of its properties and assets (after provision has first been made for the payment and satisfaction of any indebtedness and liabilities and expenses incident thereto) shall vest in the Cities, automatically and without any necessity for formal conveyance.

#### Article III

The purposes for which the Authority is organized are exclusively to assist and cooperate with, and to act on behalf of, at the direction of and as the agency, instrumentality and constituted authority of, the Cities in the planning, development, acquisition, construction, installation, operation, management, financing and refinancing of sewer system projects for and on behalf of, and as joint and cooperative undertakings of, the Cities pursuant to the provisions of Kentucky law and thus accomplish public and municipal purposes of the Cities. As used herein the term "sewer system project" or "sewer system projects" means and includes municipal or public sanitary (or storm) sewers, sewage treatment works, sewage collection or conveyance lines, pumping stations and appurtenant or related buildings, structures, improvements, equipment and other facilities, together with the

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sites thereof and easements and rights-of-way therefor. In carrying out its corporate purposes, the Authority shall have all the powers enumerated in KRS 273.171, KRS 58.010 to 58.210, inclusive, and KRS 65.210 to 65.300, inclusive, and in the Amended Interlocal Cooperation Agreement referred to in Article I hereof, and shall specifically have power to contract and be contracted with, to sue and be sued, to acquire, own, hold and use real and personal property by purchase, lease, gift or in any other manner whatsoever, with power to deal with any and all such property in any manner consistent with the aforesaid purposes of the Authority, specifically including, but not by way of limitation, the power to sell and dispose of the same and to mortgage, lease or otherwise encumber the same, subject to the provisions hereof, and generally to have and treat such property in any way not inconsistent with the provisions of the previously cited statutory provisions and other applicable provisions of Kentucky law. The Authority shall have such additional powers as have been or may be delegated to it by the Cities.

The Authority shall have the power, on behalf of and at the specific direction of the Cities, to borrow money, incur indebtedness and to issue its bonds, notes or other obligations in evidence of the same for the acquisition, construction, installation and financing or refinancing of one or more sewer system projects on behalf of the Cities, and may pledge for the amortization of such bonds, notes or other obligations such sewer system project or sewer

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system projects and the revenues derived from the operation thereof, including specifically all revenues derived from making available such sewer system project or sewer system projects directly to the Cities, on whose behalf and on whose directions such bonds, notes or other obligations are issued. In compliance with KRS 58.180, it shall be provided in any such financing or refinancing (i) that upon the retirement and discharge of the bonds, notes or other obligations issued by the Authority at the direction of and on behalf of the Cities, full legal title to the sewer system project or sewer system projects so acquired shall be conveyed to or shall otherwise vest in the Cities; (ii) that in the event of default with respect to any such bonds, notes or other obligations the Cities shall have the exclusive option to acquire the sewer system project or sewer system projects for the amount required to discharge such bonds, notes or other obligations, and shall be provided a reasonable time to exercise such option; (iii) that the issuance of any such bonds, notes or other obligations shall be directed by and approved by the Cities not more than sixty (60) days prior to the date of issue of such obligations; and (iv) no bonds, notes or other obligations shall be issued by the Authority for and on behalf of the Cities except upon express direction of the Cities.

Additionally, during the time any such bonds, notes or other obligations are outstanding, the Cities shall have a beneficial interest in the sewer system project or sewer system projects financed or refinanced thereby to such extent as may be necessary in

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order to comply with requirements of the federal and state governments in respect of the tax-exempt status of interest received on such bonds, notes or other obligations.

#### Article IV

In compliance with KRS 58.180, the Cities shall exercise either (i) organizational control over the Authority, at all times retaining the authority to alter or change the structure, organization, programs or activities of the Authority, including termination of the Authority, subject to the rights of the holders of any notes, bonds or other obligations of the Authority, or (ii) supervisory control over the Authority, as may be deemed proper by the Cities in the administration of the Authority's activities as an agency, instrumentality and constituted authority of the Cities and as may be required from time to time by federal law in order to continue to qualify the Authority, as a statutory public corporation and constituted authority of the Cities, for the issuance of tax-exempt notes, bonds or other obligations on behalf of the Cities.

#### Article V

The Authority is organized solely to accomplish one or more of the public, civic and governmental purposes, as aforesaid, and as an agency and instrumentality and constituted authority of the Cities. The Authority is not organized for the making of any profit, and no private pecuniary profit shall at any time be derived by any officers or Directors of the Authority. Any net revenues of the Authority beyond those necessary for the retirement of indebtedness or obligations of the Authority or the implementation

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of the public purposes of the Authority and the Cities shall not inure to the benefit of any person other than the Cities. The Authority shall not engage in propaganda or in any manner attempt to affect legislation.

#### Article VI

The address of the registered office and the principal office of the Authority in Kentucky shall be the Office of the City Clerk of the City of Cave City, Kentucky, Cave City, Kentucky, the present address being City Hall, Duke and First Streets, Cave City, Kentucky 42127.

The resident agent of the Authority shall be the holder from time to time of the public office of City Clerk of the City of Cave City, Kentucky, the present incumbent and present resident agent of the Authority being Carolyn Brown, whose address as such resident agent and City Clerk is City Hall, Duke and First Streets, Cave City, Kentucky 42127.

#### Article VII

Pursuant to authority of KRS 273.187, the Authority shall not have any members. The Authority shall have no capital stock.

The number of Directors constituting the Authority's Board of Directors shall be nine (9), consisting of the three (3) Directors appointed by the Mayor, with the approval of the legislative body, of each of the Cities, and each Director to serve a three-year term, provided that the members of the initial Board of Directors as set out below, all duly appointed by the respective Mayors, with the approvals of the respective legislative bodies, of the Cities, shall serve initial terms as indicated below. Each

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member of the Board of Directors of the Authority shall continue to be a Director upon the expiration of his term in office unless and until his successor is duly appointed. Any Director appointed by any one of the Cities may be removed from such office by action of the Mayor, with the approval of the legislative body, or such City. A change in the number of Directors shall be made only by amendment of the Articles of Incorporation. The Superintendent of the Mammoth Cave National Park, or his designated representative, shall be entitled to serve as an advisory director of the Authority, without voting power.

The names and addresses of the nine (9) Directors who shall initially serve in accordance with these Articles of Incorporation, the respective Cities appointing them and their respective initial terms, are as follows:

<u>Name</u>	<u>Initial Term in Years</u>	<u>Address</u>	<u>Appointing City</u>
Daniel Trigg Curd III	3	Greenview Drive Cave City, KY 42127	Cave City
Joe Gardner	3	Route #2, Box 43 Cave City, KY 42127	Cave City
Roger B. Proflitt	3	Route #3, Box 47 Cave City, KY 42127	Cave City

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<u>Name</u>	<u>Initial Term in Years</u>	<u>Address</u>	<u>Appointing City</u>
W. T. Austin	3	P. O. Box 527 Horse Cave, KY 42749	Horse Cave
Gerald P. Matera	3	P. O. Box 73 Horse Cave, KY 42749	Horse Cave
Dr. John Branstetter	3	106 Guthrie Street Horse Cave, KY 42749	Horse Cave
Joseph Kulesza	3	P. O. Box 215 Park City, KY 42160	Park City
Hollis Johnson	3	Route #1 Park City, KY 42160	Park City
Robert L. King	3	P. O. Box 113 Park City, KY 42160	Park City

The Mayors of the respective Cities are the Incorporators and their names and addresses are as follows:

<u>Name</u>	<u>Address</u>	<u>Mayor, City of</u>
Robert Strickland	City Hall Horse Cave, KY 42749	Horse Cave
Leo E. Esters	City Hall Cave City, KY 42127	Cave City
S. C. Denton, Jr.	City Hall Park City, KY 42160	Park City

#### Article VIII

Unless the Board of Directors of the Authority shall make express provision to the contrary by resolution, motion or other corporate action, the signature, or any authorized facsimile of the signature, of any Director or officer of the Authority appearing upon any contract, note, bond, mortgage, certificate or other

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document of the Authority shall remain valid, binding and effective for all purposes, notwithstanding the fact that at the delivery or other intended effective date thereof such Director or officer shall have ceased to be a Director or shall have ceased to hold such office of the Authority. It is the intent of these Articles that the Authority shall be a legal corporate entity in its own right, separate and apart from the Cities but, nevertheless, as aforesaid, shall be and constitute the agency, instrumentality and constituted authority of the Cities in the performance of public, civic and governmental purposes. The undertakings, promises, commitments, notes, bonds, mortgages, conveyances and contracts of the Authority shall not in any manner or to any extent be deemed or construed to be binding upon the Cities, notwithstanding that it is the purpose of the Authority to serve as the agency, instrumentality and constituted authority of the Cities and to serve and promote public, civic and governmental purposes and objectives of the Cities.

#### Article IX

The private property of the Incorporators and Directors shall not be subject to or in any way liable for any debt, obligation or contract of the Authority or any judgment against the Authority.

#### Article X

The Authority shall have as its officers a President, Vice President, Secretary and Treasurer (which Secretary and Treasurer need not be a Director and may be the same person), each of whom

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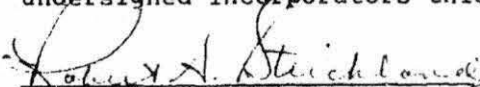
shall be elected or appointed by the Board of Directors at such times, in such manner and for such terms not exceeding three (3) years as may be prescribed in the By-Laws or by other official action of the Board of Directors, and such officers shall have such powers and duties as may be prescribed from time to time by the Board of Directors. The Board of Directors shall have power to make and adopt By-Laws and to alter or repeal the same pursuant to KRS 273.191.


Article XI

The corporate existence of the Authority shall commence immediately upon the recording of these Articles of Incorporation in the office of the Secretary of State of Kentucky and the issuance by the Secretary of State of a Certificate of Incorporation, as provided by law.

\* \* \*

IN TESTIMONY WHEREOF, witness the signatures of the undersigned Incorporators this 14th day of May, 1987.

  
Robert Strickland

  
Leo E. Esters

  
S. C. Denton, Jr.

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STATE OF KENTUCKY)  
COUNTY OF Hart ) SS

The undersigned, a Notary Public in and for the State and County aforesaid, does hereby certify that on this day the foregoing Articles of Incorporation were produced before me in my said County and State by Robert Strickland, Leo E. Esters and S. C. Denton, Jr., and they thereupon acknowledged to me that they executed the same as their voluntary act for the purposes therein expressed.

WITNESS my hand this 14th day of May, 1987. My commission expires 1-29-88.

Robert G. Reed  
Notary Public  
~~My Commission Expires January 29, 1988~~  
~~RENEWED 1982 BY 1982~~

The foregoing instrument was prepared by the following Attorney at Law:

William W. Davis  
William W. Davis  
Harper, Ferguson & Davis  
310 West Liberty Street  
Louisville, Kentucky 40202

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**EXHIBIT**

**E**

**CAVELAND SANITATION AUTHORITY, INC**  
**d/b/a CAVELAND ENVIRONMENTAL AUTHORITY**

**RESOLUTION**

**WHEREAS**, the Board of Directors of Caveland Sanitation Authority, Inc. d/b/a Caveland Environmental Authority desires to consummate the transfer of the assets associated with the operation of Edmonson County Water District's sewer lines in the Chalybeate area of Edmonson County on the east side of the Green River.

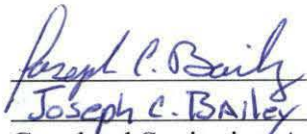
**NOW THEREFORE, BE IT RESOLVED**, by the members of the Board of Directors of Caveland Sanitation Authority, Inc d/b/a Caveland Environmental Authority hereby approve and authorize the execution and delivery of the Assets Acquisition and Operations Agreement, the form of which is attached hereto, by Joe Gardner, Board Chairman of Caveland Sanitation Authority, Inc d/b/a Caveland Environmental Authority. Mr. Gardner is also authorized to execute any and all other documents necessary to consummate the purchase of the assets associated with the operation of Edmonson County Water District's sewer lines in the Chalybeate area of Edmonson County on the east side of the Green River, including but not limited to any deed(s) and the Application to be filed with the Kentucky Public Service Commission.

**THIS RESOLUTION** duly made and adopted on this the 22 day of March, 2018, by the Edmonson County Water District.



\_\_\_\_\_  
Joe Gardner, Board Chairman  
Caveland Sanitation Authority, Inc d/b/a  
Caveland Environmental Authority

ATTESTED BY:



\_\_\_\_\_  
Joseph C. Bailey, Secretary  
Caveland Sanitation Authority, Inc  
d/b/a Caveland Environmental Authority

# **EXHIBIT**

**F**

**Caveland Sanitation Authority, Inc.**  
**dba Caveland Environmental Authority**  
**Financial Statements**  
**June 30, 2017**

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CAMPBELL, MYERS AND RUTLEDGE, PLLC

Cindy L. Greer, CPA • L. Joe Rutledge, CPA • Jonathan W. Belcher, CPA • R. Brent Billingsley, CPA  
Skip R. Campbell, CPA • Ryan A. Mosier, CPA • Jenna B. Glass, CPA • Sharon Waggener, CPA

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Caveland Environmental Authority, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Caveland Environmental Authority, Inc., as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Caveland Environmental Authority, Inc.'s basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Caveland Environmental Authority, Inc., as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Caveland Environmental Authority, Inc.'s basic financial statements. The schedules of operations and maintenance expenses and general and administrative expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of operations and maintenance expenses and general and administrative expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operations and maintenance expenses and general and administrative expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2017, on our consideration of the Caveland Environmental Authority, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Caveland Environmental Authority, Inc.'s internal control over financial reporting and compliance.

*Campbell, Myers & Rutledge, PLLC*

Certified Public Accountants

Glasgow, Kentucky  
December 19, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

In June, 1999, the Governmental Accounting Standards Board (GASB) adopted Statement 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The standard requires that a "Management Discussion and Analysis" be included in the annual report along with annual audited financial statements. The Caveland Environmental Authority implemented GASB Statement 34 for the fiscal year ending June 30, 2004.

Our discussion and analysis of the Caveland Environmental Authority's, financial performance provides an overview of the Authority's financial activities for the year ended June 30, 2017. This information is presented in conjunction with the audited financial statements that follow this section.

### **Financial Highlights**

For the year ending June 30, 2017, total operating and non-operating revenues (including capital contributions) totaled \$3,981,749, and expenses amounted to \$4,657,022 creating a decrease in net position of \$675,273. At year end, net position totaled \$19,247,075, of which \$18,215,214 (net of related debt) was invested in capital assets and \$402,089 was restricted for debt retirement. This left a net amount of \$629,772 of unrestricted assets.

### **Overview of the Financial Statements**

This report consists of Management's Discussion and Analysis, Financial Statements and Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the Financial Statements.

### **Required Financial Statements**

The financial statements report information of Caveland Environmental Authority, using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of Caveland Environmental Authority's, assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Caveland Environmental Authority's, creditors (liabilities). It also provides the basis for evaluating the capital structure of Caveland Environmental Authority, and assessing the liquidity and financial flexibility of Caveland Environmental Authority.

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

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

## Financial Analysis of Caveland Environmental Authority

Assets	2017	2016
Total Current Assets	\$ 1,197,987	\$ 1,166,523
Total Restricted Assets	487,222	154,487
Net Capital Assets	<u>22,913,704</u>	<u>23,220,766</u>
Total Assets	<u>\$ 24,598,913</u>	<u>\$ 24,541,776</u>
Liabilities		
Total Current Liabilities	\$ 568,215	\$ 621,139
Total Liabilities Payable from Restricted Assets	339,129	224,799
Total Long-term Liabilities	<u>4,444,494</u>	<u>3,773,490</u>
Total Liabilities	<u>5,351,838</u>	<u>4,619,428</u>
Net Position:		
Invested in capital assets, net of related debt	18,215,214	19,291,067
Restricted for debt retirement	402,089	85,897
Unrestricted	<u>629,772</u>	<u>545,384</u>
Total Net Position	<u>\$ 19,247,075</u>	<u>\$ 19,922,348</u>

At June 30, 2017, the largest portion of the Authority's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding. The Authority uses these capital assets to provide services to citizens and consumers; consequently, these assets are not available for future spending. Restricted net position represents resources that are subject to external restrictions on how they may be used.

	2017	2016
Total operating revenues	\$ 3,910,114	\$ 3,631,538
Total operating expenses	<u>4,494,209</u>	<u>4,445,249</u>
Operating Income	(584,095)	(813,711)
Total non-operating revenue (expenses)	<u>(161,875)</u>	<u>(147,619)</u>
Income (loss) before capital contributions	(745,970)	(961,330)
Donated assets	-	(1,190,000)
Capital contributions	<u>70,697</u>	<u>1,163,208</u>
Increase (decrease) in net position	(675,273)	(988,122)
Beginning of year	<u>19,922,348</u>	<u>20,910,470</u>
End of year	<u>\$ 19,247,075</u>	<u>\$ 19,922,348</u>

At June 30, 2017, net position decreased by \$675,273 and consisted of operating revenues of \$3,910,114, operating expenses of \$4,494,209, non-operating expenses of \$161,875, capital contributions of \$70,697.

Caveland Environmental Authority implemented a wastewater rate increase of five percent (5%) for a three year period, this audit shows the first year of the rate adjustment with the second being implemented May of 2017. CEA Board will continue monitoring revenues for future adjustments.

Residential customer's base showed a slight increase with the business and industrial showing a continued growth pattern for wastewater usage. The pumping and portable restroom business continues increasing revenues. CEA staff continues working on reducing the water loss issue with the water system.

**Capital Asset Changes**

At June 30, 2017, the Authority had invested \$22,913,704 in capital assets net of accumulated depreciation. This amount represents a net decrease of \$307,062 from the previous year. This increase is mainly due to depreciation.

**Debt Administration**

At June 30, 2017, the Authority had \$4,698,490 bonds outstanding, an increase of \$768,791 from the prior year's balance of \$3,929,699.

**Request for Information**

This financial report is designed to provide our customers and creditors with a general overview of Caveland Environmental Authority's, finances and to demonstrate Caveland Environmental Authority's, accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact the Caveland Environmental Authority at P.O. Box 426, Cave City, Kentucky 42127, or by phone (270) 773-2887.

**Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority**  
**Statement of Net Position**  
**June 30, 2017**

**Assets**

**Current Assets:**

Accounts receivable	\$	290,658
Inventory		835,176
Prepaid and other assets		72,153
Total Current Assets		1,197,987

**Noncurrent Assets:**

Restricted Assets		
Cash - bond and interest redemption fund		487,222
Total Restricted Assets		487,222

Capital Assets

Utility plant in service		37,460,288
Construction-in-progress		272,713
Accumulated depreciation		(14,819,297)
Net Capital Assets		22,913,704
Total Noncurrent Assets		23,400,926

Total Assets	\$	24,598,913
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The accompanying notes are an integral part of the financial statements.

**Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority**  
**Statement of Net Position**  
**June 30, 2017**

**Liabilities**

**Current Liabilities:**

Accounts payable and accrued liabilities	\$	314,945
Checks issued in excess of deposits		1,047
Line-of-credit		190,000
Customer deposits		62,223
Total Current Liabilities		568,215

**Liabilities Payable from Restricted Assets:**

Current maturities of long-term debt		253,996
Accrued interest		85,133
Total Liabilities Payable from Restricted Assets		339,129

**Long-term Liabilities:**

Long-term debt, less current maturities		4,444,494
Total Long-term Liabilities		4,444,494

Total Liabilities		5,351,838
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**Net Position**

**Net Position:**

Invested in capital assets, net of related debt		18,215,214
Restricted for debt retirement		402,089
Unrestricted		629,772

<b>Total Net Position</b>	<b>\$</b>	<b>19,247,075</b>
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**Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2017**

<b>Operating revenue:</b>	
Water revenue	\$ 946,011
Sewer revenue	1,373,791
Other operating revenue	<u>1,590,312</u>
Total operating revenue	<u>3,910,114</u>
<b>Operating expenses:</b>	
Operations and maintenance	3,933,785
General and administrative	<u>560,424</u>
Total operating expenses	<u>4,494,209</u>
Operating income (loss)	<u>(584,095)</u>
<b>Nonoperating revenue (expenses):</b>	
Interest income	938
Interest on long-term debt	<u>(162,813)</u>
Total nonoperating revenue (expenses)	<u>(161,875)</u>
Income before capital contributions	(745,970)
Capital contributions	<u>70,697</u>
Increase (decrease) in net position	(675,273)
<b>Net position:</b>	
Beginning of year, restated	<u>19,922,348</u>
End of year	<u>\$ 19,247,075</u>

The accompanying notes are an integral part of the financial statements.



**Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2017**

**Cash flows from operating activities:**

Cash receipts from customers	\$ 3,876,318
Cash payments to suppliers for goods and services	(2,678,051)
Cash payments to employees for services	<u>(883,844)</u>
Net cash provided (used) by operating activities	<u>314,423</u>

**Cash flows from capital and related financing activities:**

Proceeds from issuance of long-term debt	925,000
Proceeds from line-of-credit	460,805
Payments made on line-of-credit	(512,329)
Principal paid on long-term debt	(156,209)
Interest paid on long-term debt	(146,270)
Additions to capital assets	(630,182)
Capital contributions	<u>70,697</u>
Net cash provided (used) in capital and related financing activities	<u>11,512</u>

**Cash flows from investing activities:**

Investment income	<u>938</u>
Net cash provided by (used) in investing activities	<u>938</u>

Net increase (decrease) in cash and cash equivalents	326,873
Cash and cash equivalents, beginning of year	<u>159,302</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 486,175</u></b>

**Reconciliation of operating income to net cash provided by operating activities:**

Operating income	\$ (584,095)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	937,245
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(33,797)
(Increase) decrease in inventory	(2,159)
(Increase) decrease in prepaid insurance	(324)
(Increase) decrease in checks issued in excess of deposits	(1,047)
Increase (decrease) in accounts payable	(954)
Increase (decrease) in customer deposits	<u>(446)</u>
Net cash provided (used) by operating activities	<b><u>\$ 314,423</u></b>

The accompanying notes are an integral part of the financial statements.

**Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority**  
**Notes to Financial Statements**

**Note 1 – Description of Entity and Summary of Significant Accounting Policies**

Organization

Caveland Sanitation Authority, Inc. was created by an Inter-local Cooperation Agreement under the laws of the Commonwealth of Kentucky pursuant to Kentucky Revised Statutes 65.210 to 65.300 as a quasi-governmental agency. The public agencies which are parties to the amended Inter-local Cooperation Agreement are the cities of Cave City, Horse Cave, Park City and Mammoth Cave National Park Service. These public agencies delegated specific general power to the Authority necessary to apply for grants and other funding to pay for the design and construction of sewage treatment and conveyance facilities necessary to implement the preferred alternative of the Mammoth Cave Area 201 Facilities Plan and Environmental Impact Statement. The Authority, doing business as Caveland Environmental Authority, is primarily engaged in constructing and operating sewage treatment plants to serve the parties to the inter-local agreement.

Measurement Focus and Basis of Accounting

The term *measurement focus* is used to denote what is being measured and reported in the Authority's financial statements. The Authority is accounted for on the flow of economic resources measurement focus. Under this measurement focus, all assets and all liabilities associated with the operations are included in the Statement of Net Position.

The term *basis of accounting* is used to determine when a transaction or event is recognized on the Authority's financial statements. The Authority uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Financial Statement Presentation

The Authority has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities; (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

**Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority**  
**Notes to Financial Statements**

**Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued**

On July 1, 2003, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*" GASB 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of activities and changes in net position and a statement of cash flows. It requires the classification of net position into three components: (i) invested in capital assets, net of related debt, (ii) restricted, and (iii) unrestricted.

These classifications are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net position consists of capital assets, net of accumulated depreciation and 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 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 net position* - This component of net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Cash and Investments

The Authority considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Investments are reported at fair market value.

Receivables

The Authority uses the direct write-off method to account for bad debts. No allowance for bad debts has been provided, as no material write-offs are expected for receivables as of June 30, 2017. The direct write-off method does not significantly depart from generally accepted accounting principles.

Capital Assets

The utility plant in service is stated at cost. The cost of additions to the utility plant and major replacements of retired units of property is capitalized. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense as incurred. Depreciation has been provided over estimated useful lives of the assets using the straight-line method.

**Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority**  
**Notes to Financial Statements**

**Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued**

The estimated useful lives of capital assets are as follows:

Vehicles	5 years
Office Equipment	10 years
Machinery and Equipment	10 years
Water System Infrastructure	40 years
Plant	40 years
Buildings	40 years

Compensated Absences

Personal time is accrued by years of services as stated in the employee handbook. No personal time may be carried forward from one calendar year to the next. An employee must complete one year of continuous employment before taking personal time leave. Personal time is calculated on straight-time pay rate. Employees are compensated for the current year accrued time when they leave the company.

Long-Term Obligations

Long-term debt and other obligations are reported as liabilities on the statement of net position. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Authority. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions.

Capital Contributions

Transmission and distribution system assets contributed to the Authority by installers are capitalized at the installers' costs and recorded as capital contributions when received. Also included in capital contributions are various grants received for infrastructure and payments received from customers for tap fees.

Income Taxes

The Authority is exempt from federal and state income taxes.

Extraordinary and Special Items

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses and changes in net position.

Bond and Interest Redemption Fund

The ordinances authorizing the various bond issues of the Authority require monthly transfers from the Revenue Fund into a "Bond Fund". Sums not less than one sixth of the interest due at the next payment, and one twelfth of the principal on all Bonds maturing the next January are required to be deposited.

**Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority**  
**Notes to Financial Statements**

**Note 1 – Description of Entity and Summary of Significant Accounting Policies, Concluded**

Use of Estimates

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.

Subsequent Events

The Authority has evaluated subsequent events through December 19, 2017, the date which the financial statements were available to be issued.

**Note 2 – Cash and Investments**

Deposits and Concentration of Risk

At year end, the carrying amount of the Authority's cash deposits was \$486,175 and the bank balances were \$513,766. The difference between book and bank balances primarily represents checks that have been issued, but have not cleared the bank as of June 30, 2017.

All cash accounts were fully insured by FDIC at June 30, 2017.

**Note 3 – Capital Assets**

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
<i>Capital assets not being depreciated</i>				
Land and land rights	\$ 296,551	\$ -	\$ -	\$ 296,551
Construction-in-progress	-	272,713	-	272,713
<i>Total Capital assets not being depreciated</i>	<u>296,551</u>	<u>272,713</u>	<u>-</u>	<u>569,264</u>
<i>Capital assets being depreciated</i>				
Buildings	265,533	9,784	-	275,317
Office furniture and equipment	247,377	13,650	-	261,027
Machinery and equipment	743,980	259,322	-	1,003,302
Vehicles	739,768	74,714	-	814,482
Water transmission upgrade	391,892	-	-	391,892
Plant	34,417,717	-	-	34,417,717
<i>Total Capital assets being depreciated</i>	<u>36,806,267</u>	<u>357,470</u>	<u>-</u>	<u>37,163,737</u>
Less: Accumulated Depreciation	<u>(13,882,052)</u>	<u>(937,245)</u>	<u>-</u>	<u>(14,819,297)</u>
<i>Total Capital assets being depreciated, net</i>	<u>\$ 22,924,215</u>	<u>\$ (579,775)</u>	<u>\$ -</u>	<u>\$ 22,344,440</u>

**Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority**  
**Notes to Financial Statements**

**Note 4 – Long-Term Debt**

Long-term debt consists of the following at June 30, 2017:

Kentucky Rural Water Finance Corporation Series 2014 B maturing January 2034, bearing annual interest of 4.01%. The bonds are secured by a pledge of a fixed portion of the system revenues.	\$ 485,000
Less current portion	<u>20,000</u>
Long-term portion	<u>\$ 465,000</u>

Kentucky Rural Water Finance Corporation Series 2013 C maturing January 2027, bearing annual interest of 2.30%-3.30%. The bonds are secured by a pledge of a fixed portion of the system revenues.	\$ 890,000
Less current portion	<u>100,000</u>
Long-term portion	<u>\$ 790,000</u>

Kentucky Infrastructure Authority assistance agreement due in semi-annual payments of \$3,321 (principal and interest). Interest is stated at 0.60% until maturity in December, 2027. The loan is secured by a pledge of a fixed portion of the system revenues.	\$ 67,490
Less current portion	<u>6,246</u>
Long-term portion	<u>\$ 61,244</u>

Kentucky Rural Water Finance Corporation Series 2011 B due January 2031, bearing annual interest of 2.65-5.275% with monthly sinking fund requirements consisting of monthly deposits in amounts sufficient to pay interest and principal of the current bonds due on the next payment date. The bonds are secured by a pledge of a fixed portion of the system revenues.	\$ 675,000
Less current portion	<u>35,000</u>
Long-term portion	<u>\$ 640,000</u>

Rural Development Series A due January 2055, bearing annual interest of 2.625% with monthly sinking fund requirements consisting of monthly deposits in amounts sufficient to pay interest and principal of the current bonds due on the next payment date. The loan is secured by a pledge of a fixed portion of the system revenues.	\$ 1,100,000
Less current portion	<u>17,000</u>
Long-term portion	<u>\$ 1,083,000</u>

**Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority**  
**Notes to Financial Statements**

**Note 4 – Long-Term Debt, Continued**

Rural Development Series B due January 2055, bearing annual interest of 2.625% with monthly sinking fund requirements consisting of monthly deposits in amounts sufficient to pay interest and principal of the current bonds due on the next payment date. The loan is secured by a pledge of a fixed portion of the system revenues.

\$ 300,000

Less current portion

4,500

Long-term portion

\$ 295,500

Kentucky Rural Water Finance Corporation Series 2016 D due January 2036, bearing annual interest of 2.65-5.275% with monthly sinking fund requirements consisting of monthly deposits in amounts sufficient to pay interest and principal of the current bonds due on the next payment date. The bonds are secured by a pledge of a fixed portion of the system revenues.

\$ 800,000

Less current portion

25,000

Long-term portion

\$ 775,000

Rural Utility Service 2011 A due January, 2050, bearing annual interest of 2.00%. The bonds are secured by a pledge of a fixed portion of the system revenues.

\$ 256,000

Less current portion

5,000

Long-term portion

\$ 251,000

Hart County Industrial Authority loan agreement due in monthly payments of \$3,526 (principal and interest). Interest is stated at 0.60% until maturity in June, 2020.

\$ 125,000

Less current portion

41,250

Long-term portion

\$ 83,750

**Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority**  
**Notes to Financial Statements**

**Note 4 – Long-Term Debt, Concluded**

Principal and interest maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 253,996	\$ 170,488	\$ 424,484
2019	229,949	156,639	386,588
2020	235,907	149,243	385,150
2021	204,360	141,732	346,092
2022	235,398	134,020	369,418
2023-2027	1,246,570	444,031	1,690,601
2028-2032	819,311	382,018	1,201,329
2033-2037	502,500	168,891	671,391
2038-2042	238,000	113,842	351,842
2043-2047	272,000	81,446	353,446
2048-2052	289,000	44,628	333,628
2053-2057	171,499	9,098	180,597
Total	<u>\$ 4,698,490</u>	<u>\$ 1,996,076</u>	<u>\$ 6,694,566</u>

Long-term debt activity for the year ended June 30, 2017 is as follows:

	Balance June 30, 2016	Additions	Debt Payments and Reductions	Balance June 30, 2017	Amount Due within One Year
KIA	\$ 73,699	\$ -	\$ 6,209	\$ 67,490	\$ 6,246
KRWFC 2011 B	710,000	-	35,000	675,000	35,000
KRWFC 2013 C	980,000	-	90,000	890,000	100,000
KRWFC 2014 B	505,000	-	20,000	485,000	20,000
RUS bond	261,000	-	5,000	256,000	5,000
RD Series 2015 A	300,000	-	-	300,000	4,500
RD Series 2015 B	1,100,000	-	-	1,100,000	17,000
KRWFC 2016 D	-	800,000	-	800,000	25,000
Hart County Industrial Authority	-	125,000	-	125,000	41,250
	<u>\$ 3,929,699</u>	<u>\$ 925,000</u>	<u>\$ 156,209</u>	<u>\$ 4,698,490</u>	<u>\$ 253,996</u>

**Note 5 – Short –Term Debt**

On September 24, 2015, Caveland Environmental Authority, Inc. negotiated a line of credit with Citizens First Bank in the amount of \$250,000 to be used for operations in the proprietary funds. The variable rate interest is due monthly, with the principal balance due at maturity of March 17, 2018. At June 30, 2017 Caveland Environmental Authority, Inc. had a balance of \$190,000 on the line of credit.

**Note 6 – Pension Plan**

The Authority has established a SIMPLE IRA plan for its employees. Under a SIMPLE IRA plan, employees may choose to make salary reduction contributions and the employer makes matching or non-elective contributions. All contributions under the plan are deposited into a SIMPLE individual retirement account or annuity established for each eligible employee. The SIMPLE IRA plan was established to cover all employees who are expected to receive at least \$5,000 in compensation for the calendar year. Employer contributions to the plan were approximately \$24,000, and employee contributions were approximately \$32,000 for the year ended June 30, 2017.



**Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority**  
**Notes to Financial Statements**

**Note 7 – Deferred Inflows/Deferred Outflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to future periods and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. Caveland Environmental Authority, Inc. has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Caveland Environmental Authority, Inc. has no items that qualify for reporting in this category.

**Note 8 – Restatement**

The beginning net position of the Governmental Activities in the government-wide statement of Net Position has been restated to record prior period adjustments for the following:

Net position as previously reported	\$ 19,358,764
Recognize inventory	<u>563,584</u>
Net position as restated	<u>\$ 19,922,348</u>

The above adjustment had no impact on the current year net position.

**Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority**  
**Schedule of Operations and Maintenance Expenses**  
**For the Year Ended June 30, 2017**

Depreciation	\$ 929,026
Labor	603,695
Utilities	139,976
Telephone	16,354
Repairs and maintenance	118,706
Employee benefits	154,889
Payroll taxes	71,960
Insurance	108,658
Vehicle expense	57,585
Equipment expense	14,798
Employee training	12,896
Chemicals and supplies	1,157,371
Water purchased	471,060
Employee uniforms	11,351
Other	<u>65,460</u>
 Total	 <u>\$ 3,933,785</u>

**Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority**  
**Schedule of General and Administrative Expenses**  
**For the Year Ended June 30, 2017**

Office salaries	\$ 280,149
Employee benefits	29,167
Legal and accounting	46,153
Billing charges	40,145
Depreciation and amortization	8,219
Office expenses	20,303
Travel	36,857
Insurance	24,471
Engineering fees	20,905
Advertising	9,512
Telephone	4,414
Utilities	4,207
Repairs and maintenance	6,549
Employee training	19,768
Miscellaneous	<u>9,605</u>
 Total	 <u>\$ 560,424</u>

Cindy L. Greer, CPA • L. Joe Rutledge, CPA • Jonathan W. Belcher, CPA • R. Brent Billingsley, CPA  
Skip R. Campbell, CPA • Ryan A. Mosier, CPA • Jenna B. Glass, CPA • Sharon Waggener, CPA

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

To the Board of Directors  
Caveland Environmental Authority, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Caveland Environmental Authority, Inc., as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Caveland Environmental Authority, Inc.'s basic financial statements, and have issued our report thereon dated December 19, 2017

**Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Caveland Environmental Authority, Inc.'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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Campbell, Myers & Rutledge, PLLC*  
Certified Public Accountants

Glasgow, Kentucky  
December 19, 2017