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CUMBERLAND COUNTY WATER DISTRICT

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AFTER HOURS 270/459-2970

PUBLIC SERVICE
COMMISSION

May 22, 2012

Public Service Commission
Linda Faulkner, Filings Director
PO Box 615
Frankfort, KY 40602-0615

RE: Final Order of PCS Case No. 2009-00150

Dear Ms. Faulkner:

In response to your reminder letter dated May 11, 2012, we enclose a copy of our latest audit. Please let us know if you need any additional information.

Sincerely,



Johnny Carter
General Manager

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MAY 25 2012

PUBLIC SERVICE
COMMISSION

CUMBERLAND COUNTY WATER DISTRICT
AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

**CUMBERLAND COUNTY WATER DISTRICT
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For the Years Ended December 31, 2011 and 2010**

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**CUMBERLAND COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended December 31, 2011 and 2010**

Cumberland County Water District was organized on November 29, 1995, from the merger of Marrowbone Water District and South Cumberland Water District.

The District presents this discussion and analysis of its financial performance during the year ended December 31, 2011 to assist the reader in focusing on significant financial issues and concerns.

The District's year end annual financial report consists of two parts - the management's discussion and analysis and the basic financial statements (which include notes to the financial statements). Also included are supplementary schedules that show information sent to the Public Service Commission related to our basic financial statements.

Financial Highlights

The District's cash account decreased by \$15,384.

The assets of the District exceeded its liabilities by \$3,819,446.

The District's total equity capital decreased by \$204,477 as a result of current year loss.

The District's total long-term debt increased by \$950,525 during the fiscal year as a result of the addition of debt.

Overview of the financial statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. This report also contains notes to the financial statements and supplementary information in addition to the basic financial statements themselves.

The financial statements present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statement include all assets of the District, including infrastructure, as well as all liabilities, including long-term debt.

The *Balance Sheet* presents all of the district's assets and liabilities, with the difference between the two reported as "equity capital". Over time, increases or decreases in the District's equity capital may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

**CUMBERLAND COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS-CONTINUED
For the Years Ended December 31, 2011 and 2010**

Overview of the financial statements - Continued

The *Statement of Operations* presents information showing how the District's equity capital changed during the most recent fiscal year. All changes in equity capital are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected water bills and earned but unused vacation leave).

The financial statements can be found immediately following this discussion and analysis.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the Statements of Cash Flow.

Required Supplementary Information

The notes to the financial statements are followed by a section of required supplementary information.

Financial Analysis of the City Taken As a Whole

Equity capital may serve over time as a useful indicator of financial position. The District's combined equity capital totaled \$3,819,446 at the end of 2011, compared to \$4,023,923 at the end of the previous year.

The largest portion of the District's equity capital reflects its investment in capital assets such as land, buildings, equipment, and water lines, less any related debt used to acquire those assets that is still outstanding.

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Current Assets	\$ 376,474	\$ 385,166	\$ (8,692)
Capital Assets	<u>7,159,264</u>	<u>6,334,499</u>	<u>824,765</u>
Total Assets	<u>7,535,738</u>	<u>6,719,665</u>	<u>816,073</u>
Current Liabilities	337,992	240,842	97,150
Noncurrent Liabilities	<u>3,378,300</u>	<u>2,454,900</u>	<u>923,400</u>
Total Liabilities	<u>3,716,292</u>	<u>2,695,742</u>	<u>1,020,550</u>
Invested in Equity Capital			
Retained earnings	(3,759,647)	(3,318,011)	(441,636)
Donated capital	<u>7,579,093</u>	<u>7,341,934</u>	<u>237,159</u>
Total Equity Capital	<u>\$ 3,819,446</u>	<u>\$ 4,023,923</u>	<u>\$ (204,477)</u>

**CUMBERLAND COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS-CONTINUED
For the Years Ended December 31, 2011 and 2010**

Summary of Changes in Equity Capital

Approximately 78 percent of the District's total revenue came from charges for services, 17 percent came from grants and 5 percent from various sources. The District's expenses cover a range of services. The largest expenses were for personnel and depreciation. The District's expenses exceeded revenues resulting in a net loss of \$204,477.

Cumberland County Water District Changes in Equity Capital

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Revenues:			
Grant Income	\$ 217,959	\$ 259,824	\$ (41,865)
Charges for Services	988,070	910,881	77,189
Charges for Miscellaneous Services	16,268	21,128	(4,860)
Investment Earnings	578	874	(296)
Tap on Fees	19,200	17,650	1,550
Other Income	19,947	12,801	7,146
	<u>1,262,022</u>	<u>1,223,158</u>	<u>38,864</u>
Expenses:			
Purchased water	243,922	214,671	29,251
Personnel costs	364,624	372,305	(7,681)
Purchase power	73,503	69,844	3,659
Materials and supplies	65,442	65,498	(56)
Chemicals	21,949	32,568	(10,619)
Transportation costs	23,843	17,745	6,098
Contractual services	25,208	24,530	678
Depreciation	286,850	255,534	31,316
Office expense	30,397	37,148	(6,751)
Insurance	22,659	20,783	1,876
Directors fee	8,225	8,075	150
Special assessments	250	250	0
Interest	111,983	115,028	(3,045)
Pass through grant expense	187,643	0	187,643
	<u>1,466,498</u>	<u>1,233,979</u>	<u>232,519</u>
Change in equity capital	(204,477)	(10,821)	(193,656)
Equity capital, beginning of year	<u>4,023,923</u>	<u>4,034,744</u>	<u>(10,821)</u>
Equity capital, end of year	<u>\$ 3,819,446</u>	<u>\$ 4,023,923</u>	<u>\$ (204,477)</u>

Business Type Activities

Business-type activities decreased the District's equity capital by \$204,477. This resulted from an increase in expenses.

**CUMBERLAND COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS-CONTINUED
For the Years Ended December 31, 2011 and 2010**

General Fund Budgetary Highlights

No differences between the original budget and the final budget existed.

Capital Assets

The District's capital assets as of December 31, 2011, amounts to \$12,138,813 net of accumulated depreciation of \$4,979,549 leaving a net book value of \$7,159,264. This investment in capital assets includes land, buildings improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the District's investment in capital assets for the current fiscal year was about 11.5% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$1,106,600 for the year. Depreciation charges for the year totaled \$281,838. Additional information on the District's capital assets policy can be found in Note 1 and Note 14 of the footnotes to the financial statements of this report.

Debt Administration

Cumberland County Water District's total debt increased by \$950,525 during the current fiscal year. Additional information on the District's long-term debt obligations can be found in Note 6 of the notes to the financial statements of this report.

Economic Factors and Next Year's Budgets and Rates

Inflationary trends in the region compare favorably to national indices. The unemployment rate for the District compares favorably to the nation's average unemployment rate. Any economic slow down could result in revenue forecasts having to be revised downward.

Currently, the District does anticipate an increase in water rates. Future legislative changes, which can not be anticipated or predicted, will shape future decisions and either increase or decrease options available to the District to serve the community as a municipal power utility.

Request for Information

This financial report is designed to provide a general overview of Cumberland County Water District's finances for all of the District's customers, investors and creditors. This financial report seeks to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

**Cumberland County Water District
133 Lower River Street
Burkesville, Kentucky 42717**

SAMMY K. LEE, P.S.C.
Certified Public Accountant

208 Pauline Drive, Suite D
Berea, KY 40403
(859) 986-3756

Member of American Institute of CPA's

Member of Kentucky Society of CPA's

INDEPENDENT AUDITOR'S REPORT

To the Chairman and Board of Commissioners
Cumberland County Water District
Burkesville, Kentucky 42717

I have audited the accompanying financial statements of the business-type activities of Cumberland County Water District as of and for the year ended December 31, 2011 and 2010, which collectively comprised the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Cumberland County Water District, as of December 31, 2011 and 2010, and the respective changes in financial position, equity capital, and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated March 7, 2012 on my consideration of the District's internal control over financial reporting and my test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 4 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Sammy K. Lee, P.S.C.

Berea, Kentucky
March 7, 2012

**CUMBERLAND COUNTY WATER DISTRICT
BALANCE SHEETS
December 31, 2011 and 2010**

ASSETS

	2011	2010
<u>ASSETS AND OTHER DEBITS</u>		
Utility and nonutility property, plant and equipment		
Utility plant in service	\$ 12,138,813	\$ 11,032,210
Less: accumulated depreciation	(4,979,549)	(4,697,711)
Net utility plant in service	7,159,264	6,334,499
Total utility and nonutility property, plant and equipment	7,159,264	6,334,499
Current and accrued assets		
Cash	(29,437)	1,652
Special Deposits	309,765	294,060
Accounts receivable, less accumulated provision for uncollectible accounts	52,566	42,220
Materials and supplies inventory	31,702	36,797
Prepaid expenses	11,878	10,437
Total current and accrued assets	376,474	385,166
<u>TOTAL ASSETS AND OTHER DEBITS</u>	\$ 7,535,738	\$ 6,719,665

**CUMBERLAND COUNTY WATER DISTRICT
BALANCE SHEETS - CONTINUED
December 31, 2011 and 2010**

	2011	2010
<u>EQUITY CAPITAL AND LIABILITIES</u>		
Equity capital		
Retained earnings deficit	\$ (3,759,647)	\$ (3,318,011)
Donated capital	7,579,093	7,341,934
Total equity capital	3,819,446	4,023,923
Long-term debt		
Notes	89,000	92,000
Bonds	3,289,300	2,362,900
Total long-term debt	3,378,300	2,454,900
Current and accrued liabilities		
Accounts payable	101,109	32,403
Customer deposits	23,265	23,292
Deferred revenues	4,949	4,477
Accrued payroll liabilities	10,866	10,538
Accrued interest	84,427	84,205
Current maturities of long-term debt	110,695	83,570
Miscellaneous current and accrued liabilities	2,681	2,357
Total current and accrued liabilities	337,992	240,842
<u>TOTAL EQUITY CAPITAL AND LIABILITIES</u>	\$ 7,535,738	\$ 6,719,665

**CUMBERLAND COUNTY WATER DISTRICT
STATEMENTS OF OPERATION
For the Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<u>OPERATING REVENUES</u>		
Residential customers	\$ 895,239	\$ 819,415
Commercial customers	44,899	47,308
Industrial customers	2,630	4,183
Public authority customers	45,302	39,975
Late charges	14,449	12,801
Miscellaneous	21,765	21,128
	<u>1,024,284</u>	<u>944,810</u>
<u>OPERATING EXPENSES</u>		
Water purchased	243,922	214,671
Personnel costs	364,624	372,305
Purchased power	73,503	69,844
Materials, supplies, and plant expense	65,442	65,498
Chemical supplies	21,949	32,568
Transportation costs	23,843	17,745
Contractual services	25,208	24,530
Depreciation and bad debt expense	286,850	255,534
Office expense	30,397	37,148
Insurance	22,659	20,783
Directors fee	8,225	8,075
Special assessments	250	250
	<u>1,166,872</u>	<u>1,118,951</u>
Total operating expenses	<u>1,166,872</u>	<u>1,118,951</u>
Operating loss	<u>(142,588)</u>	<u>(174,141)</u>
<u>NON-OPERATING REVENUE (EXPENSES)</u>		
Interest income	578	874
Interest expense	(111,983)	(115,028)
Pass through grant expense	(187,643)	0
	<u>(299,048)</u>	<u>(114,154)</u>
Total non-operating revenues (expenses)	<u>(299,048)</u>	<u>(114,154)</u>
Change in operating loss before capital contributions	(441,636)	(288,295)
Proceeds from capital contributions	237,159	277,474
	<u>237,159</u>	<u>277,474</u>
<u>CHANGE IN EQUITY CAPITAL</u>	<u>\$ (204,477)</u>	<u>\$ (10,821)</u>

**CUMBERLAND COUNTY WATER DISTRICT
STATEMENTS OF CHANGES IN EQUITY CAPITAL
December 31, 2011 and 2010**

	2011	2010
<u>EQUITY CAPITAL</u>		
Retained earnings deficit		
Beginning balance	\$ (3,318,011)	\$ (3,029,716)
Change in operating loss	(441,636)	(288,295)
Ending balance	(3,759,647)	(3,318,011)
Donated capital		
Beginning balance	7,341,934	7,064,460
Proceeds from capital contributions	237,159	277,474
Ending balance	7,579,093	7,341,934
<u>TOTAL EQUITY CAPITAL</u>	\$ 3,819,446	\$ 4,023,923

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

CUMBERLAND COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 977,724	\$ 917,481
Cash received from other sources	36,214	33,929
Cash payments to suppliers for goods and services	(448,261)	(535,567)
Cash payments to employees	(363,319)	(376,255)
Net cash provided by operating activities	202,358	39,588
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from interest income	578	874
Acquisition and construction of capital assets	(1,106,600)	(286,975)
Net cash used by investing activities	(1,106,022)	(286,101)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Cash received from grants and tap-on fees	237,159	277,474
Interest paid on bonds and notes	(111,761)	(114,821)
Proceeds from issue of bonds and notes	1,034,095	22,000
Principal paid on bonds and notes	(83,570)	(72,530)
Pass through grant expenses	(187,643)	0
Net cash used by capital and related financing activities	888,280	112,123
Net decrease in cash and cash equivalents	(15,384)	(134,390)
Cash and cash equivalents at December 31, 2010	295,712	430,102
CASH AND CASH EQUIVALENTS AT DECEMBER 31, 2011	\$ 280,328	\$ 295,712
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (142,588)	\$ (174,141)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	281,838	250,901
Changes in assets and liabilities:		
(Increase) decrease in customer accounts receivable	(10,346)	12,590
(Increase) decrease in prepaid expenses	(1,441)	(148)
(Increase) decrease in inventory	5,095	(12,642)
Increase (decrease) in accounts payable	68,809	(31,665)
Increase (decrease) in deferred revenues	472	(2,666)
Increase (decrease) in accrued expenses	324	(3,258)
Increase (decrease) in customer deposits	(27)	(3,333)
Increase (decrease) in payroll liabilities	222	3,950
Total Adjustments	344,946	213,729
NET CASH PROVIDED BY OPERATING ACTIVITIES:	\$ 202,358	\$ 39,588

See accompanying notes to financial statements.

**CUMBERLAND COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Accounting

The accrual basis of accounting is used by the District. Revenues are recognized when earned, and expenses are recognized when they are incurred.

B. Material and Supply Inventory

Material and supply inventory are stated at cost.

C. Property, Plant and Equipment

Capital assets are recorded at cost less accumulated depreciation, or, if contributed property, at their estimated fair value at the time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Construction period interest is capitalized. The sale or disposal of fixed assets is recorded by removing the asset's cost and related accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Depreciation is provided for using the straight-line method over the estimated useful lives of the asset. The estimated useful lives are as follows:

Water and sewer system utility plants	20 - 40 years
Buildings and improvements	10 - 20 years
Trucks and equipment	5 - 10 years
Office equipment	5 - 7 years

D. Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations.

**CUMBERLAND COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the District considers all bank accounts, both restricted and unrestricted, as cash and cash equivalents with a maturity of three months or less.

F. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

G. Management Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the District are prepared in accordance with accounting principles generally accepted in the United States of America. The District's financial statements apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinion issued on or after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

H. Compensated Absences

The District allows employees to accumulate unused sick leave up to 18 days and vacation leave to a maximum of 160 hours. Earned vacation time in excess of 160 hours is generally required to be used within one year of accumulation. Upon termination, up to 160 hours of accumulated vacation leave will be paid to the employee. Sick leave is not paid upon termination, but will be paid only upon illness while in the employment of the District.

As of December 31, 2011, the liability for accrued vacation is approximately \$4,050.

The amount expected to be paid from current account resources is not significant.

I. Accounts Receivable and Allowance for Doubtful Accounts

Utilities receivable represent water charges due at year-end and are considered fully collectible by the District with an allowance for doubtful amounts taken into consideration. The doubtful amounts are based on collection experience and will be charged to operations when that determination is made. If amounts previously written off are collected, they will be credited to income when received. The allowance for doubtful accounts for the year ended December 31, 2011 and 2010 respectively are \$46,457 and \$40,876.

J. Deficit Retained Earnings

At December 31, 2011, the District fund had deficit retained earnings in the amount of \$3,759,647.

The District is expected to consider raising utility rates and reducing costs to overcome this deficit.

**CUMBERLAND COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010**

NOTE 2. UTILITY REVENUE BOND CASH MANAGEMENT AND CASH RESTRICTIONS

The District bond covenants requires certain funds be maintained in order to meet the debt service requirements and to provide for unusual repairs and maintenance to the present system.

Operation and Maintenance Fund: An Operation and Maintenance Fund must be maintained, from which all costs of operating, maintaining, and insuring public water project shall be paid.

Sinking Fund: A Sinking Fund must be maintained by the District to accumulate an amount equal to accrued interest and principal payments on outstanding bonds as they come due.

Depreciation Fund: A Depreciation Fund must be maintained by the District and there shall be deposited into this fund annually. The payments shall continue to be made until there has been accumulated and is being maintained, the sum of at least \$99,719 as a "Depreciation Reserve".

Refer to Note 4: Commitments and Contingencies with regard to possible violations of Bond Ordinance pertaining to cash.

NOTE 3. DEPOSITS WITH FINANCIAL INSTITUTIONS

Cash and Investments, Both Restricted and Unrestricted:

At December 31, 2011, the carrying amount of the District's cash accounts (including certificates of deposit) both restricted and unrestricted was \$280,328 and the bank balance was \$319,681. All of the bank balance was fully collateralized by FDIC insurance, or by securities pledged at market.

Interest Rate Risk: Is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Management believes the District is not exposed to significant interest rate risk on investments.

Credit Risk: Is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a policy regarding the types of authorized investments that would ensure preservation of assets, only certificates of deposit and money market accounts are permitted. Management believes the District is not exposed to a significant credit risk.

Custodial Credit Risk: Is the risk that the District's deposits may not be returned in the event of bank failure. The District maintains its deposits with a financial institution insured by Federal Deposit Insurance Corporation (FDIC) or by securities pledged at market. As of December 31, 2011, all of the bank balances were fully collateralized by FDIC insurance, or by securities pledged at market.

Concentration of Credit Risk: Is the risk of loss attributed to the magnitude of investment in a single issuer. Management does not believe the District is exposed to a significant concentration of credit risk.

**CUMBERLAND COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010**

NOTE 3. DEPOSITS WITH FINANCIAL INSTITUTIONS - CONTINUED

Cash, both restricted and unrestricted, at December 31, 2011, consisted of the following:

Non-interest bearing accounts	\$	0
Interest bearing accounts		280,328
 Total cash (including certificates of deposit), both restricted and unrestricted		\$ 280,328

Cash balances on hand as of December 31, 2011 and 2010, consisted of the following:

	2011	2010
Operation and maintenance	\$ (29,437)	\$ 1,652
Construction 2011	338	38
Bond & interest sinking fund	130,474	126,277
Depreciation fund	68,044	128,818
Construction KIA	0	3,176
Bond & interest #2	8,930	0
Escrow - KRWFC	5,023	5,083
Meter deposit fund	30,956	30,666
Certificate of Deposit	66,000	0
	\$ 280,328	\$ 295,710

NOTE 4. COMMITMENTS AND CONTINGENCIES

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

NOTE 5. ECONOMIC DEPENDENCY

The District has entered into agreement with the City of Albany, Kentucky and the City of Burkesville, Kentucky to purchase additional water sources to accommodate its continued demand from existing customers. If the supply of water from both the City of Albany and the City of Burkesville was reduced, the District would have a difficult time producing water and meeting the needs of its customers.

CUMBERLAND COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE 6. DEBT

Bonds Payable

Long-term debt consists of seven separate bond issues of 5.0% bonds, four bond issues of 4.5% bonds, two bonds of 4.25%, and one bond of 2.25% payable to the United States of America, Rural Economic and Community Development Service, collateralized by a first lien on the net revenues and a mortgage on the utility plant and water distribution system. The bonds are payable in annual scheduled installments of principal and interest. A schedule for each bond issue is contained in the supplemental section of this audit (pages 20 to 33).

Annual maturities for long-term bond debt are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	73,600	107,501	181,101
2013	77,100	103,951	181,051
2014	94,000	122,762	216,762
2015	94,500	118,514	213,014
2016	89,600	118,503	208,103
Thereafter	<u>2,934,100</u>	<u>1,723,008</u>	<u>4,657,108</u>
Totals:	<u>\$ 3,362,900</u>	<u>\$ 2,294,239</u>	<u>\$ 5,657,139</u>

Notes Payable

Notes payable consists of a loan in the original amount of \$107,000 from the Kentucky Rural Water Finance Corporation. The interest rate ranges from 4% to 4.5% over the term of the note. Interest payment dates are January 1 and July 1 each year; and principal payments are due January 1 each year. The maturity date is schedule for January 1, 2031.

Annual maturities for notes payable are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	3,000	3,956	6,956
2013	3,000	3,836	6,836
2014	3,000	3,716	6,716
2015	3,000	3,596	6,596
2016	3,000	3,356	6,356
Thereafter	<u>77,000</u>	<u>20,020</u>	<u>97,020</u>
Totals:	<u>\$ 92,000</u>	<u>\$ 38,480</u>	<u>\$ 130,480</u>

**CUMBERLAND COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010**

NOTE 6. DEBT - CONTINUED

Notes payable consisting of the loan in the original amount of \$22,000 from Citizen's Bank of Cumberland County Inc was retired in 2011.

Notes payable consisting of the loan in the original amount of \$34,095 from First and Farmers National Bank, Inc. The interest rate is 2.75% over the term of the note. The District will make a one time principal and interest payment to mature the loan on September 23, 2012.

The following is a summary of debt transactions of the District for the year ended December 31, 2011:

	Balance December 31, 2010	Additions	Deletions	Balance December 31, 2011	Due Within One Year
Note - Citizens	\$ 14,770	\$ -	\$ 14,770	\$ -	\$ -
Note - KRWFC	95,000	-	3,000	92,000	3,000
Note - Farmers	-	34,095	-	34,095	34,095
Revenue Bonds	2,428,700	1,000,000	65,800	3,362,900	73,600
Totals:	\$ 2,538,470	\$ 1,034,095	\$ 83,570	\$ 3,488,995	\$ 110,695

NOTE 7. RISK MANAGEMENT INSURANCE

Significant losses are covered by commercial insurance. There has been no reduction in insurance coverage. There have been no claims against insurance coverage this year. The District is adequately covered.

NOTE 8. RETIREMENT PLAN

The District participates in a retirement plan through Kentucky Public Employees & Deferred Compensation Authority. During the first year, the District contributes 1% adding 1% each year up to a maximum of 5%.

The retirement expense for the years ended December 31, 2011, 2010, 2009 respectively were:

	2011	2010	2009
Employer's contribution	\$ 12,090	\$ 17,944	\$ 15,683
Employee contribution	\$ 10,400	\$ 11,338	\$ 10,595

**CUMBERLAND COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010**

NOTE 9. FAIR VALUES OF FINANCIAL INSTRUMENTS

The District has a number of financial instruments, none of which are held for trading purposes. The District estimates that the fair value of all financial instruments at December 31, 2011 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the District using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the District could realize in a current market exchange.

NOTE 10. OPERATING REVENUES

The District considers operating revenues as charges for services. The District considers non-operating revenues as income from interest and other various sources.

NOTE 11. SUBSEQUENT EVENT

Subsequent events were evaluated through March 7, 2012, which is the date the financial statements were available to be issued.

NOTE 12. CONCENTRATIONS OF CREDIT RISK

Approximately 9 percent of the revenues generated from water customers is attributable to industrial customers.

NOTE 13. RECLASSIFICATION AND RESTATEMENTS

Certain reclassifications have been made to the December 31, 2010 information to make them comparable to December 31, 2011 information.

**CUMBERLAND COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010**

NOTE 14. CHANGES IN CAPITAL ASSETS

The following is a summary of changes in the property, plant and equipment for the year ended December 31, 2011:

Changes in Property and Equipment				
	Balance 12/31/2010	Additions	Retirements	Balance 12/31/2011
Property, plant and equipment				
Land & land rights	\$ 45,313	\$ 0	\$ 0	\$ 45,313
Buildings & improvements	177,235	0	0	177,235
Utility plant in service	3,193,016	0	0	3,193,016
Equipment	623,364	4,990	0	628,354
Other water system assets	5,064,644	1,448,653	0	6,513,297
Transportation	235,952	24,000	0	259,952
Office furniture & equipment	58,574	0	0	58,574
Construction in progress	1,634,115	1,263,072	1,634,115	1,263,072
Total	\$ 11,032,213	\$ 2,740,715	\$ 1,634,115	\$ 12,138,813
Changes in Depreciation				
	Balance 12/31/2010	Additions	Retirements	Balance 12/31/2011
Property, plant and equipment				
Land & land rights	\$ 0	\$ 0	\$ 0	\$ 0
Buildings & improvements	47,639	4,351	0	51,990
Utility plant in service	2,033,053	79,825	0	2,112,878
Equipment	480,905	27,449	0	508,354
Other water system assets	1,891,734	159,150	0	2,050,884
Transportation	188,635	9,519	0	198,154
Office furniture & equipment	55,745	1,544	0	57,289
Construction in progress	0	0	0	0
Total	\$ 4,697,711	\$ 281,838	\$ 0	\$ 4,979,549
Property and Equipment, Net				\$ 7,159,264

**CUMBERLAND COUNTY WATER DISTRICT
 SCHEDULE OF REVENUE BONDS OF 1995 - SERIES A @ 5%
 December 31, 2011 and 2010**

<u>Year</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Annual Requirements</u>
2012	14,000	2,900	16,900
2013	14,000	2,200	16,200
2014	15,000	1,500	16,500
2015	15,000	750	15,750
Totals	\$ 58,000	\$ 7,350	\$ 65,350

**CUMBERLAND COUNTY WATER DISTRICT
 SCHEDULE OF REVENUE BONDS OF 1995 - SERIES B @ 5%
 December 31, 2011 and 2010**

<u>Year</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Annual Requirements</u>
2012	5,000	1,950	6,950
2013	5,000	1,700	6,700
2014	5,000	1,450	6,450
2015	6,000	1,200	7,200
2016	6,000	900	6,900
2017	6,000	600	6,600
2018	6,000	300	6,300
Totals	<u>\$ 39,000</u>	<u>\$ 12,750</u>	<u>\$ 61,750</u>

**CUMBERLAND COUNTY WATER DISTRICT
 SCHEDULE OF REVENUE BONDS OF 1995 - SERIES C @ 5%
 December 31, 2011 and 2010**

<u>Year</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Annual Requirements</u>
2012	10,000	10,500	20,500
2013	10,000	10,000	20,000
2014	11,000	9,500	20,500
2015	11,000	8,950	19,950
2016	12,000	8,400	20,400
2017	12,000	7,800	19,800
2018	13,000	7,200	20,200
2019	14,000	6,550	20,550
2020	14,000	5,850	19,850
2021	15,000	5,150	20,150
2022	16,000	4,400	20,400
2023	17,000	3,600	20,600
2024	17,000	2,750	19,750
2025	18,000	1,900	19,900
2026	20,000	1,000	21,000
Totals	<u>\$ 210,000</u>	<u>\$ 93,550</u>	<u>\$ 303,550</u>

**CUMBERLAND COUNTY WATER DISTRICT
SCHEDULE OF REVENUE BONDS OF 1995 - SERIES D @ 5%
December 31, 2011 and 2010**

<u>Year</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Annual Requirements</u>
2012	3,000	3,850	6,850
2013	4,000	3,700	7,700
2014	4,000	3,500	7,500
2015	4,000	3,300	7,300
2016	4,000	3,100	7,100
2017	4,000	2,900	6,900
2018	4,000	2,700	6,700
2019	5,000	2,500	7,500
2020	5,000	2,250	7,250
2021	5,000	2,000	7,000
2022	5,000	1,750	6,750
2023	5,000	1,500	6,500
2024	6,000	1,250	7,250
2025	6,000	950	6,950
2026	6,000	650	6,650
2027	7,000	350	7,350
Totals	\$ 77,000	\$ 36,250	\$ 113,250

**CUMBERLAND COUNTY WATER DISTRICT
SCHEDULE OF REVENUE BONDS OF 1995 - SERIES E @ 5%
December 31, 2011 and 2010**

<u>Year</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Annual Requirements</u>
2012	2,400	3,060	5,460
2013	2,500	2,940	5,440
2014	2,600	2,815	5,415
2015	2,700	2,685	5,385
2016	2,900	2,550	5,450
2017	3,000	2,405	5,405
2018	3,200	2,255	5,455
2019	3,300	2,095	5,395
2020	3,600	1,930	5,530
2021	3,700	1,750	5,450
2022	3,900	1,565	5,465
2023	4,100	1,370	5,470
2024	4,300	1,165	5,465
2025	4,500	950	5,450
2026	4,700	715	5,415
2027	4,900	480	5,380
2028	5,100	235	5,335
Totals	<u>\$ 61,400</u>	<u>\$ 30,965</u>	<u>\$ 92,365</u>

**CUMBERLAND COUNTY WATER DISTRICT
SCHEDULE OF REVENUE BONDS OF 1995 - SERIES F @ 5%
December 31, 2011 and 2010**

<u>Year</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Annual Requirements</u>
2012	11,000	10,575	21,575
2013	12,000	10,000	22,000
2014	12,000	9,400	21,400
2015	13,000	8,775	21,775
2016	14,000	8,100	22,100
2017	14,000	7,400	21,400
2018	15,000	6,675	21,675
2019	16,000	5,900	21,900
2020	17,000	5,075	22,075
2021	17,000	4,225	21,225
2022	18,000	3,350	21,350
2023	19,000	2,425	21,425
2024	19,000	1,475	20,475
2025	20,000	500	20,500
Totals	\$ 217,000	\$ 83,875	\$ 300,875

**CUMBERLAND COUNTY WATER DISTRICT
SCHEDULE OF REVENUE BONDS OF 1995 - SERIES G @ 5%
December 31, 2011 and 2010**

<u>Year</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Annual Requirements</u>
2012	2,000	2,700	4,700
2013	2,000	2,600	4,600
2014	2,000	2,500	4,500
2015	2,000	2,400	4,400
2016	2,000	2,300	4,300
2017	2,500	2,200	4,700
2018	2,500	2,075	4,575
2019	2,500	1,950	4,450
2020	2,500	1,825	4,325
2021	3,000	1,700	4,700
2022	3,000	1,550	4,550
2023	3,000	1,400	4,400
2024	3,000	1,250	4,250
2025	3,500	1,100	4,600
2026	3,500	925	4,425
2027	3,500	750	4,250
2028	4,000	575	4,575
2029	4,000	375	4,375
2030	3,500	175	3,675
Totals	<u>\$ 54,000</u>	<u>\$ 30,350</u>	<u>\$ 84,350</u>

**CUMBERLAND COUNTY WATER DISTRICT
SCHEDULE OF REVENUE BONDS OF 1995 - SERIES H @ 4.5%
December 31, 2011 and 2010**

<u>Year</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Annual Requirements</u>
2012	3,000	5,378	8,378
2013	3,000	5,242	8,242
2014	3,500	5,108	8,608
2015	3,500	4,950	8,450
2016	3,500	4,792	8,292
2017	4,000	4,635	8,635
2018	4,000	4,455	8,455
2019	4,000	4,275	8,275
2020	4,500	4,095	8,595
2021	4,500	3,893	8,393
2022	5,000	3,690	8,690
2023	5,000	3,465	8,465
2024	5,500	3,240	8,740
2025	5,500	2,992	8,492
2026	5,500	2,745	8,245
2027	5,500	2,498	7,998
2028	6,000	2,250	8,250
2029	6,500	1,980	8,480
2030	6,500	1,687	8,187
2031	7,000	1,395	8,395
2032	7,500	1,080	8,580
2033	8,000	743	8,743
2034	8,500	383	8,883
Totals	<u>\$ 119,500</u>	<u>\$ 74,971</u>	<u>\$ 194,471</u>

**CUMBERLAND COUNTY WATER DISTRICT
SCHEDULE OF REVENUE BONDS OF 1995 - SERIES I @ 4.5%
December 31, 2011 and 2010**

<u>Year</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Annual Requirements</u>
2012	2,500	4,788	7,288
2013	2,700	4,675	7,375
2014	2,800	4,554	7,354
2015	3,000	4,428	7,428
2016	3,100	4,293	7,393
2017	3,300	4,154	7,454
2018	3,400	4,005	7,405
2019	3,600	3,852	7,452
2020	3,800	3,690	7,490
2021	4,000	3,519	7,519
2022	4,200	3,339	7,539
2023	4,400	3,150	7,550
2024	4,600	2,952	7,552
2025	4,800	2,745	7,545
2026	5,100	2,529	7,629
2027	5,300	2,299	7,599
2028	5,600	2,061	7,661
2029	5,900	1,809	7,709
2030	6,200	1,544	7,744
2031	6,500	1,264	7,764
2032	6,800	972	7,772
2033	7,100	666	7,766
2034	7,700	347	8,047
Totals	<u>\$ 106,400</u>	<u>\$ 67,635</u>	<u>\$ 174,035</u>

**CUMBERLAND COUNTY WATER DISTRICT
SCHEDULE OF REVENUE BONDS OF 1996 @ 4.5%
December 31, 2011 and 2010**

Year	Principal Due	Interest Due	Total Annual Requirements
2012	4,700	9,387	14,087
2013	4,900	9,176	14,076
2014	5,100	8,955	14,055
2015	5,400	8,726	14,126
2016	5,600	8,483	14,083
2017	5,800	8,231	14,031
2018	6,100	7,970	14,070
2019	6,400	7,695	14,095
2020	6,700	7,407	14,107
2021	6,900	7,106	14,006
2022	7,300	6,795	14,095
2023	7,600	6,467	14,067
2024	8,000	6,125	14,125
2025	8,300	5,765	14,065
2026	8,700	5,391	14,091
2027	9,100	5,000	14,100
2028	9,500	4,590	14,090
2029	9,900	4,163	14,063
2030	10,400	3,717	14,117
2031	10,800	3,249	14,049
2032	11,300	2,763	14,063
2033	11,800	2,255	14,055
2034	12,400	1,724	14,124
2035	12,900	1,166	14,066
2036	13,000	585	13,585
Totals	<u>\$ 208,600</u>	<u>\$ 142,891</u>	<u>\$ 351,491</u>

**CUMBERLAND COUNTY WATER DISTRICT
SCHEDULE OF REVENUE BONDS OF 2001 @ 4.5%
December 31, 2011 and 2010**

Year	Principal Due	Interest Due	Total Annual Requirements
2012	6,000	16,245	22,245
2013	6,000	15,975	21,975
2014	6,500	15,705	22,205
2015	6,500	15,413	21,913
2016	7,000	15,120	22,120
2017	7,500	14,805	22,305
2018	7,500	14,468	21,968
2019	8,000	14,130	22,130
2020	8,500	13,770	22,270
2021	8,500	13,388	21,888
2022	9,500	13,005	22,505
2023	9,500	12,578	22,078
2024	10,000	12,150	22,150
2025	10,500	11,700	22,200
2026	11,000	11,228	22,228
2027	11,500	10,733	22,233
2028	12,000	10,215	22,215
2029	12,500	9,675	22,175
2030	13,000	9,113	22,113
2031	13,500	8,528	22,028
2032	14,500	7,920	22,420
2033	15,000	7,268	22,268
2034	15,500	6,593	22,093
2035	16,500	5,895	22,395
2036	17,000	5,153	22,153
2037	18,000	4,388	22,388
2038	18,500	3,578	22,078
2039	19,500	2,745	22,245
2040	20,500	1,868	22,368
2041	21,000	945	21,945
Totals	<u>\$ 361,000</u>	<u>\$ 304,297</u>	<u>\$ 665,297</u>

**CUMBERLAND COUNTY WATER DISTRICT
SCHEDULE OF REVENUE BONDS OF 2005 @ 4.25%
December 31, 2011 and 2010**

Year	Principal Due	Interest Due	Total Annual Requirements
2012	5,500	18,530	24,030
2013	6,000	18,296	24,296
2014	6,000	18,041	24,041
2015	6,500	17,786	24,286
2016	6,500	17,510	24,010
2017	7,000	17,234	24,234
2018	7,500	16,936	24,436
2019	7,500	16,618	24,118
2020	8,000	16,299	24,299
2021	8,500	15,959	24,459
2022	9,000	15,598	24,598
2023	9,000	15,215	24,215
2024	9,500	14,833	24,333
2025	10,000	14,429	24,429
2026	10,500	14,004	24,504
2027	11,000	13,558	24,558
2028	11,500	13,090	24,590
2029	12,000	12,601	24,601
2030	12,500	12,091	24,591
2031	13,000	11,560	24,560
2032	13,500	11,008	24,508
2033	14,000	10,434	24,434
2034	15,000	9,836	24,836
2035	15,500	9,201	24,701
2036	16,000	8,543	24,543
2037	17,000	7,863	24,863
2038	17,500	7,140	24,640
2039	18,500	6,396	24,896
2040	19,500	5,610	25,110
2041	20,000	4,781	24,781
2042	21,000	3,931	24,931
2043	22,000	3,039	25,039
2044	23,000	2,104	25,104
2045	26,500	1,126	27,626
Totals	<u>\$ 436,000</u>	<u>\$ 401,200</u>	<u>\$ 837,200</u>

**CUMBERLAND COUNTY WATER DISTRICT
SCHEDULE OF REVENUE BONDS OF 2009 @ 4.25%
December 31, 2011 and 2010**

Year	Principal Due	Interest Due	Total Annual Requirements
2012	4,500	17,638	22,138
2013	5,000	17,447	22,447
2014	5,000	17,234	22,234
2015	5,000	17,022	22,022
2016	5,500	16,809	22,309
2017	5,500	16,575	22,075
2018	6,000	16,342	22,342
2019	6,000	16,087	22,087
2020	6,500	15,832	22,332
2021	6,500	15,555	22,055
2022	7,000	15,279	22,279
2023	7,000	14,982	21,982
2024	7,500	14,684	22,184
2025	8,000	14,365	22,365
2026	8,000	14,025	22,025
2027	8,500	13,685	22,185
2028	9,000	13,324	22,324
2029	9,500	12,942	22,442
2030	9,500	12,538	22,038
2031	10,000	12,134	22,134
2032	10,500	11,709	22,209
2033	11,000	11,263	22,263
2034	11,500	10,795	22,295
2035	12,000	10,307	22,307
2036	12,500	9,797	22,297
2037	13,000	9,265	22,265
2038	13,500	8,713	22,213
2039	14,000	8,139	22,139
2040	14,500	7,544	22,044
2041	15,500	6,928	22,428
2042	16,000	6,269	22,269
2043	16,500	5,589	22,089
2044	17,500	4,888	22,388
2045	18,000	4,144	22,144
2046	19,000	3,379	22,379
2047	19,500	2,572	22,072
2048	20,500	1,743	22,243
2049	20,500	872	21,372
Totals	<u>\$ 415,000</u>	<u>\$ 428,415</u>	<u>\$ 843,415</u>

**CUMBERLAND COUNTY WATER DISTRICT
SCHEDULE OF REVENUE BONDS OF 2011 @ 2.25%
December 31, 2011 and 2010**

Year	Principal Due	Interest Due	Total Annual Requirements
2014	16,500	22,500	39,000
2015	17,000	22,129	39,129
2016	17,500	22,118	39,618
2017	17,500	22,106	39,606
2018	18,000	22,106	40,106
2019	18,500	22,095	40,595
2020	19,000	22,084	41,084
2021	19,500	22,073	41,573
2022	20,000	22,061	42,061
2023	20,500	22,050	42,550
2024	21,000	22,039	43,039
2025	21,500	22,028	43,528
2026	22,000	22,016	44,016
2027	22,500	22,005	44,505
2028	23,000	21,994	44,994
2029	23,500	21,983	45,483
2030	24,000	21,971	45,971
2031	24,500	21,960	46,460
2032	25,000	21,949	46,949
2033	26,000	21,938	47,938
2034	26,500	21,915	48,415
2035	27,000	21,904	48,904
2036	27,500	21,893	49,393
2037	28,500	21,881	50,381
2038	29,000	21,859	50,859
2039	29,500	21,848	51,348
2040	30,500	21,836	52,336
2041	31,000	21,814	52,814
2042	32,000	21,803	53,803
2043	32,500	21,780	54,280
2044	33,500	21,769	55,269
2045	34,000	21,746	55,746
2046	35,000	21,735	56,735
2047	36,000	21,713	57,713
2048	36,500	21,690	58,190
2049	37,500	21,679	59,179
2050	38,500	21,656	60,156
2051	38,000	21,634	59,634
Totals	\$ 1,000,000	\$ 833,355	\$ 1,833,355

**CUMBERLAND COUNTY WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Years Ended December 31, 2011 and 2010**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
USDA Rural Developemnt Loan	10.760	\$ 1,000,000
Department of Agriculture/USDA: Water and Waste Disposal Systems for: Rural Communities	10.760	<u>216,616</u>
Total		<u>\$ 1,216,616</u>

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

SAMMY K. LEE, P.S.C.
Certified Public Accountant

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**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 Chairman and Board of Commissioners
Cumberland County Water District
Burkesville, Kentucky 42717

I have audited the financial statements of the business-type activities of the Cumberland County Water District (hereinafter called "District") as of and for the year then ended December 31, 2011 and 2010, which collectively comprise the District's basic financial statements and have issued my report thereon dated March 7, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, I identified a certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as item 2011-01. A significant deficiency is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of The District in a separate letter dated March 7, 2012.

The District's responses to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit the District's responses and, accordingly, I express no opinion on the responses.

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

Sammy K. Lee, P.S.C.

Berea, Kentucky
March 7, 2012

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Chairman and Board of Commissioners
Cumberland County Water District
Burkesville, Kentucky 42717

Compliance

I have audited Cumberland County Water District's (hereinafter called "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2011 and 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. My responsibility is to express an opinion on the District's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the District's compliance with those requirements.

In my opinion, The District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011 and 2010. However, the results of my auditing procedures disclosed no instances of noncompliance with those requirements.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. I did not identify any significant deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

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

Sammy K. Lee, P.S.C.

Berea, Kentucky
March 7, 2012

**CUMBERLAND COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Years Ended December 31, 2011 and 2010**

Section I - Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the basic financial statements of Cumberland County Water District.
2. The results of my audit procedures disclosed one significant deficiency in internal control over financial reporting for the fiscal year ended December 31, 2011. The significant deficiency identified was not deemed to be material weakness.
3. The results of my audit procedures disclosed no instances of noncompliance which is material to the financial statements for the fiscal year ended December 31, 2011.
4. The results of my audit procedures did not identify any material weaknesses in internal control over major programs for the fiscal year ended December 31, 2011.
5. The auditor issues an unqualified opinion on compliance for major programs for the fiscal year ended December 31, 2011.
6. There are no audit findings that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included:

<u>Programs</u>	<u>C.F.D.A./ Agency Number</u>
Department of Agriculture/USDA Water and Waste Disposal Systems for: Rural Communities	10.760

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Cumberland County Water District was determined to be a high-risk auditee.

Section II – Financial Statement Findings

Finding 2011-01 Internal Control

Criteria:

A key component of internal control is to ensure the responsibility of management to establish and maintain internal controls in the financial reporting system and for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles (GAAP).

**CUMBERLAND COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED
For the Years Ended December 31, 2011 and 2010**

Section II – Financial Statement Findings-Continued

Condition:

While conducting my audit procedures to gain an understanding of internal controls over financial reporting, I noted the absence of internal control in the following areas:

- The District's internal control system lacks certain controls with respect to segregation of duties.
- The District's internal control system does not reliably and consistently produce adjustments to bring the accounting records into alignment with generally accepted accounting principles.
- The District does not have a system of internal controls that would enable management to conclude that the financial statements and the related disclosures are complete and presented in accordance with generally accepted accounting principles. As such, management requested us to assist in identifying adjustments to the accounting records and to prepare a draft of the financial statements, including the related footnote disclosures. The outsourcing of this service is not unusual in companies of your size and is a result of management's cost benefit decision to use our accounting expertise rather than to incur internal resource costs.

Cause:

Due to the small number of administrative and clerical employees at the District, there is an inherent limitation in its ability to segregate custodial duties from recordkeeping duties and its ability to prepare financial statements in accordance with GAAP.

Effect:

The lack of internal controls increases the risk that an error, either intentional or unintentional, will go undetected and the financial statements will contain material misstatements.

Recommendation:

Specific recommendations are:

1. If possible office employees should be rotated daily from the cash collections process to the posting of receipts in the billing system process, to segregate duties as much as possible.
2. Management should review all supporting documentation and explanations for journal entries I propose and approve the entries.
3. Management should reconcile general ledger amounts to draft financial statements by maintaining worksheets to support balance sheets amounts.
4. Management should continue to rely on the auditors to prepare their financial statements.

Views of Responsible Officials:

Management's response to finding 2011-01 is presented in the accompanying corrective action plan.

Section III– Federal Award Findings and Questioned Costs

None

CUMBERLAND COUNTY WATER DISTRICT
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PHONE: 280/864-3133 EMAIL: CumberlandCoWater@gmail.com
WATER TREATMENT PLANT: 2010 Leslie Road, Burkesville, KY 42717

Corrective Action Plan
March 7, 2012

Sammy K. Lee, P.S.C
P.O. Box 958
Berea, KY 40403

The Cumberland County Water District respectfully submits the following corrective action plan for the year ended December 31, 2011.

The findings from the December 31, 2011 schedule of findings and questioned costs are discussed below.

FINDINGS – FEDERAL AWARDS

Finding 2011-01

Management concurs with recommendations. However, the limited number of employees within our administration office prevents us from fully segregating our custodial duties from recordkeeping duties. The District will strive to implement compensating controls and procedures to correct the deficiency as noted in the finding. We understand these limitations, and are responsible for any outcomes. Management will continue to reconcile balance sheet amounts to the general ledger by maintaining supporting worksheets and rely on the auditors to prepare their financial statements.

Sincerely,

Cumberland County Water District