



PUBLIC SERVICE COMMISSION
ANNUAL REPORTS

JUN 4 2019

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May 29, 2019

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615

To whom it may concern:

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

- 2018 Independent Auditors' Report and Audited Financial Statements

The UFR report has been submitted online via the Public Service Commission's e-filing system. The Notarized UFR Oath Page and Report of Gross Operating Revenues have also been previously submitted to your office.

Please contact us if you need any additional information.

Sincerely,

Christian Sturgeon, PLLC

Christian Sturgeon, PLLC

PUBLIC SERVICE COMMISSION
ANNUAL REPORTS

JUN 4 2019

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Cumberland County Water District
Burkesville, Kentucky

Independent Auditors' Report
And Financial Statements
For the Years Ended
December 31, 2018 and 2017

Cumberland County Water District
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To the Commissioners
Cumberland County Water District
Burkesville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Cumberland County Water District (the District), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Cumberland County Water District, as of December 31, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Cumberland County Water District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 schedule of expenditures of federal awards is 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 May 22, 2019 on our consideration of Cumberland County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cumberland County Water District's internal control over financial reporting and compliance.

Christian Sturgeon, PLLC

Christian Sturgeon, PLLC
London, Kentucky

May 22, 2019

Cumberland County Water District
 Statements of Net Position
 December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 80,034	\$ 137,763
Receivable, less allowance for doubtful accounts of \$58,428 and \$56,055, respectively	100,781	90,501
Unbilled accounts receivable	43,557	54,120
Inventories	47,486	21,620
Prepaid expenses	8,997	8,000
Total Current Assets	<u>280,855</u>	<u>312,004</u>
Noncurrent Assets		
Restricted Assets		
Customer deposits	10,650	10,084
Depreciation reserves	231,832	218,663
Debt and interest funds	272,821	358,329
Total Restricted Assets	<u>515,303</u>	<u>587,076</u>
Capital Assets		
Land and improvements	55,313	55,313
Buildings and improvements	204,437	204,437
Equipment	341,500	328,770
Other water system assets	10,421,775	9,491,293
Transportation	298,973	298,973
Office furniture and equipment	62,445	62,445
Less: accumulated depreciation	<u>(3,937,482)</u>	<u>(3,624,756)</u>
Net Capital Assets	<u>7,446,961</u>	<u>6,816,475</u>
Total Noncurrent Assets	<u>7,962,264</u>	<u>7,403,551</u>
Total Assets	<u>\$ 8,243,119</u>	<u>\$ 7,715,555</u>

Cumberland County Water District
 Statements of Net Position (Continued)
 December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Liabilities		
Current Liabilities		
Current portion of long-term debt	\$ 160,718	\$ 149,805
Accounts payable	19,826	62,838
Accrued interest payable	78,910	79,084
Accrued salaries and taxes payable	23,325	18,262
Customer deposits	32,105	31,055
Other liabilities	-	57,000
Total Current Liabilities	314,884	398,044
Noncurrent Assets		
Long-term debt, less current portion included in current liabilities	4,613,681	4,074,400
Total Noncurrent Liabilities	4,613,681	4,074,400
Total Liabilities	4,928,565	4,472,444
Net Position		
Net investment in capital assets	2,672,562	2,592,270
Restricted	515,303	587,076
Unrestricted	126,689	63,765
Total Net Position	\$ 3,314,554	\$ 3,243,111

Cumberland County Water District
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Water sales	\$ 1,314,106	\$ 1,269,574
Service charges	19,535	18,479
Other revenues	48,210	42,356
	<hr/>	<hr/>
Total Operating Revenues	1,381,851	1,330,409
	<hr/>	<hr/>
Operating Expenses		
Salaries and wages	305,582	261,732
Employee benefits	76,904	70,349
Purchased water	404,087	362,861
Utilities	58,025	40,330
Materials and supplies	113,942	80,428
Contracted services	26,681	38,569
Vehicle and equipment expenses	34,541	20,093
Insurance	25,064	21,900
Office expenses	33,507	41,408
Directors fees	10,950	9,725
Bad debt expense, net of recoveries	2,373	3,640
Depreciation	312,726	305,741
Other operating expenses	6,959	8,998
	<hr/>	<hr/>
Total Operating Expenses	1,411,341	1,265,774
	<hr/>	<hr/>
Operating Income (Loss)	(29,490)	64,635
	<hr/>	<hr/>
Non-operating Revenues (Expenses)		
Interest income	3,578	2,960
Grant revenue	227,727	-
Interest expense	(130,372)	(132,201)
	<hr/>	<hr/>
Total Non-operating Revenues (Expenses)	100,933	(129,241)
	<hr/>	<hr/>
Change in Net Position	71,443	(64,606)
	<hr/>	<hr/>
Net Position, Beginning of Year	3,243,111	3,307,717
	<hr/>	<hr/>
Net Position, End of Year	<u>\$ 3,314,554</u>	<u>\$ 3,243,111</u>

Cumberland County Water District
 Statements of Cash Flows
 For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,323,811	\$ 1,374,940
Payments to employees	(300,519)	(273,056)
Payments to suppliers	(849,585)	(676,024)
Payments for other activities	<u>(10,950)</u>	<u>(9,725)</u>
Net Cash Provided by Operating Activities	<u>162,757</u>	<u>416,135</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(943,212)	(33,648)
Principal payments on debt	(149,806)	(144,895)
Interest payments on debt	(130,546)	(135,056)
Proceeds from debt	700,000	-
Grants	<u>227,727</u>	<u>-</u>
Net Cash Used by Capital and Related Financing Activities	<u>(295,837)</u>	<u>(313,599)</u>
Cash Flows From Investing Activities		
Interest income	<u>3,578</u>	<u>2,960</u>
Net Cash Provided by Investing Activities	<u>3,578</u>	<u>2,960</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(129,502)	105,496
Cash and Cash Equivalents at Beginning of Year	<u>724,839</u>	<u>619,343</u>
Cash and Cash Equivalents at End of Year	<u>\$ 595,337</u>	<u>\$ 724,839</u>
Reconciliation of cash per Statement of Net Position to cash per Statement of Cash Flows:		
Cash and cash equivalents	\$ 80,034	\$ 137,763
Customer deposits	10,650	10,084
Depreciation reserves	231,832	218,663
Debt and interest funds	<u>272,821</u>	<u>358,329</u>
Cash and cash equivalents per Statement of Cash Flows	<u>\$ 595,337</u>	<u>\$ 724,839</u>

See accompanying notes to financial statements.

Cumberland County Water District
 Statements of Cash Flows (Continued)
 For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ (29,490)	\$ 64,635
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	312,726	305,741
(Increase) Decrease in operating assets		
Accounts receivable	(10,280)	(654)
Unbilled receivables	10,563	(10,800)
Inventory	(25,866)	4,990
Prepaid expenses	(997)	(1,032)
Increase (Decrease) in operating liabilities		
Accounts payable	(43,012)	4,954
Accrued salaries and taxes payable	5,063	(11,324)
Customer deposits	1,050	2,625
Other liabilities	(57,000)	57,000
	<u>\$ 162,757</u>	<u>\$ 416,135</u>
Net Cash Provided by Operating Activities	<u>\$ 162,757</u>	<u>\$ 416,135</u>

Cumberland County Water District
Notes to Financial Statements
December 31, 2018 and 2017

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

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

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

Basis of Accounting, Financial Presentation and Measurement Focus

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

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

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

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

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

Cash and Cash Equivalents

The District considers demand deposits and certificates of deposit to be cash equivalents.

Cumberland County Water District
Notes to Financial Statements
December 31, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Receivables include amounts due from customers for water services. These receivables are due at the time the services are billed and are considered past due on the first day of the following month. Accounts receivable are presented net of uncollectible accounts. The allowance amount is estimated using a percentage of accounts past due more than 30 days. At December 31, 2018 and 2017, the allowance for doubtful accounts was \$58,428 and \$56,055, respectively.

Unbilled Accounts Receivable

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

Inventories and Prepaid Expenses

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

Capital Assets

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

Estimated useful lives for depreciable assets are as follows:

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

Customer Deposits

The District collects and holds in escrow a \$75 deposit from customers to ensure collection of its water charges. Interest at an annual rate of 0.66% is paid on these deposits.

Compensated Absences

Full-time employees receive vacation leave based on their years of continuous service. The District allows employees to accumulate and carry over a maximum of 30 days of vacation time. Employees are paid for any unused vacation time earned in excess of 30 days at the end of the calendar year. Full-time employees receive 6 days of sick leave per year. Up to 20 days of sick leave may be accrued. Upon termination, accumulated vacation leave will be paid to the employee. Sick leave is not paid upon termination, but will be paid only upon illness while in the employment of the District.

Cumberland County Water District
Notes to Financial Statements
December 31, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

Net Position

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

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

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

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

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

Use of Estimates

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

Note 2 – Restricted Assets

Under the terms of all loan resolutions, the District is required to maintain certain accounts and funds for the benefit and protection of the creditors. The balance of these accounts at December 31, 2018 and 2017 was \$272,821 and \$358,329, respectively. In addition, the District is also required to collect reasonable and sufficient rates and charges for services rendered, prohibited from selling, leasing or mortgaging any part of the system without prior approval, required to maintain the operating system in good condition and to carry adequate insurance on all properties to protect against loss or damage.

The resolutions require the District to establish a depreciation fund or reserve to be used to finance the cost of unusual repairs, renewals and replacements not included in the annual budget and to pay for future system extensions. The balance of these accounts at December 31, 2018 and 2017 was \$231,832 and \$218,663, respectively.

The balances of customer deposits held at December 31, 2018 and 2017 were \$10,650 and \$10,084, respectively.

Cumberland County Water District
Notes to Financial Statements
December 31, 2018 and 2017

Note 3 – Kentucky Revised Statute

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

Note 4 – Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2018 and 2017, the District's total deposits at banks of \$637,931 and \$766,110, respectively, were exposed to custodial credit risk as follows:

	<u>2018</u>	<u>2017</u>
Uninsured and uncollateralized	\$ -	\$ -
Uninsured and collateral held by pledging bank	347,172	425,292
Uninsured and collateral held by pledging bank's trust department not in the District's name	-	-
Total	<u><u>\$ 347,172</u></u>	<u><u>\$ 425,292</u></u>

Note 5 – Capital Assets

The following is a summary of capital asset transactions for the year ended December 31, 2018:

	<u>Balance</u> <u>Dec. 31, 2017</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>Dec. 31, 2018</u>
Land and improvements	\$ 55,313	\$ -	\$ -	\$ 55,313
Building and improvements	204,437	-	-	204,437
Equipment	328,770	12,730	-	341,500
Other water system assets	9,491,293	930,482	-	10,421,775
Transportation	298,973	-	-	298,973
Office furniture and equipment	62,445	-	-	62,445
Totals at historical cost	<u>10,441,231</u>	<u>943,212</u>	<u>-</u>	<u>11,384,443</u>
Less accumulated depreciation for:				
Building and improvements	116,658	13,713	-	130,371
Equipment	280,670	9,278	-	289,948
Other water system assets	2,974,434	258,891	-	3,233,325
Transportation	192,366	29,261	-	221,627
Office furniture and equipment	60,628	1,583	-	62,211
Total accumulated depreciation	<u>3,624,756</u>	<u>312,726</u>	<u>-</u>	<u>3,937,482</u>
Capital assets - net	<u><u>\$ 6,816,475</u></u>	<u><u>\$ 630,486</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,446,961</u></u>

Cumberland County Water District
Notes to Financial Statements
December 31, 2018 and 2017

Note 5 – Capital Assets (Continued)

The following is a summary of capital asset transactions for the year ended December 31, 2017:

	Balance Dec. 31, 2016	Additions	Dispositions	Balance Dec. 31, 2017
Land and improvements	\$ 55,313	\$ -	\$ -	\$ 55,313
Building and improvements	204,437	-	-	204,437
Equipment	328,770	-	-	328,770
Other water system assets	9,491,293	-	-	9,491,293
Transportation	265,325	33,648	-	298,973
Office furniture and equipment	62,445	-	-	62,445
Totals at historical cost	<u>10,407,583</u>	<u>33,648</u>	<u>-</u>	<u>10,441,231</u>
Less accumulated depreciation for:				
Building and improvements	102,946	13,712	-	116,658
Equipment	271,466	9,204	-	280,670
Other water system assets	2,721,359	253,075	-	2,974,434
Transportation	164,200	28,166	-	192,366
Office furniture and equipment	59,044	1,584	-	60,628
Total accumulated depreciation	<u>3,319,015</u>	<u>305,741</u>	<u>-</u>	<u>3,624,756</u>
Capital assets - net	<u>\$ 7,088,568</u>	<u>\$ (272,093)</u>	<u>\$ -</u>	<u>\$ 6,816,475</u>

Cumberland County Water District
Notes to Financial Statements
December 31, 2018 and 2017

Note 6 – Long-Term Debt

The following is a summary of long-term debt transactions for the year ended December 31, 2018:

	<u>Balance</u> <u>Dec. 31, 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2018</u>	<u>Due Within</u> <u>One Year</u>
Loan payable to Kentucky Rural Water Finance Corporation, principal and interest, at the rate of 4% to 4.5%, payable on a semi-annual basis, with final payment due January 1, 2031	\$ 73,000	\$ -	\$ 4,001	\$ 68,999	\$ 4,000
Loan payable to Kentucky Infrastructure Authority, principal and interest, at the rate of 0.75%, payable on a semi-annual basis, with final payment due December 1, 2036	846,305	-	41,605	804,700	41,918
Various bond issues payable to United States Department of Agriculture, principal and interest payable annually in varying amounts, interest rates ranging from 1.875% to 5.0%, with final payment due in 2058, secured by water distribution system	<u>3,304,900</u>	<u>700,000</u>	<u>104,200</u>	<u>3,900,700</u>	<u>114,800</u>
	<u>\$ 4,224,205</u>	<u>\$ 700,000</u>	<u>\$ 149,806</u>	<u>\$ 4,774,399</u>	<u>\$ 160,718</u>

Cumberland County Water District
Notes to Financial Statements
December 31, 2018 and 2017

Note 6 – Long-Term Debt (Continued)

The following is a summary of long-term debt transactions for the year ended December 31, 2017:

	<u>Balance</u> <u>Dec. 31, 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2017</u>	<u>Due Within</u> <u>One Year</u>
Loan payable to Kentucky Rural Water Finance Corporation, principal and interest, at the rate of 4% to 4.5%, payable on a semi-annual basis, with final payment due January 1, 2031	\$ 77,000	\$ -	\$ 4,000	\$ 73,000	\$ 4,000
Loan payable to Kentucky Infrastructure Authority, principal and interest, at the rate of 0.75%, payable on a semi-annual basis, with final payment due December 1, 2036	887,600	-	41,295	846,305	41,605
Various bond issues payable to United States Department of Agriculture, principal and interest payable annually in varying amounts, interest rates ranging from 2.25% to 5.0%, with final payment due in 2053, secured by water distribution system	<u>3,404,500</u>	<u>-</u>	<u>99,600</u>	<u>3,304,900</u>	<u>104,200</u>
	<u>\$ 4,369,100</u>	<u>\$ -</u>	<u>\$ 144,895</u>	<u>\$ 4,224,205</u>	<u>\$ 149,805</u>

Cumberland County Water District
Notes to Financial Statements
December 31, 2018 and 2017

Note 6 – Long-Term Debt (Continued)

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

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 160,718	\$ 137,148	\$ 297,866
2020	165,833	135,457	301,290
2021	169,650	130,617	300,267
2022	176,770	125,599	302,369
2023	181,292	120,237	301,529
2024-2028	880,278	521,187	1,401,465
2029-2033	816,498	412,001	1,228,499
2034-2038	708,860	314,257	1,023,117
2039-2043	557,000	236,390	793,390
2044-2048	501,500	172,348	673,848
2049-2053	338,500	88,045	426,545
2054-2058	117,500	78,007	195,507
Total	<u>\$ 4,774,399</u>	<u>\$ 2,471,293</u>	<u>\$ 7,245,692</u>

Note 7 – Retirement Plan

The District participates in a defined contribution retirement plan through Kentucky Public Employees & Deferred Compensation Authority. Prior to 2015, the District contributed 1% during the first year of employment, adding 1% each year up to a maximum of 5%. Starting in 2015, the District no longer contributes to the employees' plan. Retirement plan expense for 2018, 2017 and 2016 was \$0 each year.

Note 8 – Risk Management

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

Note 9 - Subsequent Events

Date of Management Evaluation

Management of the District has evaluated subsequent events through May 22, 2019, the date on which the financial statements were available to be issued.

Cumberland County Water District
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
United States Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.760	<u>\$ 927,727</u>
Total of Expenditures of Federal Awards		<u><u>\$ 927,727</u></u>

Cumberland County Water District
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Cumberland County Water District under programs of the federal government for the year ended December 31, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Cumberland County Water District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Cumberland County Water District.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Indirect Cost Rate

Cumberland County Water District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4 – Outstanding Loan Balance

Cumberland County Water District's federal awards consist of grant and loan funds which were used for a construction project. As of December 31, 2018, the outstanding balance of the loan associated with the project was \$700,000.



Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Commissioners
Cumberland County Water District
Burkesville, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Cumberland County Water District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Cumberland County Water District's basic financial statements, and have issued our report thereon dated May 22, 2019.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses (See items 2018-1, 2018-2, and 2018-3).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cumberland County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Cumberland County Water District's Response to Findings

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

Purpose of this Report

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

Christian Sturgeon, PLLC

Christian Sturgeon, PLLC
London, Kentucky

May 22, 2019



Independent Auditors' Report On Compliance For
Each Major Program and on Internal Control Over
Compliance Required by the Uniform Guidance

To the Commissioners
Cumberland County Water District
Burkesville, Kentucky

Report of Compliance For Each Major Federal Program

We have audited Cumberland County Water District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Cumberland County Water District's major federal programs for the year ended December 31, 2018. Cumberland County Water District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Cumberland County Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we 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 Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Cumberland County Water District's compliance.

Opinion on Each Major Federal Program

In our opinion, Cumberland County Water District complied, in all material respects, with the types of 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, 2018.

Report on Internal Control Over Compliance

Management of Cumberland County Water District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cumberland County Water District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cumberland County Water District's internal control over compliance.

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 the 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 to those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Christian Sturgeon, PLLC

Christian Sturgeon, PLLC
London, Kentucky

May 22, 2019

Cumberland County Water District
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2018

A. Summary of Auditors' Results

1. The auditors' report expresses an unmodified opinion on whether the financial statements of Cumberland County Water District were prepared in accordance with accounting principles generally accepted in the United States of America.
2. Three instances of material weaknesses relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (See items 2018-1, 2018-2, and 2018-3 in section C of this schedule).
3. No instances of noncompliance material to the financial statements of Cumberland County Water District which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. No material weaknesses related to the audit of the major federal award programs were disclosed in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditors' report on compliance for the major federal awards programs for Cumberland County Water District expresses an unmodified opinion on all major federal programs.
6. There were no audit findings relative to the major federal award programs for Cumberland County Water District.
7. The programs tested as major programs included: CFDA #
10.760
Water and Waste Disposal Systems for Rural Communities
8. The threshold for distinguishing Type A and B Programs was \$750,000.
9. Cumberland County Water District did not qualify to be a low-risk auditee.

B. Findings and Questioned Costs – Major Federal Award Programs Audit

There were no matters reported.

Cumberland County Water District
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2018

C. Findings – Financial Statement Audit

2018-1

Criteria:

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

Condition:

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

Cause:

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

Effect:

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

Views of responsible officials and planned corrective actions:

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

2018-2

Criteria:

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

Condition:

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

Cause:

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

Effect:

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

Views of responsible officials and planned corrective actions:

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

Cumberland County Water District
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2018

2018-3

Criteria:

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

Condition:

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

Cause:

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

Effect:

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

Views of responsible officials and planned corrective actions:

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

Cumberland County Water District
Schedule of Prior Year Audit Findings
For the Year Ended December 31, 2018

Status of Prior Year Audit Findings

No audit findings in the prior year.