

Cumberland County Water District
Burkesville, Kentucky

Independent Auditors' Report
And Financial Statements
For the Years Ended
December 31, 2019 and 2018

Cumberland County Water District
Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Basic Financial Statements:	
Statements of Net Position	3-4
Statements of Revenues, Expenses and Changes in Net Position	5
Statements of Cash Flows	6-7
Notes to Financial Statements	8-15
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 <i>Government Auditing Standards</i>	16-17
Schedule of Findings and Responses	18-19



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, 2019 and 2018, 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, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2020 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 solely 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 effectiveness of Cumberland County Water District's 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

March 31, 2020

Cumberland County Water District
Statements of Net Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 169,242	\$ 80,034
Receivable, less allowance for doubtful accounts of \$58,428 and \$58,428, respectively	90,766	100,781
Unbilled accounts receivable	49,114	43,557
Inventories	48,730	47,486
Prepaid expenses	7,323	8,997
Total Current Assets	<u>365,175</u>	<u>280,855</u>
Noncurrent Assets		
Restricted Assets		
Customer deposits	13,287	10,650
Depreciation reserves	297,437	231,832
Debt and interest funds	154,969	272,821
Total Restricted Assets	<u>465,693</u>	<u>515,303</u>
Capital Assets		
Land and improvements	55,313	55,313
Buildings and improvements	233,837	204,437
Equipment	341,500	341,500
Other water system assets	10,421,775	10,421,775
Transportation	314,373	298,973
Office furniture and equipment	62,445	62,445
Construction in progress	149,244	-
Less: accumulated depreciation	<u>(4,263,541)</u>	<u>(3,937,482)</u>
Net Capital Assets	<u>7,314,946</u>	<u>7,446,961</u>
Total Noncurrent Assets	<u>7,780,639</u>	<u>7,962,264</u>
Total Assets	<u>\$ 8,145,814</u>	<u>\$ 8,243,119</u>

Cumberland County Water District
 Statements of Net Position (Continued)
 December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Liabilities		
Current Liabilities		
Current portion of long-term debt	\$ 165,833	\$ 160,718
Accounts payable	75,702	19,826
Accrued interest payable	78,360	78,910
Accrued salaries and taxes payable	42,366	23,325
Customer deposits	33,030	32,105
Other liabilities	66,258	-
Total Current Liabilities	<u>461,549</u>	<u>314,884</u>
Noncurrent Assets		
Long-term debt, less current portion included in current liabilities	<u>4,514,108</u>	<u>4,613,681</u>
Total Noncurrent Liabilities	<u>4,514,108</u>	<u>4,613,681</u>
Total Liabilities	<u>4,975,657</u>	<u>4,928,565</u>
Net Position		
Net investment in capital assets	2,635,005	2,672,562
Restricted	465,693	515,303
Unrestricted	69,459	126,689
Total Net Position	<u>\$ 3,170,157</u>	<u>\$ 3,314,554</u>

Cumberland County Water District
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Water sales	\$ 1,325,236	\$ 1,314,106
Service charges	18,889	19,535
Other revenues	77,991	48,210
	<hr/>	<hr/>
Total Operating Revenues	<u>1,422,116</u>	<u>1,381,851</u>
Operating Expenses		
Salaries and wages	321,836	305,582
Employee benefits	74,077	76,904
Purchased water	445,581	404,087
Utilities	58,359	58,025
Materials and supplies	112,404	113,942
Contracted services	34,387	26,681
Vehicle and equipment expenses	37,806	34,541
Insurance	24,099	25,064
Office expenses	53,782	33,507
Directors fees	9,350	10,950
Bad debt expense, net of recoveries	-	2,373
Depreciation	326,059	312,726
Other operating expenses	10,641	6,959
	<hr/>	<hr/>
Total Operating Expenses	<u>1,508,381</u>	<u>1,411,341</u>
Operating Income (Loss)	<u>(86,265)</u>	<u>(29,490)</u>
Non-operating Revenues (Expenses)		
Interest income	3,851	3,578
Grant revenue	72,273	227,727
Interest expense	(134,256)	(130,372)
	<hr/>	<hr/>
Total Non-operating Revenues (Expenses)	<u>(58,132)</u>	<u>100,933</u>
Change in Net Position	(144,397)	71,443
Net Position, Beginning of Year	<u>3,314,554</u>	<u>3,243,111</u>
Net Position, End of Year	<u>\$ 3,170,157</u>	<u>\$ 3,314,554</u>

Cumberland County Water District
 Statements of Cash Flows
 For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,427,499	\$ 1,323,811
Payments to employees	(302,795)	(300,519)
Payments to suppliers	(794,830)	(849,585)
Payments for other activities	(9,350)	(10,950)
	<u>320,524</u>	<u>162,757</u>
Net Cash Provided by Operating Activities		
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(127,786)	(943,212)
Principal payments on debt	(160,716)	(149,806)
Interest payments on debt	(134,806)	(130,546)
Proceeds from debt	66,258	700,000
Grants	72,273	227,727
	<u>(284,777)</u>	<u>(295,837)</u>
Net Cash Used by Capital and Related Financing Activities		
Cash Flows From Investing Activities		
Interest income	3,851	3,578
	<u>3,851</u>	<u>3,578</u>
Net Cash Provided by Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	39,598	(129,502)
Cash and Cash Equivalents at Beginning of Year	<u>595,337</u>	<u>724,839</u>
Cash and Cash Equivalents at End of Year	<u>\$ 634,935</u>	<u>\$ 595,337</u>
Reconciliation of cash per Statement of Net Position to cash per Statement of Cash Flows:		
Cash and cash equivalents	\$ 169,242	\$ 80,034
Customer deposits	13,287	10,650
Depreciation reserves	297,437	231,832
Debt and interest funds	154,969	272,821
	<u>634,935</u>	<u>595,337</u>
Cash and cash equivalents per Statement of Cash Flows	<u>\$ 634,935</u>	<u>\$ 595,337</u>

Cumberland County Water District
 Statements of Cash Flows (Continued)
 For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by Operating Activities:		
Operating Income (Loss)	\$ (86,265)	\$ (29,490)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	326,059	312,726
(Increase) Decrease in operating assets		
Accounts receivable	10,015	(10,280)
Unbilled receivables	(5,557)	10,563
Inventory	(1,244)	(25,866)
Prepaid expenses	1,674	(997)
Increase (Decrease) in operating liabilities		
Accounts payable	55,876	(43,012)
Accrued salaries and taxes payable	19,041	5,063
Customer deposits	925	1,050
Other liabilities	-	(57,000)
	\$ 320,524	\$ 162,757
Net Cash Provided by Operating Activities	\$ 320,524	\$ 162,757

Cumberland County Water District
Notes to Financial Statements
December 31, 2019 and 2018

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. 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, 2019 and 2018

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, 2019 and 2018, the allowance for doubtful accounts was \$58,428 and \$58,428, 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 2.64% 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. Beginning during the year ended December 31, 2019, accumulated sick leave of up to 20 days will be paid to the employee upon termination.

Cumberland County Water District
Notes to Financial Statements
December 31, 2019 and 2018

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, 2019 and 2018 was \$154,969 and \$272,821, 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, 2019 and 2018 was \$297,437 and \$231,832, respectively.

The balances of customer deposits held at December 31, 2019 and 2018 were \$13,287 and \$10,650, respectively.

Cumberland County Water District
Notes to Financial Statements
December 31, 2019 and 2018

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, 2019 and 2018, the District's total deposits at banks of \$638,043 and \$637,931, respectively, were exposed to custodial credit risk as follows:

	<u>2019</u>	<u>2018</u>
Uninsured and uncollateralized	\$ -	\$ -
Uninsured and collateral held by pledging bank	291,479	347,172
Uninsured and collateral held by pledging bank's trust department not in the District's name	-	-
Total	<u><u>\$ 291,479</u></u>	<u><u>\$ 347,172</u></u>

Note 5 – Capital Assets

The following is a summary of capital asset transactions for the year ended December 31, 2019:

	<u>Balance</u> <u>Dec. 31, 2018</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>Dec. 31, 2019</u>
Land and improvements	\$ 55,313	\$ -	\$ -	\$ 55,313
Building and improvements	204,437	29,400	-	233,837
Equipment	341,500	-	-	341,500
Other water system assets	10,421,775	-	-	10,421,775
Transportation	298,973	15,400	-	314,373
Office furniture and equipment	62,445	-	-	62,445
Construction in process	-	149,244	-	149,244
Totals at historical cost	<u>11,384,443</u>	<u>194,044</u>	<u>-</u>	<u>11,578,487</u>
Less accumulated depreciation for:				
Building and improvements	130,371	14,947	-	145,318
Equipment	289,948	10,239	-	300,187
Other water system assets	3,233,325	276,339	-	3,509,664
Transportation	221,627	24,300	-	245,927
Office furniture and equipment	62,211	234	-	62,445
Total accumulated depreciation	<u>3,937,482</u>	<u>326,059</u>	<u>-</u>	<u>4,263,541</u>
	<u><u>\$ 7,446,961</u></u>	<u><u>\$ (132,015)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,314,946</u></u>

Cumberland County Water District
Notes to Financial Statements
December 31, 2019 and 2018

Note 5 – Capital Assets (Continued)

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>\$ 6,816,475</u>	<u>\$ 630,486</u>	<u>\$ -</u>	<u>\$ 7,446,961</u>

Cumberland County Water District
Notes to Financial Statements
December 31, 2019 and 2018

Note 6 – Long-Term Debt

The following is a summary of long-term debt transactions for the year ended December 31, 2019:

	<u>Balance Dec. 31, 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance Dec. 31, 2019</u>	<u>Due Within One Year</u>
Loan payable to Kentucky Rural Water Finance Corporation, principal and interest, at the rate of 4% to 4.5%, payable on a semi-annual basis, with final payment due January 1, 2031	\$ 68,999	\$ -	\$ 3,999	\$ 65,000	\$ 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	804,700	-	41,917	762,783	42,233
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>3,900,700</u>	<u>-</u>	<u>114,800</u>	<u>3,785,900</u>	<u>119,600</u>
	<u>\$ 4,774,399</u>	<u>\$ -</u>	<u>\$ 160,716</u>	<u>\$ 4,613,683</u>	<u>\$ 165,833</u>

During 2019, the District began a construction project to expand their current water system. This project is financed with a loan in the amount of \$560,000 through the United States Department of Agriculture. The construction loan will be amortized over 40 years at an interest rate of 3.1%. At December 31, 2019, draws against the loan totaled \$66,258. The provisions of the loan require annual interest payments until the loan is fully drawn and an amortization schedule is finalized.

Cumberland County Water District
Notes to Financial Statements
December 31, 2019 and 2018

Note 6 – Long-Term Debt (Continued)

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, 2019 and 2018

Note 6 – Long-Term Debt (Continued)

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	185,917	114,867	300,784
2025-2029	854,336	496,729	1,351,065
2030-2034	828,023	392,019	1,220,042
2035-2039	650,360	297,129	947,489
2040-2044	553,000	222,259	775,259
2045-2049	489,500	161,907	651,407
2050-2054	264,500	61,306	325,806
2055-2059	94,502	50,745	145,247
Total	<u>\$ 4,613,683</u>	<u>\$ 2,308,871</u>	<u>\$ 6,922,554</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 2019, 2018 and 2017 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 March 31, 2020, the date on which the financial statements were available to be issued.



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

To the Commissioners
Cumberland County Water District
Burkesville, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Cumberland County Water District, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Cumberland County Water District's basic financial statements, and have issued our report thereon dated March 31, 2020.

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 responses, we identified certain deficiencies in internal control that we consider to be material weaknesses (See items 2019-1, 2019-2, and 2019-3).

Compliance and Other Matters

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

Cumberland County Water District's Response to Findings

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

Purpose of this Report

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

Christian Sturgeon, PLLC

Christian Sturgeon, PLLC
London, Kentucky

March 31, 2020

Cumberland County Water District
Schedule of Findings and Responses
December 31, 2019

A. Findings – Financial Statement Audit

2019-1

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.

2019-2

Criteria:

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

Condition:

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

Cause:

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

Effect:

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

Views of responsible officials and planned corrective actions:

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

Cumberland County Water District
Schedule of Findings and Responses (Continued)
December 31, 2019

2019-3

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.