

Cumberland County Water District
Burkesville, Kentucky

Independent Auditors' Report
And Financial Statements
For the Years Ended
December 31, 2023 and 2022

Cumberland County Water District
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Independent Auditors' Report

To the Commissioners
Cumberland County Water District
Burkesville, Kentucky

Opinion

We have audited the accompanying financial statements of Cumberland County Water District, which comprise the statements of net position as of December 31, 2023 and 2022, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Cumberland County Water District's basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cumberland County Water District, as of December 31, 2023 and 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Cumberland County Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Cumberland County Water District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Cumberland County Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Cumberland County Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 May 23, 2024 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 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.

Abner & Cox, PLLC

Abner & Cox, PLLC
London, Kentucky

May 23, 2024

Cumberland County Water District
Statements of Net Position
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 53,509	\$ (6,734)
Receivable, less allowance for doubtful accounts of \$68,499 and \$68,499, respectively	137,508	111,961
Unbilled accounts receivable	73,924	58,634
Inventories	72,801	93,167
Prepaid expenses	13,279	11,317
Bond sinking fund deposits	143,900	137,090
Total Current Assets	<u>494,921</u>	<u>405,435</u>
Noncurrent Assets		
Restricted Assets		
Customer deposits	7,093	4,920
Depreciation reserves	18,165	95,197
Debt and interest funds	3,519	(97)
Total Restricted Assets	<u>28,777</u>	<u>100,020</u>
Capital Assets		
Land and improvements	55,313	55,313
Buildings and improvements	233,837	233,837
Equipment	371,088	371,088
Other water system assets	11,463,010	11,463,010
Transportation	370,066	370,066
Office furniture and equipment	62,445	62,445
Less: accumulated depreciation	(5,539,170)	(5,230,819)
Net Capital Assets	<u>7,016,589</u>	<u>7,324,940</u>
Total Noncurrent Assets	<u>7,045,366</u>	<u>7,424,960</u>
Total Assets	<u>\$ 7,540,287</u>	<u>\$ 7,830,395</u>

Cumberland County Water District
 Statements of Net Position (Continued)
 December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Liabilities		
Current Liabilities		
Current portion of long-term debt	\$ 212,728	\$ 213,615
Accounts payable	94,187	169,403
Accrued interest payable	41,350	26,748
Accrued salaries and taxes payable	57,683	58,010
Customer deposits	39,080	41,130
Total Current Liabilities	445,028	508,906
Noncurrent Liabilities		
Long-term debt, less current portion included in current liabilities	4,205,919	4,418,647
Unamortized bond premium	65,320	67,039
Total Noncurrent Liabilities	4,271,239	4,485,686
Total Liabilities	4,716,267	4,994,592
Net Position		
Net investment in capital assets	2,532,622	2,625,639
Restricted	28,777	100,020
Unrestricted	262,621	110,144
Total Net Position	\$ 2,824,020	\$ 2,835,803

Cumberland County Water District
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Water sales	\$ 1,607,246	\$ 1,498,158
Service charges	26,879	18,997
Other revenues	198,088	144,475
	<u>1,832,213</u>	<u>1,661,630</u>
Total Operating Revenues		
Operating Expenses		
Salaries and wages	314,266	330,693
Employee benefits	43,735	89,224
Purchased water	483,574	509,420
Utilities	56,085	72,655
Materials and supplies	320,116	223,286
Contracted services	49,395	68,357
Vehicle and equipment expenses	65,141	60,737
Insurance	32,523	26,039
Office expenses	56,672	73,601
Directors fees	8,451	8,775
Depreciation	308,351	312,656
Bad debt expense	-	15,250
Other operating expenses	5,577	18,753
	<u>1,743,886</u>	<u>1,809,446</u>
Total Operating Expenses		
Operating Income (Loss)	<u>88,327</u>	<u>(147,816)</u>
Non-operating Revenues (Expenses)		
Interest income	157	837
Interest expense	(100,267)	(94,272)
Total Non-operating Revenues (Expenses)	<u>(100,110)</u>	<u>(93,435)</u>
Change in Net Position	(11,783)	(241,251)
Net Position, Beginning of Year	<u>2,835,803</u>	<u>3,077,054</u>
Net Position, End of Year	<u>\$ 2,824,020</u>	<u>\$ 2,835,803</u>

Cumberland County Water District
 Statements of Cash Flows
 For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,789,326	\$ 1,605,643
Payments to employees	(358,328)	(404,951)
Payments to suppliers	<u>(1,134,346)</u>	<u>(1,054,196)</u>
Net Cash Provided by Operating Activities	<u>296,652</u>	<u>146,496</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	-	(29,588)
Principal payments on debt and bond sinking fund payments	(220,425)	(140,413)
Interest payments on debt	<u>(87,384)</u>	<u>(122,520)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(307,809)</u>	<u>(292,521)</u>
Cash Flows From Investing Activities		
Interest income	<u>157</u>	<u>837</u>
Net Cash Provided by Investing Activities	<u>157</u>	<u>837</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(11,000)	(145,188)
Cash and Cash Equivalents at Beginning of Year	<u>93,286</u>	<u>238,474</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 82,286</u></u>	<u><u>\$ 93,286</u></u>
Reconciliation of cash per Statement of Net Position to cash per Statement of Cash Flows:		
Cash and cash equivalents	\$ 53,509	\$ (6,734)
Customer deposits	7,093	4,920
Depreciation reserves	18,165	95,197
Debt and interest funds	<u>3,519</u>	<u>(97)</u>
Cash and cash equivalents per Statement of Cash Flows	<u><u>\$ 82,286</u></u>	<u><u>\$ 93,286</u></u>

Cumberland County Water District
 Statements of Cash Flows (Continued)
 For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by Operating Activities:		
Operating Income (Loss)	\$ 88,327	\$ (147,816)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	308,351	312,656
Bad Debt Expense	-	15,250
(Increase) Decrease in operating assets		
Accounts receivable	(25,547)	(53,067)
Unbilled receivables	(15,290)	(4,120)
Inventory	20,366	(50,793)
Prepaid expenses	(1,962)	(2,276)
Increase (Decrease) in operating liabilities		
Accounts payable	(75,216)	60,496
Accrued salaries and taxes payable	(327)	14,966
Customer deposits	(2,050)	1,200
	\$ 296,652	\$ 146,496
Net Cash Provided by Operating Activities	\$ 296,652	\$ 146,496

Cumberland County Water District
Notes to Financial Statements
December 31, 2023 and 2022

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, 2023 and 2022

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, 2023 and 2022, the allowance for doubtful accounts was \$68,499 and \$68,499, 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 0.002% 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. 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, 2023 and 2022

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, 2023 and 2022 was \$3,519 and \$0, 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, 2023 and 2022 was \$18,165 and \$95,197, respectively.

The balances of customer deposits held at December 31, 2023 and 2022 was \$7,093 and \$4,920, respectively.

Cumberland County Water District
Notes to Financial Statements
December 31, 2023 and 2022

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, 2023 and 2022, the District's total deposits at banks of \$117,061 and \$98,176, respectively, were fully insured by the FDIC.

Note 5 – Capital Assets

The following is a summary of capital asset transactions for the year ended December 31, 2023:

	Balance <u>Dec. 31, 2022</u>	<u>Additions</u>	<u>Dispositions</u>	Balance <u>Dec. 31, 2023</u>
Land and improvements	\$ 55,313	\$ -	\$ -	\$ 55,313
Building and improvements	233,837	-	-	233,837
Equipment	371,088	-	-	371,088
Other water system assets	11,463,010	-	-	11,463,010
Transportation	370,066	-	-	370,066
Office furniture and equipment	62,445	-	-	62,445
Construction in process	-	-	-	-
Totals at historical cost	<u>12,555,759</u>	<u>-</u>	<u>-</u>	<u>12,555,759</u>
Less accumulated depreciation for:				
Building and improvements	170,436	5,091	-	175,527
Equipment	324,981	7,352	-	332,333
Other water system assets	4,363,510	283,392	-	4,646,902
Transportation	309,447	12,516	-	321,963
Office furniture and equipment	62,445	-	-	62,445
Total accumulated depreciation	<u>5,230,819</u>	<u>308,351</u>	<u>-</u>	<u>5,539,170</u>
	<u>\$ 7,324,940</u>	<u>\$ (308,351)</u>	<u>\$ -</u>	<u>\$ 7,016,589</u>

Cumberland County Water District
Notes to Financial Statements
December 31, 2023 and 2022

Note 5 – Capital Assets (Continued)

The following is a summary of capital asset transactions for the year ended December 31, 2022:

	<u>Balance</u> <u>Dec. 31, 2021</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>Dec. 31, 2022</u>
Land and improvements	\$ 55,313	\$ -	\$ -	\$ 55,313
Building and improvements	233,837	-	-	233,837
Equipment	341,500	29,588	-	371,088
Other water system assets	11,463,010	-	-	11,463,010
Transportation	370,066	-	-	370,066
Office furniture and equipment	62,445	-	-	62,445
Construction in process	-	-	-	-
Totals at historical cost	<u>12,526,171</u>	<u>29,588</u>	<u>-</u>	<u>12,555,759</u>
Less accumulated depreciation for:				
Building and improvements	165,345	5,091	-	170,436
Equipment	317,752	7,229	-	324,981
Other water system assets	4,078,513	284,997	-	4,363,510
Transportation	294,108	15,339	-	309,447
Office furniture and equipment	62,445	-	-	62,445
Total accumulated depreciation	<u>4,918,163</u>	<u>312,656</u>	<u>-</u>	<u>5,230,819</u>
	<u>\$ 7,608,008</u>	<u>\$ (283,068)</u>	<u>\$ -</u>	<u>\$ 7,324,940</u>

Cumberland County Water District
Notes to Financial Statements
December 31, 2023 and 2022

Note 6 – Long-Term Debt

The following is a summary of long-term debt transactions for the year ended December 31, 2023:

	<u>Balance</u> <u>Dec. 31, 2022</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2023</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	\$ 51,999	\$ -	\$ 5,000	\$ 46,999	\$ 5,000
Loan payable to Kentucky Rural Water Finance Corporation, principal and interest at the rate of 2.375% to 4.25%, payable on a semi-annual basis, with final payment due January 1, 2049	1,465,000	-	100,000	1,365,000	105,000
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	635,129	-	43,192	591,937	43,517
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	2,460,000	-	52,000	2,408,000	52,500
Loan payable to equipment vendor, principal (0% interest) payable monthly, with final payment due June 2024	20,134	-	13,423	6,711	6,711
	<u>\$ 4,632,262</u>	<u>\$ -</u>	<u>\$ 213,615</u>	<u>\$ 4,418,647</u>	<u>\$ 212,728</u>

Cumberland County Water District
Notes to Financial Statements
December 31, 2023 and 2022

Note 6 – Long-Term Debt (Continued)

The following is a summary of long-term debt transactions for the year ended December 31, 2022:

	<u>Balance</u> <u>Dec. 31, 2021</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2022</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	\$ 56,999	\$ -	\$ 5,000	\$ 51,999	\$ 5,000
Loan payable to Kentucky Rural Water Finance Corporation, principal and interest at the rate of 2.375% to 4.25%, payable on a semi-annual basis, with final payment due January 1, 2049	1,560,000	-	95,000	1,465,000	100,000
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	677,999	-	42,870	635,129	43,192
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	2,510,000	-	50,000	2,460,000	52,000
Loan payable to equipment vendor, principal (0% interest) payable monthly, with final payment due June 2024	33,557	-	13,423	20,134	13,423
	<u>\$ 4,838,555</u>	<u>\$ -</u>	<u>\$ 206,293</u>	<u>\$ 4,632,262</u>	<u>\$ 213,615</u>

Cumberland County Water District
Notes to Financial Statements
December 31, 2023 and 2022

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>
2024	\$ 212,728	\$ 98,201	\$ 310,929
2025	208,343	91,997	300,340
2026	194,173	86,088	280,261
2027	182,405	80,757	263,162
2028	178,840	75,795	254,635
2029-2033	893,298	310,626	1,203,924
2034-2038	782,360	217,372	999,732
2039-2043	597,000	147,927	744,927
2044-2048	509,000	86,831	595,831
2049-2053	408,000	63,518	471,518
2054-2058	211,500	10,526	222,026
2059-2063	41,000	585	41,585
Total	<u>\$ 4,418,647</u>	<u>\$ 1,270,223</u>	<u>\$ 5,688,870</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 2023, 2022, 2021 and 2020 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

Management of the District has evaluated subsequent events through May 23, 2024, 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, 2023, 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 23, 2024.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2023-1 and 2023-2 that we consider to be significant deficiencies.

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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2023-3.

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.

Abner & Cox, PLLC

Abner & Cox, PLLC
London, Kentucky

May 23, 2024

Cumberland County Water District #1
Schedule of Findings and Responses
December 31, 2023

A. Findings – Financial Statement Audit

2023-1

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 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.

2023-2

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:

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 #1
Schedule of Findings and Responses
December 31, 2023

2023-3

Criteria:

Under the terms of loan agreements, the District is required to maintain accounts with minimum balances based on outstanding loan balances and advances.

Condition:

At December 31, 2023, the District does not have sufficient amounts on deposit based on the loan agreements.

Cause:

The District did not have available cash to maintain the required balances.

Effect:

The District failed to comply with the loan covenants.

Views of responsible officials and planned corrective actions:

The District plans to get in compliance with the loan covenants as soon as possible and maintain the required balances on deposit.