

Cumberland Falls Highway Water District

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

Cumberland Falls Highway Water District
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Independent Auditors' Report

To the Commissioners
Cumberland Falls Highway Water District
Corbin, Kentucky

Opinion

We have audited the accompanying financial statements of Cumberland Falls Highway Water District, which comprise the statement of net position as of December 31, 2023, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Cumberland Falls Highway 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 Falls Highway Water District, as of December 31, 2023, and the respective changes in financial position, and cash flows thereof for the year 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 Falls Highway 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 Falls Highway 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 Falls Highway 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 July 26, 2024 on our consideration of Cumberland Falls Highway 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 Falls Highway Water District's internal control over financial reporting and compliance.

Abner & Cox, PLLC

Abner & Cox, PLLC
London, Kentucky

July 26, 2024

Cumberland Falls Highway Water District
Statement of Net Position
December 31, 2023

Assets

Current Assets

Cash and cash equivalents	\$ 2,996,550
Investments	750,424
Accounts receivable	180,590
Unbilled accounts receivable	171,160
Inventories	82,324
Prepaid expenses	-
Total Current Assets	<u>4,181,048</u>

Noncurrent Assets

Restricted Assets

Customer deposits	145,032
Depreciation reserves	752,084
Debt service funds	132,858
Total Restricted Assets	<u>1,029,974</u>

Bond Premium Amortization	362
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Capital Assets

Land and improvements	50,655
Buildings and improvements	1,682,462
Equipment	1,191,768
Other water system assets	8,610,514
Transportation	163,065
Office furniture and equipment	21,412
Construction in Progress	992,655
Less: accumulated depreciation	<u>(6,250,295)</u>
Net Capital Assets	<u>6,462,236</u>

Total Noncurrent Assets	<u>7,492,572</u>
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Total Assets	<u><u>\$ 11,673,620</u></u>
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Cumberland Falls Highway Water District
Statement of Net Position (Continued)
December 31, 2023

Liabilities

Current Liabilities

Accounts payable	\$	64,928
Accrued interest payable		-
Accrued taxes payable		14,816
Customer deposits		144,893
Current portion of bonds payable		69,000
Current portion of loans payable		61,449
Total Current Liabilities		224,637

Noncurrent Liabilities

Long-term bonds payable, less current portion included in current liabilities		1,153,273
Long-term loans payable, less current portion included in current liabilities		2,101,569
Total Noncurrent Liabilities		3,254,842

Total Liabilities		3,479,479
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Net Position

Net investment in capital assets		3,076,945
Restricted		1,029,974
Unrestricted		3,956,773
Total Net Position		\$ 8,063,692

Cumberland Falls Highway Water District
 Statements of Revenues, Expenses and Changes in Net Position
 For the Year Ended December 31, 2023

Operating Revenues	
Water sales	\$ 2,147,096
Other revenues	<u>331,529</u>
Total Operating Revenues	<u>2,478,625</u>
Operating Expenses	
Salaries and wages	397,293
Employee benefits	316,435
Purchased water	618,332
Utilities	11,802
Materials and supplies	122,609
Contracted services	48,955
Vehicle and equipment expenses	56,133
Insurance	55,988
Office expenses	195,573
Directors fees	30,000
Depreciation	293,481
Bad debt expense	12,635
Other operating expenses	<u>68,253</u>
Total Operating Expenses	<u>2,227,488</u>
Operating Income	<u>251,137</u>
Non-operating Revenues (Expenses)	
Interest income	3,792
Grant revenue	650,051
Interest expense	<u>(92,046)</u>
Total Non-operating Revenues (Expenses)	<u>561,797</u>
Change in Net Position	812,934
Restated Net Position, Beginning of Year	<u>7,250,758</u>
Net Position, End of Year	<u><u>\$ 8,063,692</u></u>

Cumberland Falls Highway Water District
Statement of Cash Flows
For the Year Ended December 31, 2023

Cash Flows From Operating Activities	
Receipts from customers	\$ 2,470,150
Payments to employees	(401,836)
Payments to suppliers	<u>(1,467,419)</u>
Net Cash Provided by Operating Activities	<u>600,895</u>
Cash Flows From Capital and Related Financing Activities	
Purchases of property, plant and equipment	(1,040,851)
Principal payments on debt	(218,271)
Federal, state, and local grants	550,927
Proceeds from debt	<u>396,503</u>
Net Cash Used by Capital and Related Financing Activities	<u>(311,692)</u>
Cash Flows From Investing Activities	
Interest income	<u>3,792</u>
Net Cash Provided by Investing Activities	<u>3,792</u>
Net Increase in Cash and Cash Equivalents	292,995
Cash and Cash Equivalents at Beginning of Year	<u>3,733,529</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 4,026,524</u></u>
Reconciliation of cash per Statement of Net Position to cash per Statement of Cash Flows:	
Cash and cash equivalents	\$ 2,996,550
Customer deposits	145,032
Depreciation reserves	752,084
Debt and interest funds	<u>132,858</u>
Cash and cash equivalents per Statement of Cash Flows	<u><u>\$ 4,026,524</u></u>

Cumberland Falls Highway Water District
Statement of Cash Flows (Continued)
For the Year Ended December 31, 2023

Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income	\$ 251,137
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation	293,481
Bad Debt Expense	12,635
(Increase) Decrease in operating assets	
Accounts receivable	8,751
Unbilled receivables	
Inventory	10,881
Prepaid expenses	15,096
Increase (Decrease) in operating liabilities	
Accounts payable	30,609
Accrued expenses	<u>(21,695)</u>
Net Cash Provided by Operating Activities	<u>\$ 600,895</u>

Cumberland Falls Highway Water District
Notes to Financial Statements
December 31, 2023

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Cumberland Falls Highway Water District, of Whitley County, Kentucky (the District) was created in 1967 under Chapter 74 of the Kentucky Revised Statutes and is exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code. The District is governed by a five-person board of Commissioners, which is appointed by the Whitley County Fiscal Court. The District is regulated by the Kentucky Public Service Commission.

Cumberland Falls Highway Water 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 Whitley County, Kentucky. The District's primary source of revenue is from water sales to its members and customers, including public bodies and local businesses in its service area. Water is purchased from the Corbin City Utilities Commission, City of Williamsburg, West Laurel Water District, and Whitley County Water District and resold to residential and commercial customers.

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 with maturities of 90 days or less to be equivalents.

Cumberland Falls Highway Water District
Notes to Financial Statements
December 31, 2023

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. The District uses the direct write-off method for accounting for bad debts, which management feels is not materially different from the allowance method. Accounts written off as uncollectible during the year ended December 31, 2023 totaled \$12,635.

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

Inventories consist of expendable supplies held for consumption stated at a lower of cost or market as determined by the first-in, first-out basis of inventory valuation.

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 deposit from customers to ensure collection of its water charges. Interest is paid on these deposits at the rate established annually by the Kentucky Public Service Commission and applied to customer accounts each December.

Amortization of Debt Expense

Debt expense was incurred on the Waterworks Refunding and Improvement Revenue Bond of 1986, Series B, originally totaling \$13,799. The debt expense is being amortized over the life of the outstanding bonds. Amortization expense was recorded as a part of interest expense for the year ended December 31, 2023, in the amount of \$181. The unamortized value of loan premium was \$362 at December 31, 2023.

Cumberland Falls Highway Water District
Notes to Financial Statements
December 31, 2023

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 bond resolutions, the District is required to maintain certain accounts and funds for the benefit and protection of the creditors. The resolutions also 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 was \$884,942. 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 balances of customer deposits held at December 31, 2023 was \$145,032.

Cumberland Falls Highway Water District
Notes to Financial Statements
December 31, 2023

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, the District's total deposits at banks of \$4,026,524 were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$	-
Uninsured and collateral held by pledging bank		3,776,524
Uninsured and collateral held by pledging bank's trust department not in the District's name		-
Total		<u><u>\$ 3,776,524</u></u>

Note 5 – Capital Assets

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

	<u>Balance</u> <u>Dec. 31, 2022</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>Dec. 31, 2023</u>
Land and improvements	\$ 50,655	\$ -	\$ -	\$ 50,655
Building and improvements	1,682,462	-	-	1,682,462
Equipment	1,143,576	48,196	-	1,191,772
Other water system assets	8,610,514	-	-	8,610,514
Transportation	163,065	-	-	163,065
Office furniture and equipment	21,411	-	-	21,411
Construction in process	-	992,655	-	992,655
Totals at historical cost	<u>11,671,683</u>	<u>1,040,851</u>	<u>-</u>	<u>12,712,533</u>
Less accumulated depreciation for:				
Building and improvements	459,092	45,488	-	504,580
Equipment	424,820	33,490	-	458,310
Other water system assets	4,913,790	196,871	-	5,110,661
Transportation	142,414	15,854	-	158,268
Office furniture and equipment	16,697	1,778	-	18,475
Total accumulated depreciation	<u>5,956,813</u>	<u>293,481</u>	<u>-</u>	<u>6,250,295</u>

Cumberland Falls Highway Water District
Notes to Financial Statements
December 31, 2023

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>
Bond payable to USDA Rural Development, principal and interest, at the rate of 4.5%, payable on a semi-annual basis, with final payment due January 1, 2037	\$ 406,460	\$ -	\$ 24,000	\$ 382,460	\$ 25,000
Bond payable to USDA Rural Development, principal and interest, at the rate of 4.125%, payable on a semi-annual basis, with final payment due January 1, 2047	1,092,609	-	29,000	1,063,609	29,000
Bond payable to USDA Rural Development, principal and interest, at the rate of 2.625%, payable on a semi-annual basis, with final payment due January 1, 2055	738,500	-	14,000	724,500	15,000
Loan payable to KIA, principal and interest, at the rate of 0.75%, payable on a semi-annual basis, with final payment due January 1, 2042	969,490	396,503	151,271	1,214,722	61,449
	<u>\$ 3,207,059</u>	<u>\$ 396,503</u>	<u>\$ 218,271</u>	<u>\$ 3,385,291</u>	<u>\$ 130,449</u>

Cumberland Falls Highway Water District
Notes to Financial Statements
December 31, 2023

Note 6 – Long-Term Debt (Continued)

Future bond principal and interest payment amounts are summarized as follows:

USDA RURAL DEVELOPMENT BONDS			
YEAR	PRINCIPAL	INTEREST	TOTAL
2024	\$ 69,000	\$ 83,933	\$ 152,933
2025	72,000	81,158	153,158
2026	75,000	78,262	153,262
2027	78,000	75,246	153,246
2028	81,000	72,104	153,104
2029-2033	456,500	308,666	765,166
2034-2038	416,960	211,547	628,507
2039-2043	412,500	134,609	547,109
2044-2048	307,609	55,668	363,277
2049-2053	152,000	20,344	172,344
2054	50,000	1,378	51,378
Total	\$ 2,170,569	\$ 1,122,915	\$ 3,293,484

Future loan principal and interest due to the Kentucky Infrastructure Authority is as follows:

Kentucky Infrastructure Authority			
Year	Principal	Interest	Total
2024	\$ 61,449	\$ 12,009	\$ 73,457
2025	61,910	11,378	73,289
2026	62,376	10,758	73,133
2027	62,844	10,133	72,977
2028	63,316	9,503	72,820
2029-2033	323,790	37,906	361,696
2034-2038	336,140	21,441	357,580
2039-2044	242,897	4,876	247,773
	\$ 1,214,722	\$ 118,004	\$ 1,332,726

Cumberland Falls Highway Water District
Notes to Financial Statements
December 31, 2023

Note 7 – Retirement Plan

Cumberland Falls Highway Water District adopted a Savings Incentive Match Plan for Employees of Small Employers Individual Retirement Account (SIMPLE IRA or SIMPLE) effective October 1, 2006. Employees are eligible for participation in the SIMPLE IRA if they are expected to receive at least \$5,000 in compensation during the year. The district matches participant contributions to Plan up to 3% of the participant's compensation. The District's contributions to the plan for 2023 totaled \$8,666.

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 – Prior Period Adjustment

The District restated net position at December 31, 2022 by \$143,977. Financial statements for the year ended December 31, 2022 did not include an accrual for unbilled receivables.

Net position at December 31, 2022:	
As previously reported	\$ 7,106,781
Adjustment to record unbilled accounts receivable at December 31, 2022	<u>143,977</u>
Net position, as restated	<u>\$ 7,250,758</u>

Note 10 - Subsequent Events

Management of the District has evaluated subsequent events through July 26, 2024, the date on which the financial statements were available to be issued. No events have occurred after the date of the financial statements that would require adjustment to the financial statements.



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
Corbin, 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 July 26, 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 a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2023-1 that we consider to be a significant deficiency.

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 Falls Highway 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

July 26, 2024

Cumberland Falls Highway Water District
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 utilizing a third party accountant for bookkeeping along with being transparent with the Commissioners helps mitigate the issue of segregation of duties. .