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**Cunningham Water District**

Financial Report

Year Ended December 31, 2016

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Board of Commissioners
Cunningham Water District
Cunningham, KY

Report on the Financial Statements

We have audited the accompanying financial statements of Cunningham Water District, as of and for the year ended December 31, 2016, 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit 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 auditor's 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 opinions.
Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Cunningham Water District, as of December 31, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis information of pages 3-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 13, 2017, on our consideration of the Cunningham 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 Cunningham Water District’s internal control over financial reporting and compliance.

David M. Anderson, CPA
Ledbetter, Kentucky
March 13, 2017
MANAGEMENT'S DISCUSSION and ANALYSIS
For the year ended December 31, 2016
(Unaudited)

As management of the District we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2016.

FINANCIAL HIGHLIGHTS

- The financial statements show an increase in cash of $5,014.96 resulting in a cash balance of $164,362.78 at year end.
- The assets of the District exceeded its liabilities at year end by $355,556 (net position).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's financial statements are those required for a government's proprietary type fund and notes to the financial statements.

PROPRIETARY FUND – The District's financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business. The statement of net position presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the District's net position changed during the calendar year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

NOTES TO BASIC FINANCIAL STATEMENTS – The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.
FINANCIAL ANALYSIS

The district’s net position, the amount that assets exceeded liabilities, was $355,556 at the close of the most recent year.

CONDENSED NET POSITION

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>177,691</td>
<td>169,972</td>
</tr>
<tr>
<td>Capital Assets</td>
<td>178,501</td>
<td>185,710</td>
</tr>
<tr>
<td>Total Assets</td>
<td>356,192</td>
<td>355,682</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>636</td>
<td>378</td>
</tr>
</tbody>
</table>

Net Position

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net investment in Capital Assets</td>
<td>178,500</td>
<td>185,710</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>177,056</td>
<td>170,350</td>
</tr>
<tr>
<td>Total Net Position</td>
<td>355,556</td>
<td>356,060</td>
</tr>
</tbody>
</table>

The largest portion of the District’s combined net position reflects its investment in capital assets (e.g. land, water tower, water meters and lines), less any debt, used to acquire those assets, that is still outstanding. The District uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending.

CHANGES IN NET POSITION

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>46,129</td>
</tr>
<tr>
<td>Expenses</td>
<td>46,633</td>
</tr>
<tr>
<td>Decrease in net position</td>
<td>(504)</td>
</tr>
</tbody>
</table>

CAPITAL ASSETS

Capital assets costing less than $500 are expensed in the current year. Capital assets did not change during the current year except for $7,210 charged to depreciation.
ECONOMIC FACTORS

The District has approximately 161 active service customers and that number is not expected to change extremely in the near future.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances. If you have any questions about this report or need additional information, contact Eric Young at 7506 US HWY 62, Cunningham, Ky. 42035 or call (270-642-2287)
ASSETS

Current Assets
- Cash and cash equivalents $164,362.78
- Accounts Receivable 3,793.69
- Inventory 8,083.53
- Prepayments 1,451.50

Total current assets 177,691.50

Noncurrent Assets
- Capital assets:
  - Nondepreciable 1,000.00
  - Depreciable, net of accumulated depreciation 177,500.68

Total noncurrent assets 178,500.68

Total assets 356,192.18

LIABILITIES

Current Liabilities
- Accounts payable 635.82

Total liabilities 635.82

NET POSITION

Net invested in capital assets 178,500.68
- Unrestricted 177,055.68

TOTAL NET POSITION $355,556.36

See accompanying notes to the basic financial statements.
CUNNINGHAM WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

<table>
<thead>
<tr>
<th>OPERATING REVENUE</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Charges for service</td>
<td>$46,095.03</td>
</tr>
<tr>
<td>Miscellaneous Income</td>
<td>$30.45</td>
</tr>
<tr>
<td>Total operating revenue</td>
<td>$46,125.48</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPERATING EXPENSES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>$7,209.56</td>
</tr>
<tr>
<td>Contract services</td>
<td>$14,335.65</td>
</tr>
<tr>
<td>Facilities &amp; equipment rent</td>
<td>$1,200.00</td>
</tr>
<tr>
<td>Maintenance</td>
<td>$7,214.85</td>
</tr>
<tr>
<td>Insurance</td>
<td>$2,104.14</td>
</tr>
<tr>
<td>Chemicals</td>
<td>$2,387.24</td>
</tr>
<tr>
<td>Water testing</td>
<td>$1,288.00</td>
</tr>
<tr>
<td>Utilities</td>
<td>$2,895.30</td>
</tr>
<tr>
<td>Books, subscriptions and reference</td>
<td>$450.00</td>
</tr>
<tr>
<td>Office supplies</td>
<td>$1,123.80</td>
</tr>
<tr>
<td>Supplies</td>
<td>$6,399.04</td>
</tr>
<tr>
<td>Bank fees</td>
<td>$25.35</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>$46,632.93</td>
</tr>
</tbody>
</table>

| Operating income (loss)    | $(507.45) |

<table>
<thead>
<tr>
<th>NON-OPERATING REVENUES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>$3.38</td>
</tr>
</tbody>
</table>

| Change in net position     | $(504.07) |

| TOTAL NET POSITION-BEGINNING | $356,060.43 |
| TOTAL NET POSITION-ENDING   | $355,556.36 |

See accompanying notes to the basic financial statements.
CUNNINGHAM WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

Cash flows From operating activities
Collections from customers $46,055.40
Cash paid to suppliers (41,043.82)

Net cash provided by operating activities $5,011.58

Cash flows from investing activities:
Interest Income 3.38

Net cash provided by investing activities 3.38

Net increase in cash 5,014.96

Cash and cash equivalents, beginning of year 159,347.82

Cash and cash equivalents, end of year $164,362.78

Reconciliation of operating (loss) to net cash provided by operating activities:
Operating loss $ (507.45)
Adjustments-Operating Activities:
Depreciation 7,209.56
(Increase) Decrease in:
Accounts receivable (70.08)
Increase (Decrease) in:
Prepayments 146.50
Inventory (2,025.15)
Accounts Payable 258.20

Net cash provided by operating activities $5,011.58

See accompanying notes to the basic financial statements.
1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Entity – The Cunningham Water District is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a Special Purpose Government Entity, subdivision of the Department of Local Government, of the Commonwealth of Kentucky.

Principles determining scope of reporting entity – The District’s financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental “reporting entity” as defined by the Governmental Accounting Standards Board pronouncement.

Basis of accounting – The District is presented as a proprietary enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

The District follows all pronouncements of the Government Accounting Standards Board. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund’s principal ongoing operations. The principal operating revenues of the District are charges to customers for water distribution. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues not meeting this definition are reported as non-operating revenue and expenses.

Budget – Business-type activities use budgets for internal planning and control, but the budgets generally do not have the legal status or political nature of governmental activity budgets. For instance, usually they are not subject to public comment and are not formally adopted by the governing body. Cunningham Water District does not adhere to it’s adopted budget.

Accounts Receivable – Receivables result from unpaid billings for water service to customers and from unpaid billings related to work performed for, or materials sold to, certain entities. There is no allowance for uncollectible accounts because it would be very small.
Inventory and Prepaid Items – Inventories are stated at the lower of cost, on a first-in, first-out basis, or market value.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

Capital Assets – Capital assets include land, buildings, equipment and improvements. Capital assets purchased, acquired or developed, are carried at historical cost or estimated historical cost if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions and improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The District defines capital assets as having a useful life longer than one year and an initial, individual cost which exceeds $500.

Land and construction in progress are not depreciated. The other property, plant, and equipment are depreciated on the straight-line basis over the following estimated useful lives:

- Buildings: 20-50 Years
- Equipment: 5-20 Years
- Improvements: 7-50 Years

Net Position – The net investment in capital assets is the same as its total non-current assets because the District has no other non-current assets or related debt.

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.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the District considers all highly liquid investments to be cash equivalents.
CUNNINGHAM WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

2 – CAPITAL ASSETS

The District had no change in it’s capital assets during the year except the recording of $7,209.56 depreciation.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital assets nondepreciable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$ 1,000.00</td>
<td>--</td>
<td>--</td>
<td>$ 1,000.00</td>
</tr>
<tr>
<td>Capital assets depreciable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water System</td>
<td>444,670.00</td>
<td>--</td>
<td>--</td>
<td>444,670.00</td>
</tr>
<tr>
<td>Office Furniture</td>
<td>1,512.00</td>
<td>--</td>
<td>--</td>
<td>1,512.00</td>
</tr>
<tr>
<td></td>
<td>446,182.00</td>
<td>--</td>
<td>--</td>
<td>446,182.00</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(261,471.76)</td>
<td>(7,209.56)</td>
<td>--</td>
<td>(268,681.32)</td>
</tr>
<tr>
<td>Total depreciable, net of depreciation</td>
<td>184,710.24</td>
<td>(7,209.56)</td>
<td>--</td>
<td>177,500.68</td>
</tr>
<tr>
<td>Total capital assets-net</td>
<td>$185,710.24</td>
<td>$ (7,209.56)</td>
<td>$ --</td>
<td>$178,500.68</td>
</tr>
</tbody>
</table>

3 – COMMERCIAL INSURANCE

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability and fidelity bond coverage. Settled claims have not exceeded the commercial coverage in any of the past three years.

4—CASH AND CASH EQUIVALENTS

At year end, the carrying amount of the District’s cash and cash equivalents was $164,362.78. These balances were completely covered by the Federal Deposit Insurance Corporation (FDIC). The District has no formal investment policies.

5—SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 13, 2017, the date which financial statements were available to be issued and there were no events which would have substantially changed these financial statements.
INDEPENDENT AUDITOR’S 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

Board of Commissioners
Cunningham Water District
Cunningham, Kentucky

We have audited, in accordance with the 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, the financial statements of the business-type activities of Cunningham Water District, Cunningham, Kentucky as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Cunningham Water District’s basic financial statements and have issued our report thereon dated March 13, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cunningham 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cunningham Water District’s internal control. Accordingly, we do not express an opinion on the effectiveness of Cunningham Water District’s internal control.

A deficiency in internal control exits 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, (pages 14 & 15) as Condition 1 and Condition 2.
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cunningham 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.

Cunningham Water District’s Response to Findings

Cunningham Water District’s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Cunningham 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 results 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.

David M. Anderson, CPA
Ledbetter, Kentucky
March 13, 2017
SUMMARY OF AUDITOR’S RESULTS

Financial Statements
Type of auditor’s report issued: unmodified

Internal control over financial reporting:
Material weakness(es) identified? yes no
Significant deficiency(ies) identified? yes none reported
Noncompliance material to financial statements noted? yes no

FINANCIAL STATEMENT FINDINGS

FINDINGS

Condition 1: The District does not have adequate segregation of duties over receipts and disbursements. The basic premise in a good system of internal control is that an employee should not have access to assets and responsibility for the related accounting records.

Cause: The District has an inadequate number of personnel to achieve true segregation of duties.

Effect: The District is at risk of misappropriation of assets.

Recommendation: The best solution to segregation of duties is the hiring of additional personnel. If the District cannot hire additional personnel, we recommend the District research other methods of control over receipts and disbursements.

Management’s Response: The District agrees that they do not have adequate segregation of duties. The District strives to provide safe, clean drinking water to their customers at a reasonable price. In order to have adequate segregation of duties it would require additional personnel, which would increase expenses.

Condition 2: The District does not have employees with the necessary accounting expertise or knowledge to properly prepare financial statements and related disclosures in accordance with the generally accepted accounting principles. Accordingly, the District relies on its auditors to prepare year-end financial statements and related disclosures in accordance with generally accepted accounting principles.
**Cause:** The District’s personnel have not received training in areas of preparation of financial statements and the related required disclosures in accordance with generally accepted accounting principles.

**Effect:** In absence of the necessary knowledge and expertise, the District cannot properly prepare financial statements and the related required disclosures in accordance with generally accepted accounting principles. Accordingly, the District requested its independent auditors to assist in the preparation of such statements and disclosures.

**Recommendation:** We recommend the District consider additional training of personnel in the area of financial statement preparation in accordance with generally accepted accounting principles.

**Management’s Response:** We do not have employees with the necessary accounting expertise to prepare financial statements and the related required disclosures. To employ someone with that expertise would not be feasible for the District.

**PRIOR YEAR AUDIT FINDINGS**

None – The District has not had an audit for the past several years.