

**Montgomery County Water  
District #1**

**Financial Statements and  
Independent Auditor's Report**

**December 31, 2018 and 2017**

PREPARED BY  
**VICKIE C. RICHARDSON, CPA, PSC**  
114 EAST HIGH STREET  
MT. STERLING, KY 40353

# Montgomery County Water District #1

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***Vickie C. Richardson, CPA, PSC***

*114 East High Street  
Mount Sterling, KY 40353*

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**INDEPENDENT AUDITOR'S REPORT**

To the Commissioners  
Montgomery County Water District #1  
Mt. Sterling, Kentucky

**Report on the Financial Statements**

I have audited the accompanying modified cash basis financial statements of the business-type activities of the Montgomery County Water District #1, component unit of Montgomery County Fiscal Court, as of and for the years ended December 31, 2018 and December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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***

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### ***Opinions***

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the business-type activities of Montgomery County Water District #1, as of December 31, 2018, and December 31, 2017, and the respective changes in modified cash basis financial position, and cash flows for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

### ***Basis of Accounting***

I draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinions are not modified with the respect to this matter.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated August 28, 2019, on my consideration of the Montgomery County Water District #1's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Montgomery County Water District #1's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Montgomery County Water District #1's internal control over financial reporting and compliance.

*Vicki C. Richardson, CPA, PSC*

August 28, 2019

This report contains 15 pages.

**Montgomery County Water District #1**  
**STATEMENT OF NET POSITION-MODIFIED CASH BASIS**  
For the years ended December 31, 2018 and 2017

**ASSETS**

|                               | <u>2018</u>        | <u>2017</u>        |
|-------------------------------|--------------------|--------------------|
| Current assets                |                    |                    |
| Cash                          | \$ 107,446         | \$ 116,691         |
| Accounts receivable           | <u>31,067</u>      | <u>30,310</u>      |
| Total current assets          | <u>138,513</u>     | <u>147,001</u>     |
| Restricted assets             |                    |                    |
| Cash – reserve accounts       | -0-                | 107,741            |
| Property and equipment        |                    |                    |
| Buildings                     | 298,790            | 285,596            |
| Water system                  | 2,326,303          | 2,323,740          |
| Vehicle                       | 18,027             | 18,027             |
| Office equipment              | 47,725             | 47,725             |
| Land                          | <u>102,609</u>     | <u>102,609</u>     |
|                               | 2,793,454          | 2,777,697          |
| Less accumulated depreciation | <u>(1,330,617)</u> | <u>(1,278,855)</u> |
| Net property and equipment    | <u>1,462,837</u>   | <u>1,498,842</u>   |
| Total assets                  | <u>\$1,601,350</u> | <u>\$1,753,584</u> |

See accompanying notes.

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**Montgomery County Water District #1**  
**STATEMENT OF NET POSITION- MODIFIED CASH BASIS**  
For the years ended December 31, 2018 and 2017

**LIABILITIES AND NET POSITION**

|                                   | <u>2018</u>        | <u>2017</u>        |
|-----------------------------------|--------------------|--------------------|
| Current liabilities               |                    |                    |
| Accounts payable                  | \$ 55,210          | \$ 53,449          |
| Customer deposits                 | 28,350             | 28,230             |
| Accrued taxes                     | 5,797              | 5,715              |
| Accrued interest payable          | -0-                | 2,894              |
| Payable from restricted cash      | 34                 | 145                |
| Notes payable - current portion   | <u>-0-</u>         | <u>20,000</u>      |
| Total current liabilities         | <u>89,391</u>      | <u>110,433</u>     |
| Notes payable- long term          | -0-                | 89,000             |
| Total long term liabilities       | <u>-0-</u>         | <u>89,000</u>      |
| Total liabilities                 | <u>89,391</u>      | <u>199,433</u>     |
| Fund equity                       |                    |                    |
| Net investment in capital assets  | 2,053,735          | 2,047,235          |
| Unrestricted net position         | <u>(541,776)</u>   | <u>(493,084)</u>   |
| Total fund equity                 | <u>1,511,959</u>   | <u>1,554,151</u>   |
| Total liabilities and fund equity | <u>\$1,601,350</u> | <u>\$1,753,584</u> |

See accompanying notes.

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**Montgomery County Water District #1**  
**COMPARATIVE STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET**  
**POSITION-MODIFIED CASH BASIS**  
For the years ended December 31, 2018 and 2017

|  | <u>2018</u>         | <u>2017</u>         |
|--|---------------------|---------------------|
| <b>Revenues</b>                                    |                     |                     |
| User fees  | \$ 333,355          | \$ 336,318          |
| Late charges                                       | 6,970               | 6,163               |
| Connect/Reconnect fees                             | 5,125               | 4,075               |
| Jobbing & contract                                 | <u>12,836</u>       | <u>16,111</u>       |
| Total revenues                                     | <u>358,286</u>      | <u>362,667</u>      |
| <b>Expenses</b>                                    |                     |                     |
| Water purchased                                    | 134,016             | 131,249             |
| Salaries, taxes and benefits                       | 144,552             | 137,885             |
| Office expense                                     | 8,154               | 9,223               |
| Insurance  | 6,558               | 6,534               |
| Utilities  | 14,720              | 13,172              |
| Legal and accounting                               | 5,765               | 5,750               |
| Water tests  | 3,007               | 2,959               |
| Contract labor                                     | 3,330               | 200                 |
| Maintenance and repairs                            | 15,370              | 13,289              |
| Supplies   | 12,560              | 6,502               |
| Depreciation                                       | 51,761              | 54,196              |
| Advertising  | 53                  | 49                  |
| Miscellaneous                                      | 3,454               | 3,723               |
| Vehicle expense                                    | <u>893</u>          | <u>693</u>          |
| Total operating expenses                           | <u>404,193</u>      | <u>385,424</u>      |
| Operating income                                   | <u>( 45,907)</u>    | <u>( 22,757)</u>    |
| <b>Non-operating revenues (expenses)</b>           |                     |                     |
| Interest income                                    | 177                 | 300                 |
| Interest expense                                   | <u>(2,962)</u>      | <u>(7,835)</u>      |
| Net non-operating expenses                         | <u>(2,785)</u>      | <u>(7,535)</u>      |
| Net increase/(decrease) in unrestricted net assets | (48,692)            | (30,292)            |
| Net position, beginning of year (restated)         | <u>(493,084)</u>    | <u>(462,792)</u>    |
| Net position, end of year                          | <u>\$ (541,776)</u> | <u>\$ (493,084)</u> |

See accompanying notes.

**Montgomery County Water District #1**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
For the years ended December 31, 2018 and 2017

|   | <u>2018</u>       | <u>2017</u>       |
|---|-------------------|-------------------|
| Cash flows from operating activities:     |                   |                   |
| Tap on fees                               | \$ 6,500          | \$ 2,000          |
| Receipts from customers                   | 344,693           | 347,127           |
| Jobbing and contract                      | 13,078            | 17,176            |
| Water purchased                           | (131,293)         | (132,401)         |
| Payments to and for employees             | (144,455)         | (136,959)         |
| Payments to contractors and suppliers     | <u>(77,411)</u>   | <u>(62,173)</u>   |
| Net cash provided by operating activities | <u>11,112</u>     | <u>34,770</u>     |
| Cash flows from investing activities:     |                   |                   |
| Capital expenditures                      | (15,757)          | (17,064)          |
| Interest income                           | <u>177</u>        | <u>299</u>        |
| Net cash used by investing activities     | <u>(15,580)</u>   | <u>(16,765)</u>   |
| Cash flows from financing activities:     |                   |                   |
| Interest expense                          | (3,518)           | (5,925)           |
| Note payments                             | <u>(109,000)</u>  | <u>(19,000)</u>   |
| Net cash used by financing activities     | <u>(112,518)</u>  | <u>(24,925)</u>   |
| Increase/(decrease) in cash               | (116,986)         | (6,920)           |
| Cash at beginning of year                 | <u>224,432</u>    | <u>231,352</u>    |
| Cash at end of year                       | <u>\$ 107,446</u> | <u>\$ 224,432</u> |
| Cash consists of:                         |                   |                   |
| Cash - unrestricted                       | \$ 107,446        | \$ 116,691        |
| Cash - restricted                         | <u>0</u>          | <u>107,741</u>    |
|   | <u>\$ 107,446</u> | <u>\$ 224,432</u> |

See accompanying notes.

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**Montgomery County Water District #1**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
For the years ended December 31, 2018 and 2017

|   | <u>2018</u>      | <u>2017</u>      |
|---|------------------|------------------|
| Cash flows from operating activities:   |                  |                  |
| Operating increase/decrease in unrestricted net assets  | \$ (45,907)      | \$ (22,757)      |
| Adjustments to reconcile operating increase/decrease in unrestricted net assets to net cash provided by operating activities: |                  |                  |
| Depreciation  | 51,761           | 54,196           |
| Customer deposit interest   | (2,338)          | (2,380)          |
| Tap on fees   | 6,500            | 2,000            |
| (Increase)/decrease in accounts receivable  | (757)            | 571              |
| Increase/(decrease) in accounts payable   | <u>1,853</u>     | <u>3,140</u>     |
| Net cash provided by operating activities   | <u>\$ 11,112</u> | <u>\$ 34,770</u> |

See accompanying notes.

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**Montgomery County Water District #1**  
NOTES TO FINANCIAL STATEMENTS  
For the year ended December 31, 2018

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Montgomery County Water District #1 (the District) is a public water utility which operates in Montgomery County, Kentucky, and its sales are to residential customers and business customers. The District was organized on April 1, 1961.

**Reporting Entity**

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Montgomery County Water District #1.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria, there are no other organizations included in these financial statements.

**Regulatory Requirements**

The District is subject to the regulatory authority of the Kentucky Public Service Commission (PSC) pursuant to KRS 278.040.

**Basis of Accounting**

The financial statements of the Montgomery County Water District #1 are prepared using the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, effective January 1, 2016. The financial statements for the year ended December 31, 2015, and the preceding years, were prepared in accordance with GAAP. The variances between the presentation of the modified cash basis of accounting and accounting principles generally accepted in the United States of America (GAAP) include omission of net pension liabilities and deferred outflows of resources related to pensions. Such variances are presumed to be material. However, similar to financial statements prepared in accordance with GAAP, these financial statements reflect the capitalized cost of property and equipment and related depreciation, accounts receivable, accounts payable, accrued liabilities, and notes payable.

**Montgomery County Water District #1**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2018

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Starting in 2015, GAAP required entities participating in pension plans, as described in Note 5, to account for net pension liabilities and deferred outflows of resources related to pensions. The commissioners determined that the financials were more appropriate, from a management perspective, presented on the modified cash basis of accounting.

**Cash and Cash Equivalents**

The District considers all highly liquid investments with a maturity of twelve months or less when purchased to be cash equivalents.

**Accounts Receivable**

Accounts receivable consist of customer receivables. The amounts reflected in the financial statements are net of allowance for uncollectible accounts in the amount of \$.00 for December 31, 2018 and 2017.

**Estimates**

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2 - CASH**

Cash is carried at cost, which approximates fair value. At December 31, 2018 the carrying amount of unrestricted cash was \$107,446 and the bank balances were \$112,507.

All of the cash accounts are maintained at a local bank. The cash accounts are secured by federal deposit insurance, and if the bank balances exceed \$250,000 the cash accounts are also collateralized with securities held by the financial institutions agent in the entity's name.

**NOTE 3 – PROPERTY AND EQUIPMENT**

|                          | <u>2018</u>         | <u>2017</u>         |
|--------------------------|---------------------|---------------------|
| Beginning Balance        | \$ 2,777,697        | \$ 2,760,634        |
| Additions:               |                     |                     |
| Water system             | 2,564               | 2,847               |
| Building -               | 13,193              | 29,980              |
| Construction in progress | <u>-0-</u>          | <u>(15,764)</u>     |
| Total additions          | 15,757              | 17,063              |
| Disposals .              | <u>0</u>            | <u>0</u>            |
| Ending balance           | <u>\$ 2,793,454</u> | <u>\$ 2,777,697</u> |

**Montgomery County Water District #1**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2018

**NOTE 3 – PROPERTY AND EQUIPMENT- CONTINUED**

MCWD#1 capitalizes property and equipment over \$500, and all water meters in any dollar amount. Lesser amounts of other property and equipment are expensed. Purchased property and equipment is capitalized at cost. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Software is amortized over three years.

**NOTE 4 - NOTES PAYABLE**

Notes payable as of December 31, 2018 and 2017 consists of the following:

|   | <u>2018</u>    |                   | <u>2017</u>    |                   |
|---|----------------|-------------------|----------------|-------------------|
|   | <u>Current</u> | <u>Noncurrent</u> | <u>Current</u> | <u>Noncurrent</u> |
| USDA Rural Development, dated February 1, 1984, principal payment due each January, interest payments due January and July, interest rate of 5% | \$ -0-         | \$ -0-            | \$ 20,000      | \$89,000          |

|                   | <u>2018</u>   |  | <u>2017</u>       |  |
|-------------------|---------------|--|-------------------|--|
| Beginning Balance | \$ 109,000    |  | \$ 128,000        |  |
| Payments          | 109,000       |  | 19,000            |  |
| New Loans         | <u>-0-</u>    |  | <u>-0-</u>        |  |
| Ending Balance    | <u>\$ -0-</u> |  | <u>\$ 109,000</u> |  |

**NOTE 5 – PENSION PLAN**

Montgomery County Water District #1 is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website. CERS is on a June 30 fiscal year end, but MCWD#1 is on a calendar year end.

*Plan Description* – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city and school board, and any additional eligible local agencies electing to participate in

**Montgomery County Water District #1**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2018

NOTE 5 – PENSION PLAN - CONTINUED

the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

*Contributions* – For the years ended June 30, 2018 and 2017, plan members were required to contribute 5% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rate shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2018, participating employers contributed (for pension and insurance combined) 19.18% of each employee's wages, and 18.68% percentage of each employee's wages for the year ended June 30, 2017.

MCWD#1 contributed \$15,823 for the year ended December 31, 2018, and \$12,068 for the year ended December 31, 2017. All of the contributions were allocated to the CERS pension fund.

NOTE 6 - CONCENTRATIONS

The District is economically dependent on Mt. Sterling Water and Sewer System as the sole supplier of water. Water purchased from Mt. Sterling Water and Sewer System was \$134,016 and \$131,249 for the years ended December 31, 2018 and 2017, respectively.

NOTE 7- RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and missions; injuries to employees; and natural disasters. In addition to its general liability insurance, the District also carries commercial insurance for other risks of losses such as workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 28, 2019 the date on which the financial statements were issued.

**Montgomery County Water District #1**  
**NOTES TO FINANCIAL STATEMENTS**  
For the year ended December 31, 2018

**NOTE 8 - SUBSEQUENT EVENTS - CONTINUED**

On September 11, 2018, the Commissioners voted to apply for a loan with USDA Rural Development to fund the purchase of radio read meters, which would replace the current water meters, and for the purchase of various equipment. The District is in the process of applying for a \$300,000 loan.

***Vickie C. Richardson, CPA, PSC***

*114 East High Street  
Mount Sterling, KY 40353*

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**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***

To the Commissioners  
Montgomery County Water District #1  
Mt. Sterling, KY

I have audited, 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, the financial statements of the business-type activities of Montgomery County Water District #1 (the District), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Montgomery County Water District #1's basic financial statements and have issued my report thereon dated August 28, 2019.

**Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered the 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the Montgomery County Water District #1'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.

My 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 have not been identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control, described below, that I consider to be significant deficiencies.

### Finding 1

- **Condition:** There is a lack of segregation of duties. The office staff consists of one full-time employee and one part-time employee. However, the duties are not segregated between the two employees. With such a small staff, it is impossible to have complete segregation of duties, but efforts should be made to attempt segregation of duties when possible.
- **Management response and corrective action plan:** The Commissioners will continue to review past due reports, reconciliations, and other financial reports to compensate for the lack of segregation of duties.

### Finding 2

- **Condition:** The District does not have personnel that have the skills to prepare the financial statements. Nor do they have the capabilities to prevent, detect, and correct a misstatement.
- It is not economically feasible for MDWD #1 to hire personnel with appropriate accounting skills and expertise. The Commissioners will provide oversight.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Montgomery County Water District #1's Response to Findings**

The District's response to the findings identified in my audit is described previously. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.



***Vickie C. Richardson, CPA, PSC***  
*114 East High Street*  
*Mount Sterling, KY 40353*

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**Purpose of this Report**

The purpose of this report is solely to describe the scope of my 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.

Mt. Sterling Kentucky  
August 28, 2018