

Caveland Sanitation Authority, Inc.
dba Caveland Environmental Authority
Financial Statements
June 30, 2016

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CAMPBELL, MYERS AND RUTLEDGE, PLLC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Caveland Environmental Authority, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Caveland Environmental Authority, Inc., as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Caveland Environmental Authority, Inc.'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 the business-type activities of the Caveland Environmental Authority, Inc., as of June 30, 2016, and the respective changes in financial position, and, where applicable, 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 on pages 4–6 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 inquiries 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Caveland Environmental Authority, Inc.'s basic financial statements. The schedules of operations and maintenance expenses and general and administrative expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedules of operations and maintenance expenses and general and administrative expenses and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operations and maintenance expenses and general and administrative expenses and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2017, on our consideration of the Caveland Environmental Authority, Inc.'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 the Caveland Environmental Authority, Inc.'s internal control over financial reporting and compliance.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants

Glasgow, Kentucky

February 7, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

In June, 1999, the Governmental Accounting Standards Board (GASB) adopted Statement 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The standard requires that a "Management Discussion and Analysis" be included in the annual report along with annual audited financial statements. The Caveland Environmental Authority implemented GASB Statement 34 for the fiscal year ending June 30, 2004.

Our discussion and analysis of the Caveland Environmental Authority's, financial performance provides an overview of the Authority's financial activities for the year ended June 30, 2016. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

For the year ending June 30, 2016, total operating and non-operating revenues (including capital contributions) totaled \$4,795,051, and expenses amounted to \$5,783,173 creating a decrease in net position of \$988,122. At year end, net position totaled \$19,358,764, of which \$19,291,067 (net of related debt) was invested in capital assets and \$85,897 was restricted for debt retirement. This left a net amount of \$(18,200) of unrestricted assets.

Overview of the Financial Statements

This report consists of Management's Discussion and Analysis, Financial Statements and Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the Financial Statements.

Required Financial Statements

The financial statements report information of Caveland Environmental Authority, using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of Caveland Environmental Authority's, assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Caveland Environmental Authority's, creditors (liabilities). It also provides the basis for evaluating the capital structure of Caveland Environmental Authority, and assessing the liquidity and financial flexibility of Caveland Environmental Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of Caveland Environmental Authority's, operations over the past year and can be used to determine whether Caveland Environmental Authority, has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of Caveland Environmental Authority

Assets	<u>2016</u>	<u>2015</u>
Total Current Assets	\$ 602,939	\$ 1,009,319
Total Restricted Assets	154,487	883,425
Net Capital Assets	<u>23,220,766</u>	<u>23,893,756</u>
Total Assets	<u>\$ 23,978,192</u>	<u>\$ 25,786,500</u>
Liabilities		
Total Current Liabilities	\$ 621,139	\$ 1,197,399
Total Liabilities Payable from Restricted Assets	224,799	225,213
Total Long-term Liabilities	<u>3,773,490</u>	<u>4,017,002</u>
Total Liabilities	<u>4,619,428</u>	<u>5,439,614</u>
Net Position:		
Invested in capital assets, net of related debt	19,291,067	19,712,896
Restricted for debt retirement	85,897	822,070
Unrestricted	<u>(18,200)</u>	<u>(188,080)</u>
Total Net Position	<u>\$ 19,358,764</u>	<u>\$ 20,346,886</u>

At June 30, 2016, the largest portion of the Authority's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding. The Authority uses these capital assets to provide services to citizens and consumers; consequently, these assets are not available for future spending. Restricted net position represents resources that are subject to external restrictions on how they may be used.

	<u>2016</u>	<u>2015</u>
Total operating revenues	\$ 3,631,538	\$ 3,981,753
Total operating expenses	<u>4,445,249</u>	<u>4,145,061</u>
Operating Income	(813,711)	(163,308)
Total non-operating revenue (expenses)	<u>(147,619)</u>	<u>(116,944)</u>
Income (loss) before capital contributions and donated assets	(961,330)	(280,252)
Donated assets	(1,190,000)	-
Capital contributions	<u>1,163,208</u>	<u>673,170</u>
Increase (decrease) in net position	(988,122)	392,918
Beginning of year	<u>20,346,886</u>	<u>19,953,968</u>
End of year	<u>\$ 19,358,764</u>	<u>\$ 20,346,886</u>

At June 30, 2016, net position increased by \$988,122 and consisted of operating revenues of \$3,631,538, operating expenses of \$4,445,249, non-operating expenses of \$147,619, capital contributions of \$1,163,208 and donated assets of \$1,190,000.

Caveland Environmental Authority Implemented a wastewater increase of five percent (5%) for the next three years with the first increase taking effect in May of this auditing period. CEA Board will continue to examine the revenues for future adjustments as needed.

Residential customer base showed a slight increase in wastewater usage in 2015 – 2016 auditing period also the industrial usage continues to show an increase, with a slight increase in water usage. The pumping and portable restroom rental continues showing increases in revenues during this audit period. Caveland implemented operation last drop to reduce water system line loss, replacing vales and lines as needed. This will continue decreasing water purchase cost and showing an increase in water revenues.

Capital Asset Changes

At June 30, 2016, the Authority had invested \$23,220,766 in capital assets net of accumulated depreciation. This amount represents a net decrease of \$672,990 from the previous year. This increase is mainly due to depreciation.

Debt Administration

At June 30, 2016, the Authority had \$3,929,699 bonds outstanding, an increase of \$251,161 from the prior year's balance of \$4,180,860.

Request for Information

This financial report is designed to provide our customers and creditors with a general overview of Caveland Environmental Authority's, finances and to demonstrate Caveland Environmental Authority's, accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact the Caveland Environmental Authority at P.O. Box 426, Cave City, Kentucky 42127, or by phone (270) 773-2887.

Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Statement of Net Position
June 30, 2016

Assets

Current Assets:

Cash	\$ 4,815
Accounts receivable	256,862
Inventory	269,433
Prepaid and other assets	<u>71,829</u>
Total Current Assets	<u>602,939</u>

Noncurrent Assets:

Restricted Assets	
Cash - bond and interest redemption fund	<u>154,487</u>
Total Restricted Assets	<u>154,487</u>

Capital Assets

Utility plant in service	37,102,818
Accumulated depreciation	<u>(13,882,052)</u>
Net Capital Assets	<u>23,220,766</u>
Total Noncurrent Assets	<u>23,375,253</u>

Total Assets	<u>\$ 23,978,192</u>
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Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Statement of Net Position
June 30, 2016

Liabilities

Current Liabilities:

Accounts payable and accrued liabilities	\$ 316,946
Line-of-credit	241,524
Customer deposits	<u>62,669</u>
Total Current Liabilities	<u>621,139</u>

Liabilities Payable from Restricted Assets:

Current maturities of long-term debt (net)	156,209
Accrued interest	<u>68,590</u>
Total Liabilities Payable from Restricted Assets	<u>224,799</u>

Long-term Liabilities:

Long-term debt, less current maturities (net)	<u>3,773,490</u>
Total Long-term Liabilities	<u>3,773,490</u>

Total Liabilities	<u>4,619,428</u>
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Net Position

Net Position:

Invested in capital assets, net of related debt	19,291,067
Restricted for debt retirement	85,897
Unrestricted	<u>(18,200)</u>

Total Net Position	<u>\$ 19,358,764</u>
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Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

Operating revenue:

Water revenue	\$ 943,278
Sewer revenue	1,352,255
Other operating revenue	<u>1,336,005</u>
Total operating revenue	<u>3,631,538</u>

Operating expenses:

Operations and maintenance	3,939,581
General and administrative	<u>505,668</u>
Total operating expenses	<u>4,445,249</u>
Operating income (loss)	<u>(813,711)</u>

Nonoperating revenue (expenses):

Interest income	305
Interest on long-term debt	(144,932)
Miscellaneous	<u>(2,992)</u>
Total nonoperating revenue (expenses)	<u>(147,619)</u>

Income before capital contributions and donations	(961,330)
Donated assets	(1,190,000)
Capital contributions	<u>1,163,208</u>
Increase (decrease) in net position	(988,122)

Net position:

Beginning of year, restated	<u>20,346,886</u>
End of year	<u>\$ 19,358,764</u>

Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash flows from operating activities:	
Cash receipts from customers	\$ 3,980,249
Cash payments to suppliers for goods and services	(3,470,525)
Cash payments to employees for services	<u>(851,337)</u>
Net cash provided (used) by operating activities	<u>(341,613)</u>
 Cash flows from capital and related financing activities:	
Proceeds from issuance of long-term debt	1,400,000
Proceeds from line-of-credit	1,529,778
Payments made on line-of-credit	(1,385,956)
Principal paid on long-term debt	(1,651,161)
Interest paid on long-term debt	(137,697)
Additions to capital assets	(167,361)
Donated assets	(1,190,000)
Capital contributions	<u>1,163,208</u>
Net cash provided (used) in capital and related financing activities	<u>(439,189)</u>
 Cash flows from investing activities:	
Investment income	<u>305</u>
Net cash provided by (used) in investing activities	<u>305</u>
 Net increase (decrease) in cash and cash equivalents	 (780,497)
Cash and cash equivalents, beginning of year	<u>939,799</u>
Cash and cash equivalents, end of year	<u>\$ 159,302</u>
 Reconciliation of operating income to	
net cash provided by operating activities:	
Operating income	\$ (813,711)
Adjustments to reconcile operating income to	
net cash provided by operating activities:	
Depreciation	837,360
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	348,710
(Increase) decrease in inventory	12,809
(Increase) decrease in prepaid insurance	(6,699)
Increase (decrease) in accounts payable	(713,375)
Increase (decrease) in customer deposits	<u>(6,707)</u>
 Net cash provided (used) by operating activities	 <u>\$ (341,613)</u>

The accompanying notes are an integral part of the financial statements.

Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Notes to Financial Statements

Note 1 – Description of Entity and Summary of Significant Accounting Policies

Organization

Caveland Sanitation Authority, Inc. was created by an Inter-local Cooperation Agreement under the laws of the Commonwealth of Kentucky pursuant to Kentucky Revised Statutes 65.210 to 65.300 as a quasi-government agency. The public agencies which are parties to the amended Inter-local Cooperation Agreement are the cities of Cave City, Horse Cave, Park City and Mammoth Cave National Park Service. These public agencies delegated specific general power to the Authority necessary to apply for grants and other funding to pay for the design and construction of sewage treatment and conveyance facilities necessary to implement the preferred alternative of the Mammoth Cave Area 201 Facilities Plan and Environmental Impact Statement. The Authority, doing business as Caveland Environmental Authority, is primarily engaged in constructing and operating sewage treatment plants to serve the parties to the inter-local agreement.

Measurement Focus and Basis of Accounting

The term *measurement focus* is used to denote what is being measured and reported in the Authority's financial statements. The Authority is accounted for on the flow of economic resources measurement focus. Under this measurement focus, all assets and all liabilities associated with the operations are included in the Statement of Net Position.

The term *basis of accounting* is used to determine when a transaction or event is recognized on the Authority's financial statements. The Authority uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Financial Statement Presentation

The Authority has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities; (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Notes to Financial Statements

Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued

On July 1, 2003, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) No. 34 “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.*” GASB 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of activities and changes in net position and a statement of cash flows. It requires the classification of net position into three components: (i) invested in capital assets, net of related debt, (ii) restricted, and (iii) unrestricted.

These classifications are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net position consists of capital assets, net of accumulated depreciation and 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 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 net position* - This component of net position consists of net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Cash and Investments

The Authority considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Investments are reported at fair market value.

Receivables

The Authority uses the direct write-off method to account for bad debts. No allowance for bad debts has been provided, as no material write-offs are expected for receivables as of June 30, 2016. The direct write-off method does not significantly depart from generally accepted accounting principles.

Capital Assets

The utility plant in service is stated at cost. The cost of additions to the utility plant and major replacements of retired units of property is capitalized. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense as incurred. Depreciation has been provided over estimated useful lives of the assets using the straight-line method.

Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Notes to Financial Statements

Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued

The estimated useful lives of capital assets are as follows:

Vehicles	5 years
Office Equipment	10 years
Machinery and Equipment	10 years
Water System Infrastructure	40 years
Plant	40 years
Buildings	40 years

Compensated Absences

Personal time is accrued by years of services as stated in the employee handbook. No personal time may be carried forward from one calendar year to the next. An employee must complete one year of continuous employment before taking personal time leave. Personal time is calculate on straight-time pay rate. Employees are compensated for the current year accrued time when they leave the company.

Long-Term Obligations

Long-term debt and other obligations are reported as liabilities on the statement of net position. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Operating Revenues and Expenses

Operating revenues and expenses consists of those revenues that result from the ongoing principal operations of the Authority. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions.

Capital Contributions

Transmission and distribution system assets contributed to the Authority by installers are capitalized at the installers' costs and recorded as capital contributions when received. Also included in capital contributions are various grants received for infrastructure and payments received from customers for tap fees.

Income Taxes

The Authority is exempt from federal and state income taxes.

Extraordinary and Special Items

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses and changes in net position.

Bond and Interest Redemption Fund

The ordinances authorizing the various bond issues of the Authority require monthly transfers from the Revenue Fund into a "Bond Fund". Sums not less than one sixth of the interest due at the next payment, and one twelfth of the principal on all Bonds maturing the next January are required to be deposited.

Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Notes to Financial Statements

Note 1 – Description of Entity and Summary of Significant Accounting Policies, Concluded

Use of Estimates

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.

Subsequent Events

The Authority has evaluated subsequent events through February 7, 2017, the date which the financial statements were available to be issued.

Note 2 – Cash and Investments

Deposits and Concentration of Risk

At year end, the carrying amount of the Authority's cash deposits was \$159,302 and the bank balances were \$161,412. The difference between book and bank balances primarily represents checks that have been issued, but have not cleared the bank as of June 30, 2016.

All cash accounts were fully insured by FDIC at June 30, 2016.

Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
<i>Capital assets not being depreciated</i>				
Land and land rights	\$ 296,551	\$ -	\$ -	\$ 296,551
Construction-in-progress	3,963,525	-	(3,963,525)	-
<i>Total Capital assets not being depreciated</i>	<u>4,260,076</u>	<u>-</u>	<u>(3,963,525)</u>	<u>296,551</u>
<i>Capital assets being depreciated</i>				
Buildings	230,083	35,450	-	265,533
Office furniture and equipment	247,377	-	-	247,377
Machinery and equipment	552,980	191,000	-	743,980
Vehicles	739,768	-	-	739,768
Water transmission upgrade	391,892	-	-	391,892
Plant	<u>30,516,272</u>	<u>3,901,445</u>	<u>-</u>	<u>34,417,717</u>
<i>Total Capital assets being depreciated</i>	32,678,372	4,127,895	-	36,806,267
Less: Accumulated Depreciation	<u>(13,044,692)</u>	<u>(837,360)</u>	<u>-</u>	<u>(13,882,052)</u>
<i>Total Capital assets being depreciated, net</i>	<u>\$ 19,633,680</u>	<u>\$3,290,535</u>	<u>\$ -</u>	<u>\$ 22,924,215</u>

Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Notes to Financial Statements

Note 4 – Long-Term Debt

Long-term debt consists of the following at June 30, 2016:

	<u>2016</u>
Kentucky Rural Water Finance Corporation Series 2014 B maturing January 2034, bearing annual interest of 4.01%. The bonds are secured by a pledge of a fixed portion of the system revenues.	\$ 505,000
Less current portion	<u>20,000</u>
Long-term portion	<u>\$ 485,000</u>
Kentucky Rural Water Finance Corporation Series 2013 C maturing January 2027, bearing annual interest of 2.30%-3.30%. The bonds are secured by a pledge of a fixed portion of the system revenues.	\$ 980,000
Less current portion	<u>90,000</u>
Long-term portion	<u>\$ 890,000</u>
Kentucky Infrastructure Authority assistance agreement due in semi-annual payments of \$3,321 (principal and interest). Interest is stated at 0.60% until maturity in December, 2027. The loan is secured by a pledge of a fixed portion of the system revenues.	\$ 73,699
Less current portion	<u>6,209</u>
Long-term portion	<u>\$ 67,490</u>
Kentucky Rural Water Finance Corporation Series 2011 B due January 2031, bearing annual interest of 2.65-5.275% with monthly sinking fund requirements consisting of monthly deposits in amounts sufficient to pay interest and principal of the current bonds due on the next payment date. The bonds are secured by a pledge of a fixed portion of the system revenues.	\$ 710,000
Less current portion	<u>35,000</u>
Long-term portion	<u>\$ 675,000</u>
Kentucky Rural Water Finance Corporation Series 2015 A due January 2055, bearing annual interest of 2.65-5.275% with monthly sinking fund requirements consisting of monthly deposits in amounts sufficient to pay interest and principal of the current bonds due on the next payment date. The bonds are secured by a pledge of a fixed portion of the system revenues.	\$ 1,100,000
Less current portion	<u>-</u>
Long-term portion	<u>\$ 1,100,000</u>

Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Notes to Financial Statements

Note 4 – Long-Term Debt, Continued

Kentucky Rural Water Finance Corporation Series 2015 A due January 2055, bearing annual interest of 2.65-5.275% with monthly sinking fund requirements consisting of monthly deposits in amounts sufficient to pay interest and principal of the current bonds due on the next payment date. The bonds are secured by a pledge of a fixed portion of the system revenues.	\$ 300,000
Less current portion	<u>-</u>
Long-term portion	<u>\$ 300,000</u>

Rural Utility Service 2011 A due January, 2050, bearing annual interest of 2.00%. The bonds are secured by a pledge of a fixed portion of the system revenues.	\$ 261,000
Less current portion	<u>5,000</u>
Long-term portion	<u>\$ 256,000</u>

Principal and interest maturities of long-term debt are as follows:

	Principal	Interest	Total
2017	\$ 156,209	\$ 100,788	\$ 256,997
2018	187,746	94,931	282,677
2019	158,284	88,558	246,842
2020	163,822	83,375	247,197
2021-2025	1,021,683	316,024	1,337,707
2026-2030	843,455	138,778	982,233
2031-2035	341,500	38,929	380,429
2036-2040	225,500	14,869	240,369
2041-2045	258,000	9,704	267,704
2046-2050	295,500	3,885	299,385
2051-2055	278,000	-	278,000
Total	<u>\$ 3,929,699</u>	<u>\$ 889,841</u>	<u>\$ 4,819,540</u>

Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Notes to Financial Statements

Note 4 – Long-Term Debt, Concluded

Long-term debt activity for the year ended June 30, 2016 is as follows:

	June 30, 2015	Additions	and Reductions	June 30, 2016	within One Year
KIA	\$ 79,871	\$ -	\$ 6,172	\$ 73,699	\$ 6,209
KRWFC 2011 B	745,000	-	35,000	710,000	35,000
KRWFC 2013 C	1,070,000	-	90,000	980,000	90,000
KRWFC 2014 B	525,000	-	20,000	505,000	20,000
RUS bond	266,000	-	5,000	261,000	5,000
KIA Series 2015 A	-	300,000	-	300,000	-
KIA Series 2015 B	-	1,100,000	-	1,100,000	-
KIA Series 2015 D	1,400,000	-	1,400,000	-	-
	<u>\$ 4,085,871</u>	<u>\$ 1,400,000</u>	<u>\$ 1,556,172</u>	<u>\$ 3,929,699</u>	<u>\$ 156,209</u>

Note 5 – Pension Plan

The Authority has established a SIMPLE IRA plan for its employees. Under a SIMPLE IRA plan, employees may choose to make salary reduction contributions and the employer makes matching or non-elective contributions. All contributions under the plan are deposited into a SIMPLE individual retirement account or annuity established for each eligible employee. The SIMPLE IRA plan was established to cover all employees who are expected to receive at least \$5,000 in compensation for the calendar year. Employer contributions to the plan were approximately \$22,000, and employee contributions were approximately \$28,000 for the year ended June 30, 2016.

Note 6 – Deferred Inflows/Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future periods and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. Caveland Environmental Authority, Inc. has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Caveland Environmental Authority, Inc. has no items that qualify for reporting in this category.

Note 7 – Restatement

The beginning net position of the Governmental Activities in the government-wide statement of Net Position has been restated to record prior period adjustments for the following :

Net position as previously reported	\$ 19,918,944
Recognize accrued wages	(22,764)
Remove bond premium and discount	94,989
Remove clearing account	73,475
Recognize inventory	<u>282,242</u>
Net position as restated	<u>\$ 20,346,886</u>

The above adjustment had no impact on the current year net position.

Supplemental Information

Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Schedule of Operations and Maintenance Expenses
For the Year Ended June 30, 2016

Depreciation	\$ 828,654
Labor	575,591
Utilities	141,251
Telephone	14,573
Repairs and maintenance	136,613
Employee benefits	132,977
Payroll taxes	40,645
Insurance	137,961
Vehicle expense	20,319
Equipment expenses	37,036
Employee training	41,676
Chemicals and supplies	1,209,351
Water purchased	527,361
Employee uniforms	12,446
Other	<u>83,127</u>
 Total	 <u>\$ 3,939,581</u>

Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Schedule of General and Administrative Expenses
For the Year Ended June 30, 2016

Office salaries	\$ 275,746
Employee benefits	44,975
Legal and accounting	84,636
Billing charges	15,643
Depreciation and amortization	8,706
Office expenses	22,980
Travel	28,944
Advertising	10,317
Telephone	5,290
Utilities	3,846
Repairs and maintenance	<u>4,585</u>
 Total	 <u>\$ 505,668</u>

Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

<i>Federal Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Federal Expenditures(\$)</i>
<i>Other Programs</i>		
United States Environmental Protection Agency		
Congressionally Mandated Projects		
Congressionally Mandated Projects	66.202	\$ 501,666
Total Congressionally Mandated Projects		<u>501,666</u>
<i>Total United States Environmental Protection Agency</i>		<u>501,666</u>
United States Department of Agriculture		
Water and Waste Disposal Systems for Rural Communities		
Water and Waste Disposal Systems for Rural Communities	10.760	625,119
Total Water and Waste Disposal Systems for Rural Communities		<u>625,119</u>
<i>Total United States Department of Agriculture</i>		<u>625,119</u>
<i>Total Other Programs</i>		<u>1,126,785</u>
<i>Total Expenditures of Federal Awards</i>		<u><u>\$ 1,126,785</u></u>

The accompanying notes are an integral part of this schedule

Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Caveland Environmental Authority, Inc. under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Caveland Environmental Authority, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Caveland Environmental Authority, Inc.

2. Summary of Significant Accounting Policies:

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued (unmodified):

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported
- Noncompliance material to financial Statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs :Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (9)? Yes No

Identification of major programs:

Dollar threshold used to distinguish Between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

Identification of Major Programs:

<i>Federal Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>
Other Programs	
United States Environmental Protection Agency Congressionally Mandated Projects Congressionally Mandated Projects	66.202
United States Department of Agriculture Water and Waste Disposal Systems for Rural Communities Water and Waste Disposal Systems for Rural Communities	10.760

Caveland Sanitation Authority, Inc. dba Caveland Environmental Authority
Schedule of Findings and Questioned Costs, Concluded
For the Year Ended June 30, 2016

II. FINANCIAL STATEMENTS FINDINGS

a. No matters were reported.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

a. No matters were reported.



CAMPBELL, MYERS AND RUTLEDGE, PLLC

Cindy L. Greer, CPA ▪ L. Joe Rutledge, CPA ▪ Jonathan W. Belcher, CPA ▪ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ▪ Ryan Mosier, CPA ▪ Jenna B. Pace, CPA

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 Board of Directors
Caveland Environmental Authority, Inc.

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 the Caveland Environmental Authority, Inc., as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Caveland Environmental Authority, Inc.'s basic financial statements, and have issued our report thereon dated February 7, 2017

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Caveland Environmental Authority, Inc.'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 the Caveland Environmental Authority, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Caveland Environmental Authority, Inc.'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Caveland Environmental Authority, Inc.'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*.

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.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants

Glasgow, Kentucky

February 7, 2017



CAMPBELL, MYERS AND RUTLEDGE, PLLC

Cindy L. Greer, CPA ▪ L. Joe Rutledge, CPA ▪ Jonathan W. Belcher, CPA ▪ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ▪ Ryan Mosier, CPA ▪ Jenna B. Pace, CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Members of the Board of Education
Caveland Environmental Authority, Inc.

Report on Compliance for Each Major Federal Program

We have audited the Caveland Environmental Authority, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Caveland Environmental Authority, Inc.'s major federal programs for the year ended June 30, 2016. Caveland Environmental Authority, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Caveland Environmental Authority, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Caveland Environmental Authority, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Caveland Environmental Authority, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, the Caveland Environmental Authority, Inc., complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the Caveland Environmental Authority, Inc., is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Caveland Environmental Authority, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Caveland Environmental Authority, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Campbell, Myers & Rutledge, PLLC

Glasgow, Kentucky
February 7, 2017

